

BRITISH EMPIRE SECURITIES AND GENERAL TRUST PLC

Results for the full year to 30 September, 2009 and availability of Report & Accounts

OBJECTIVES OF THE COMPANY

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

- Net asset value on a total return basis increases 17.83%
- Net asset value on a total return basis outperforms Fundamental data Index by 8.77%
- Ordinary dividend increased 4.35%

	As at year ended 30 September 2009	As at year ended 30 September 2008	% change
Capital Return			
Net asset value per Share	459.26p	395.96p	15.99
Share price (mid market)	431.50p	396.00p	8.96
Total assets less current liabilities	£764.31m	£662.98m	15.28
Net asset value per Share (total return)			17.83%

Indices

Fundamental Data Global Growth Investment Trust Index*	241.90	221.80	9.06
Morgan Stanley Capital International World Index (£ adjusted total return)	2292.03	2090.77	9.63

Revenue and Dividends

Income	£20.70m	£23.35m	(11.35)
Earnings per Share	7.98p	8.46p	(5.67)
Ordinary Dividends per Share	6.00p	5.75p	4.35
Special Dividend per Share	1.25p	1.50p	(16.67)

(Discount)/Premium

(Difference between share price and net asset value)	(6.04)%	0.01%	-
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Total Expenses Ratio (as a percentage of average shareholder's funds)

Management fees, marketing and other expenses	0.80%	0.83%	-
Performance fee	0.38%	0.00%	-

2009 Highs/Lows

Net asset value per Share	459.51p	310.77p	-
Share price (mid market)	435.30p	299.00p	-

Buy-backs

During the year the Company purchased 51,539 units of Equities Index Unsecured Loan Stock 2013 for cancellation for £97,232 and £31,500 in nominal value of its 10 ³/₈ per cent Debenture Stock 2011 for cancellation for £36,791 including accrued interest of £488. The Company did not purchase any of its Ordinary Shares or 8 ¹/₈ per cent Debenture Stock 2023 for cancellation during the year.

*Index (based on total return) is subject to daily revision and this figure is at 14 October 2009.

CHAIRMAN'S STATEMENT

The period under review which covers 1st October 2008 to 30th September 2009 has been perhaps the most remarkable one for the investment community in a generation. As the financial crisis unfolded the first and second quarters proved to be exceptionally volatile and difficult and our total return Net Asset Value (NAV) was down over 10% at the half year end (our benchmark, the Fundamental Data Global Growth Investment Trust Index, was down nearly 16%).

However, the second half of our financial year, from the end of March through to the end of September was in stark contrast. Following stimulatory measures taken by central banks in many countries, financial markets globally recovered their poise in remarkable fashion and appetite for risk increased substantially.

Over our financial year as a whole, our NAV total return has been 17.8%, significantly outperforming our benchmark index

which advanced by a more modest 9.1%, while the broad MSCI World Index rose by 9.6%.

Over three years, your Company's NAV total return per share has been 9.1% against 3.5% for the benchmark, over five years 79.5% against 52.5% for the benchmark and over 10 years 215.4% against 52.3% for the benchmark.

The recent difficult market conditions have also produced attractive investment opportunities for us. As the Manager's report sets out later, we have been able to add further to some of our long term holdings at distressed valuations, representing a good store of value for the future. We have once again "stuck to our knitting", investing mainly in companies with little or no gearing but standing at a substantial discount to their NAV.

With this sharp recovery in markets since the half year end, the Company's portfolio of investments stood at the year end at an average discount of approximately 22% to their underlying asset value, the discount having narrowed appreciably over the period from 29% at last year end. Shareholders will also note that after a period of relative strength, our Japanese property related investments have been reduced, resulting in our exposure to Japan falling from 12.2% to 7.4%.

The Company's shares have traded over the past year within a relatively narrow range around NAV between 10% premium (6% 2007/8) and 10% discount (12% 2007/8). We continue to monitor carefully the level of both premium and discount and will, if necessary and appropriate, take steps to limit the volatility of any discount through measured buybacks of shares. In line with this continuing policy, the Board is again seeking to renew its powers to buy back the Company's shares.

In contrast to 2007/8, our income from UK gilts has declined by some 49.2% during 2008/9 as portfolio liquidity has declined and interest rates reduced. Underlying dividend income has fallen by 1.9% with the result that gross revenues of £20.7m in 2008/9 are lower than the £23.3m achieved in 2007/8. The base Investment Management fee is, however, also lower, because of the reduced value of the portfolio, so net revenue per share is down a more modest 5.7%.

We have benefited from a VAT repayment of £960,163, which compares to last year's repayment of £2,066,939. The VAT repayment amounts to 0.60p per share in total, of which 0.52p is attributable to income. There remains the possibility that we may recover further moneys, but given the uncertainty of this, no further VAT reimbursement has been recognised in these accounts.

We are recommending a final dividend of 4.20p (4.00p in 2008) which, together with the interim dividend of 1.80p (1.75p in 2008), brings the ordinary dividends for the year to 6.00p (5.75p in 2008), an increase of 4.3%. On top of this we are recommending a special dividend of 1.25p, down from 1.50p last year, principally because of the smaller VAT repayment. On this basis overall total dividends would therefore be 7.25p, the same as last year. Nevertheless, we caution that dividend progress in the future may be more difficult than in recent years, given the expected continuing weak world economy and low interest rate environment.

During what has been a turbulent year, liquidity levels have moved between a low of 5% (in March) and about 15%, affording investors some cushion against the worst effects of the extreme distress seen in the markets between last autumn and the early spring.

In an unusual development, the Board decided to reduce temporarily the Company's exposure to the yen and the euro after a period of extreme sterling weakness, and profits from these decisions, which have now been closed off, amounted to £7.9m.

At the Nomination Committee, the Board has again completed a formal evaluation of the Directors, the Chairman, the Board itself and its Committees. Steve Bates retires by rotation at this year's Annual General Meeting and will offer himself for re-election. The Nomination Committee has considered again his qualifications, performance and contribution to the Board and its Committees and confirms that he continues to be effective and demonstrates commitment to his role and the board recommends to the shareholders that he be re-elected. The Board has also carried out the same thorough review process of myself as Chairman and has concluded, after reviewing my qualifications, performance and contribution as Chairman that I should be put forward for re-election.

Resolution 11 in the Notice of Meeting proposes that the Company adopt new Articles of Association. New Articles of Association were adopted in 2008 to reflect changes in company law brought about by the initial stages of the implementation of the Companies Act 2006 (the 2006 Act). The adoption of the new Articles at this year's AGM incorporates further amendments to reflect the changes in company law brought about by the final stages of the implementation of the 2006 Act, which came into effect on 1 October 2009, the Companies (Shareholders' Rights) Regulations 2009 which came into effect on 3 August 2009, and other minor technical or clarifying changes. A summary of the proposed changes is set out in the Appendix to this Annual Report.

Since the year end, the markets have given back some of their gains with the Company's Net Asset Value declining 3.2%⁽¹⁾ while the Fundamental Data Global Growth Investment Trust Index declined by 3.1%(1) and the MSCI World Index declined by 4.7%⁽¹⁾. At the time of writing, our liquidity levels had risen to almost 20%⁽¹⁾.

Performance over the year was strong, but your board remains concerned that the need for both financial institutions and individuals to continue to deleverage and for governments to finance their unprecedented indebtedness, may undermine the sustainability of any improvement in economies and financial markets. The threat of significantly higher taxation and large cuts in government spending may also combine to make the investment environment difficult for some time. It is also unclear what the medium term effects of the current easy monetary conditions will be on a range of asset classes. These uncertainties reinforce the board's wish to spread the Company's investments even more judiciously by currency and activity.

Despite these cautious remarks, your board is confident that the Company's investment manager, AVI, will continue, by

careful selection of stocks, to produce satisfactory returns for shareholders over the medium and long term.

Strone Macpherson
Chairman
16 November 2009

⁽¹⁾ Data to 31 October 2009

INVESTMENT MANAGER'S REVIEW

During the year, your Company's net asset value increased by 17.8% on a total return basis, which compares to total returns of 9.1% in the Fundamental Data Global Growth Investment Trust Index and 9.6% in the MSCI World Index.

The equity markets have continued to rise through our year end, despite healthy scepticism in many quarters as to whether the rally can continue. The lack of belief in the equity market rally derives from the assumption that, economically, we are not out of the woods yet and that the recovery will be weak. A weak economy, however, does not necessarily mean a falling equity market. The US Federal Reserve has recently pledged to keep rates low for an extended period of time, which is taken to mean at least two years. If the economy is weak, companies will not increase capital expenditure and consumers will rein in consumption. The liquidity created may, thus, need to find a home in asset markets, a category which includes equities. The weaker the economy, the more excess liquidity that may potentially need to find a home.

Central Banks around the world believe that interest rates may safely be left low because there is no inflation in consumer prices. Excess productive capacity and a struggling consumer will likely keep a lid on inflation in goods commonly consumed by individuals. However, inflation may also be understood as the rapid growth in the supply of money and credit. Excess money may find its way into various asset classes and these same Central banks may therefore be blowing more bubbles. This is, to a certain extent, intentional, as Western banks need the value of their assets to be re-flated in order to regain their solvency.

As an investor, it will be difficult to know which asset classes will benefit from these anticipated easy monetary conditions. With capital investment depressed and consumption curtailed, one has to be wary of companies exposed to weak demand. Physical property would be a logical beneficiary but there was too much debt loaded onto these assets in the boom times and this is still in the process of unwinding. Gold, as an unleveraged asset and preserver of value against de-based currencies, may attract attention and we have a small exposure there. Defensive high dividend yielding stocks may also interest us if the economy does not recover as quickly as expected. Emerging markets and commodities are areas in which there may be growth despite restrained growth in over-leveraged developed markets. Overall, it would seem wise in this environment to have a spread of assets that could benefit from the easy money/low growth environment without taking too many big bets. Discounts are not as wide as the mid-thirties levels experienced at the beginning of 2009 in the depths of the crisis but in the low to mid-twenties are still attractive.

Portfolio Review

At the year end on 30 September 2009, the weighted average discount on the underlying portfolio was 22% and liquidity was 14.5%.*

At the half year on 31 March 2009, the weighted average discount on the underlying portfolio was just under 30% and our liquidity was 6.4%. The wide discounts available at that time encouraged us to become more fully invested. With less cash in the portfolio and with the advantage of narrowing discounts, we were positioned to benefit from the rising market and to outperform broad market indices.

Investment Holding Companies

The weighted average discount to NAV on the investment holding companies was 31%, down from 35% last year and above the 24% of the previous year. In general, we have concentrated our holdings on strongly financed companies.

We continue to have big positions in some of the large European holding companies such as Groupe Bruxelles Lambert/Pargesa Holdings (6.5%); Sofina (4.9%) and Investor AB (4.3%). These companies all had net cash on their balance sheets going in to the financial crisis and they were able to subscribe to rights issues at some of their portfolio companies. Despite their strong position, their good long term track records and the strong underlying quality of their portfolios they all remain on discounts to NAV of c30%.

Jardine Matheson Holdings/Jardine Strategic Holdings (8.70%)

We continue to have a large weighting in the Jardine companies. The shares are currently trading on discounts of 30% (Jardine Matheson) and 40% (Jardine Strategic). In addition, valuations of the underlying companies such as Dairy Farm, Jardine Cycle & Carriage and Hong Kong Land, look attractive and this portfolio of companies ought to benefit from continued growth within the Asian economies.

Bouygues (1.71%)

A recent addition to the portfolio is Bouygues. The Bouygues family-controlled French conglomerate has major interests in construction and mobile telephones and a 30% stake in Alstom, which provides equipment and services to the railway and

power generation industries. Over the past year, its exposure to the cyclical construction business, as well as the impending grant of a fourth mobile phone operating licence in France, has harmed its share price. However, the company trades on valuation multiples that are both lower than its peers and low in absolute terms, it has a sustainable dividend yield of close to 5% and there is upside in the construction business both from an improved economic environment and from fiscal stimulus infrastructure projects in France.

Investment Companies

Discounts on our investment trust holdings were 19% on average against 10% for the investment trust sector as a whole. This is the same level as a year ago. During the year we made a successful investment in 3i Quoted Private Equity, which was taken over by 3i in order to gain access to the large amount of cash that was on its balance sheet.

Electra Private Equity (2.7%)

We took advantage of market weakness during the end of 2008 to add to our position in Electra. Electra is better positioned than many investment trusts that focus on the private equity sector. It has net cash of 15% of NAV and does not have the over-commitment problems affecting some other trusts. It is currently trading on a 23% discount to NAV and, having made few new investments over the last few years, appears well placed to invest at potentially attractive valuations.

Real Estate Companies

Deutsche Wohnen (1.94%)

Deutsche Wohnen trades on a discount of around 30% to the value of its portfolio of residential property in Germany. The company had a relatively high level of debt and was unable to generate high cash returns, which led to poor share price performance. However, following a rights issue, and potential refinancing of existing debt, the company's financial situation has improved. In addition, the company has made significant cost savings, and seems likely to make decent cash returns from its portfolio going forward.

Japan

Our weighting in Japan has been reduced over the year to 7.4% as compared to 12.2% last year. We had a good deal of exposure to Japanese property and much of this was sold during the latter half of the year, following a period of strong performance, albeit for a loss. Our remaining exposure comprises a mix of investment trusts, deep value smaller companies and Nintendo.

Nintendo (1.55%)

A new holding in Japan for the portfolio is Nintendo. Its shares have fallen sharply since November 2007 and are now 2/3rds lower than they were then. There have been concerns that sales of the Wii have peaked and that competitors may be bringing out more advanced technologies. However, we feel these fears are overdone and that Nintendo will continue to generate strong cash flow. The company has built up a cash pile that now equates to around 40% of its market capitalisation, and despite a dividend yield of over 5%, the company's strong operating performance allows it to continue to build up its cash. Nintendo does not need to retain all this cash on its balance sheet. At some point in the future, management may decide to return some cash to shareholders, which ought to be good for the share price.

Other

Vivendi (4.52%)

Vivendi is an example of a company in the "Other" category of the portfolio. It is a media conglomerate with interests in music, telecoms, video games and pay-tv. The core businesses provide relatively stable and defensive cash flows. In addition, the group has exposure to growth opportunities in emerging economies, principally through its interest in Maroc Telecom. The shares are currently trading approximately 27% below our estimate of sum of the parts (SOP) value, and in addition provide a dividend yield over 7%. Management is committed to the dividend and also to seeking out further growth opportunities in emerging economies, without jeopardising the company's current credit rating. We find the shares cheap on the basis of the current multiples to cash flow, its high dividend yield and a wide discount to its SOP value.

Geographical Profile

Gross Assets of £764m were distributed as follows: Continental Europe 42.6%, UK 14.8%, Asia Pacific 11.5%, Japan 7.4%, EMEA 5.2%, Canada 4.0% and Liquidity of 14.5%.

Outlook

The need to reduce the overall level of private sector indebtedness should restrain economic growth in many Western Countries. In addition the economic crisis has led to the increasing involvement of governments in the economy. The resultant higher levels of both taxes and regulations will also serve to reduce potential growth rates. While current liquidity conditions and ultra low interest rates are positive for the market, there is a danger that, at some point, the market loses touch with the earnings that are its necessary support. It will be easy to make mistakes as an investor as it is very hard at this juncture to tell the difference between the short-term effects of government stimulus and inventory re-stocking and a sustainable recovery. The market may currently be betting on the latter but any signs that government stimulus is being withdrawn or is no longer effective could cause a relapse in the markets.

The two markets most implicated in 'quantitative easing' are the US and the UK. Ultra low interest rates and abundant money supply growth may lead to weaker currencies for both nations over time. A weaker Pound would be beneficial for our

Sterling based investors as most of our assets are invested in foreign currencies. The uncertainties relating to major government intervention in the markets is likely to lead to more volatility as markets try to understand and adapt to these new conditions. We will try to build in our 'margin of safety' through the purchase of good quality assets on a substantial discount. Where that is not possible, we may have to sell assets and increase our liquidity position. With the equity markets significantly ahead of their crisis lows, and the risks of policy mistakes high, we are now less fully invested than we were at the half year.

* Liquidity is calculated as fixed income investments plus net current assets divided by total assets less current liabilities.

John Pennink
Asset Value Investors Limited

16 November 2009

Consolidated Income Statement of the Group for the year ended 2009

	30 September 2009			30 September 2008		
	Revenue Return	Capital Return	Total Return	Revenue Return	Capital Return	Total Return
	£'000	£'000	£'000	£'000	£'000	£'000
Income						
Investment Income	20,702	-	20,702	23,352	-	23,352
Gains/(losses) on investments held at fair value	-	96,382	96,382	-	(181,055)	(181,055)
Gains on forward currency contracts held at fair value	-	7,897	7,897	-	-	-
(Losses)/gains on Index Stock	-	(380)	(380)	-	2,825	2,825
Realised loss on buyback of 10 ³ / ₈ per cent Debenture Stock 2011	-	(5)	(5)	-	-	-
Realised exchange losses on currency balances	-	(801)	(801)	-	(618)	(618)
	20,702	103,093	123,795	23,352	(178,848)	(155,496)
Expenses						
Investment management fee	(1,902)	(1,902)	(3,804)	(2,445)	(2,445)	(4,890)
Performance fee	-	(2,313)	(2,313)	-	-	-
Back VAT on management and performance fees	837	123	960	761	1,306	2,067
Write back of VAT – prior year	-	-	-	-	127	127
Other expenses (including irrecoverable VAT)	(1,061)	(5)	(1,066)	(1,288)	-	(1,288)
Profit/(loss) before finance costs and tax	18,576	98,996	117,572	20,380	(179,860)	(159,480)
Finance Costs	(2,431)	(7)	(2,438)	(2,442)	(7)	(2,449)
Profit/(loss) before taxation	16,145	98,989	115,134	17,938	(179,867)	(161,929)
Taxation	(3,371)	1,254	(2,117)	(4,390)	(5,585)	(9,975)
Profit/(loss) for the period	12,774	100,243	113,017	13,548	(185,452)	(171,904)
Earnings per Ordinary Share						
Basic - Ordinary Share	7.98p	62.62p	70.60p	8.46p	(115.84)p	(107.38)p

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.

Consolidated and Company Balance Sheets as at 30 September 2009

Company

Group

	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Non-current assets				
Investments held at fair value through profit or loss	757,383	665,792	755,359	663,765
Current Assets				
Investments	-	-	-	3
Other receivables	5,161	5,119	5,163	5,121
Cash and cash equivalents	7,235	3,380	7,237	3,381
	12,396	8,499	12,400	8,505
Total Assets	769,779	674,291	767,759	672,270
Current liabilities				
Other payables	(5,466)	(11,314)	(3,446)	(9,293)
Total assets less current liabilities	764,313	662,977	764,313	662,977
Non-current liabilities				
10 ³ / ₈ per cent Debenture Stock 2011	(8,484)	(8,515)	(8,484)	(8,515)
8 ¹ / ₈ per cent Debenture Stock 2023	(14,900)	(14,893)	(14,900)	(14,893)
Equities Index Stock 2013	(5,686)	(5,403)	(5,686)	(5,403)
Provision for deferred tax	(55)	(310)	(55)	(310)
Net assets	735,188	633,856	735,188	633,856
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	624,701	524,461	622,927	522,684
Merger reserve	41,406	41,406	41,406	41,406
Revenue reserve	22,068	20,976	23,842	22,753
Total equity	735,188	633,856	735,188	633,856
Net asset value per Ordinary Share - basic	459.26p	395.96p	459.26p	395.96p
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 2009

	Company		Group	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Net cash inflow from operating activities				
Profit/(loss) before taxation	115,136	(161,927)	115,134	(161,929)
Losses/(gains) on Equities Index Stock 2013 held at fair value	380	(2,825)	380	(2,825)
Loss on buyback of 10 ³ / ₈ per cent Debenture Stock 2011	5	-	5	-
Realised exchange losses on currency balances	801	618	801	618
(Gains)/losses on investments held at fair value through profit or loss	(96,379)	181,060	(96,382)	181,055
Purchases of investments	(289,003)	(408,565)	(289,003)	(408,565)
Sales of investments	290,013	408,642	290,013	408,642
Decrease/(increase) in other receivables	1,576	(640)	1,576	(640)
Increase/(decrease) in creditors	2,202	(898)	2,203	(896)
Taxation	(8,264)	(5,800)	(8,262)	(5,800)
Amortisation of Debenture issue expenses	7	7	7	7
Decrease in value of investments – current assets	-	-	3	5
Net cash inflow from operating activities	16,474	9,672	16,475	9,672
Financing activities				
Dividends paid	(11,685)	(9,364)	(11,685)	(9,364)
Buyback of Equity Index Stock	(97)	(235)	(97)	(235)
Buyback of 10 ³ / ₈ per cent Debenture Stock 2011	(36)	-	(36)	-
Cash outflow from financing activities	(11,818)	(9,599)	(11,818)	(9,599)
Increase in cash and cash equivalents	4,656	73	4,657	73

Exchange movements	(801)	(618)	(801)	(618)
Change in cash and cash equivalents	3,855	(545)	3,856	(545)
Cash and cash equivalents at beginning of year	3,380	3,925	3,381	3,926
Cash and cash equivalents at end of year	7,235	3,380	7,237	3,381

Consolidated and Company Statement of Changes in Equity for the year ended 30 September 2009

	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 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	-	-	-	-	-	(8,564)	(8,564)
Special dividend paid	-	-	-	-	-	(800)	(800)
Balance as at 30 September 2008	16,008	2,927	28,078	522,684	41,406	22,753	633,856
For the year ended 30 September 2009							
Balance as at 30 September 2008	16,008	2,927	28,078	522,684	41,406	22,753	633,856
Profit for the period	-	-	-	100,243	-	12,774	113,017
Ordinary dividends paid	-	-	-	-	-	(9,284)	(9,284)
Special dividend paid	-	-	-	-	-	(2,401)	(2,401)
Balance as at 30 September 2009	16,008	2,927	28,078	622,927	41,406	23,842	735,188
Company							
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	-	-	-	-	-	(8,564)	(8,564)
Special dividend paid	-	-	-	-	-	(800)	(800)
Balance as at 30 September 2008	16,008	2,927	28,078	524,461	41,406	20,976	633,856
For the year ended 30 September 2009							
Balance as at 30 September 2008	16,008	2,927	28,078	524,461	41,406	20,976	633,856
Profit for the period	-	-	-	100,240	-	12,777	113,017
Ordinary dividends paid	-	-	-	-	-	(9,284)	(9,284)
Special dividend paid	-	-	-	-	-	(2,401)	(2,401)
Balance as at 30 September 2009	16,008	2,927	28,078	624,701	41,406	22,068	735,188

Notes to the Accounts

1. Accounting policies

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 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):

International Accounting Standards (IAS/IFRS) Effective date

IAS 1 (revised)	Presentation of Financial Statements Comprehensive revision including requiring a statement of comprehensive income	1 January 2009
IAS 23	Borrowing Costs (revised March 2007)	1 January 2009
IAS 27	Consolidated Financial Statements (revised)	1 July 2009
IFRS 2	Share based payment: Vesting conditions	1 January 2009
IFRS 7	Financial Instruments: Disclosures – Improving disclosures about Financial Statements	1 January 2009
IFRS 8	Operating Segments	1 January 2009

(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 Income Statement has been prepared.

(d) 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.

(e) 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.

(f) 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 which has been allocated 50% to revenue and 50% to capital within the Income Statement. The performance element of the management fee is charged 100% to capital within the Income Statement;
- 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.

(g) 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.

(h) 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.

(i) Movements in fair value

Changes in fair value of investments not designated as held for trading 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.

(j) 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.

(k) Dividends payable

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

(l) 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.

(m) 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.

(n) 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.

(o) Debenture pricing

The 8 ¹/₈ per cent Debenture Stock 2023 and 10 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 ¹/₈ per cent Debenture Stock 2023 have been capitalised and are amortised over the term of the finance.

(p) Capital Reserve

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

- Gains and losses on the disposal of investments;
- 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.

2. Income

Income from investments

	2009	2008
	£'000	£'000
Listed investments	19,964	22,954
Other income		

Deposit interest	741	403
Loss from dealing activities of subsidiary	(3)	(5)
	738	398
Total Income	20,702	23,352
Income from investments:		
Equity securities	17,219	17,550
Fixed interest securities	2,745	5,404
	19,964	22,954
Total income comprises:		
Dividends	17,219	17,550
Interest	3,486	5,807
Other income	(3)	(5)
	20,702	23,352

3. Management fee and other expenses

	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000
Management fee	1,902	1,902	3,804	2,445	2,445	4,890
Performance fee	-	2,313	2,313	-	-	-
Back VAT on management fee	(837)	(123)	(960)	(761)	(1,306)	(2,067)
Write back of VAT – prior year	-	-	-	-	(127)	(127)
	1,065	4,092	5,157	1,684	1,012	2,696
Other expenses						
Directors' emoluments - fees	111	-	111	108	-	108
Auditor's remuneration - audit	31	-	31	30	-	30
- taxation	15	-	15	12	-	12
- other services to the Group	13	-	13	12	-	12
Marketing costs	211	-	211	338	-	338
Printing and postage costs	62	-	62	81	-	81
Registrar fees	81	-	81	90	-	90
Sub-custodian fees	188	-	188	212	-	212
Other expenses (including irrecoverable VAT)	349	5	354	405	-	405
	1,061	5	1,066	1,288	-	1,288

For the year ended 30 September 2009, the fee calculated in accordance with the Investment Management Agreement amounted to 0.9649% (including the under-performance carried forward from 2008). 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 no out-performance or under-performance carried forward for the period ending 30 September 2010.

4. Finance costs

	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000
Bank overdraft interest	85	-	85	39	-	39
Interest on other loans	2,346	-	2,346	2,403	-	2,403
Amortisation of Debenture issue expenses	-	7	7	-	7	7
	2,431	7	2,438	2,442	7	2,449

5. Taxation

	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000
(a) Analysis of charge in year						
Corporation tax	3,955	(1,246)	2,709	4,361	5,597	9,958
Double taxation relief	(1,343)	-	(1,343)	(1,297)	(2,620)	(3,917)
	2,612	(1,246)	1,366	3,064	2,977	6,041
Foreign withholding tax	1,996	-	1,996	1,723	2,620	4,343
Overseas tax reclaimable	(620)	-	(620)	(409)	-	(409)
Prior year adjustment	(370)	-	(370)	14	-	14
Total current tax for period	3,618	(1,246)	2,372	4,392	5,597	9,989
Deferred tax	(247)	(8)	(255)	(2)	(12)	(14)
Total deferred tax for year	(247)	(8)	(255)	(2)	(12)	(14)
Total tax for year	3,371	(1,254)	2,117	4,390	5,585	9,975

(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 28% (2008: 29%*).

	2009 £'000	2008 £'000
Profit/(loss) before tax	115,134	(161,929)
Corporation tax at 28% (2008: 29%*)	32,237	(46,959)
Effects of:		
Capital (gains)/losses not subject to tax	(28,972)	57,750
Revaluation of Equity Index Stock 2013	8	8
Non-taxable UK dividends	(458)	(806)
Non-taxable overseas dividends	(321)	–
Non allowable expenses charged to capital	1	–
Overseas dividends taxable on receipt	247	(18)
Prior year adjustment	(370)	14
Current tax charge for the period	2,372	9,989

*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. Earnings per Ordinary Share

	2009 Revenue	2009 Capital	2009 Total	2008 Revenue	2008 Capital	2008 Total
Basic	7.98p	62.62p	70.60p	8.46p	(115.84)p	(107.38)p

The total basic earnings per Ordinary Share is based on Group net gains for the financial year of £113,017,000 (2008: loss £171,904,000) and on 160,080,089 (2008: 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 £12,774,000 (2008: £13,548,000) and on 160,080,089 (2008: 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 gains for the financial year of £100,243,000 (2008: loss £185,452,000) and on 160,080,089 (2008: 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 Company		Net asset value per Share attributable Group	
	2009 p	2008 p	2009 p	2008 p
Ordinary Shares (basic)	459.26	395.96	459.26	395.96

	Net asset values attributable Company		Net asset values attributable Group	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Ordinary Shares (basic)	735,188	633,856	735,188	633,856

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

2009 Ordinary Shares (basic) £'000	2008 Ordinary Shares (basic) £'000
---	--

Total net assets attributable at beginning of year	633,856	815,124
Total profit/(loss) for the year	113,017	(171,904)
Dividends appropriated in the year	(11,685)	(9,364)
Net assets attributable at end of year	735,188	633,856

Basic net asset value per Ordinary Share is based on net assets and on 160,080,089 (2008: 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 455.16p (2008: 392.73p).

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 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 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.

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 £12,400,000 (2008: £8,502,000).

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).

	2009		2008	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
10 ³ / ₈ per cent Debenture Stock 2011	(8,484)	(9,734)	(8,515)	(9,649)
8 ¹ / ₈ per cent Debenture Stock 2023	(14,900)	(20,218)	(14,893)	(18,933)

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.

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.

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 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 £3,027,102 up to the date of this report. For the current period to 30 September 2009 £960,163 has been recovered and shown within these financial statements. This has been allocated £837,466 as revenue and £122,697 as capital within the Income Statement in line with VAT previously written-off on investment management and performance fees previously charged. Interest amounting to £686,803 relating to these recoveries has also been received by the Company.

While most of the Back VAT has now been recovered, the Company will continue to pursue recovery of outstanding Back VAT, and interest, as far as is practical. The Directors consider it inappropriate to recognise any Back VAT not yet recovered, in these financial statements.

At 30 September 2009 the Group had a financial commitment in respect of a sub rights issue on Deutsche Wohnen of £12,361,000.

At 30 September 2009 the Group had no contingent liability in respect of any investments carrying an obligation for future subscription or underwriting commitments (2008: £nil).

10. Related party disclosure

The related party transaction with Asset Value Investors Limited is set out in the Directors Report on page 24 of the Company's Annual Report and Accounts for the year ended 30 September 2009 which will be published shortly. Management fees for the year amounted to £3,804,000 (2008: £4,890,000) and the performance fee for the year was £2,313,000 (2008: £nil).

As at the year end, the following amounts were outstanding in respect of management fees: £317,000 (2008: £408,000) and performance fees: £2,313,000 (2008: £nil).

At 30 September 2009 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. Comparative information

This announcement of results, which has been agreed with the auditors, was approved by the Board on 16 November 2009 but does not constitute the Company's statutory accounts. The statutory accounts of the Company for the year to 30 September 2009 have received audit reports which are unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports, nor contained statements under section 498 (2), (3) or (4) of the Companies Act 2006, and will be delivered to the Registrar of Companies following the forthcoming Annual General Meeting.

The statutory accounts for the year ended 30 September 2008, which have been delivered to the Registrar of Companies, have been approved and audited and received audit reports which were unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report, and did not contain statements under section 237(2) and (3) of the Companies Act 1985.

13. Availability of Report & Accounts

The Company's Report & Accounts for the year to 30 September 2009 will be available on the Company's website at www.british-empire.co.uk.

Printed copies of the Company's Report & Accounts for the year ended 30 September 2009 will be posted shortly to shareholders and further copies will be available on request from the Registered Office, c/o Phoenix Administration Services Limited, Springfield Lodge, Colchester Road, Chelmsford, CM2 5PW.

The Annual General Meeting of the Company will be held on Thursday 17 December 2009 at 12 noon.

The Directors have proposed the payment of a final dividend of 4.20p (2008: 4.00p) per Ordinary share and a special dividend of 1.25p which, if approved by shareholders at the forthcoming Annual General Meeting, will be payable on 8 January 2010 to shareholders whose names appear on the register at the close of business on 11 December 2009 (ex-dividend 9 December 2009).

14. Declaration

The non-executive Directors, being the persons responsible, hereby confirm to the best of their knowledge:

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

Phoenix Administration Services Limited

Secretary

16 November 2009