BRITISH EMPIRE TRUST
INVESTING IN UNDERVALUED ASSETS

Annual Report 2018

AVI

BRITISH EMPIRE TRUST PLC

Established in 1889, the Company's investment objective is to achieve capital growth through a focused portfolio of investments, particularly in companies whose shares stand at a discount to estimated underlying net asset value.

British Empire Trust plc ('British Empire' or 'the Company') is managed by Asset Value Investors Limited ('AVI').

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

AVI continues to seek (and find) investment opportunities with real value and excellent prospects for good medium to long-term capital appreciation.

Please visit our website for more information:
www.british-empire.co.uk

Cover image / Rainbow Bridge, Odaiba, Japan **Source** / Getty Images

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ABOUT BRITISH EMPIRE

The Company is an investment trust and its shares have a premium listing on the London Stock Exchange. It is a member of the Association of Investment Companies ('AIC').

£942m

The Company's net asset value as at 30 September 2018 was £942m and the market capitalisation was £854m

At a Glance
Page 2

THE OBJECTIVE

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

Company Performance, Financial Highlights
Pages 4 to 5

Chairman's Statement, Strategy and Outlook
Pages 6 to 7

CAPITAL STRUCTURE

The Company has Ordinary Shares, Debenture Stock and Loan Notes in issue.

Read more about our Capital Structure
Page 50

Investment Manager's Review
Page 18

INVESTMENT MANAGER

Asset Value Investors Limited
(Customer Services:
020 7659 4800)

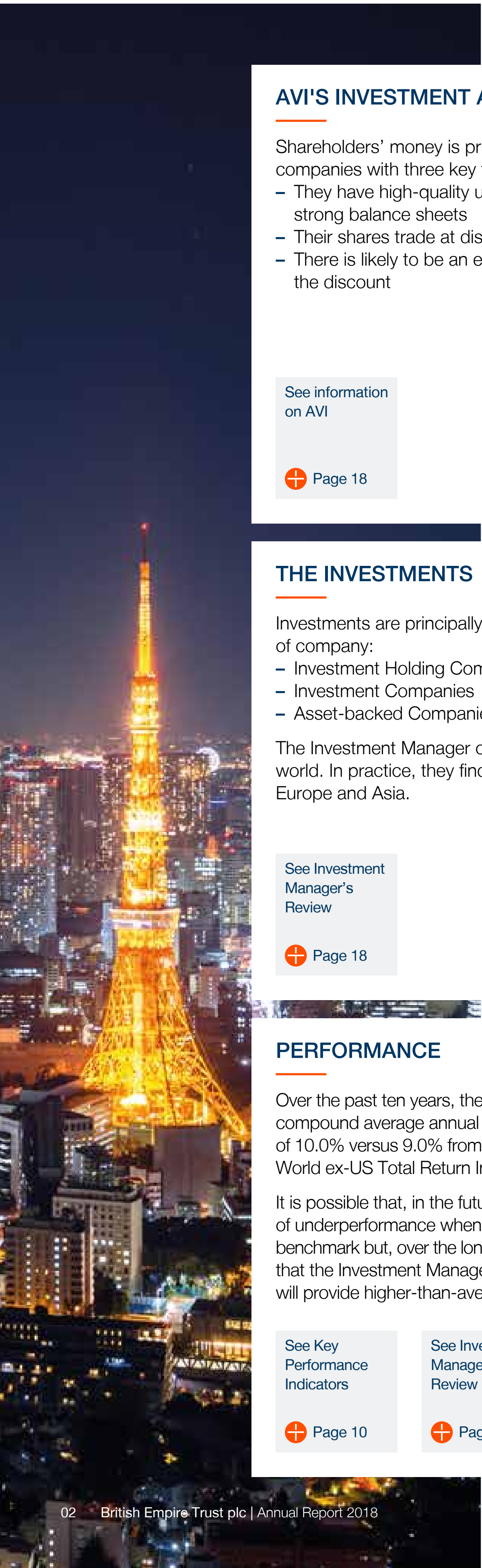
RETAIL INVESTORS ADVISED BY IFAs

The Company currently conducts its affairs so that its shares can be recommended by Independent Financial Advisers ('IFAs') in the UK to ordinary retail investors in accordance with the Financial Conduct Authority rules in relation to non-mainstream investment products and intends to continue to do so. The shares are excluded from the Financial Conduct Authority's restrictions which apply to non-mainstream investment products because they are shares in an authorised investment trust.

The Company is an Alternative Investment Fund ('AIF') under the European Union's Alternative Investment Fund Managers' Directive ('AIFMD'). Its Alternative Investment Fund Manager ('AIFM') is Asset Value Investors. Further disclosures required under the AIFMD can be found on the Company's website: www.british-empire.co.uk.

ISA STATUS

The Company's shares are eligible for Stocks & Shares ISAs.



AVI'S INVESTMENT APPROACH

Shareholders' money is principally invested in companies with three key features:

- They have high-quality underlying assets and strong balance sheets
- Their shares trade at discounts to net asset value
- There is likely to be an event that will narrow the discount

See information on AVI

Page 18

36%[1]

Underlying discount to net asset value

39

Number of investments (of which 16 are held in Japanese Special Situations – see page 16)

1 Refer to Glossary on page 88 for further details.

THE INVESTMENTS

Investments are principally made in three types of company:

- Investment Holding Companies
- Investment Companies
- Asset-backed Companies

The Investment Manager can invest anywhere in the world. In practice, they find most opportunities in Europe and Asia.

See Investment Manager's Review

Page 18

COMPARATOR BENCHMARK

The return of the portfolio is compared with the MSCI All Country World ex-US Total Return Index (with net income reinvested).

The comparator benchmark (the 'benchmark') is used for performance measurement purposes. The Investment Manager is not required to follow the sector or geographic allocations of the benchmark and, as such, British Empire Trust's portfolio will likely differ significantly from the benchmark.

See Chart

Page 5

PERFORMANCE

Over the past ten years, the Company has produced a compound average annual net asset value total return of 10.0% versus 9.0% from the MSCI All Country World ex-US Total Return Index in Sterling terms.

It is possible that, in the future, there will be periods of underperformance when compared with the benchmark but, over the longer term, the Board believes that the Investment Manager's style of investment will provide higher-than-average returns for investors.

See Key Performance Indicators

Page 10

See Investment Manager's Review

Page 19

FEES

The Investment Manager charges 0.7% of net assets. There is no performance fee. The Company's total annual costs (known as Ongoing Charges) are 0.87% of net assets for the year to 30 September 2018.

See Key Performance Indicators

Page 10

DIVIDENDS

The Investment Manager focuses on capital growth. The Company has either maintained or increased its ordinary dividends for the past 30 years, and expects to continue to do so in the future.

In exceptional circumstances, a special dividend may be paid.

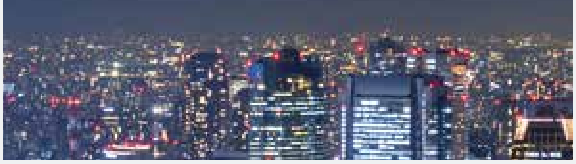
See Chairman's Statement
Page 6

DISCOUNTS AND BUYBACKS

The Company's shares have been trading at a discount to their net asset value. The Company manages the volatility of the discount through a policy of buying back its own shares.

See Chairman's Statement
Page 6

> We expect that long-term returns on equities will exceed the cost of debt and it is expected that the portfolio will be fully invested, provided there are attractive opportunities in our universe."
>
> **Joe Bauernfreund**
> Chief Investment Officer



GEARING

The Company is geared by its Debenture Stock and also by Loan Notes that were issued in January 2016 and November 2017.

See Chairman's Statement
Page 6

GOVERNANCE AND RISK

The Company has a Board of Directors which is responsible for oversight of the Investment Manager and also the risks and controls operated by the Company. All investment involves risk. The aim is to secure attractive returns without undue risk.

See Strategic Report
Page 10

See Governance
Page 36

ACCOUNTS

The Company has net assets of £941.7m and gross investment income of £22.6m.

See Financial Statements
Page 51

All figures are as at 30 September 2018, or for the year ended on that date, except where stated otherwise.

FINANCIAL HIGHLIGHTS

- Net asset value ('NAV') per share on a total return basis increased by 10.0%
- Benchmark index increased by 5.2%
- Final dividend increased by 10.0% to 11.0p and total dividend increased by 8.3% to 13.0p
- Share price total return of 12.0%

PERFORMANCE SUMMARY

Net asset value per share (total return) for the year to 30 September 2018[1]			**10.0%**
Share price total return for the year to 30 September 2018			**12.0%**
	30 September 2018	30 September 2017	% change
Benchmark			
MSCI All Country World ex-US Index (£ adjusted total return)	**474.26**	450.81	5.2%
Discount			
(difference between share price and net asset value)[2]	**-8.46%**	-9.92%	
	Year to 30 September 2018	Year to 30 September 2017	
Earnings and Dividends			
Investment income	**£22.64m**	£17.39m	
Revenue earnings per share	**14.83p**	10.44p	
Capital earnings per share	**58.72p**	106.99p	
Total earnings per share	**73.55p**	117.43p	
Ordinary dividends per share	**13.00p**	12.00p	
Ongoing Charges Ratio			
Management, marketing and other expenses (as percentage of average shareholders' funds – see Glossary)	**0.87%**	0.87%	
2018 Year's Highs/Lows	High	Low	
Net asset value per share	**853.78p**	**771.52p**	
Net asset value per share (debt at fair value)	**845.56p**	**764.29p**	
Share price (mid market)	**767.00p**	**683.00p**	

[1] As per guidelines issued by the AIC, performance is calculated using net asset values per share inclusive of accrued income and debt marked to fair value.

[2] As per guidelines issued by the AIC, the discount is calculated using the net asset value per share inclusive of accrued income and debt at fair value.

Buybacks

During the year, the Company purchased 4,309,052 Ordinary Shares, all of which have been placed into treasury, at a cost of £31.7m.

Alternative Performance Measures

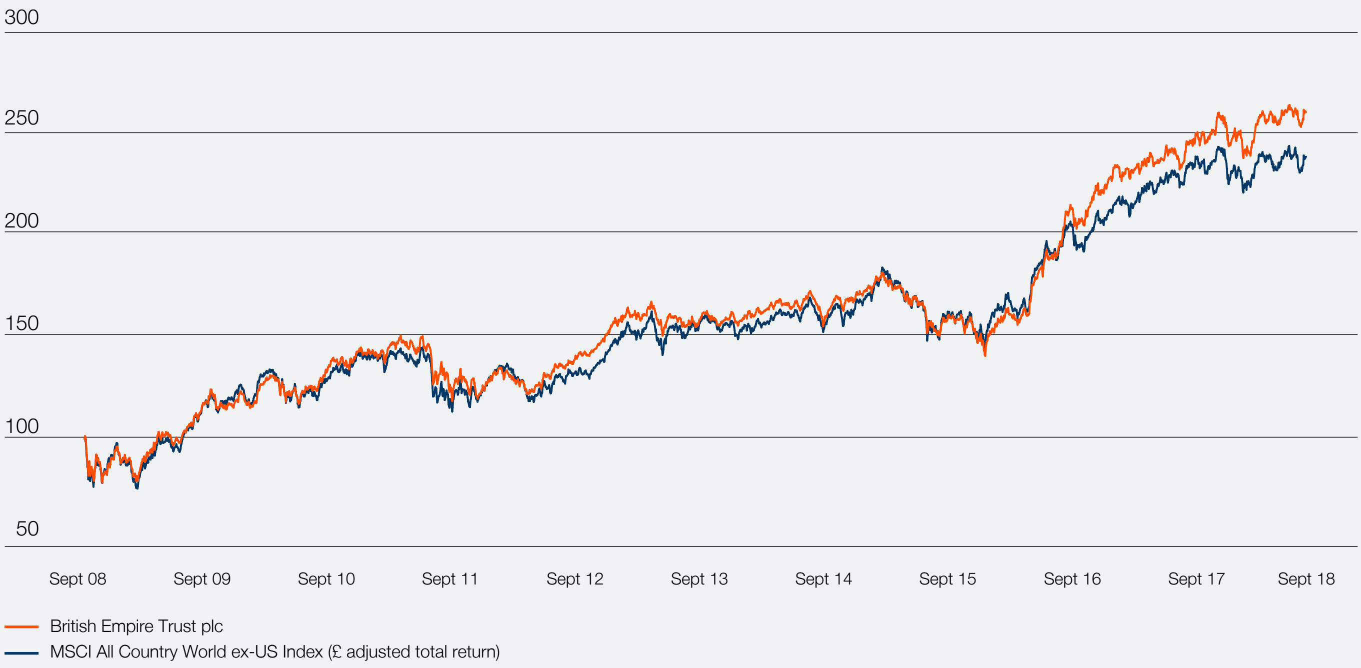
For all Alternative Performance Measures included in this Strategic Report, please see definitions in the Glossary on pages 88 and 89.

Historical record

Year ended 30 September	**2018**	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Profit for the year £'000*	**16,933**	12,603	18,747	16,268	13,827	21,775	24,050	18,405	12,712	12,774	13,548
Revenue earnings per share (p)*	**14.83**	10.44	14.32	11.75	9.29	13.90	15.06	11.50	7.94	7.98	8.46
Ordinary dividends per share (p)	**13.00**	12.00	11.70	11.70	10.50	10.50	9.50	8.50	7.50	6.00	5.75
Special dividend per share (p)	**–**	–	2.80	–	–	2.50	3.50	2.00	–	1.25	1.50
Net assets £'000	**941,680**	903,229	843,973	697,542	826,984	844,455	791,225	740,385	829,670	735,188	633,856
Basic net asset value per share (p)	**841.95**	777.62	670.52	519.53	575.92	551.97	500.47	462.51	518.28	459.26	395.96

* The profit for the year figures for 2008 to 2014 are Group returns and earnings, those for 2015 to 2018 are the Company return and earnings. These are comparable on a like-for-like basis.

The Company's net asset value relative to the MSCI All Country World ex-US Index (£ adjusted total return)



I am happy to report that the portfolio once again delivered strong performance over the period, with a net asset value total return of 10.0%.

Susan Noble
Chairman

This report covers the period from 1 October 2017 to 30 September 2018.

Investment Performance

Our accounting year to 30 September 2018 was challenging for equity investors as volatility returned to the markets. Our Investment Manager is an active stock picker, focused on finding discounted assets rather than being driven by equity markets in general – and this has proven beneficial over the period under review. As described in the Investment Manager's Review, the portfolio management team has been particularly active this year in seeking to extract value from portfolio investments. This has borne fruit and I am happy to report that the portfolio once again delivered strong performance over the period, with a net asset value total return of 10.0%, which was 4.8 percentage points higher than the return of the benchmark, the MSCI All Country World ex-US Index. The drivers of this investment performance are set out in more detail in the Investment Manager's Review on page 19.

Income and Dividend

Returns from your Company's investments may be achieved by increases in the value of underlying investments, a narrowing of the discount to underlying asset value, distributions or a combination of these elements. The Investment Manager does not specifically target returns in the form of dividends from investee companies and this means that your Company's revenue account may vary considerably from year to year. The Company has substantial revenue reserves and also has the power to distribute realised capital profits, should the Board believe that this is warranted. The Company has either maintained or increased its ordinary dividend for the past 30 years, and expects to continue to do so in the future.

Your Board has elected to increase the final dividend to 11.0p per share, which will result in a total dividend for the year of 13.0p per share. This year's interim and final dividends were fully covered by net revenue earned during the accounting year.

Gearing

The Investment Manager believes that there continue to be significant investment opportunities available at attractive valuations. While we are mindful of the extended rally in many equity markets since the global financial crisis, long-term debt remains available at interest rates which appear very attractive by historical standards. This is despite recent rises in interest rates around the world.

During the year under review, the Board approved a further modest increase in debt, of €20m unsecured private placement loan notes which were issued on 1 November 2017. If all of the Company's current debt had been deployed, gearing would have been 9.5% of net assets, based on the value of assets as at 30 September 2018.

Discount

The discount[1] at which the Company's shares trade has generally been in the range of 7% to 12% over the year and at the year-end was 8.5%. Your Board and Investment Manager continue to believe that it is in the best interests of shareholders to use share buybacks with the aim of limiting the volatility in the discount and this year some 4.3m shares were bought back. A direct effect of the buybacks was to increase NAV per share for remaining shareholders by 0.4% over the accounting year.

While share buybacks seek to address any oversupply of shares, it is equally important to stimulate demand. Our Investment Manager has continued to make great efforts to explain the investment philosophy both to existing shareholders and to potential investors.

Board

In this, my first annual report to you as Chairman of British Empire Trust plc, I would like again to thank my predecessor, Strone Macpherson, for his long service to the Company and for his sound guidance.

[1] Based on the share price on the relevant day as at close of business on the London Stock Exchange.

OUR EDGE

AVI specialises in finding companies which own attractive businesses where, for one reason or another, the market does not fully recognise the value of these assets. A particular emphasis is put on identifying investments where there is a clear catalyst for narrowing the discount, which provides a boost to our portfolio's performance above and beyond any underlying growth achieved in the assets. AVI believes its strategy and investment style differentiate it from other managers in the market because of the following:

1. 33 years' experience of long-term outperformance following our distinctive investment style (12.1% average annual performance).
2. AVI actively looks for the catalyst within a company which will narrow the discount.
3. AVI promotes active involvement to improve corporate governance and to unlock potential shareholder value.

Please visit our website for more information: **www.british-empire.co.uk**

On 20 December 2017, we announced the appointment of Anja Balfour as a non-executive Director. Anja has over 20 years' experience in managing Japanese and International Equity portfolios for Stewart Ivory, Baillie Gifford and Axa Framlington. Since stepping down from full-time investment management in 2010, she has gained considerable experience as a non-executive director and is currently a director of Martin Currie Asia Unconstrained Trust plc, of Schroder Japan Growth Fund plc and of F&C Global Smaller Companies plc. Anja is an excellent addition to the Board.

Steven Bates will be retiring from the Board following the AGM. Steven has served on the Board for over 12 years and during that time the Company has consistently benefited from his wise counsel and full engagement, for which we thank him. We have started a search for his successor as a Director.

Outlook

After a long period where markets have been resilient or even complacent about the risks which abound in the global economy, it was perhaps inevitable that we would enter a period of greater uncertainty.

Equity and bond markets have experienced a bout of heightened market volatility since the end of your Company's financial year, which has been driven by, among other things, the threat of a global trade war, the effects of rising interest rates as quantitative easing is slowly removed, and uncertainty over Brexit.

The potential effect of these major issues is very difficult to predict.

However, our Investment Manager's approach is emphatically not to second-guess markets but to seek investment opportunities in individual companies where the share price does not reflect the tangible value of a holding's underlying assets and/or their prospects for growth. While we have reported another good year, there remain many opportunities for investment returns, both within the portfolio and in the broader range of potential investments which our Investment Manager constantly monitors. This focus on company fundamentals should provide both strong returns over the long term and a degree of protection against the vagaries of markets.

Annual General Meeting

I look forward to seeing shareholders at the AGM, which this year will be held on Wednesday, 19 December 2018 at 11.00am at 11 Cavendish Square, London W1G 0AN.

Susan Noble
Chairman
9 November 2018

COMPANY PURPOSE

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

STRATEGY

Our strategy is to seek out-of-favour companies whose assets are misunderstood by the market or under-researched, and which trade significantly below their intrinsic value and where pressure can be brought to bear to enact change to release value for shareholders.

INVESTMENT APPROACH

As an investment trust, the Company's most important relationship is with the Investment Manager.

The Company's assets are managed by Asset Value Investors Limited. AVI aims to deliver superior returns and specialises in investment in securities that for a number of reasons may be selling on anomalous valuations.

The Investment Manager has the flexibility to invest around the world and is not constrained by any fixed geographic or sector weightings, but does seek to maintain a concentrated yet diversified portfolio. No more than 10% of the Company's investments may be in unlisted securities. AVI's investment philosophy is described in more detail on page 18 of the Annual Report and the Company's Investment Policy is set out on page 38.

KEY PERFORMANCE INDICATORS ('KPIs')

The Company uses KPIs as an effective measurement of the development, performance or position of the Company's business, in order to set and measure performance reliably. These are Net Asset Value Total Return, Discount to Net Asset Value and Value for Money.

TOTAL RETURNS TO 30 SEPTEMBER 2018

	1 Year	10 Years (Annualised)
Company	10.0%	10.0%
Benchmark MSCI All Country World ex-US Index*	5.2%	9.0%

* Benchmark adopted on 1 October 2013.

KEY FIGURES

DISCOUNT

30 September 2018	30 September 2017
8.5%	9.9%

NUMBER OF INVESTMENTS

39

(of which 16 are held in Japanese Special Situations – see page 16)

ESTIMATED PERCENTAGE ADDED TO NET ASSET VALUE PER SHARE FROM BUYBACKS

2018	2017
0.4%	0.8%

TOP TEN INVESTMENTS REPRESENT

50.6%

of total assets less current liabilities

ONGOING CHARGES RATIO

2018	2017
0.87%	0.87%

SYMPHONY INTERNATIONAL HOLDINGS

Minor International, Symphony International's largest investment, is one of the portfolio's largest underlying holdings.

Nature of business
Investment Company

4.1%

% of total assets less current liabilities

Minor Hotels – Anantara Kalutara Resort in Sri Lanka

Key Performance Indicators

The Company's Board of Directors meets regularly and at each meeting reviews performance against a number of key measures.

In selecting these measures, the Directors considered the key objectives and expectations of typical investors in an investment trust such as the Company.

Net asset value total return

The Directors regard the Company's net asset value total return as being the overall measure of value delivered to shareholders over the long term. Total return reflects both the net asset value growth of the Company and also dividends paid to shareholders. The Investment Manager's investment style is such that performance is likely to deviate materially from that of any broadly based equity index. The Board considers the most important comparator to be the MSCI All Country World ex-US Index, which was adopted as the Company's benchmark from 1 October 2013.

A full description of performance and the investment portfolio is contained in the Investment Review, commencing on page 18 of the Annual Report.

The discount at which the Company's shares trade compared with net asset value

The Board believes that an important driver of an investment trust's discount or premium over the long term is investment performance. However, there can be volatility in the discount or premium. Therefore, the Board seeks shareholder approval each year to buy back and issue shares with a view to limiting the volatility of the share price discount or premium.

During the year under review, the discount has moved generally in a range from 7% to 12%, with a high of 11.7% and a low of 6.8%, based on closing prices and, as at 30 September 2018, stood at 8.5%.

During the year under review, no new shares were issued and 4.3m shares were bought back and placed into treasury, adding an estimated 0.4% to net asset value per share to the benefit of continuing shareholders. The shares were bought back at a weighted average discount of 10.1%.

Value for money

The Board continues to be conscious of expenses and works hard to maintain a sensible balance between good service and costs.

For the year ended 30 September 2018, the ongoing charges ratio was 0.87%, which was unchanged from the previous year.

Principal Risks

When considering the total return of the investments, the Board must also take account of the risk which has been taken in order to achieve that return. There are many ways of measuring investment risk, and the Board takes the view that understanding and managing risk is much more important than setting any numerical target. The Board looks at risk from many different angles, an overview of which is set out below. It has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The objective of using these techniques is not to be prescriptive, but to understand levels of risk and how they have changed over time. The purpose of this focus is to ensure that the returns earned are commensurate with the risks assumed. The investment approach followed by the Investment Manager aims, over the long term, to achieve returns in excess of those produced by markets.

The Board has assessed the risks which the Company faces under a number of headings. A summary of the key risks and mitigating actions are set out in the table below. Shareholders should be aware that no assessment of this nature can be guaranteed to predict all possible risks; the objective is to assess the risks and determine mitigating actions.

Risk Area	Mitigating Actions
The market or the Company's portfolio could suffer a prolonged down turn in performance.	Conventional wisdom holds that the most effective way of reducing risk is to hold a diversified portfolio of assets. The Company typically now holds 25-35 core positions. This range could be considered a relatively concentrated (and therefore risky) portfolio. It is important to note that, in line with its investment objective, the Company's holdings are mostly in stocks which are themselves owners of multiple underlying businesses. Thus, the portfolio is much more diversified on a look-through basis than if it were invested in companies with a single line of business. For the same reason, the top ten portfolio positions, representing 50.6% of total assets at the year end, are in practice highly diversified on a look-through basis. This diversification is evident at country, sector and currency levels. The Investment Manager has a clear investment strategy, as set out on page 18. There will be periods when this strategy underperforms in comparison to its benchmark and its peer group. The Board monitors performance at each Board meeting, and reviews the investment process thoroughly at least annually. The Company, through the Investment Manager's compliance function and the Administrator's independent checks, has a robust system for ensuring compliance with the investment mandate.
The use of gearing makes investment returns more volatile and exacerbates the effect of any fall in portfolio value.	There is a degree of risk associated with gearing. While gearing should enhance investment performance over the long term, it is likely to exacerbate any decline in asset value in the short term. There are covenants attached to both the Loan Notes and the Debenture, which could be breached in extreme market conditions and could require early repayment, which could be expensive. Total return results, when issued on the basis of debt being marked to estimated market value, are likely to be more volatile. The value of the Euro tranche of the Loan Notes will fluctuate with currency movements, although it should be noted that the portfolio contains a significant amount of Euro denominated assets. It is possible that the investment returns will not match the borrowing cost over time, and therefore the gearing will be dilutive. The Board manages this risk by setting its fixed gearing at a prudent level. The covenants are set at levels with substantial headroom.
The portfolio has investments in a number of countries and there is a risk that the value of local currencies may decline in value relative to Sterling.	Foreign exchange risk is an integral part of a portfolio which is invested across a range of currencies. This risk is managed by the Investment Manager mainly by way of portfolio diversification but the Investment Manager may, with Board approval, hedge currency risk. The Company did not engage in any currency hedging during the year under review. However, borrowing in foreign currencies provides a natural hedge against currency risk in situations where the Company holds investments denominated in the borrowed currency. As at 30 September 2018, the Company had €50m of borrowing, and investments denominated in Euros whose value exceeded that of this borrowing.
While the investment portfolio is made up predominantly of liquid investments, there is a possibility that individual investments may prove difficult to sell at short notice.	The Investment Manager takes account of liquidity when making investments and monitors the liquidity of holdings as part of its continuing management of the portfolio. The liquidity of holdings is monitored and reported at regular Board meetings.
Management of the Company's investment portfolio and other support functions rely on a small number of key staff.	The Board regularly reviews with key suppliers, and particularly the Investment Manager, their staff retention policies and contingency plans.

Risk Area	Mitigating Actions
The shares of investment trusts frequently trade at a discount to their published net asset value. The value of the Company's shares will additionally be subject to the interaction of supply and demand, prevailing net asset values and the general perceptions of investors. The share price will accordingly be subject to unpredictable fluctuations and the Company cannot guarantee that the share price will appreciate in value. The Company may become unattractive to investors, leading to pressure on the share price and discount. This may be due to any of a variety of factors, including investment performance or regulatory change.	The Board seeks to manage the risk of any widening of the discount by regularly reviewing the level of discount at which the Company's shares trade, and it will, if necessary and appropriate, limit any significant widening through measured buybacks of shares. The Investment Manager, supported by the Company, has a comprehensive marketing, investor relations and public relations programme which seeks to inform both existing and potential investors of the attractions of the Company and the investment approach.
The portfolio has investments in a number of jurisdictions around the world and there is a risk of portfolio trades failing and/or of loss of assets.	The Investment Manager and Administrator have comprehensive systems in place for executing and settling transactions and for ensuring that the assets are kept safe. The Company uses a leading global custodian bank to safeguard its assets and receives regular, comprehensive reports from the Custodian. In addition, the Depositary provides further independent oversight of the protection of the Company's assets.
The portfolio has investments in a number of countries where systems for reclaiming tax are prolonged.	The Investment Manager has a process, overseen by the Audit Committee, to ensure that tax is reclaimed in an efficient and timely manner, working with the Custodian and, where appropriate, other agencies.
The Company outsources all of its key functions to third parties, in particular the Investment Manager, and any control failures or gaps in the systems and services provided by third parties could result in a financial loss or damage to the Company.	The Company reviews the relevant systems and controls, at the Investment Manager and at other third-party suppliers, including the Custodian, Depositary and Administrator. The Board assesses thoroughly the risks inherent in any change of supplier, including the internal controls of any new supplier.

The principal financial risks are examined in more detail in note 14 to the financial statements on page 65.

Environmental, Social and Governance Issues

Both the Board and AVI recognise that social, human rights, community, governance and environmental issues can have an effect on some of its investee companies.

The Board supports AVI in its belief that good corporate governance will help to deliver sustainable long-term shareholder value. AVI is an investment management firm that invests on behalf of its clients and its primary duty is to produce returns for its clients. AVI seeks to exercise the rights and responsibilities attached to owning equity securities in line with its investment strategy. A key component of AVI's investment strategy is to understand and engage with the management of public companies. AVI's Stewardship Policy recognises that shareholder value can be enhanced and sustained through the good stewardship of executives and boards. It therefore follows that in pursuing shareholder value AVI will implement its investment strategy through proxy voting and active engagement with management and boards.

The Company is an investment trust and so its own direct environmental impact is minimal. The Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions-producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

The Company has no employees. The Directors are satisfied that, to the best of their knowledge, the Company's principal suppliers, which are listed on the inside back cover of this report, comply with the provisions of the UK Modern Slavery Act 2015.

The Directors do not have service contracts. There are five Directors, three male and two female. Further information on the Board's policy on recruitment of new Directors is contained on page 42.

Future Strategy

The Board and the Investment Manager have long believed in their focus on investment in high-quality undervalued assets and that, over time, this style of investment has been well rewarded.

The Company's overall future performance will, *inter alia*, be affected by: the Investment Manager's decisions; investee companies' earnings, corporate activity, dividends and asset values; and by stock market movements globally. Stock markets are themselves affected by a number of factors, including: economic conditions; central bank and other policymakers' decisions; political and regulatory issues; and currency movements.

The Company's performance relative to its peer group and benchmark will depend on the Investment Manager's ability to allocate the Company's assets effectively, and manage its liquidity or gearing appropriately. More specifically, the Company's performance will be affected by the movements in the share prices of its investee companies in comparison to their own net asset values.

The overall strategy remains unchanged.

Approval of Strategic Report

The Strategic Report has been approved by the Board and is signed on its behalf by:

Susan Noble
Chairman
9 November 2018

The top ten equity investments make up 50.6% of total assets less current liabilities, with underlying businesses spread across a diverse range of sectors and regions.

View our investment platforms: **www.british-empire.co.uk/how-to-invest/platforms**

All discounts are estimated by AVI as at 30 September 2018, based on AVI’s estimate of each company's net asset value.

PERSHING SQUARE HOLDINGS

Nature of business
Investment Company

% of total assets less current liabilities
6.5%

Valuation
£66.6m

Discount
-24.4%

A Euronext- and London-listed closed-end fund investing in a highly-concentrated portfolio of listed US equities. The manager’s reputation has been damaged by the steep losses experienced in its position in Valeant Pharmaceuticals, but that enabled us to make the investment at a wide discount to NAV. The shares currently trade on a 24% discount to NAV, which we believe is too wide for a portfolio of large-cap US equities run by an activist manager with a track record of outperformance (even including the Valeant losses).

Source / Courtesy of United Technologies

EXOR

Nature of business
Investment Holding Company

% of total assets less current liabilities
5.6%

Valuation
£57.3m

Discount
-33.1%

EXOR is an Italian-listed holding company run by the Agnelli family, which traces its roots back to the formation of FIAT in 1899. It has exposure to four main assets, three of which are listed: Fiat Chrysler Automobile, Ferrari and CNH Industrial, and one unlisted: PartnerRe.

Source / CNH Industrial

RIVERSTONE ENERGY

Nature of business
Investment Company

% of total assets less current liabilities
5.0%

Valuation
£51.7m

Discount
-20.7%

A London-listed closed-end fund investing in oil & gas companies, mainly in the US and Canada with a focus on unconventional (shale) assets. Backed by a management team with a strong track record in the sector, Riverstone Energy was able to capitalise on the distress in the sector following the 2014 oil price crash to assemble an attractive portfolio concentrated in the lowest-cost basins in North America. The company trades on a 21% discount to NAV.

Source / Centennial Resource Development

WENDEL

Nature of business
Investment Holding Company

% of total assets less current liabilities
4.8%

Valuation
£49.6m

Discount
-26.5%

Wendel is a French-listed holding company with exposure to a diverse range of sectors. Major business lines include certification and inspection services, consumer packaging and mobile telephone infrastructure through their investments in Bureau Veritas, Constantia Flexibles, IHS and Stahl.

Source / Regency Agency

FONDUL PROPRIETATEA

Nature of business
Investment Company

% of total assets less current liabilities
5.1%

Valuation
£52.8m

Discount
-31.8%

A Bucharest- and London-listed closed-end fund originally set up to provide restitution to Romanian citizens whose property was seized by the Romanian Communist government. Fondul provides exposure to some of Romania's most attractive utility and infrastructure assets including Hidroelectrica, ENEL's Romanian distribution subsidiaries, Bucharest Airport and OMV Petrom. The fund pays a 7% dividend yield and offers the potential for several corporate events to unlock value and help narrow the 32% discount.

Source / S.P.E.E.H. Hidroelectrica S.A.

PARGESA

Nature of business
Investment Holding Company

% of total assets less current liabilities
5.1%

Valuation
£52.7m

Discount
-37.8%

Through Pargesa's stake in GBL it holds interests in a number of listed companies. The portfolio is concentrated on a limited number of major holdings – including well-known companies such as Adidas, Pernod-Ricard and LafargeHolcim – with the aim of creating long-term value through active ownership.

Copyright / Imerys

JARDINE STRATEGIC

Nature of business
Investment Holding Company

% of total assets less current liabilities
5.1%

Valuation
£52.5m

Discount
-35.2%

An Asian holding company which holds significant interests in Jardine Matheson, Hongkong Land, Jardine Cycle & Carriage, Dairy Farm and Mandarin Oriental by way of a cross shareholding between Jardine Matheson and Jardine Strategic. The group structure, which is controlled by the Keswick family, provides broad exposure to Asian businesses at an attractive discount to the value of their listed underlying holdings, while providing the base for long-term value creation through the stable stewardship of their investee companies.

Source / Mandarin Oriental Hotel Group
Photography / George Apostolidis

TETRAGON

8

TETRAGON FINANCIAL

Nature of business
Investment Company

% of total assets less current liabilities
4.7%

Valuation
£48.8m

Discount
-38.7%

A Euronext- and London-listed closed-end fund investing in a multi-asset portfolio with exposure to CLO equity, hedge funds and real estate. Tetragon wholly owns, or has substantial stakes in, the asset managers that manage its portfolio, and the ultimate IPO of this asset management business is likely to release some of the value found in the company's 39% discount to NAV.

Source / Tetragon Financial Group Ltd

TOKYO BROADCASTING SYSTEM

Nature of business
Asset-backed Company

% of total assets less current liabilities
4.4%

Valuation
£45.1m

Discount
-30.1%

Tokyo Broadcasting System ('TBS') is one of the top five major broadcasters in Japan. However, its broadcasting business is masked by its excessively large securities portfolio, amounting to 80% of market cap, and totalling 91% when including net cash. TBS trades on a 30% discount.

Source / Getty Images

THIRD POINT OFFSHORE

Nature of business
Investment Company

% of total assets less current liabilities
4.3%

Valuation
£44.3m

Discount
-23.2%

A London-listed closed-end fund run by well-known activist Daniel Loeb. The fund invests in credit and equity and takes long and short positions in both, although it has a bias towards long positions. We first invested in Third Point Offshore in July 2017, and built a position at an average discount of 17%, which we view as unsustainably wide given Loeb's reputation as an activist investor.

Source / Getty Images

AT 30 SEPTEMBER 2018

Company	Nature of business	% of investee company	IRR (%, GBP)[1]	ROI (%, GBP)[2]	Cost £'000[3]	**Valuation £'000**	% of total assets less current liabilities
Pershing Square Holdings	Investment Company	1.3	2.9	3.1	64,799	**66,556**	6.5%
EXOR	Investment Holding Company	0.5	20.3	31.7	44,032	**57,338**	5.6%
Fondul Proprietatea	Investment Company	4.1	15.8	31.6	44,690	**52,825**	5.1%
Pargesa	Investment Holding Company	1.1	14.6	40.0	39,463	**52,725**	5.1%
Jardine Strategic	Investment Holding Company	0.2	3.4	4.1	52,795	**52,463**	5.1%
Riverstone Energy	Investment Company	4.8	14.6	35.0	38,369	**51,697**	5.0%
Wendel	Investment Holding Company	0.9	19.3	47.3	36,843	**49,561**	4.8%
Tetragon Financial	Investment Company	3.6	10.2	17.4	45,463	**48,807**	4.7%
Tokyo Broadcasting System	Asset-backed Company	1.6	8.1	10.3	41,445	**45,060**	4.4%
Third Point Offshore	Investment Company	4.8	(0.6)	(0.7)	46,618	**44,276**	4.3%
Top ten investments					454,517	521,308	50.6%
Swire Pacific 'B'	Investment Holding Company	1.1	6.8	11.9	41,167	**43,298**	4.2%
Symphony International Holdings	Investment Company	15.7	17.0	66.3	26,636	**42,652**	4.1%
Oakley Capital Investments	Investment Company	10.8	44.4	17.2	36,607	**42,624**	4.1%
JPEL Private Equity	Investment Company	17.5	28.9	81.1	20,269	**41,336**	4.0%
Investor AB 'A'	Investment Holding Company	0.3	14.0	106.0	10,795	**32,474**	3.2%
NB Private Equity Partners	Investment Company	2.9	19.3	106.5	17,391	**32,435**	3.1%
Cosan Ltd	Investment Holding Company	2.4	(25.1)	(21.6)	39,464	**30,481**	3.0%
Aker ASA	Investment Holding Company	0.5	19.1	168.1	5,536	**22,902**	2.2%
Fujitec*	Asset-backed Company	2.4	(14.0)	(2.4)	22,879	**22,273**	2.2%
Vietnam Phoenix Fund 'C'	Investment Company	25.1	20.2[4]	51.8[4]	20,065	**22,011**	2.1%
Top twenty investments					695,326	853,794	82.8%
Kato Sangyo*	Asset-backed Company	1.4	6.7	5.2	13,639	**14,219**	1.4%
Kanaden*	Asset-backed Company	4.5	(21.4)	(10.5)	12,831	**11,414**	1.1%
Toshiba Plant Systems*	Asset-backed Company	0.7	22.5	18.5	8,138	**11,070**	1.1%
Nishimatsuya Chain*	Asset-backed Company	1.9	(8.9)	(8.4)	11,608	**10,435**	1.0%
Daiwa Industries*	Asset-backed Company	2.5	(5.0)	(3.3)	11,139	**10,400**	1.0%
Teikoku Sen-I*	Asset-backed Company	1.8	116.8	42.7	7,117	**10,155**	1.0%
GP Investments	Investment Company	14.6	(15.7)	(35.7)	14,739	**9,525**	0.9%
Pasona Group*	Asset-backed Company	2.0	43.7	26.7	7,432	**9,305**	0.9%
Yamato Kogyo*	Asset-backed Company	0.5	16.1	18.4	7,143	**8,315**	0.8%
Tachi-S*	Asset-backed Company	1.7	(14.7)	(16.9)	8,622	**7,088**	0.7%
Top thirty investments					797,734	955,720	92.7%

* Constituent of Japanese Special Situations basket.
[1] Internal rate of return. Calculated from inception of British Empire's investment. Refer to Glossary on page 88 for further details.
[2] Return on investment. Calculated from inception of British Empire's investment. Refer to Glossary on page 88 for further details.
[3] Cost. Refer to Glossary on page 88 for further details.
[4] ROIs and IRRs for Vietnam Phoenix Class 'C' include the returns for the predecessor investment in DWS Vietnam and the now-exited spin-off investment in Vietnam Phoenix Class 'B'.

Company	Nature of business	% of investee company	IRR (%, GBP)[1]	ROI (%, GBP)[2]	Cost £'000[3]	**Valuation £'000**	% of total assets less current liabilities
Melco Holdings*	Asset-backed Company	1.1	15.4	12.7	6,108	**6,797**	0.7%
SK Kaken*	Asset-backed Company	0.5	(18.5)	(15.0)	6,247	**5,257**	0.5%
Mitsuboshi Belting*	Asset-backed Company	0.7	48.4	11.4	4,115	**4,578**	0.4%
Nissan Shatai*	Asset-backed Company	0.4	(13.6)	(6.9)	4,389	**4,067**	0.4%
Better Capital (2009)	Investment Company	2.0	26.4	50.7	1,962	**3,935**	0.4%
Vietnam Property	Investment Company	15.4	6.6	52.8	632	**3,763**	0.4%
Nakano Corporation*	Asset-backed Company	2.2	6.4	6.3	3,456	**3,613**	0.3%
Ashmore Global Opportunities – GBP	Investment Company	12.5	5.2	10.2	1,166	**1,934**	0.2%
Sekisui Jushi*	Asset-backed Company	0.1	n/a	1.3	596	**601**	0.1%
Total equity investments					**826,405**	**990,265**	**96.1%**
Total investments					**826,405**	**990,265**	**96.1%**
Net current assets						**40,576**	**3.9%**
Total assets less current liabilities						**1,030,841**	**100.0%**

* Constituent of Japanese Special Situations basket.
1 Internal rate of return. Calculated from inception of British Empire's investment. Refer to Glossary on page 88 for further details.
2 Return on investment. Calculated from inception of British Empire's investment. Refer to Glossary on page 88 for further details.
3 Cost. Refer to Glossary on page 88 for further details.

OVERVIEW OF AVI'S INVESTMENT PHILOSOPHY

BRITISH EMPIRE IS MANAGED BY **ASSET VALUE INVESTORS LIMITED**

The aim of AVI is to deliver superior investment returns. AVI specialises in investing in securities that for a number of reasons may be selling on anomalous valuations.

AVI's investment philosophy is to:

Our focus on buying high-quality businesses trading at wide discounts to their net asset value has served us well over the long term. There are periods of time, however, when our style is out of favour and the types of companies in which we invest are ignored by the broader market. This requires us to be patient and to remain true to our style, so that when other investors begin to appreciate the value in those companies, we are well placed to benefit. In the short term, this means that there could be some volatility in our returns. However, we are confident that we own high-quality businesses, which are trading on cheap valuations.

Members of the investment team at AVI invest their own money in funds which they manage. As at 30 September 2018 AVI's investment team owned 236,122 shares in British Empire Trust plc.

IDENTIFY GOOD QUALITY UNDERLYING ASSETS WITH APPRECIATION POTENTIAL AT COMPELLING VALUATIONS.

There are many companies trading at discounts to net asset value. Our aim is to identify companies that own attractive businesses where there is not only a wide discount, but also where we consider there to be a reasonable likelihood of those businesses appreciating in value.

1

INVEST IN COMPANIES TRADING AT DISCOUNTS TO NET ASSET VALUE.

Our focus is to find listed companies that own assets such as listed securities, property, cash and other businesses. We then estimate the value of all of those assets. After deducting any liabilities such as debt or pension liabilities, we arrive at an estimate of net asset value for that company. We will consider investing in companies where the discount between the current share price and our estimate of the value of that business is wide.

2

LOOK FOR EVENTS TO NARROW DISCOUNTS.

Once we find a good quality business on an attractive valuation, we then consider whether it is likely that the discount will narrow. Many companies trade at a discount for a reason and if that reason persists, then the discount may persist. Catalysts differ for the various types of company in which we invest. For example, in the case of a closed-end fund, where we are a large shareholder we can influence a board to pursue a strategy for discount narrowing. In the case of a family controlled company, we would rely on the family to be the activist. Our analysis would involve trying to understand the interests and objectives of the controlling shareholder, and whether our interests were aligned with theirs.

3

FOCUS ON BALANCE SHEET STRENGTH.

Debt works very well when markets are appreciating. However, debt can also destroy a lot of value when markets are falling and the business environment for a particular company deteriorates. We consider very carefully the balance sheet strength of the companies in which we invest. Factors which we look at include the actual quantum of debt relative to the assets of the companies, the maturity profile of the debt and the cashflows that the businesses generate.

4

FOCUS ON BOTTOM-UP STOCK PICKING.

We are not asset allocators attempting to invest a pool of money across various asset classes. We are equity investors focusing on a particular style of value investing. We do not hug benchmarks and we will not own a company just because it is in a benchmark. We seek to invest in companies that meet the criteria described above.

5

ESG INTEGRATION FOR A BROADER RISK PERSPECTIVE.

Integral to our investment process is the belief that good corporate governance will help to deliver sustainable long-term returns for shareholders. In addition to financial performance, the board's oversight of operational performance, environmental and social risks and the robustness of the management structures will affect the valuation we assign to a stock. AVI expects the boards and executives of the companies in which we invest to review the quality of the internal controls, strategy and operating performance in order to produce strong returns.

6

INVESTMENT REVIEW / INVESTMENT MANAGER'S REVIEW

PERFORMANCE REVIEW

> Over the financial year the total net asset value return was 10.0%.
>
> **Joe Bauernfreund**
> Chief Investment Officer

Joe is Chief Executive Officer and Chief Investment Officer of AVI. Joe has been British Empire's named portfolio manager since 1 October 2015, continuing the natural progression that has seen only three portfolio managers at British Empire Trust in the last 30 years.

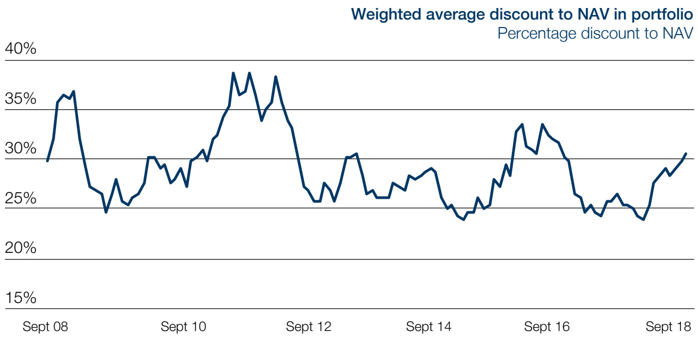
Performance

For the financial year to 30 September 2018, your Company's NAV returned +10.0% on a total return basis in Sterling. This represents an outperformance of +4.8% against the benchmark – the MSCI All Country World ex-US index – which returned +5.2%, also in Sterling terms. Following this, NAV total return is now 71% over the last three years, a 14% outperformance of the benchmark.

Whilst we are very much bottom-up fundamental stock pickers, it is both interesting and important to consider your Company's performance in the context of the wider market environment. As has been the case for much of the past decade, the US was again the standout stock market performer this year. US markets appear unfazed by whatever is thrown at them, with the S&P 500 and NASDAQ Composite returning 21% and 29% respectively in the face of political scandal, fears of a full-blown trade war and further monetary policy tightening. With the US now technically in its longest-ever bull market, the question *du jour* concerns the sustainability of continued US outperformance. Recent setbacks have brought the issue into stark relief, with market participants either taking the view that any setback is a buying opportunity, or fretting about the end of the long bull run. As stock pickers, we focus on the prospects for our investments and try to screen out the distracting noise made by commentators and politicians.

For non-US equity markets, the going was much tougher. In Japan, the TOPIX returned 13%, whilst broad-based European equity indices rose slightly by 3% over the year. There has been considerable pain in emerging markets – most notably Turkey, Argentina, Indonesia and Brazil – which have, amongst other things, suffered from currency weakness against the US Dollar as the Fed delivered its eighth hike of the cycle, with another likely before 2018 is out. The portfolio's major exposure to this trend was in Brazil, where two holdings, Cosan Ltd and GP Investments, underperformed. These are discussed in detail below.

WEIGHTED AVERAGE DISCOUNT



Source / Estimated by Asset Value Investors.

ANNUALISED NAV 10 YEAR TOTAL RETURN PER SHARE

10%

Portfolio Commentary

British Empire's Portfolio

When thinking about the types of companies in which your Company invests, it is important to consider both the NAV and the discount at which the share price trades to that NAV; these two factors will be the key determinants of how your portfolio performs in any given year.

With that in mind, we note that the portfolio's weighted average discount widened from 26% to 30% over the year. While roughly half of this was due to reducing holdings with tight discounts and buying or adding to positions with wider discounts, the portfolio discount movement was nonetheless a drag on returns. However, superior NAV growth more than outweighed this, leading to outperformance.

Performance was particularly strong in European holding companies. In this area of the portfolio, we seek to invest alongside prudent, long-term oriented capital allocators who will actively manage their portfolio of businesses and grow their company's net asset value over time. NAV growth amongst these companies was generally positive, although somewhat offset by discount widening in cases such as EXOR and Investor AB. In holdings such as Pargesa and Jardine Strategic (an Asian holding company), we observe discounts on listed portfolios at levels previously seen at times of heightened economic stress such as 2009 and 2011. That said, discounts did not homogenously increase: Aker, this year's largest individual stock contributor, benefited from significant discount narrowing on top of strong NAV performance. Having traded on as much as a 46% discount within the last three years, we believe Aker is one of the clearest demonstrations of how sentiment can drive wild swings in discounts and provide compelling opportunities for disciplined investors.

Closed-end funds also performed well this year. Of particular note, it was pleasing to see the validation of last year's decision to add to Pershing Square Holdings on continued weakness, leading to a swing from being one of last year's largest detractors to being this year's third most significant contributor. As discussed in more detail below, Pershing Square's NAV performance has been much stronger, although its discount of 24% remains exceptionally wide for a portfolio of liquid, US-listed large-cap equities.

When it comes to closed-end funds, we often take a more activist approach to creating value. Our investment in Aberdeen Private Equity Fund ('APEF') is a case in point, and contributed 0.43% to performance. Having completed detailed pre-investment research into the implied valuation discrepancy between APEF's portfolio in the public and private markets, we built a 25% stake in the company. From this position, our engagement steered the company toward a sale of its entire portfolio at a modest premium to NAV, with the investment generating an internal rate of return ('IRR')[1] of 22% in Sterling over a period of just under 11 months (36% in APEF's reporting currency of US Dollars, with Sterling strength acting as a headwind to returns over the holding period).

One final area of note is Japan, in which 20% of your Company's assets are invested. As a recap, in 2017 our focus on undervalued, asset-backed quality companies led us to Japan, where many companies trade at discounts to the purest asset – cash – and yet also offer value and quality. We built a basket of heavily over-capitalised small-cap Japanese equities, which are attractive businesses in their own right and which we believe are well positioned to benefit from Prime Minister Abe's corporate governance reform agenda.

[1] Refer to Glossary on page 88 for further details.

EXOR /
FIAT CHRYSLER AUTOMOBILES

EXOR, one of British Empire's largest investments, has an indirect stake in Maserati S.p.A. through its holding in Fiat Chrysler Automobiles. Maserati is an Italian producer of luxury vehicles established in the early twentieth century.

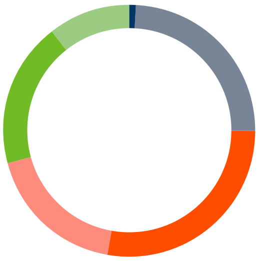
5.6%

% of total assets less current liabilities

Source / Maserati S.p.A

This year saw our first public engagement with a Japanese company. In June, we submitted a shareholder proposal calling for an in specie distribution of 40% of Tokyo Broadcasting System's stake in Tokyo Electron. As discussed in more detail below, we put considerable effort into the campaign, which led to the launch of a dedicated website (www.improvingtbs.com) and the hosting of various information sessions in Tokyo. Through favourable and extensive press coverage – appearing in over 150 articles – we have laid the groundwork on which to engage with the other Japanese companies in your portfolio.

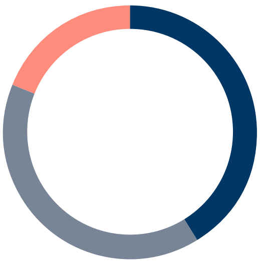
LOOK-THROUGH COUNTRY EXPOSURE



	2018 %	2017 %
United Kingdom	**0.9**	**1.1**
North America	**24.3**	**19.9**
Europe	**27.8**	**32.0**
Asia	**17.9**	**17.4**
Japan	**18.6**	**18.0**
Latin America, Africa & Emerging Europe	**10.5**	**7.8**
Other	**–**	**3.8**

Based on location of companies' underlying assets.

EQUITY PORTFOLIO VALUE BY MARKET CAPITALISATION



	2018 %	2017 %
<£1 billion	**41.8**	43.8
>£1 billion – <£5 billion	**39.5**	23.6
>£5 billion – <£10 billion	**–**	13.0
>£10 billion	**18.7**	19.6

PORTFOLIO VALUE BY SECTOR

	2018 %	2017 %
Investment Companies	**46.6**	42.5
Investment Holding Companies	**34.4**	43.9
Asset-backed Companies	**19.0**	13.6

Source / Asset Value Investors.

CONTRIBUTORS

AKER

Description
Investment Holding Company

Weight[1]
2.2%

Discount
-13.5%

% of investee company
0.5%

Total return on position FY18 (local)[2]
92%

Total return on position FY18 (GBP)
91%

Contribution (GBP)[3]
3.43%

ROI since date of initial purchase[4]
168%

Aker was – just as in 2016 – the most significant driver of returns this year. Since 2008, our investment in Aker has been predicated on the attractive value and growth of its underlying businesses; the controlling family's proven M&A track record; and Aker's (at times very wide) discount to NAV. In the last year, a confluence of all of these factors – with the tailwind of a buoyant oil price – helped Aker contribute 3.43% to your Company's performance.

NAV growth at 90% was very strong. This was led by Aker BP (77% of NAV), whose share price advanced 133% during a year in which it successfully completed the acquisition of Hess's Norwegian division. The transaction, finalised in October 2017, included income-producing assets in the form of Hess Norway's 64% and 63% shares in the Valhall and Hod fields, as well as a US$1.5bn tax loss carry forward asset. Aker subscribed to 40% of the new equity raised by Aker BP, highlighting the way in which holding companies can support value-creation at their portfolio companies. This modus operandi of selectively targeted M&A with the support of Aker's balance sheet has helped Aker BP grow into one of the largest independent Exploration & Production companies in Europe following the acquisition of Marathon Oil Norge and BP Norge in 2014 and 2016. With the Johan Sverdrup field due to come on line in 2019, we remain attracted to the prospect of continued growth in NAV.

As well as NAV growth, Aker benefited from continued discount narrowing (from 29% to 14%), adding a powerful fillip to returns. Understanding the interplay of different factors that lead to discount narrowing is invariably more of an art than a science, but the 46% increase in the price of Brent crude to above US$80 per barrel, Aker's 13% dividend increase and value-accretive M&A at Aker BP provided both macro and micro stimuli supportive of tighter discount ranges.

We have held Aker since 2008, with a weighted-average discount on purchases during that period of 42%. In 2018, the position was trimmed significantly (by 70%) on much tighter discounts, with a weighted-average discount on our sales of 18%. Aker closed the year as a 2.4% position, trading on a 14% discount.

DIGITAL GARAGE

Description
Investment Holding Company

Weight[1]
SOLD

Discount
n/a

% of investee company
SOLD

Total return on position FY18 (local)[2]
49%

Total return on position FY18 (GBP)
48%

Contribution (GBP)[3]
1.35%

ROI since date of initial purchase[4]
65%

Despite being held for just seven months of the year, Digital Garage was the second largest contributor to performance, returning 48% and contributing 1.35%. The strong returns benefited from a combination of NAV growth (37%) and a contraction in the discount from 16% at the start of the year to the sub-10% level at which we sold the shares.

We first made an investment in Digital Garage in March 2016, noting its wide discount and the lack of recognition by the market of its two key unlisted assets: a data-driven marketing business and a financial settlement service. These assets had achieved double-digit earnings growth over the preceding five years, benefiting from increased demand for digital advertising and a shift to cashless payments. Despite this, their implied valuation, excluding the 20% stake in listed Kakaku, was negative. Our analysis concluded they were worth far more, and that Digital Garage traded at a discount in excess of 33% to its net asset value.

Over our two year holding period, the marketing and financial settlement business grew earnings by 53% and 62% respectively, which led to NAV growth of 31% and more than offset Kakaku's lacklustre -2% return. We exited the position on a 9% discount compared to an average purchase discount of 31%, recognising a 44% IRR compared to the TOPIX's 23% over the same period.

While our conviction in the quality of these assets remained, we believed the prospects for potential growth in NAV were more than offset by the downside risk of discount widening. As such, we exited our position in favour of more compelling opportunities elsewhere in the portfolio. Our concerns proved valid, with the discount widening to 23% at the end of the year.

1 % of total assets less current liabilities.
2 Weighted returns adjusted for buys and sells over the year.
3 Figure is an estimate by the managers and sum of contributions will not equal quoted total return over the financial year.
4 Figure quoted in GBP terms. Refer to Glossary on page 88 for further details.

Source / Aker BP

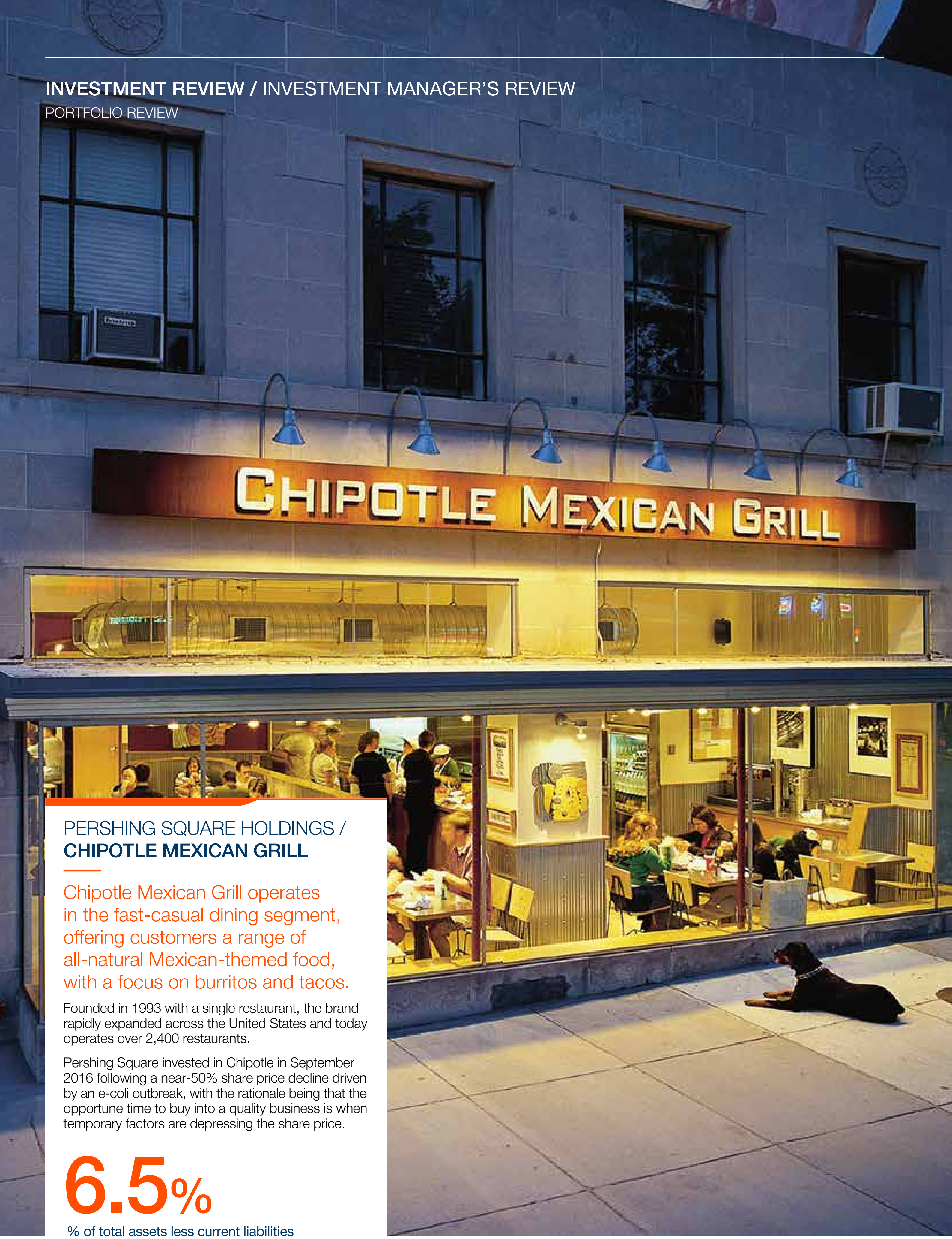
AKER /
AKER BP

Although its roots can be traced back to the formation of Norway's first oil company in 1971, Aker BP in its current form was established just two years ago through the merger of Det Norske Oljeselskap ASA and BP Norge.

Aker BP operates as a fully-fledged oil company, involved in the exploration, development and production of petroleum resources on the Norwegian continental shelf. Measured by production, Aker BP is one the largest independent oil companies in Europe.

2.2%

% of total assets less current liabilities



PERSHING SQUARE HOLDINGS / **CHIPOTLE MEXICAN GRILL**

Chipotle Mexican Grill operates in the fast-casual dining segment, offering customers a range of all-natural Mexican-themed food, with a focus on burritos and tacos.

Founded in 1993 with a single restaurant, the brand rapidly expanded across the United States and today operates over 2,400 restaurants.

Pershing Square invested in Chipotle in September 2016 following a near-50% share price decline driven by an e-coli outbreak, with the rationale being that the opportune time to buy into a quality business is when temporary factors are depressing the share price.

6.5%

% of total assets less current liabilities

Source / Chipotle Mexican Grill

CONTRIBUTORS

PERSHING SQUARE HOLDINGS

Description Investment Company	**Total return on position FY18 (local)**[2] 15%
Weight[1] 6.5%	**Total return on position FY18 (GBP)** 18%
Discount -24.4%	**Contribution (GBP)**[3] 1.19%
% of investee company 1.3%	**ROI since date of initial purchase**[4] 3%

Pershing Square Holdings ('PSH') generated an 18% share price total return, boosting British Empire's NAV by 1.19%. The 24% discount ended the year where it started, although it swung in a wide range between 16% to 26%, and the NAV rose by 18% driven by strong performances from Automatic Data Processing (24% of NAV), Chipotle Mexican Grill (14%) and Lowe's Companies (13%).

PSH is a London- and Euronext-listed closed-end fund managed by Pershing Square Capital Management ('PSCM'), the investment firm run by high-profile activist investor Bill Ackman. We first invested in PSH in June 2017 and have since built a position amounting to a 3% effective stake in the company at an average discount of 18%.

The opportunity to invest in PSH at a discount first arose following the company's catastrophic and very public investment in Valeant, a Canadian-listed pharmaceuticals business whose share price declined 97% from peak to trough between August 2015 and April 2017. Valeant at one point accounted for 30% of PSH's NAV, and total losses from the position are estimated at US$4bn across Pershing's funds. This episode badly tarnished Bill Ackman and his firm's reputation, and the discount on PSH widened as investors became disillusioned.

While the reaction to the highly disappointing Valeant investment was understandable, it still leaves PSCM with an enviable annualised return since inception of 14% versus a 9% return on the S&P 500 over the same period. Our analysis of PSH's current portfolio suggested there is scope for considerable upside, while our research into PSCM's historic investments shows what an unusual investment Valeant was for the firm. Our conversations with management satisfied us that they understood what a departure the investment was from the style that has served them so well.

Furthermore, we believed it was untenable for Bill Ackman to preside over a vehicle trading at a wide discount to NAV given his own activist credentials.

In an attempt to narrow the discount, the company obtained a premium listing in London in May 2017, and launched a buyback programme shortly after that. In January of this year, it was announced that PSCM were launching a tender offer for US$300m of PSH shares at a discount between 16% and 24%. We were opposed to this course of action and felt that it should have been the company itself holding the tender offer given the accretion it would provide to NAV per share, and we made our views clear to the board and manager. We were satisfied with the eventual outcome that saw the company itself conduct the tender offer. Later in the year, Bill Ackman and his team added to their investments in PSH with purchases totalling over US$400m.

While our investment in PSH has been only moderately profitable to date, we continue to believe that PSH's portfolio is attractively positioned, that its current discount is unsustainable, and that a more structural solution may be required to properly tackle the discount.

JPEL PRIVATE EQUITY

Description Investment Company	**Total return on position FY18 (local)**[2] 15%
Weight[1] 4.0%	**Total return on position FY18 (GBP)** 18%
Discount -17.5%	**Contribution (GBP)**[3] 0.94%
% of investee company 17.5%	**ROI since date of initial purchase**[4] 81%

JPEL Private Equity ('JPEL') was one of our largest contributors over the year to September 2018, generating a total return of 18% and contributing 0.94% to returns. The discount narrowed marginally over the period (from 20% to 18%), driven by strong share price growth (+13%) slightly ahead of NAV growth (+10%).

JPEL's year was punctuated by positive developments within its portfolio which helped to drive returns. The first, announced in October, was the partial sale of Accela (8% of the portfolio) to Berkshire Partners for US$29m. The second was the sale of Celerion Holdings (8%) to Court Square Capital for US$45m. The Celerion transaction marked the fourth exit from JPEL's direct investment programme since it began in 2014, with the average exit being achieved at an uplift of +143% over the carrying value one year prior, and representing a 3x multiple on the capital invested. These statistics are, in our opinion, very impressive and highlight the attractive portfolio that JPEL offers to investors.

These exits funded two mandatory redemptions during the year which returned US$100m (24% of NAV) to investors at a zero discount to NAV.

JPEL continues to value its investments conservatively – average EV/EBITDA multiple of 8 times – and there is the scope for further exits from the portfolio. Just before the year end, JPEL revalued Mr Bults – JPEL's largest investment, a provider of municipal waste services – upwards by +59%. We are hopeful that this revaluation may indicate an imminent sale of this asset (with the potential for further distributions of cash to shareholders).

Given the prospects for further exits and returns of capital, we continue to view JPEL as a highly attractive proposition.

[1] % of total assets less current liabilities.
[2] Weighted returns adjusted for buys and sells over the year.
[3] Figure is an estimate by the managers and sum of contributions will not equal quoted total return over the financial year.
[4] Figure quoted in GBP terms. Refer to Glossary on page 88 for further details.

Seizing the opportunity

JAPAN SPECIAL SITUATIONS BASKET

14% of your Company's assets are invested in a basket of cash-rich Japanese companies, which has been an area of focus over the past year. We have continued to grow this basket of undervalued, asset-backed quality companies and are engaging with management to initiate discussions about improving shareholder value.

Corporate governance reform has firmly taken hold in Japan – pushed as one of the "Three Arrows" of Prime Minister Shinzo Abe's economic reform plan – and the culture of change is now ingrained in the mind-set of the regulators and institutions alike. Several key institutions have supported the reforms, including the Ministry of Economy, Trade & Industry; the Financial Services Agency; the Panasonic Pension Scheme; and foreign activist investors (including AVI).

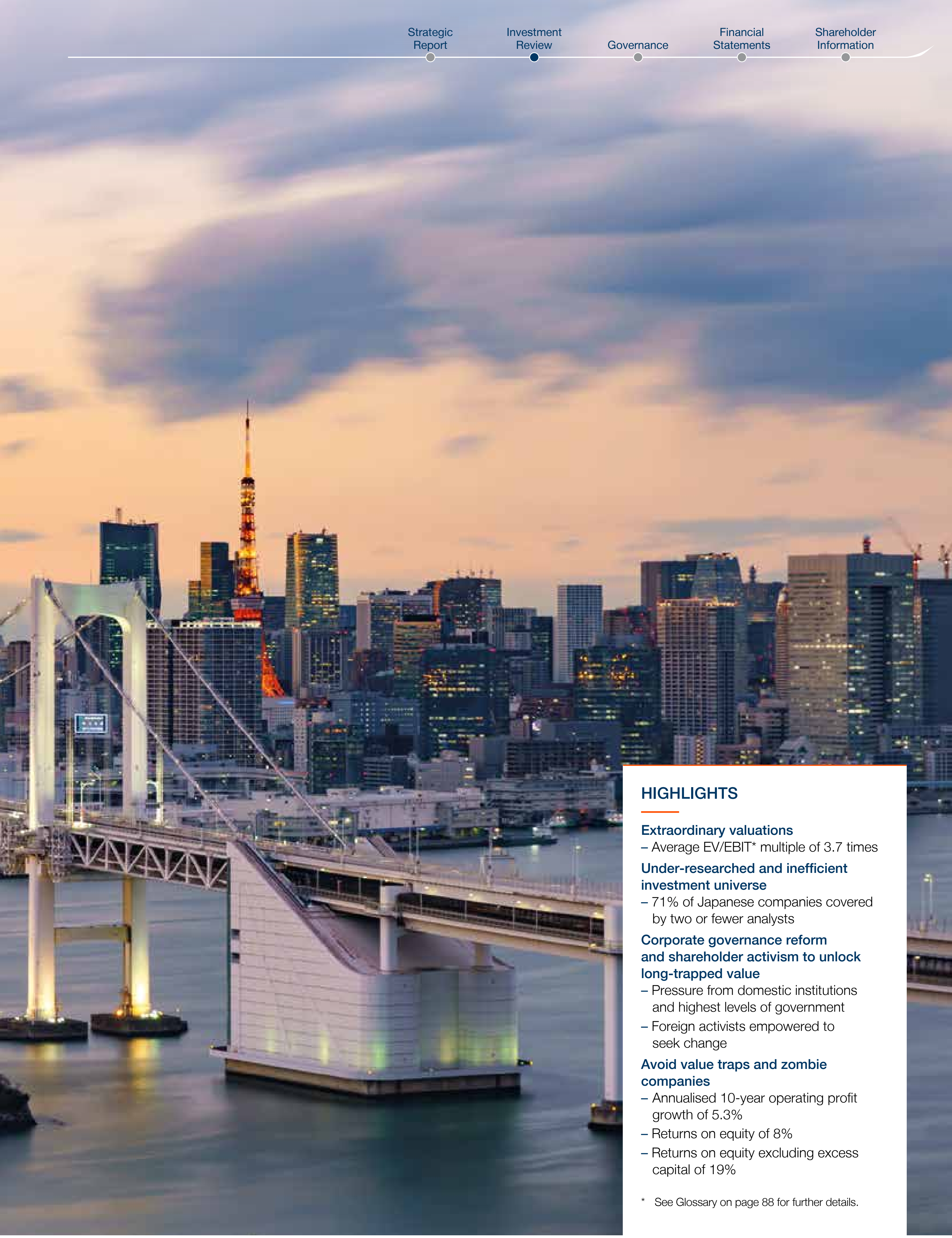
The government has given shareholders a mandate to engage with companies and, from what we have witnessed so far, this has been well received. To name but a few changes: dividends and share buybacks at TOPIX 500 companies have increased significantly; 34% of companies now have one-third or more independent directors (compared to 6% four years ago); and more shareholders are proposing resolutions at Japanese AGMs.

With the backdrop of a changing corporate attitude to shareholders, coupled with severe under-valuations, we are optimistic about the prospects for attractive returns in Japan.

13.6%
% of total assets less current liabilities

75%
Average percentage of market capitalisation covered by net cash and listed securities

Source / Getty Images



HIGHLIGHTS

Extraordinary valuations

– Average EV/EBIT* multiple of 3.7 times

Under-researched and inefficient investment universe

– 71% of Japanese companies covered by two or fewer analysts

Corporate governance reform and shareholder activism to unlock long-trapped value

– Pressure from domestic institutions and highest levels of government

– Foreign activists empowered to seek change

Avoid value traps and zombie companies

– Annualised 10-year operating profit growth of 5.3%

– Returns on equity of 8%

– Returns on equity excluding excess capital of 19%

* See Glossary on page 88 for further details.

CONTRIBUTORS

JAPAN SPECIAL SITUATIONS

Description Asset-backed Companies	**Total return on position FY18 (local)**[2] 8%
Weight[1] 13.6%	**Total return on position FY18 (GBP)** 10%
Discount -38.2%	**Contribution (GBP)**[3] 0.88%
% of investee company 0.1%-4.5%	**ROI since date of initial purchase**[4] 20%

We have been following the Japanese market for over two decades, with its weight in the portfolio until recently never exceeding much more than 10%. It is therefore significant that we have increased our Japanese exposure to 20% of NAV. 15% of NAV is comprised of 16 companies, all of which are overcapitalised and deeply undervalued, which we denote as the "Japan Special Situations Basket". The remaining 5% Japanese allocation is to Tokyo Broadcasting System, which we discuss in more detail later in this report.

Over the financial year, the Japan Special Situations Basket contributed 0.88% to returns, the fifth-largest contributor. In aggregate, the stocks appreciated by 10%, marginally underperforming the MSCI Japan Small Cap Index, which returned 11%. Since inception of the Basket on 6 June 2017, it has returned 20%, outperforming the benchmark by 9%.

The companies within the Basket have common attributes: they are undervalued (4x EV/EBIT)[5]; overcapitalised (75% of market cap in NFV)[6]; and of high quality (5-year profit growth of +6% with excess-capital adjusted return on equity of 19%). While the undervaluation is itself compelling, it is essential to avoid "value traps". A value trap is a company that appears remarkably cheap on paper, but either lacks a catalyst for change, or whose value is eroded over time through loss-making businesses or poor capital allocation decisions. Our focus on quality operating businesses helps ensure we avoid such situations and buys us time for our engagement with investee companies to produce results.

Our engagement with the Basket companies begins with face-to-face meetings, followed by letters to set out how we feel value can be unlocked for the benefit of all shareholders. We prefer to keep our engagements private, aiming to find solutions amicably and working with, rather than against, management. As we are buying high-quality businesses and our mandate allows us to take a long-term view, we are not solely focused on actions that will boost the share price in the short term. This kind of activism – large buybacks, MBOs, huge one-off dividends – did not prove successful in the mid-2000s and we have learnt from others' mistakes.

Cynics argue that no form of activism will succeed in Japan, and that the disparity in valuation between Japanese and other developed markets is in fact warranted given the poor record of shareholder returns and corporate governance failures. However, this misses the significant (albeit slow) change in attitudes that President Abe's reform agenda has triggered, and the tangible results it has produced. A perfect storm of regulatory, societal and activist pressure means that circumstances have changed, and Japan presents a good opportunity to invest in high-quality, growing businesses at remarkably low valuations.

OAKLEY CAPITAL INVESTMENTS

Description Investment Company	**Total return on position FY18 (local)**[2] 19%
Weight[1] 4.1%	**Total return on position FY18 (GBP)** 19%
Discount -23.9%	**Contribution (GBP)**[3] 0.75%
% of investee company 10.8%	**ROI since date of initial purchase**[4] 17%

Despite only initiating a position in Oakley Capital Investments ('OCI') in April, it contributed 0.75% to returns over the year, making it the sixth-largest contributor to your portfolio's return. OCI invests in, and makes co-investments alongside, the private equity funds run by Oakley Capital – a private equity house set up by Peter Dubens, a well-regarded UK entrepreneur, with c€1bn under management.

A focus on acquiring businesses through their network of entrepreneurs, as well as a willingness to invest in complex carve-outs and bolt-on deals that other private equity houses avoid, has allowed OCI to assemble a portfolio of fast-growing businesses at a cost that is significantly below what peers are paying. Current investments include Time Out, Casa/atHome (an Italian and Luxembourgish property portal), North Sails (the world's premier sailmaker), Inspired (a global network of private schools) and Facile.it (an Italian price comparison website).

Oakley Capital, the fund manager, has built up an impressive track record of returns – its two previous funds have generated net IRRs of 20% and 32% respectively – but these returns have not been fully captured by OCI as a series of discounted rights issues between 2009 and 2017 diluted returns for shareholders. As a result of this, OCI's discount widened to a 30-35% range which, at the time, was a fair reflection of the potential for further dilutive share issuances. However, the board of directors of OCI publicly committed in the 2017 Interim Report not to issue shares at a discount to NAV again. Despite this declaration, and despite the declaration being repeated twice more in 2017, the market paid scant attention to the board's commitment and the shares continued to languish on a sub-30% discount.

Having performed detailed work on the portfolio, and finding comfort in the board's public statements and the manager's determination to re-burnish its tarnished image (which included, among other elements, increasing disclosure and discussing a share buyback programme), we became convinced that such a high discount to NAV was unwarranted and that investors were being overly punitive for past errors. British Empire consequently took an 11% stake in OCI in April. We are supportive of OCI's efforts to improve its governance, and have already engaged in constructive dialogue with both the board and the manager in order to provide our expertise on addressing discounts and implementing corporate governance improvements.

Since our initial investment, OCI has performed well, with the discount narrowing by 6% (from 30% to 24%), driven by share price growth (+16%) in excess of NAV growth (+6%).

1 % of total assets less current liabilities.
2 Weighted returns adjusted for buys and sells over the year.
3 Figure is an estimate by the managers and sum of contributions will not equal quoted total return over the financial year.
4 Figure quoted in GBP terms. Refer to Glossary on page 88 for further details.
5 Refer to Glossary on page 88 for further details.
6 Refer to Glossary on page 88 for further details.

Reddam House Berkshire, United Kingdom

OAKLEY CAPITAL INVESTMENTS / **INSPIRED**

Inspired is a network of 42 private schools, educating 31,000 students on five continents.

The company was founded in 2013 by Nadim M Nsouli, and Oakley first invested in July 2013.

To date, it has been a highly successful investment, achieving gross IRRs of 30-35% in two Oakley-run funds, as Oakley has benefited from growth driven by a combination of acquisitions and organic sales growth.

4.1%

% of total assets less current liabilities

Source / © Inspired

CONTRIBUTORS

FONDUL PROPRIETATEA

Description Investment Company	**Total return on position FY18 (local)**[2] 10%
Weight[1] 5.1%	**Total return on position FY18 (GBP)** 13%
Discount -31.8%	**Contribution (GBP)**[3] 0.72%
% of investee company 4.1%	**ROI since date of initial purchase**[4] 32%

Fondul Proprietatea ('FP'), the Franklin Templeton-managed closed-end fund, contributed 0.72% to returns over the year despite a widening of the discount from 27% to 32%. The holding delivered a total return of 13% (including a dividend of US$0.86 per share, equating to a yield of 7.4% on the current share price), which was behind the NAV total return over the year of 17%.

Fondul Proprietatea, literally meaning "Property Fund" in Romanian, was listed in Romania in 2011, having been established several years previously as a restitution fund to compensate those Romanian citizens whose property had been confiscated under the Romanian Communist government. The majority of shares held by citizens have been sold and are today held by institutional investors. FP's holdings have been reduced from 83 at IPO in 2011 to 35 today – composed of eight listed and 27 unlisted companies – and key assets include OMV Petrom (21% of NAV), an integrated oil and gas player; Hidroelectrica (36% of NAV), which generates and supplies hydroelectric energy in Romania; the Romanian subsidiaries of ENEL, the Italian energy company (14%); and Bucharest Airport (8%).

FP has had an eventful year, with the sale of stakes in its Electrica subsidiaries back to the parent company, special dividends from Hidroelectrica and Bucharest Airports, a 36% increase in the annual dividend, a tender offer for 14% of the outstanding shares that added 4% to the NAV per share, and a continuation of the buyback policy in the marketplace.

Despite the large number of events over the past year, FP's portfolio remains replete with opportunity. Hidroelectrica is a likely candidate for an IPO at some point, although delays to the timetable have repeatedly pushed back the expected date; there is potential for further sales of the ENEL subsidiaries as the parent company attempts to fully consolidate its subsidiaries (the subsidiaries are cash-rich, and so it is quite possible they will pay out special dividends as part of a sales process); and the investment in OMV Petrom continues to trade at a very cheap valuation with considerable upside from development of their huge Black Sea joint-venture with ExxonMobil.

TOKYO BROADCASTING SYSTEM

Description Investment Company	**Total return on position FY18 (local)**[2] 10%
Weight[1] 4.4%	**Total return on position FY18 (GBP)** 13%
Discount -30.1%	**Contribution (GBP)**[3] 0.68%
% of investee company 1.6%	**ROI since date of initial purchase**[4] 10%

Tokyo Broadcasting System ('TBS') contributed 0.68% to returns over the year, driven almost entirely by discount contraction. The share price rose 15%, with a narrowing of the discount from 37% to 30%, as well as 3% NAV growth. This compares favourably to the TOPIX, which rose 11% (in Yen).

This year marked a significant milestone for us, with our first public activist campaign. At TBS' end-June AGM we submitted a shareholder proposal to distribute, in specie, 40% of TBS' stake in Tokyo Electron (equivalent to a 14% yield on the share price at the time). While slightly more complicated than a simple cash dividend, the proposition struck at the heart of Corporate Japan's problems, directed specifically at cross-shareholdings. We believe that this may have been the first proposal of its kind in Japan.

We put considerable effort into a campaign surrounding the proposal. We launched a dedicated website, www.improvingtbs.com; received endorsement for our proposal from ISS; held two press conferences; hosted an information session attended by 70 domestic representatives from banks, insurance companies, asset managers and corporations; met with regulators; and had over 150 press articles mentioning the campaign.

Ultimately, and as expected, the proposal was defeated, with approval from only 11% of those voting. While unsuccessful this year, we view the proposal as the start of the process rather than the end.

TBS remains one of the most overcapitalised companies in Japan. Its "strategic" shareholdings continue to impair corporate value, as reflected in the 30% discount to peers; reduce the accountability and discipline of management; and conflict with the principles of the Corporate Governance Code. We believe TBS' current stance will come under increasing pressure and, as shareholders focus on long-term value creation, we will continue to work with the company on ways to improve corporate value.

In the meantime our allocation to TBS gives us exposure to a portfolio of high-quality listed companies (54% of TBS' NAV), prime Tokyo real estate (25%) and a top-five broadcasting business (14%), all the while receiving a 6% FCF yield[5].

1 % of total assets less current liabilities.
2 Weighted returns adjusted for buys and sells over the year.
3 Figure is an estimate by the managers and sum of contributions will not equal quoted total return over the financial year.
4 Figure quoted in GBP terms. Refer to Glossary on page 88 for further details.
5 Refer to Glossary on page 88 for further details.

TOP 20 LOOK-THROUGH HOLDINGS

British Empire invests in holding companies and closed-end funds that in turn invest in listed and unlisted companies. We show below the top 20 holdings on a "look-through basis", i.e. the underlying companies to which we have exposure. For example, British Empire owns a stake in Swire Pacific, a Hong Kong-listed family-controlled holding company, that accounts for 4.4% of British Empire's portfolio (4.6% of its NAV). Swire Pacific's largest holding is Swire Properties, a Hong Kong property developer, which accounts for c79% of its own NAV. This translates to an effective exposure of British Empire Trust to Swire Properties of 3.6% of British Empire's NAV. The table below is an indication of the degree of diversification of the portfolio.

Look-through holding	Parent company	Underlying look-through weight	Look-through holding sector
Swire Properties	Swire Pacific Ltd 'B'	3.6%	Real Estate Operating Companies
Minor International	Symphony	2.7%	Hotels, Resorts and Cruise Lines
Bureau Veritas	Wendel SA*	2.6%	Research and Consulting Services
Fiat Chrysler Autos	EXOR	2.0%	Automobile Manufacturers
Hidroelectrica SA	Fondul Proprietatea	2.0%	Electric Utilities
Aker BP	Aker	1.9%	Oil and Gas Exploration and Production
Partner RE	EXOR	1.9%	Reinsurance
Automatic Data Processing	Pershing Square Holdings	1.7%	Data Processing and Outsourced Services
Fujitec Operating Business	Fujitec	1.7%	Industrial Machinery
Dairy Farm	Jardine Strategic	1.6%	Food Retail
Hammerhead	Riverstone Energy	1.6%	Oil and Gas Exploration and Production
Ferrari	EXOR	1.5%	Automobile Manufacturers
Hongkong Land	Jardine Strategic	1.3%	Real Estate Operating Companies
Restaurant Brands International	Pershing Square Holdings	1.3%	Restaurants
TFG Asset Management	Tetragon Financial	1.2%	Asset Management and Custody Banks
Jardine Cycle & Carriage	Jardine Strategic	1.2%	Distributors
OMV Petrom	Fondul Proprietatea	1.2%	Integrated Oil and Gas
CNH Industrial	EXOR	1.1%	Agricultural and Farm Machinery
Raizen Combustiveis	Cosan Ltd	1.0%	Fuel Distribution
Cosan Logistica	Cosan Ltd	1.0%	Railroads

*WENDEL SA: HOW THE LOOK-THROUGH ANALYSIS WORKS

Wendel SA is a French holding company in which British Empire's portfolio has an investment. Although Wendel is just one company, it provides your portfolio with exposure to many different geographies and sectors by virtue of the fact that Wendel itself holds a diversified portfolio of companies.

Company name	% of Wendel's portfolio	Geography	Sector
Bureau Veritas	44%	Europe	Research and Consulting Services
Stahl	16%	Europe	Specialty Chemicals
Constantia Flexibles	12%	Europe	Paper Packaging
I.H.S.	9%	Africa	Telecom Towers
AlliedUniversal	7%	United States	Security and Alarm Services
Saint Gobain	6%	Europe	Building Products
Cromology (Materis Paints)	3%	Europe	Specialty Chemicals
Tsebo	2%	South Africa	Diversified Support Services
Other companies	1%	Africa / Japan	Retail REITs / Oil and Gas Equipment and Services
Total portfolio	100%		

CONTRIBUTORS

NB PRIVATE EQUITY PARTNERS

Description
Investment Company

Weight[1]
3.1%

Discount
-16.2%

% of investee company
2.9%

Total return on position FY18 (local)[2]
15%

Total return on position FY18 (GBP)
15%

Contribution (GBP)[3]
0.58%

ROI since date of initial purchase[4]
107%

Compared to last year, when NB Private Equity Partners ('NBPE') introduced a raft of corporate governance changes – including a full enfranchisement of shareholders and a switch to a London listing from Amsterdam – the fund has had a relatively quiet 2018.

Nonetheless, performance has been solid, with a total return of 15%, which added 0.58% to your portfolio's returns for the year. The discount narrowed from 20% to 16%, and the NAV total return was 12%.

Following the corporate governance improvements achieved last year, we continued to engage with the board of NBPE in order to push for further changes. The seeds of this effort bore fruit in early September this year, when the fund announced that it would introduce another slate of improvements.

Among these changes were: (1) a refinement of the dividend policy, which fixed the dividend at 3% of NAV and resulted in an immediate 12% increase in the dividend level; (2) an agreement that one of the manager's two board representatives would step down, and that two new independent directors will join the board; (3) the chairman, who has been in his role since the company's IPO in 2007, will also resign within the next year; and (4) half of NBPE's legacy funds, which have dragged on growth in recent years, will be sold in the secondary market.

While these new measures may not extend quite as far as we would like them to – for instance, we would have liked to see a fully independent board, a commitment to buybacks, and a full sale of the legacy portfolio with the proceeds used to fund an accretive tender offer – we are cognisant that these changes are nonetheless a material improvement.

NBPE continues to offer scope for both NAV growth and discount contraction, and we continue to believe that its differentiated investment proposition and low fee structure remain under-appreciated by the market.

1 % of total assets less current liabilities.
2 Weighted returns adjusted for buys and sells over the year.
3 Figure is an estimate by the managers and sum of contributions will not equal quoted total return over the financial year.
4 Figure quoted in GBP terms. Refer to Glossary on page 88 for further details.

EXOR

Description
Investment Holding Company

Weight[1]
5.6%

Discount
-33.1%

% of investee company
0.5%

Total return on position FY18 (local)[2]
8%

Total return on position FY18 (GBP)
9%

Contribution (GBP)[3]
0.53%

ROI since date of initial purchase[4]
32%

EXOR, the holding company of the Agnelli family, started and ended the year as the second largest position in the portfolio, predicated on our conviction in Fiat Chrysler Automobiles ('FCA'), and the capital allocation prowess of EXOR CEO, John Elkann (who is himself a member of the Agnelli family). For the second year, EXOR has featured as a top ten contributor, being the sixth largest last year and the tenth this year. Over our almost-two-year holding period, our position in EXOR has appreciated by 29% in EUR, vs 10% for our benchmark.

EXOR contributed 0.53% to returns this year. Although it suffered from discount widening (29% to 33%), NAV growth of 14% more than compensated, driven by strong performance from Ferrari and PartnerRe. While it was encouraging to benefit from value creation outside of FCA, FCA's flat performance over the year was deeply disappointing. As EXOR's largest position, accounting for 33% of NAV, it proved a significant drag on returns.

FCA, under the leadership of Sergio Marchionne, has been transformed from a struggling, debt-ridden mass-market auto manufacturer, to one that has net cash (as at 30 June 2018), commands a portfolio of high-quality brands, and is hugely cash generative. It was with great sadness that we learnt of Marchionne's death in late July. While he had committed to retirement in early 2019, his sudden passing came as a shock, and we believe he will be remembered as one of the all-time great CEOs, given his visionary leadership and the 17% annualised total shareholder return he generated over his 14-year tenure at FCA. A succession plan was in place and Mike Manley, previously head of Jeep and Ram, took the mantle as FCA's CEO.

Before Marchionne died, he presented a four-year plan in a similar manner to one he presented in 2014. He outlined the strategy for each of FCA's brands and guided that 2020 operating profits would be 20% higher than 2018, and that 2022 operating profits would be 77% higher. Furthermore, FCA guided that over the coming four years it will produce free cash flow equivalent to 68% of the current market cap and pay 26% of the current market cap in dividends. For investors concerned about extended US auto sales, FCA outlined that by 2020 they would still be free cash-flow breakeven should US auto sales fall to 10m (as they did in 2009, a 39% drop).

It amazes us that, despite FCA most likely achieving their 2018 targets outlined in 2014, the market still gives no credibility to FCA's guidance for later years. The company trades on a 2018 EV/EBIT of 4x, 2020 EV/EBIT of 2x and a remarkable 2022 EV/EBIT of 1x. With buybacks, a high dividend yield, the potential formation of a US financing company (contribution not included in guidance), and the upcoming spin-out or sale of auto parts business Magneti Marelli, FCA offers the prospect for an extraordinary return.

A question that naturally follows when we have high conviction in an underlying company is why not own it directly? Through investing in EXOR, we invest in FCA at a 33% discount (which at times has been as little as 10%); we invest in a high-quality, cyclically robust private reinsurance business accessible only through EXOR (PartnerRe, 32% of NAV); and we have our interests perfectly aligned with John Elkann and his family.

DETRACTORS

GP INVESTMENTS

Description Investment Company	**Total return on position FY18 (local)**[2] -22%
Weight[1] 0.9%	**Total return on position FY18 (GBP)** -36%
Discount -56.4%	**Contribution (GBP)**[3] -0.62%
% of investee company 14.6%	**ROI since date of initial purchase**[4] -36%

GP Investments ('GP') – the Brazilian-listed private equity investment company – suffered from discount widening and foreign exchange weakness to the extent that it was the third-largest detractor from NAV (reducing returns by 0.62%), despite being one of our smaller positions. GP's share price declined 22% in its traded currency of Brazilian Real, with the pain exacerbated for British Empire by the Real's 19% slide versus Sterling.

Given that GP's NAV fell by only 4% in Real terms, the company's discount expanded even wider, increasing to 56% (from 46% at the start of the year). We attribute the widening discount to a combination of Brazil's macro and political concerns negatively impacting sentiment towards stocks listed in the country, and the illiquidity of GP's shares. We note that 43% of GP's NAV is in international assets, meaning that the fund is in fact protected somewhat from difficulties in Brazil.

GP has continued to use cash to pay down its expensive debt. Net debt was 14% of NAV at the end of September 2017 and 3% of NAV at the end of June 2018, highlighting the fund's success in deleveraging. Centauro Holdings (12% of NAV) filed for IPO in October 2017 although, given political uncertainty in Brazil, it is likely that it will wait until after the Brazilian elections to complete this process. Centauro is a successful omni-channel sports retailer which we estimate is held at 9x EV/EBITDA in GP's NAV. Listed peers trade at materially richer multiples, and our base case for Centauro's valuation upon listing suggests considerable upside. Furthermore, a successful IPO of Centauro would result in an even larger proportion of GP's market cap being covered by listed securities which would serve to shine further light on what is already a laughably cheap valuation. Although the investment has been a difficult one for your portfolio – 0.6x return on invested capital to date – we continue to believe that there is significant value in the portfolio which, combined with a tightening of the discount to more reasonable levels, holds out the prospect of strong returns from here.

JARDINE STRATEGIC HOLDINGS

Description Investment Holding Company	**Total return on position FY18 (local)**[2] -12%
Weight[1] 5.1%	**Total return on position FY18 (GBP)** -10%
Discount -35.2%	**Contribution (GBP)**[3] -0.62%
% of investee company 0.2%	**ROI since date of initial purchase**[4] 4%

British Empire has invested in the Keswick family-controlled Jardine group for well over a decade, attracted to high-growth Asian exposure and the long-term track record of wealth preservation and creation.

Whilst a long-term shareholder, our deep and detailed understanding of the underlying companies allows us to move between different levels of the Jardine structure as and when the discounts in the different group vehicles become particularly compelling or anomalous. As noted in last year's annual report, in 2016 we sold your Company's position in Jardine Matheson ('JMH') and built a position in JSH, which performed well in 2017. This year, however, Jardine Strategic Holdings ('JSH'), was one of British Empire's weakest performers, detracting 0.62% from performance. With the NAV being more or less flat over the year, the main culprit here was discount widening – the discount moved from 24% to 35% as the share price declined 16%.

Dairy Farm (30% of NAV) performed well, up 20% over the year, as new CEO, Ian McLeod, appointed in 2017, improved performance. Food retail in China and Hong Kong and Health and Beauty across Southeast Asia, continued to be the strong performers, whilst management took active steps to address Southeast Asian food performance. For example, in the Philippines, Dairy Farm partnered with Robinsons Retail Holdings ('RRHI'), exchanging their interest in wholly owned Rustans Supercentre chain for an 18% stake in RRHI, moving an unlisted investment into a larger listed vehicle, and improving Dairy Farm's competitive positioning.

However, this was offset by Jardine Cycle & Carriage (21% of NAV) and Hongkong Land (24% of NAV) which declined 16% and 5%, respectively. At Cycle & Carriage – which itself is a holding company – investor scepticism over holding company-level leverage and the possibility of a future capital raise, following the acquisition of a stake in Vinamilk (9% of NAV), weighed on the price. Astra International, Cycle & Carriage's largest holding at 84% of NAV, declined 5% on the back of continued weakness at their Autos division, as well as suffering from a souring of sentiment towards Indonesia.

Turning to Hongkong Land ('HKL'), demand for prime office space in Hong Kong's Central district (c64% of HKL's NAV) from Mainland Chinese occupiers and investors has pushed rents higher and acquisition yields lower, meaning valuations and thus NAVs edge ever higher. However, the prospect of interest rate hikes has unnerved investors. While we are cognisant of the impact on property valuations of higher interest rates, we feel our NAV calculations are conservative, and believe the value of HKL's property portfolio is largely unappreciated by the wider market, with the discount 12% wider than its historical average (40% vs 28%).

While the NAV underperformance over the year has been disappointing, we remain sanguine. Whilst the NAV performance was unexciting, we see little rationality in such excessive discount widening, to levels well beyond JSH's three-year historic average of 32%. As such, we increased the position in JSH by 38% over the year, at an average discount of 35%. It would appear that the family agrees, with JMH also adding to its stake in Jardine Strategic, now owning over 84%.

1 % of total assets less current liabilities.
2 Weighted returns adjusted for buys and sells over the year.
3 Figure is an estimate by the managers and sum of contributions will not equal quoted total return over the financial year.
4 Figure quoted in GBP terms. Refer to Glossary on page 88 for further details.

DETRACTORS

COSAN LTD

Description Investment Holding Company	**Total return on position FY18 (local)**[2] -23.0%
Weight[1] 3.0%	**Total return on position FY18 (GBP)** -21.0%
Discount -33.0%	**Contribution (GBP)**[3] -1.00%
% of investee company 2.4%	**ROI since date of initial purchase**[4] -22%

Cosan Ltd ('CZZ') was the largest detractor over the year, reducing returns by 1.00%. While CZZ's share price fell only 17% over the year, we added to our position at higher prices during the year – at discounts that we deemed to be highly attractive – which meant we experienced a deeper 26% fall. For the financial year, Brazilian Real weakness accounted for 19% of the 26% share price decline – in other words, the macro climate was the driver of weak performance, rather than the fundamental investment case.

Our original thesis remains intact: we are gaining exposure to high-quality businesses, at an extraordinarily wide discount, with a real likelihood of benefiting from significant discount narrowing. Over the year, management continued to execute their business plans excellently: consolidating independent fuel stations, acquiring sugar producers and building out their rail capacity. Cosan's financial strength and family ownership allow it to take a long-term view, which means that it is able to stay rational in an irrational market and be patient amidst widespread panic. Its allocation of capital towards buybacks is an excellent example of this.

Over the course of the year, CZZ bought back 8% of its outstanding shares, and 4% of the outstanding shares at Cosan SA (the holding company beneath CZZ which accounts for 75% of CZZ's NAV). At a look-through discount of 54%, such buybacks are hugely accretive, and we estimate for each 5% buyback at CZZ, 3% is added to its NAV. The recognition of the accretion to NAV from buybacks is testament to CZZ's capital allocation acumen, and we are happy to align your capital with theirs.

When we account for Cosan SA's 32% discount, CZZ trades on a 54% look-through discount; a simplification of the group structure and an ultimate discount of 22% (based on relevant peers) would yield a return, purely from discount contraction, of 70%. Coupled with quality management, the micro characteristics of Cosan's investment case make the company one of the most compelling investments in the portfolio, but the case is tempered by macro uncertainty. So far, our recognition of the macro risks, borne out in our modest position (3%), has proved wise and, were it not for these risks, the position would be a more substantial size.

The long-term nature of our investments means we can tolerate volatility in pursuit of large upside. While we have experienced a loss of 23% on our average purchase price (in USD), we remain convinced by the merits of our investment and look forward to continued buybacks, NAV growth and the ultimate prize – the simplification of the group structure.

Source / Rumo collection

COSAN LTD / **RUMO**

Rumo SA is a Brazilian rail transportation and logistics business whose key area of activity extends over Mato Grosso, São Paulo and the southern states of Brazil, home to four of the country's most active ports, through which most grain production is exported.

The company operates 12,000km of lines, 1,000 locomotives and 25,000 wagons, as well as distribution centres and storage facilities. Cosan Logística will benefit from long-term Brazilian economic development, and the increased use of rail transportation.

3.0%

% of total assets less current liabilities

1 % of total assets less current liabilities.
2 Weighted returns adjusted for buys and sells over the year.
3 Figure is an estimate by the managers and sum of contributions will not equal quoted total return over the financial year.
4 Figure quoted in GBP terms. Refer to Glossary on page 88 for further details.

INVESTMENT REVIEW / INVESTMENT MANAGER'S REVIEW

OUTLOOK

Joe Bauernfreund

Tom Treanor

Scott Beveridge

Daniel Lee

Darren Gillen

Wilfrid Craigie

KEY FACTS

Total assets
£1,033m*

Launch date
1 July 1889

Average annualised return
+12.1%**

Outlook

Following the end of the financial year, market volatility has increased markedly, causing declines in most major equity markets at the time of writing. Although the exact origins of market declines are always hard to pinpoint, the proximate causes in this case appear to be interest rate tightening by the Federal Reserve and a rise in long-dated US government debt above 3%, the first such occurrence in almost five years.

To the extent that all of your portfolio's holdings have some correlation with the overall market, there has been a decline in the net asset value of British Empire in response to this market uncertainty. However, it is worth noting that we have eschewed exposure to the most richly valued companies and markets – technology stocks (in particular, Asian and US technology stocks) and US equity markets – which helps to insulate your portfolio from market volatility.

In addition, the portfolio contains attractive companies, the values of which we expect to continue growing over the long term. Valuations remain attractive, with a weighted average portfolio discount of 30%. The prospect of corporate events at the portfolio company level remains strong, driven in some cases by our own activism which will provide catalysts for discounts to narrow.

Joe Bauernfreund
Chief Executive Officer
Asset Value Investors Limited
9 November 2018

* As at 30 September 2018.
** From 30 June 1985 to 30 September 2018.

Committee membership key

- Chairman
- Member
- A Audit Committee
- M Management Engagement Committee
- N Nomination Committee
- D Disclosure Committee

Attendance at meetings

Name	Board	Audit	Management Engagement	Nomination	Disclosure[1]
Susan Noble	7 (7)	6 (6)	2 (2)	3 (3)[2]	–
Strone Macpherson*	2 (2)	3 (3)	1 (1)	2 (2)[2]	–
Anja Balfour**	5 (5)	3 (3)	1 (1)	1 (1)	–
Steven Bates	7 (7)	6 (6)	2 (2)	4 (4)	–
Nigel Rich	7 (7)	6 (6)	2 (2)	4 (4)	–
Calum Thomson	7 (7)	6 (6)	2 (2)	3 (4)[3]	–

The number in brackets denotes the number of meetings each was entitled to attend.

1 Generally meets on short notice. No meetings were held during the year.
2 Mrs Noble and Mr Macpherson were not present at the Nomination Committee meeting where the succession of the Chairman was discussed.
3 Mr Thomson was not present at one of the Nomination Committee meetings due to illness.
* Retired 20 December 2017.
** Appointed 1 January 2018.

A M N D

SUSAN NOBLE

Independent Non-Executive Chairman

Length of Service:
6 years

Appointed Chairman:
2017

Ms Noble succeeded Strone Macpherson as Chairman in December 2017.

External appointments:
Chair of Newton Investment Management Limited and Newton Capital Management Limited, an Associate Director of Manchester Square Partners and a Trustee of the Hospice of St Francis, Berkhamsted.

Experience:
Formerly Chair of Alliance Trust Investments, a Director of Alliance Trust plc, a Managing Director of Goldman Sachs Asset Management, Head of European Equities and Head of Global Equities. Also a Director and Senior European Portfolio Manager at Robert Fleming Asset Management.

Last re-elected to the Board:
2017

Remuneration:
£38,500

Employment by the Investment Manager:
None

Other connections with the Company or Investment Manager:
None

Shared Directorships with any other Company Directors:
None

Shareholding in Company:
13,630 Ordinary Shares

A M N D

STEVEN BATES

Senior Independent Non-Executive Director ('SID')

Length of Service:
12 years

Appointed SID:
November 2012

Mr Bates will retire at this year's AGM.

External appointments:
Chairman of VinaCapital Vietnam Opportunity Fund Limited and of F&C Capital & Income Investment Trust plc and a Director of Biotech Growth Trust PLC, of GuardCap UCITs Fund plc and of Magna Umbrella Fund plc. He is also a Director of GuardCap Asset Management Limited, an investment management company specialising in emerging markets.

He sits on, or is adviser to, various committees in the wealth management and pension fund areas.

Experience:
He was Head of Global Emerging Markets at JP Morgan Asset Management until 2002.

Last re-elected to the Board:
2017

Remuneration:
£27,800

Employment by the Investment Manager:
None

Other connections with the Company or Investment Manager:
None

Shared Directorships with any other Company Directors:
None

Shareholding in Company:
20,000 Ordinary Shares

A M N D

CALUM THOMSON FCA

Independent Non-Executive Director

Length of Service:
1 year

Appointed Audit Committee Chairman:
June 2017

External appointments:
Non-Executive Director and Audit Chairman of The Diverse Income Trust plc, The Bank of London and The Middle East plc, BLME Holdings plc, Standard Life Private Equity Trust, and Baring Emerging Europe plc, Non-Executive Director of Schroder Unit Trusts Limited and Schroder Pension Management Limited and Chairman of the Board of Trustees of La Serenissima.

Experience:
A qualified accountant with over 25 years' experience in the financial services industry, including 21 years as audit partner at Deloitte LLP, specialising in the asset management sector.

Elected to the Board:
2017

Remuneration:
£29,700

Employment by the Investment Manager:
None

Other connections with the Company or Investment Manager:
None

Shared Directorships with any other Company Directors:
None

Shareholding in Company:
8,898 Ordinary Shares

A M N D

NIGEL RICH CBE, FCA

Independent Non-Executive Director

Length of Service:
6 years

External appointments:
Non-Executive Director of Matheson & Co Ltd, Non-Executive Chairman of Urban Logistics REIT plc and Chairman of The Tobacco Pipemakers and Tobacco Trade Benevolent Fund.

Experience:
Formerly Chairman of SEGRO plc, Xchanging plc, Ocean Group/Exel plc, CP Ships Limited and Hamptons Group Limited and Director of Pacific Asset Trust plc, Granada plc and ITV plc. Also formerly Managing Director of Jardine Matheson Holdings and the Group Chief Executive, Trafalgar House plc.

Last re-elected to the Board:
2017

Remuneration:
£25,300

Employment by the Investment Manager:
None

Other connections with the Company or Investment Manager:
None

Shared Directorships with any other Company Directors:
None

Shareholding in Company:
18,000* Ordinary Shares

* 3,000 held by Cynthia Rich.

A M N D

ANJA BALFOUR

Independent Non-Executive Director

Length of Service:
10 months

External appointments:
Director of Martin Currie Asia Unconstrained Trust plc, Schroder Japan Growth Fund plc, F&C Global Smaller Companies plc and Scottish Friendly Assurance Society Limited.

Experience:
Over 20 years' experience in managing Japanese and International Equity portfolios for Stewart Ivory, Baillie Gifford and Axa Framlington. Previously a trustee of Venture Scotland.

Appointed to the Board:
January 2018

Remuneration:
£25,300

Employment by the Investment Manager:
None

Other connections with the Company or Investment Manager:
None

Shared Directorships with any other Company Directors:
None

Shareholding in Company:
7,300 Ordinary Shares

The Directors present their report and the audited financial statements for the year ended 30 September 2018.

Status

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

The Company has been approved as an investment company under Sections 1158/1159 of the Corporation Tax Act 2010. The Directors are of the opinion, under advice, that the Company continues to conduct its affairs as an Approved Investment Trust under the Investment Trust (Approved Company) (Tax) Regulations 2011.

The Company is a qualifying company for the purposes of Stocks & Shares ISAs.

The Company's Investment Manager is authorised as an AIFM by the Financial Conduct Authority under the AIFMD regulations. The Company has provided disclosures on its website, www.british-empire.co.uk, incorporating the requirements of the AIFMD regulations.

Investment Objective, Policy and Restrictions

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 prices of which are assessed to be below their estimated net asset value or intrinsic worth.

Although listed assets make up the bulk of the portfolio, the Company may also invest in unlisted assets with the prior approval of the Board.

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

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

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

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

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

Gearing Levels

The Company's Investment Policy, as disclosed above, permits a significant level of gearing, as do the Company's Articles of Association and the limits set under AIFMD (see the Company's website www.british-empire.co.uk).

Under normal market conditions, it is expected that the portfolio will be fully invested, although net gearing levels may fluctuate depending on the value of the Company's assets and short-term movements in liquidity.

The Company's debt as a percentage of equity as at 30 September 2018 was 9.5%. Long-term debt comprised £15m of Debenture Stock and three tranches of Loan Notes, of £30m, €30m and €20m.

Results and Dividends

Company profit for the year was £83,981,000, which included a profit of £16,933,000 attributable to revenue (2017: profit of £141,699,000, which included a profit of £12,603,000 attributable to revenue). The profit for the year attributable to revenue has been applied as follows:

	£'000
Current year revenue available for dividends	16,933
Interim dividend of 2.00p per Ordinary Share paid on 29 June 2018	2,260
Recommended final dividend payable on 4 January 2019 to shareholders on the Register as at 7 December 2018 (ex dividend 6 December 2018): – Final dividend of 11.00p per Ordinary Share	12,259*
	14,519

* Based on shares in circulation on 7 November 2018.

Directors

The Directors of the Company are listed on pages 36 and 37. All served throughout the period under review with the exception of Anja Balfour, who was appointed as a non-executive Director on 1 January 2018. Strone Macpherson retired from the Board on 20 December 2017.

Steven Bates will retire as a Director at the conclusion of the forthcoming AGM.

In accordance with the recommendations of the AIC's Code of Corporate Governance, Mrs Balfour will stand for election at the AGM. The remaining Directors of the Board will retire at the forthcoming AGM and offer themselves for re-election.

As set out on page 43, the Board carries out an annual review of each Director and of the Board as a whole. The Board considers that all Directors contribute effectively, possess the necessary skills and experience and continue to demonstrate commitment to their roles as non-executive Directors of the Company. Following the performance review, it was agreed that all Directors, with the exception of Mr Bates, should stand for election/re-election, and the election/re-election of each of the Directors is recommended by the Board.

The Company has provided indemnities to the Directors in respect of costs or other liabilities which they may incur in connection with any claims relating to their performance or the performance of the Company whilst they are Directors.

The beneficial interests of the current Directors and their connected persons in the securities of the Company as at 30 September 2018 are set out in the Directors' Report on Remuneration Implementation on page 79.

Nigel Rich is a director of Matheson & Co Ltd, a subsidiary of Jardine Matheson whose subsidiary, Jardine Strategic, is an investee company.

Management Arrangements

AVI is the Company's appointed AIFM, and is engaged under the terms of an Investment Management Agreement ('IMA') dated 17 July 2014. The IMA is terminable by one year's notice from either party, other than for "cause".

The Investment Manager is entitled to an annual management fee of 0.70% of the net assets of the Company, calculated quarterly by reference to the net assets at the preceding quarter end and paid monthly.

J.P. Morgan Europe Limited was appointed as Depositary under an agreement with the Company and AVI dated 2 July 2014, and is paid a fee on a sliding scale between 0.5 basis points and 4 basis points based on the assets of the Company. The Depositary Agreement is terminable on 90 calendar days' notice from either party.

JPMorgan Chase Bank, National Association, London Branch, has been appointed as the Company's Custodian under an agreement dated 2 July 2014. The agreement will continue for so long as the Depositary Agreement is in effect and will terminate automatically upon termination of the Depositary Agreement, unless the parties agree otherwise.

Link Company Matters Limited was appointed as corporate Company Secretary on 1 April 2014. The current annual fee is £67,535, which is subject to an annual RPI increase. The Agreement may be terminated by either party on six months' written notice.

With the Board's consent, AVI has sub-contracted certain fund administration services to Link Asset Services. The cost of these sub-contracted services is borne by AVI from its own resources and not by the Company.

Interests in Share Capital

Information on the structure, rights and restrictions relating to share capital is given on page 50.

At 30 September 2018 and 7 November 2018, the following holdings representing more than 3% of the Company's voting rights had been reported to the Company:

	Number held at 30 September 2018	Percentage held at 30 September 2018	Percentage held at 7 November 2018
Lazard Asset Management LLC	7,889,193	7.05	7.08
Alliance Trust Limited	6,628,992	5.93	5.95
Wells Capital Management, Inc	6,526,371	5.84	5.86
1607 Capital Partners, LLC	6,174,615	5.52	5.54
Hargreaves Lansdown Asset Management Limited	5,692,690	5.09	5.11
Halifax Share Dealing	5,603,589	5.01	5.03
Charles Stanley & Co Limited	4,912,502	4.39	4.41
Smith & Williamson Investment Management	3,401,131	3.04	3.05

No other changes have been notified.

Financial Risk Management
The principal financial risks and the Company's policies for managing these risks are set out in note 14 to the financial statements.

Greenhouse Gas Emissions
The Company's environmental statements are set out in the Strategic Report on page 13.

Auditor
KPMG LLP have indicated their willingness to continue in office and Resolutions will be proposed at the forthcoming AGM to re-appoint them as Auditor and to authorise the Directors to determine their remuneration.

Special Business at the AGM
The Notice of the AGM to be held on 19 December 2018 (the 'Notice') is set out on pages 83 to 86.

Resolution 10 – Authority to allot shares
The Directors seek to renew the general and unconditional authority to allot up to 37,147,428 Ordinary Shares of 10p each, representing approximately one-third of the issued Ordinary Share capital (excluding shares held in treasury). The Directors will only exercise this authority if they consider it to be in the best interests of the Company generally. This authority would expire 15 months after the date of the passing of the resolution or, if earlier, at the next AGM of the Company.

As at 7 November 2018, 18,083,880 shares are held in treasury, representing 13.96% of the issued share capital.

Resolution 11 – Authority to issue shares outside of pre-emption rights
The Directors seek to renew the authority to allot, other than on a pre-emptive basis, Ordinary Shares (including the grant of rights to subscribe for, or to convert any securities into Ordinary Shares) for cash up to a maximum of 5,572,114 Ordinary Shares, being approximately 5% of the Ordinary Shares (excluding shares held in treasury) in issue as at 7 November 2018, and to transfer or sell Ordinary Shares held in treasury.

The Directors will only exercise this authority if they consider it to be advantageous to the Company. Shares will not be issued or sold from treasury other than at or above the prevailing net asset value.

Resolution 12 – Share buyback facility
At the AGM held on 20 December 2017, the Directors were authorised to make market purchases of up to 14.99% of the shares in circulation at the date of that meeting. As at 7 November 2018, 3,928,882 shares have been bought back under this authority. At the forthcoming AGM, the Directors will seek to renew the authority for up to 14.99% of Ordinary Shares in issue (excluding shares held in treasury), representing 16,705,198 Ordinary Shares as at 7 November 2018, to be bought back. Purchases would be made in accordance with the provisions of the Companies Act and Listing Rules. The authority will expire 15 months after the date of the passing of the resolution or, if earlier, at the next AGM of the Company.

Details of shares bought back during the year under review can be found in note 12 to the financial statements.

Ordinary Shares bought back may be held in treasury for cancellation or sale at a future date rather than being cancelled upon purchase. The Directors will not exercise the authority granted under this Resolution unless they consider it to be in the best interests of shareholders.

Resolution 13 – Notice period for general meetings
This resolution will allow the Company to hold general meetings (other than an AGM) on 14 clear days' notice. The notice period for general meetings of the Company is 21 clear days unless: (i) shareholders approve a shorter notice period, which cannot however be less than 14 clear days; and (ii) the Company offers the facility for all shareholders to vote by electronic means. AGMs must always be held on at least 21 clear days' notice. It is intended that the flexibility offered by this resolution will only be used for time sensitive, non-routine business and where merited in the interests of shareholders as a whole. The approval will be effective until the Company's next AGM, when it is intended that a similar resolution will be proposed.

Details of the above resolutions are contained in the Notice.

Recommendation
The Directors consider that all of the resolutions to be proposed at the AGM are in the best interests of the Company and its members as a whole. The Directors unanimously recommend that shareholders vote in favour of all of the resolutions, as they intend to do in respect of their own beneficial holdings.

Corporate Governance
The Listing Rules and the Disclosure Guidance and Transparency Rules ('Disclosure Rules') of the UK Listing Authority require listed companies to disclose how they have applied the principles and complied with the provisions of the corporate governance code to which the issuer is subject. The provisions of the UK Corporate Governance Code ('UK Code') issued by the Financial Reporting Council ('FRC') in April 2016 are applicable for the year under review. The related Code of Corporate Governance ('AIC Code') issued by the AIC in July 2016 addresses all of the principles set out in the UK Code, as well as setting out additional principles and recommendations on issues that are specific to investment trusts. The Board has considered the principles and recommendations of the AIC Code by reference to the AIC Corporate Governance Guide for Investment Companies ('AIC Guide'). The FRC has confirmed that AIC member companies which report against the AIC Code and which follow the AIC Guide will meet the obligations in relation to the UK Code and associated disclosure requirements of the Disclosure Rules.

The AIC Code can be viewed at www.theaic.co.uk.

The UK Code can be viewed at www.frc.org.uk.

The Board considers that reporting against the principles and recommendations of the AIC Code and the AIC Guide (which incorporates the UK Code) provides shareholders with full details of the Company's Corporate Governance compliance.

Throughout the year ended 30 September 2018, the Company has complied with the provisions of the AIC Code and the relevant provisions of the UK Code, except as set out below.

The UK Code includes provisions relating to the role of the Chief Executive, Executive Directors' remuneration and the need for an internal audit function. For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers that these provisions are not relevant to the position of the Company, being an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no Executive Directors, employees or internal operations. The Company has therefore not reported further in respect of these provisions.

The Principles of the AIC Code

The AIC Code is made up of 21 principles split into three sections covering:

- The Board
- Board Meetings and Relationship with the Investment Manager
- Shareholder communications

The Board

AIC Code Principle	Compliance Statement
1. The Chairman should be independent.	The Chairman, Susan Noble, was independent of the Investment Manager at the time of her appointment and remains so. There is a clear division of responsibility between the Chairman, the Directors, the Investment Manager and the Company's other third-party service providers. The Chairman is responsible for leading the Board, ensuring its effectiveness in all aspects of its role and is responsible for ensuring that all Directors receive accurate, timely and clear information.
2. A majority of the Board should be independent of the Manager.	The Board consists of five non-executive Directors, each of whom is independent of the Investment Manager. No member of the Board is a director of another investment company managed by the Company's Investment Manager, nor has any Board member been an employee of the Company, its Investment Manager or any of its service providers. Steven Bates is the Senior Independent Director. Following Mr Bates' retirement at the AGM, Nigel Rich will become the Senior Independent Director.
3. Directors should be submitted for re-election at regular intervals. Nomination for re-election should not be assumed but be based on disclosed procedures and continued satisfactory performance.	All Directors submit themselves for annual re-election by shareholders. The individual performance of each Director standing for re-election is evaluated annually by the remaining members of the Board and, if considered appropriate, a recommendation is made that shareholders vote in favour of their re-election at the AGM (see section 7).
4. The Board should have a policy on tenure, which is disclosed in the annual report.	The Board does not have a formal policy requiring that Directors should stand down after a fixed period. It considers that a long association with the Company and experience of a number of investment cycles can be valuable to its deliberations and does not compromise a Director's independence. It does also recognise the need for progressive refreshing of the Board (see section 6). Steven Bates has now served as a Director for 12 years. The remaining members of the Board have considered the length of his service and any impact that this might have on his continuing independence. They have determined that Mr Bates continues to be demonstrably independent of the Investment Manager. Mr Bates will retire at the conclusion of this year's AGM.

The Board continued

AIC Code Principle	Compliance Statement
5. There should be full disclosure of information about the Board.	All of the Directors are resident in the UK and their biographical details, set out on pages 36 and 37 of this Report, demonstrate the wide range of skills and experience that they bring to the Board. Details of the Board's Committees and their composition are set out on page 48 of this Report. The Audit Committee comprises all of the Directors, all of whom are considered to be independent. The Chairman of the Company is a member of the Audit Committee, but does not chair it. Her membership of the Audit Committee is considered appropriate given the Chairman's extensive knowledge of the financial services industry. The Board considers that, as it is comprised of non-executive Directors, it is not necessary to establish a separate Remuneration Committee. Further information on Directors' remuneration is set out under section 8 below. The terms and conditions of the Directors' appointments are set out in Letters of Appointment, which are available for inspection on request at the registered office of the Company and at the AGM.
6. The Board should aim to have a balance of skills, experience, length of service and knowledge of the Company.	With the retirement of Mr Macpherson at the 2017 AGM, the Nomination Committee discussed the required skills and experience of a new non-executive Director, bearing in mind the balance of skills on the Board. These requirements were reviewed with independent recruitment consultants prior to the search for a suitable candidate. Following this process, Anja Balfour was appointed as a Director and brings considerable investment experience to the Board. As part of the continuing refreshment of the Board, Mr Bates indicated his intention to retire and the Nomination Committee again considered the required skills and experience of a new non-executive Director. (See section 9). The Nomination Committee conducts annually a skills audit to enable the Board to identify any skill shortages to be filled by new Directors. The experience of the current Directors is detailed in the biographies of the Directors, set out on pages 36 and 37 of this Report. When considering new appointments, the Board reviews the skills of the Directors and seeks to add persons with complementary skills or who possess skills and experience which fill any gaps in the Board's knowledge or experience and who can devote sufficient time to the Company to carry out their duties effectively. The Company is committed to ensuring that any vacancies arising are filled by the most qualified candidates. The Board has adopted a diversity policy, which acknowledges the benefits of greater diversity, and remains committed to ensuring that the Company's Directors bring a wide range of skills, knowledge, experience, backgrounds and perspectives to the Board. Whilst the Board does not feel that it would be appropriate to set targets as all appointments are made on merit, the following objectives for the appointment of Directors have been established: • all Board appointments will be made on merit, in the context of the skills, knowledge and experience that are needed for the Board to be effective; and • long lists of potential non-executive directors should include diverse candidates of appropriate merit.

AIC Code Principle	Compliance Statement
7. The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual Directors.	The Board, meeting as the Nomination Committee, has a formal process to evaluate its own performance and that of its Chairman annually. The Chairman leads the assessment, which covers the functioning of the Board as a whole, the effectiveness of the Board Committees and the independence of each Director. Where necessary, the Chairman discusses the responses with each Director individually. The Chairman absents herself from the Board's review of her effectiveness as the Company Chairman, and this review is led by the Senior Independent Director. The Board is satisfied that the structure, mix of skills and operation of the Board continue to be effective and relevant for the Company. During 2017, an independent review of the Board was undertaken by Lintstock Limited, the results of which were considered in detail by the Board. The Board has agreed that an independent review of the Board will be commissioned regularly and a further review will be commissioned in 2020.
8. Directors' remuneration should reflect their duties, responsibilities and the value of their time spent.	The Board periodically reviews the fees paid to the Directors and compares these with the fees paid by the Company's peer group and the investment trust industry generally, taking into account the time commitment and responsibility of each Board member. Details of the remuneration arrangements for the Directors of the Company can be found in the Directors' Remuneration Implementation Report on pages 78 and 79 and in note 3 to the financial statements. As all of the Directors are non-executive, the Board considers that it is acceptable for the Chairman of the Company to chair meetings when discussing Directors' fees. The Chairman's remuneration, additional remuneration paid to the Chairman of the Audit Committee and additional remuneration paid to the Senior Independent Director are determined by the Board in the absence of the individuals affected. The Board periodically takes advice from external independent advisers on Directors' remuneration. All Directors own shares in the Company, all of which were purchased in the open market and using the Directors' own resources. No stock options or other performance-related elements have been awarded.
9. The Independent Directors should take the lead in the appointment of new Directors and the process should be disclosed in the annual report.	The Nomination Committee is comprised of the whole Board, which is made up entirely of Independent Directors and, subject to there being no conflicts of interest, all members of the Committee are entitled to vote on candidates for the appointment of new Directors and on recommending for shareholders' approval the Directors seeking re-election at the AGM. As disclosed in the 2017 Annual Report, Mr Macpherson retired as Chairman and Director following the 2017 AGM and Mrs Noble was appointed as Chairman in his place. Fletcher Jones Executive Search was appointed to assist with the search for a new non-executive Director. They produced a long list of candidates for the role of non-executive Director and a number were selected for interview by the Committee. Following this process, Anja Balfour was appointed as a non-executive Director on 1 January 2018. Fletcher Jones has also been appointed to assist with the search for a further non-executive Director to replace Mr Bates on his retirement. There is no connection between the Directors or the Company and Fletcher Jones.

The Board continued

AIC Code Principle	Compliance Statement
10. Directors should be offered relevant training and induction.	New appointees to the Board are provided with a full induction programme. The programme covers the Company's investment strategy, policies and practices. The Directors are also given key information on the Company's regulatory and statutory requirements as they arise, including information on the role of the Board, matters reserved for its decision, the terms of reference for the Board Committees, the Company's corporate governance practices and procedures and the latest financial information. It is the Chairman's responsibility to ensure that the Directors have sufficient knowledge to fulfil their role and Directors are encouraged to participate in training courses where appropriate. The Directors have access to the advice and services of the Company Secretary through its appointed representative which is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Company Secretary is also responsible for ensuring good information flows between all parties.
11. The Chairman (and the Board) should be brought into the process of structuring a new launch at an early stage.	Principle 11 applies to the launch of new investment companies and is therefore not applicable to the Company.

Board Meetings and Relationship with the Investment Manager

AIC Code Principle	Compliance Statement
12. Boards and managers should operate in a supportive, co-operative and open environment.	The Board meets regularly throughout the year and a representative of the Investment Manager is in attendance, when appropriate, at each meeting and most Committee meetings. The Chairman encourages open debate to foster a supportive and co-operative approach for all participants.
13. The primary focus at regular Board meetings should be a review of investment performance and associated matters, such as gearing, asset allocation, marketing/investor relations, peer group information and industry issues.	The Board has agreed a schedule of matters specifically reserved for decision by the Board. This includes establishing the investment objectives, strategy and benchmarks, the permitted types or categories of investments, the markets in which transactions may be undertaken, the level of permitted gearing and borrowings, the amount or proportion of the assets that may be invested in any category of investment or in any one investment, and the Company's treasury and share buyback policies. The Board, at its regular meetings, undertakes reviews of key investment and financial data, revenue projections and expenses, analyses of asset allocation, transactions and performance comparisons, share price and net asset value performance, gearing, marketing and shareholder communication strategies, the risks associated with pursuing the investment strategy, peer group information and industry issues. The Audit and Management Engagement Committees of the Board respectively review the Company's risk matrix and the performance and cost of the Company's third-party service providers. The Board has agreed arrangements under which the Directors, in the furtherance of their duties, may take independent professional advice at the Company's expense.

Board Meetings and Relationship with the Investment Manager continued

AIC Code Principle	Compliance Statement
14. Boards should give sufficient attention to overall strategy.	The Board is responsible for strategy and has established a predetermined annual programme of agenda items under which it reviews the objectives and strategy of the Company at each meeting. In addition to the regular Board meetings, the Board meets specifically on one additional day each year to focus on strategy and any other issues that require in-depth attention.
15. The Board should regularly review both the performance of, and contractual arrangements with, the Manager (or executives of a self-managed company).	The Management Engagement Committee meets at least once a year. It reviews annually the performance of the Investment Manager. The Committee considers the quality, cost and remuneration method of the service provided by the Investment Manager against its contractual obligations and the Board receives regular reports on compliance with the Investment Restrictions which it has set. It also considers the performance analysis provided by the Investment Manager. In view of the level of data available from independent service providers, and the appraisal undertaken by the Board, the Board does not consider a formal independent appraisal of the Investment Manager's service to be necessary. Following a formal annual review, and bearing in mind the long-term performance of the Company, the Board concluded that, in its opinion, the continuing appointment of AVI, the Investment Manager, on the terms agreed, is in the interests of its shareholders as a whole. The Audit Committee reviews the Investment Manager's compliance and control systems in operation insofar as they relate to the affairs of the Company and the Board undertakes periodic reviews of the arrangements with, and the services provided by, the Custodian, to ensure that the safeguarding of the Company's assets and security of the shareholders' investment is being maintained.
16. The Board should agree policies with the Manager covering key operational issues.	The IMA between the Company and the Investment Manager sets out the limits of the Investment Manager's authority, beyond which Board approval is required. The Board has also agreed investment guidelines with the Investment Manager, including guidelines on the deployment of gearing, which are considered at each Board meeting. Representatives of the Investment Manager attend each meeting of the Board to address questions on specific matters and to seek approval for specific transactions which the Investment Manager is required to refer to the Board, for example investing in unquoted investments. The Board delegates investee company communication to the Investment Manager. The Board has also delegated discretion to the Investment Manager to exercise voting powers on its behalf, other than for contentious or sensitive matters which are to be referred to the Board for consideration. AVI is a signatory of the UK Stewardship Code issued by the FRC. The Board has reviewed the Investment Manager's Stewardship Policy, which includes its Corporate Governance and Voting Guidelines, and which is published on the Investment Manager's website: www.assetvalueinvestors.com. The Board recognises that appropriate environmental, social and governance policies are usually a reflection of good management and encourages AVI to consider this when evaluating investments. Reports on commissions paid by the Investment Manager are submitted to the Board regularly.

Board Meetings and Relationship with the Investment Manager continued

AIC Code Principle	Compliance Statement
17. Boards should monitor the level of the share price discount or premium (if any) and, if desirable, take action to reduce it.	The Board considers any imbalances in the supply of and the demand for the Company's shares in the market and takes appropriate action when considered necessary. The Board considers the discount or premium to NAV of the Company's share price at each Board meeting and reviews the changes in the level of discount or premium and in the share price since the previous Board meeting and over the longer term. At each meeting the Board reviews reports from the Investment Manager's marketing department on marketing and shareholder communication strategies. It also considers their effectiveness as well as measures of investor sentiment and any recommendations on share buybacks.
18. The Board should monitor and evaluate other service providers.	The Management Engagement Committee reviews, at least annually, the performance of all of the Company's third-party service providers, including the level and structure of fees payable and the length of the notice period, to ensure that they remain competitive and in the best interests of shareholders, as well as reviewing service providers' anti-bribery and corruption policies to address the provisions of the Bribery Act 2010, together with their policies on whistle-blowing and cyber crime prevention. A review of the Investment Manager and the other service providers undertaken during the year concluded that the services provided to the Company were satisfactory and that the agreements entered into with them were operating in the best interests of the shareholders. The Audit Committee reviews reports from the principal service providers on compliance and the internal and financial control systems in operation and relevant independent audit reports thereon. The Directors have carried out a review of the effectiveness of the Company's systems of internal control as they have operated over the year and up to the date of approval of the Annual Report. Given the nature of the business, the Company is reliant on its service providers and their internal controls. As set out in more detail in the Report of the Audit Committee on pages 73 to 75, the Company has in place a system for assessing the adequacy of those controls. There were no material matters arising from the review of the Company's controls that required further investigation and no significant failings or weaknesses were identified.

Shareholder Communications

AIC Code Principle	Compliance Statement
19. The Board should regularly monitor the shareholder profile of the Company and put in place a system for canvassing shareholder views and for communicating the Board's views to shareholders.	A detailed analysis of the substantial shareholders of the Company is provided to the Directors at each Board meeting. Representatives of the Investment Manager regularly meet institutional shareholders and private client asset managers to discuss strategy and to understand their issues and concerns and, if applicable, to discuss corporate governance issues. The results of such meetings are reported at the following Board meeting. Regular reports on investor sentiment and industry issues from the Company's broker are submitted to the Board. The Directors are available to meet shareholders. Shareholders wishing to communicate with the Chairman, or any other member of the Board, may do so by writing to the Company, for the attention of the Company Secretary at the Registered Office. All shareholders are encouraged to attend the AGM, where they are given the opportunity to question the Chairman, the Board and representatives of the Investment Manager. The Investment Manager will make a presentation to shareholders covering the investment performance and strategy of the Company at the forthcoming AGM. The Directors welcome the views of all shareholders and place considerable importance on communications with them.
20. The Board should normally take responsibility for, and have a direct involvement in, the content of communications regarding major corporate issues even if the Manager is asked to act as spokesman.	All substantive communications regarding any major corporate issues are discussed by the Board taking into account representations from the Investment Manager, the Auditor, legal advisers, broker and Company Secretary.
21. The Board should ensure that shareholders are provided with sufficient information for them to understand the risk/reward balance to which they are exposed by holding the shares.	The Board aims to provide shareholders with a full understanding of the Company's investment objective, policy and activities, its performance and the principal investment risks by means of informative Annual and Half Year reports. This is supplemented by the daily publication, through the London Stock Exchange, of the net asset value of the Company's shares and the publication by the Investment Manager of a monthly fact sheet. The Annual Report provides information on the Investment Manager's investment performance, portfolio risk and operational and compliance issues. Further details on the risk/reward balance are set out in the Strategic Report under Principal Risks on pages 10 to 12, and in note 14 to the financial statements. The Investment Portfolio is listed on pages 16 and 17. The Company's website, www.british-empire.co.uk, is regularly updated with monthly factsheets and provides useful information about the Company including the Company's Financial Reports and Announcements.

Board Committees
The Board has agreed a schedule of matters specifically reserved for decision by the full Board, subject to which the Board has delegated specific duties to Committees of the Board which operate within written terms of reference. Link Company Matters Limited acts as Company Secretary to each Committee. No persons other than the Committee members are entitled to attend Committee meetings unless formally invited by the Committee. Copies of the terms of reference for Board Committees are available from the Company Secretary and on the Company's website.

Management Engagement Committee
The Management Engagement Committee meets at least once each year and comprises the whole Board, being independent Directors. The main functions of the Committee are to define the terms of the IMA, ensuring that they follow good industry practice, are competitive and are in the best interests of shareholders. The Committee monitors the Investment Manager's compliance with the terms of the IMA and the Investment Manager's performance.

The Committee also reviews the services and performance of the Company's other third-party service providers.

Nomination Committee
The Nomination Committee comprises the whole Board and convenes to undertake the annual appraisal of the performance of the Board, its Committees and the Directors and, if agreed, to propose the re-election of the Directors, each of whom will retire at the AGM. It also meets to consider the appointment of new Directors to the Board. Candidates for nomination may be sourced from outside the Company using third-party search and selection services as well as potential candidates known to Directors through their extensive knowledge of the industry.

The Board has agreed to follow the recommendations of the AIC Code Principle 3 that the Directors of FTSE 350 companies should be subject to annual re-election by shareholders.

Information about the work of the Nomination Committee during the year can be found on pages 42 to 43.

Audit Committee
The Audit Committee met six times in the year and comprises the whole Board, being independent Directors. All members of the Committee have recent and relevant financial experience. The Audit Committee has set out a formal Report on pages 73 to 75 of the Annual Report.

Disclosure Committee
A Disclosure Committee, comprising all Directors, meets as and when required to ensure inside information is identified and disclosed, if necessary, in a timely fashion.

Due to the necessity for meetings to be called on short notice, the quorum for the Committee is two members, at least one of whom shall be either the Chairman, the Chairman of the Audit Committee or the Senior Independent Director.

Anti-Bribery and Corruption Policy
The Company has adopted an Anti-Bribery and Corruption Policy and has reviewed the statements regarding compliance with the Bribery Act 2010 by the Company's Investment Manager and key service providers. These statements are reviewed regularly by the Management Engagement Committee.

Disclosure of information to the Auditor
The Directors who held office at the date of approval of the Report of the Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken all of the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and establish that the Company's Auditor is aware of that information.

Requirements of the Listing Rules
Listing Rule 9.8.4 requires the Company to include specified information in a single identifiable section of the Annual Report or a cross reference table indicating where the information is set out. The Directors confirm that no disclosures are required in relation to Listing Rule 9.8.4.

Going Concern
The Directors have carefully reviewed the current financial resources and the projected expenses of the Company for the next 12 months. On the basis of that review and as the majority of net assets are securities which are traded on recognised stock exchanges, the Directors are satisfied that the Company's resources are adequate for continuing in business for the foreseeable future and that it is appropriate to prepare the financial statements on a going concern basis.

Viability
The Directors consider viability as part of their continuing programme of monitoring risk. The Directors believe five years to be a reasonable time horizon to consider the continuing viability of the Company, reflecting a balance between a longer-term investment horizon and the inherent shorter-term uncertainties within equity markets, although they do have due regard to viability over the longer term and particularly to key points outside this time frame, such as the due dates for the repayment of long-term debt. The Company is an investment trust whose portfolio is invested in readily realisable listed securities and with some short-term cash deposits. The following facts support the Directors' view of the viability of the Company:

- In the year under review, expenses (including finance costs and taxation) were adequately covered by investment income.
- The Company has a liquid investment portfolio.
- The Company has long-term debt of £15m which falls due for repayment in 2023, £30m and €30m which both fall due for repayment in 2036 and €20m which falls due for repayment in 2037. This debt was covered over 11 times as at the end of September 2018 by the Company's total assets. The Directors are of the view that, subject to unforeseen circumstances, the Company will have sufficient resources to meet the costs of annual interest and eventual repayment of principal on this debt.
- The Company has a large margin of safety over the covenants on its debt.

The Company's viability depends on the global economy and markets continuing to function. The Directors also consider the possibility of a wide ranging collapse in corporate earnings and/or the market value of listed securities. To the latter point, it should be borne in mind that a significant proportion of the Company's expenses are in *ad valorem* investment management fees, which would reduce if the market value of the Company's assets were to fall.

In order to maintain viability, the Company has a robust risk control framework which, following guidelines from the FRC, has the objectives of reducing the likelihood and impact of: poor judgement in decision-making; risk-taking that exceeds the levels agreed by the Board; human error; or control processes being deliberately circumvented.

Taking the above into account, and the potential impact of the principal risks as set out on pages 10 to 12, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due for a period of five years from the date of approval of this Annual Report.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable United Kingdom law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law they are required to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS').

Under Company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period.

In preparing the financial statements the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with relevant laws and regulations, and for ensuring that the Annual Report includes information required by the Disclosure Rules of the UK Listing Authority.

The financial statements of the Company are published on the Company's website at www.british-empire.co.uk. The Directors are responsible for ensuring the maintenance and integrity of the information relating to the Company published on this website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Declaration

The Directors listed on pages 36 and 37, 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 Company; and
- the Strategic Report and the Investment Manager's Review include a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that the Company faces.

In the opinion of the Board, the Annual Report and Accounts taken as a whole, is fair, balanced and understandable and it provides the information necessary to assess the Company's position and performance, business model and strategy.

By Order of the Board

Link Company Matters Limited
Corporate Secretary
9 November 2018

The Company's capital structure comprises Ordinary Shares, Debenture Stock and Loan Notes.

Ordinary Shares

At 30 September 2018, there were 129,526,165 (2017: 129,526,165) Ordinary Shares of 10p each in issue, of which 17,681,674 (2017: 13,372,622) were held in treasury and therefore the total voting rights attaching to Ordinary Shares in issue were 111,844,491.

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

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

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

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

Transfers
There are no restrictions on the transfer of the Company's shares other than a) transfers by Directors and Persons Discharging Managerial Responsibilities and their connected persons during closed periods under the Market Abuse Regulation or which may constitute insider dealing, b) transfers to more than four joint transferees and c) transfers of shares which are not fully paid up or on which the Company has a lien provided that such would not prohibit dealings taking place on an open and proper basis.

The Company is not aware of any agreements between shareholders or any agreements or arrangements with shareholders which would change in the event of a change of control of the Company.

Debenture Stock

At 30 September 2018, there was in issue £15,000,000 (2017: £15,000,000) 8 1/8% Debenture Stock 2023, repayable on 2 July 2023.

Income entitlement
Holders of the Debenture Stock are entitled to interest paid half-yearly at the rate of 8 1/8% per annum.

Capital entitlement
The Debenture Stock holders are entitled to repayment of principal and outstanding interest on the redemption date or, if earlier, on the occurrence of an event of default. The Debenture Stock is secured by a floating charge on all of the assets of the Company. If the Company is liquidated the Debenture Stock is redeemable by the Company at a price which is the higher of par and the price at which the Gross Redemption Yield on the date of redemption is equivalent to the yield on a reference UK government bond, together with interest accrued up to and including the date of redemption. Had the Company been liquidated on 30 September 2018, the redemption premium would have amounted to £0.8m over and above the mid-market price.

The mid-market price of the Debenture Stock as at 30 September 2018 was 126.50p (2017: 130.25p).

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

Loan Notes

At 30 September 2018, there were in issue fixed rate 20 year unsecured private placement notes (the 'Loan Notes'). The Loan Notes were issued in the following tranches:

- on 15 January 2016: 4.184% Series A Sterling Unsecured Loan Notes 2036
- on 15 January 2016: 3.249% Series B Euro Unsecured Loan Notes 2036
- on 1 November 2017: 2.93% Euro Senior Unsecured Loan Notes 2037

Income entitlement
Interest is payable half-yearly in each case at rates of 4.184% per annum on the Sterling Loan Notes, 3.249% per annum on the €30m Euro Loan Notes and 2.93% per annum on the €20m Euro Senior Loan Notes.

Capital entitlement
The Loan Note holders are entitled to repayment of principal and outstanding interest on the redemption date or, if earlier, on the occurrence of an event of default. The redemption dates are:

- 15 January 2036 for the 4.184% Series A Sterling Unsecured Loan Notes 2036
- 15 January 2036 for the 3.249% Series B Euro Unsecured Loan Notes 2036
- 1 November 2037 for the 2.93% Euro Senior Unsecured Loan Notes 2037

The Loan Notes are unsecured. If the Company is liquidated the Loan Notes are redeemable by the Company at a price which is the higher of par and:

- for the 4.184% Series A Sterling Unsecured Loan Notes 2036, the price at which the Gross Redemption Yield on the date of redemption is equivalent to the yield on a reference UK government bond
- for the 3.249% Series B Euro Unsecured Loan Notes 2036 and for the 2.93% Euro Senior Unsecured Loan Notes 2037, the price at which the Gross Redemption Yield on the date of redemption is equivalent to the yield on a reference German government bond,

in each case together with interest accrued up to and including the date of redemption.

Had the Company been liquidated on 30 September 2018, the redemption premium would have amounted to £16.5m over and above the market values.

The estimated market values of the Loan Notes as at 30 September 2018 were Series A: £32.5m and Series B: £28.0m and Euro Senior: £17.9m, being £2.6m, £1.4m and £0.2m respectively above the amortised values excluding interest.

Voting entitlement
The holders of the Loan Notes have no right to attend or to vote at general meetings of the Company.

FINANCIAL STATEMENTS / STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER 2018

	Notes	2018 Revenue return £'000	2018 Capital return £'000	2018 Total £'000	2017 Revenue return £'000	2017 Capital return £'000	2017 Total £'000
Income							
Investment income	2	**22,638**	**–**	**22,638**	17,393	–	17,393
Gains on investments held at fair value	8	**–**	**75,456**	**75,456**	–	137,833	137,833
Exchange losses on currency balances		**–**	**(632)**	**(632)**	–	(1,579)	(1,579)
		22,638	**74,824**	**97,462**	17,393	136,254	153,647
Expenses							
Investment management fee	3	**(1,930)**	**(4,504)**	**(6,434)**	(1,856)	(4,332)	(6,188)
Other expenses (including irrecoverable VAT)	3	**(1,666)**	**–**	**(1,666)**	(1,628)	–	(1,628)
Profit before finance costs and tax		**19,042**	**70,320**	**89,362**	13,909	131,922	145,831
Finance costs	4	**(1,145)**	**(2,697)**	**(3,842)**	(997)	(2,346)	(3,343)
Exchange losses on unsecured loan	4	**–**	**(575)**	**(575)**	–	(480)	(480)
Profit before taxation		**17,897**	**67,048**	**84,945**	12,912	129,096	142,008
Taxation	5	**(964)**	**–**	**(964)**	(309)	–	(309)
Profit for the year		**16,933**	**67,048**	**83,981**	12,603	129,096	141,699
Earnings per Ordinary Share	7	**14.83p**	**58.72p**	**73.55p**	10.44p	106.99p	117.43p

The total column of this statement is the Income Statement of the Company prepared in accordance with IFRS, as adopted by the European Union. The supplementary revenue and capital columns are presented in accordance with the Statement of Recommended Practice issued by the Association of Investment Companies ('AIC SORP').

All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued during the year.

There is no other comprehensive income, and therefore the profit for the year after tax is also the total comprehensive income.

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

FINANCIAL STATEMENTS / STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2018

	Ordinary share capital £'000	Capital redemption reserve £'000	Share premium £'000	Capital reserve* £'000	Merger reserve £'000	Revenue reserve** £'000	Total £'000
For the year ended 30 September 2018							
Balance as at 30 September 2017	**12,953**	**5,982**	**28,078**	**781,555**	**41,406**	**33,255**	**903,229**
Ordinary Shares bought back and held in treasury (see note 12)	**–**	**–**	**–**	**(31,713)**	**–**	**–**	**(31,713)**
Total comprehensive income for the year	**–**	**–**	**–**	**67,048**	**–**	**16,933**	**83,981**
Ordinary dividends paid (see note 6)	**–**	**–**	**–**	**–**	**–**	**(13,817)**	**(13,817)**
Balance as at 30 September 2018	**12,953**	**5,982**	**28,078**	**816,890**	**41,406**	**36,371**	**941,680**
For the year ended 30 September 2017							
Balance as at 30 September 2016	16,001	2,934	28,078	717,051	41,406	38,503	843,973
Ordinary Shares bought back and held in treasury (see note 12)	–	–	–	(64,592)	–	–	(64,592)
Ordinary Shares held in treasury cancelled (see note 12)	(3,048)	3,048	–	–	–	–	–
Total comprehensive income for the year	–	–	–	129,096	–	12,603	141,699
Ordinary dividends paid (see note 6)	–	–	–	–	–	(17,851)	(17,851)
Balance as at 30 September 2017	12,953	5,982	28,078	781,555	41,406	33,255	903,229

* Within the balance of the capital reserve, £657,077,000 relates to realised gains (2017: £609,436,000) and, since 20 December 2017, when the Articles of Association were changed at the AGM, is distributable by way of dividend. The remaining £159,813,000 relates to unrealised gains and losses on financial instruments (2017: £172,119,000) and is non-distributable.

** Revenue reserve is fully distributable by way of dividend.

The Company, subsequent to the approval by the Shareholders at the December 2017 AGM, has the ability to distribute unrestricted available capital reserves.

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

FINANCIAL STATEMENTS / BALANCE SHEET

AS AT 30 SEPTEMBER 2018

	Notes	2018 £'000	2017 £'000
Non-current assets			
Investments held at fair value through profit or loss	8	**990,265**	950,511
		990,265	950,511
Current assets			
Other receivables	9	**6,550**	4,850
Cash and cash equivalents		**36,251**	25,496
		42,801	30,346
Total assets		**1,033,066**	980,857
Current liabilities			
Other payables	10	**(2,225)**	(6,452)
		(2,225)	(6,452)
Total assets less current liabilities		**1,030,841**	974,405
Non-current liabilities			
$8^1/_8$% Debenture Stock 2023	11	**(14,964)**	(14,957)
4.184% Series A Sterling Unsecured Loan Notes 2036	11	**(29,885)**	(29,878)
3.249% Series B Euro Unsecured Loan Notes 2036	11	**(26,633)**	(26,341)
2.93% Euro Senior Unsecured Loan Notes 2037	11	**(17,679)**	–
		(89,161)	(71,176)
Net assets		**941,680**	903,229
Equity attributable to equity Shareholders			
Ordinary share capital	12	**12,953**	12,953
Capital redemption reserve		**5,982**	5,982
Share premium		**28,078**	28,078
Capital reserve		**816,890**	781,555
Merger reserve		**41,406**	41,406
Revenue reserve		**36,371**	33,255
Total equity		**941,680**	903,229
Net asset value per Ordinary Share – basic	13	**841.95p**	777.62p
Number of shares in issue excluding Treasury Shares		**111,844,491**	116,153,543

These financial statements were approved and authorised for issue by the Board of British Empire Trust plc on 9 November 2018 and were signed on its behalf by:

Susan Noble
Chairman

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

Registered in England & Wales No. 28203

FINANCIAL STATEMENTS / STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 SEPTEMBER 2018

	Notes	2018 £'000	2017 £'000
Reconciliation of profit before taxation to net cash inflow from operating activities			
Profit before taxation		**84,945**	142,008
Gains on investments held at fair value through profit or loss		**(75,456)**	(137,833)
Increase in other receivables		**(1,114)**	(313)
Increase/(decrease) in creditors		**240**	(458)
Taxation paid		**(1,649)**	(314)
Amortisation of Debenture issue expenses		**26**	19
Net cash inflow from operating activities		**6,992**	3,109
Investing activities			
Purchases of investments		**(349,572)**	(502,357)
Sales of investments		**381,615**	594,865
Net cash inflow from investing activities		**32,043**	92,508
Financing activities			
Dividends paid	6	**(13,817)**	(17,851)
Issue of loans net of costs		**17,384**	–
Payments for Ordinary Shares bought back and held in treasury		**(32,427)**	(66,536)
Exchange loss on Loan Notes		**575**	480
Cash outflow from financing activities		**(28,285)**	(83,907)
Increase in cash and cash equivalents		**10,750**	11,710
Reconciliation of net cash flow movement in funds:			
Cash and cash equivalents at beginning of year		**25,496**	13,799
Exchange rate movements		**5**	(13)
Increase in cash and cash equivalents		**10,750**	11,710
Increase in net cash		**10,755**	11,697
Cash and cash equivalents at end of year		**36,251**	25,496

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

1. General information and accounting policies

British Empire Trust plc is a company incorporated and registered in England and Wales. The principal activity of the Company is that of an investment trust company within the meaning of Sections 1158/1159 of the Corporation Tax Act 2010 and its investment approach is detailed in the Strategic Report.

The financial statements of the Company have been prepared in accordance with IFRS as adopted by the European Union, which comprise standards and interpretations approved by the International Accounting Standards Board ('IASB'), and as applied in accordance with the provisions of the Companies Act 2006. The annual financial statements have also been prepared in accordance with the AIC SORP for the financial statements of investment trust companies and venture capital trusts, except to any extent where it is not consistent with the requirements of IFRS.

Basis of preparation

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

Going concern

The financial statements have been prepared on a going concern basis and on the basis that approval as an investment trust company will continue to be met.

The Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future (being a period of 12 months from the date these financial statements were approved). Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern, having taken into account the liquidity of the Company's investment portfolio and the Company's financial position in respect of its cash flows, debt and investment commitments (of which there are none of significance). Therefore, the financial statements have been prepared on the going concern basis.

Segmental reporting

The Directors are of the opinion that the Company is engaged in a single segment of business, being investment business. The Company primarily invests in companies listed in the UK and other recognised international exchanges.

Accounting developments

In the current year, the Company has applied a number of amendments to IFRS issued by the IASB mandatorily effective for an accounting period that begins on or after 1 January 2017. These include annual improvements to IFRS, changes in the IAS 7 Statement of Cash Flows and legislative and regulatory amendments to changes in disclosure and presentation requirements. Their adoption has not had any material impact on these financial statements.

The Company has not early adopted new and revised IFRS that were in issue at the year end but will not be in effect until after this financial year end. The Directors have considered the impact of the changes upon the financial statements. At the date of authorising these financial statements, the following standards and interpretations which had not been applied in these financial statements were in issue and have now become effective. The impact of IFRS 9 in future periods may increase disclosure requirements and may change the presentation of investments and current assets. This may require the consideration of the business model and future expected cash flows in holding financial assets. IFRS 15 specifies how and when revenue is recognised and enhances disclosures. Given the nature of the Company's revenue streams from financial instruments, the provisions of this standard are not expected to have a material impact.

It is not envisaged that the other standards listed below effective in later financial periods will have a material effect on the financial statements.

International Financial Reporting Standards	Effective date
IFRS 2 Share-based Payments (amendments)	1 January 2018
IFRS 9 Financial Instruments (IFRS 7 Disclosures)	1 January 2018
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 16 Leases	1 January 2019

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts in the Balance Sheet, the Statement of Comprehensive Income and the disclosure of contingent assets and liabilities at the date of the financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future period if the revision affects both current and future periods. There are no significant judgements or estimates in these financial statements.

Investments

The Company's business is investing financial assets with a view to capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis in accordance with the documented investment strategy and information is provided internally on that basis to the Company's Board of Directors.

The investments held by the Company are designated 'at fair value through profit or loss'. All gains and losses are allocated to the capital return within the Statement of Comprehensive Income as 'Gains or losses on investments held at fair value through profit or loss'. Also included within this heading are transaction costs in relation to the purchase or sale of investments. 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.

All investments are designated upon initial recognition as held at fair value through profit or loss, and are measured at subsequent reporting dates at fair value, which is either the bid price or closing price for Stock Exchange Electronic Trading Service – quotes and crosses ('SETSqx'). The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been accumulated is recognised in profit or loss.

Fair values for unquoted investments, or for investments for which the market is inactive, are established by using various valuation techniques in accordance with the International Private Equity and Venture Capital (the 'IPEV') guidelines. These may include recent arm's length market transactions, the current fair value of another instrument that is substantially the same, discounted cash flow analysis, option pricing models and reference to similar quoted companies. 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. These are constantly monitored for value and impairment. The values and impairment, if any, are approved by the Board.

All investments for which a fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy levels in note 14. A transfer between levels may result from the date of an event or a change in circumstances.

Foreign currency

Transactions denominated in currencies other than Pounds Sterling are recorded at the rates of exchange prevailing on the date of the transaction. Items which are denominated in foreign currencies are translated at the rates prevailing on the Balance Sheet date. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in the capital reserve or the revenue account depending on whether the gain or loss is capital or revenue in nature.

Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments and money market funds, that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts when applicable.

Other receivables and payables

Trade receivables, trade payables and short-term borrowings are measured at amortised cost and balances revalued for exchange rate movements.

Income

Dividends receivable on quoted equity shares are taken to revenue on an ex-dividend basis. Dividends receivable on equity shares where no ex-dividend date is quoted are brought into account when the Company's right to receive payment is established. Fixed returns on non-equity shares are recognised on a time-apportioned basis. Dividends from overseas companies are shown gross of any withholding taxes which are disclosed separately in the Statement of Comprehensive Income.

Special dividends are taken to the revenue or capital account depending on their nature. In deciding whether a dividend should be regarded as a capital or revenue receipt, the Board reviews all relevant information as to the reasons for the sources of the dividend on a case-by-case basis.

When the Company has elected to receive scrip dividends in the form of additional shares rather than in cash, the amount of the cash dividend forgone is recognised as income. Any excess in the value of the cash dividend is recognised in the capital column.

All other income is accounted on a time-apportioned accruals basis and is recognised in the Statement of Comprehensive Income.

Expenses and finance costs

All expenses are accounted on an accruals basis. On the basis of the Board's expected long-term split of total returns in the form of capital and revenue returns of 70% and 30% respectively, the Company charges 70% of its management fee and finance costs to capital.

Expenses incurred directly in relation to arranging debt finance are amortised over the term of the finance.

Expenses incurred in buybacks of shares to be held in treasury are charged to the capital reserve through the Statement of Changes in Equity.

Taxation

The charge for taxation is based on the net revenue for the year and takes into account taxation deferred or accelerated because of temporary differences between the treatment of certain items for accounting and taxation purposes.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes at the reporting date. Deferred tax assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of timing differences can be deducted. In line with the recommendations of the SORP, the allocation method used to calculate the tax relief on expenses charged to capital is the 'marginal' basis. Under this basis, if taxable income is capable of being offset entirely by expenses charged through the revenue account, then no tax relief is transferred to the capital account.

Dividends payable to shareholders

Dividends to shareholders are recognised as a liability in the period in which they are paid or approved in general meetings and are taken to the Statement of Changes in Equity. Dividends declared and approved by the Company after the Balance Sheet date have not been recognised as a liability of the Company at the Balance Sheet date.

Non-current liabilities: Debenture and Loan Notes

The non-current liabilities are valued at amortised cost. Costs in relation to arranging the debt finance have been capitalised and are amortised over the term of the finance. Hence, amortised cost is the par value less the amortised costs of issue.

The Euro Loan Notes are shown at amortised cost with the exchange difference on the principal amounts to be repaid reflected. Any gain or loss arising from changes in the exchange rate between Euro and Sterling is included in the capital reserves and shown in the capital column of the Statement of Comprehensive Income.

Further details of the non-current liabilities are set out in notes 11 and 14.

Capital redemption reserve

The capital redemption reserve represents non-distributable reserves that arise from the purchase and cancellation of shares.

Share premium

The share premium account represents the accumulated premium paid for shares issued in previous periods above their nominal value less issue expenses. This is a reserve forming part of the non-distributable reserves. The following items are taken to this reserve:

- costs associated with the issue of equity; and
- premium on the issue of shares.

Capital reserve

The following are taken to the capital reserve through the capital column in the Statement of Comprehensive Income:
Capital reserve – other, forming part of the distributable reserves:

- gains and losses on the disposal of investments;
- amortisation of issue expenses;
- costs of share buybacks;
- exchange differences of a capital nature; and
- expenses, together with the related taxation effect, allocated to this reserve in accordance with the above policies.

Capital reserve – investment holding gains, not distributable:
- increase and decrease in the valuation of investments held at the year end.

Merger reserve
The merger reserve represents the share premium on shares issued on the acquisition of Selective Assets Trust plc on 13 October 1995 and is not distributable.

Revenue reserve
The revenue reserve represents the surplus of accumulated profits and is distributable by way of dividends.

2. Income

	2018 £'000	2017 £'000
Income from investments		
UK dividends	**–**	293
Overseas dividends	**22,296**	17,194
Deposit and fixed interest	**127**	16
Interest on recovery of withholding tax	**54**	29
Exchange gains/(losses) on receipt of income*	**161**	(139)
Total income	**22,638**	17,393

* Exchange movements arise from ex-dividend date to payment date.

3. Investment management fee and other expenses

	2018 Revenue return £'000	2018 Capital return £'000	2018 Total £'000	2017 Revenue return £'000	2017 Capital return £'000	2017 Total £'000
Management fee	**1,930**	**4,504**	**6,434**	1,856	4,332	6,188
Other expenses:						
Directors' emoluments – fees	**146**	**–**	**146**	144	–	144
Auditor's remuneration – audit	**25**	**–**	**25**	25	–	25
Auditor's remuneration – interim review and debenture review services	**8**	**–**	**8**	8	–	8
Marketing	**421**	**–**	**421**	400	–	400
Research costs*	**93**	**–**	**93**	–	–	–
Saving scheme costs	**–**	**–**	**–**	8	–	8
Printing and postage costs	**15**	**–**	**15**	66	–	66
Registrar fees	**88**	**–**	**88**	86	–	86
Custodian fees	**138**	**–**	**138**	159	–	159
Depositary fees	**144**	**–**	**144**	145	–	145
Advisory and professional fees	**298**	**–**	**298**	318	–	318
Costs associated with dividend receipts	**83**	**–**	**83**	–	–	–
Irrecoverable VAT	**107**	**–**	**107**	172	–	172
Regulatory fees	**65**	**–**	**65**	58	–	58
Directors' insurances & other expenses	**35**	**–**	**35**	39	–	39
	1,666	**–**	**1,666**	1,628	–	1,628

* Contribution to Investment Manager's research budget.

For the year ended 30 September 2018, the fee calculated in accordance with the IMA amounted to 0.7% (2017: 0.7%) of the net asset value calculated on a quarterly basis.

Details of the IMA and fees paid to the Investment Manager are set out in the Report of the Directors.

4. Finance costs

	2018 Revenue return £'000	2018 Capital return £'000	2018 Total £'000	2017 Revenue return £'000	2017 Capital return £'000	2017 Total £'000
Loan and debenture interest						
8 1/8% Debenture Stock 2023	**366**	**854**	**1,220**	366	854	1,220
4.184% Series A Sterling Unsecured Loan Notes 2036	**376**	**879**	**1,255**	376	879	1,255
3.249% Series B Euro Unsecured Loan Notes 2036	**259**	**604**	**863**	255	594	849
2.93% Euro Senior Unsecured Loan Notes 2037	**144**	**334**	**478**	–	–	–
	1,145	**2,671**	**3,816**	997	2,327	3,324
Amortisation						
8 1/8% Debenture Stock 2023	**–**	**7**	**7**	–	7	7
4.184% Series A Sterling Unsecured Loan Notes 2036	**–**	**7**	**7**	–	7	7
3.249% Series B Euro Unsecured Loan Notes 2036	**–**	**5**	**5**	–	5	5
2.93% Euro Senior Unsecured Loan Notes 2037	**–**	**7**	**7**	–	–	–
	–	**26**	**26**	–	19	19
Total	**1,145**	**2,697**	**3,842**	997	2,346	3,343
Exchange loss on Loan Notes*	**–**	**575**	**575**	–	480	480

* Revaluation of Euro Loan Notes.

5. Taxation

	Year ended 30 September 2018			Year ended 30 September 2017		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Analysis of charge for the year						
Overseas tax not recoverable*	**964**	**–**	**964**	849	–	849
Overseas tax recovered – previously expensed**	**–**	**–**	**–**	(540)	–	(540)
Tax cost/(recovery) for the year	**964**	**–**	**964**	309	–	309

* Tax deducted on payment of overseas dividends by local tax authorities.
** Receipts from the recovery of French and Canadian withholding tax from prior years.

The tax assessed for the year differs from the standard rate of corporation tax in the United Kingdom of 19%. The differences are explained below:

	Year ended 30 September 2018			Year ended 30 September 2017		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Return on ordinary activities after interest payable but before appropriations	**17,897**	**67,048**	**84,945**	12,912	129,096	142,008
Theoretical tax at UK corporation tax rate of 19% (2017: 19.5%)	**3,400**	**12,739**	**16,139**	2,518	25,174	27,692
Effects of the non-taxable items:						
– UK franked investment income	**–**	**–**	**–**	(57)	–	(57)
– Tax-exempt overseas investment income	**(4,267)**	**–**	**(4,267)**	(3,353)	–	(3,353)
– Other non-taxable income	**–**	**–**	**–**	27	–	27
– (Losses)/gains on investments, exchange gains on capital items and movement on fair value or derivative financial instruments	**–**	**(14,107)**	**(14,107)**	–	(26,476)	(26,476)
– Excess management expenses carried forward	**551**	**1,368**	**1,919**	865	1,302	2,167
– Corporate interest restriction	**316**	**–**	**316**	–	–	–
– Overseas tax not recoverable	**964**	**–**	**964**	849	–	849
– Overseas tax recovered previously expensed	**–**	**–**	**–**	(540)	–	(540)
– Overseas tax expensed as double tax relief	**–**	**–**	**–**	–	–	–
– Accrued income taxable on receipt	**–**	**–**	**–**	–	–	–
Tax credit for the year	**964**	**–**	**964**	309	–	309

At 30 September 2018, the Company had unrelieved management expenses of £68,933,000 (30 September 2017: £58,892,000) that are available to offset future taxable revenue. A deferred tax asset of £11,729,000 has not been recognised because the Company is not expected to generate sufficient taxable income in future periods in excess of the available deductible expenses and accordingly, the Company is unlikely to be able to reduce future tax liabilities through the use of existing surplus losses.

Deferred tax is not provided on capital gains and losses arising on the revaluation or disposal of investments because the Company meets (and intends to continue for the foreseeable future to meet) the conditions for approval as an investment trust company.

6. Dividends

	2018 £'000	2017 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 30 September 2017 of 10.00p (2016: 9.70p) per Ordinary Share	**11,557**	12,006
Special dividend for the year ended 30 September 2017 of nil (2016: 2.80p)	**–**	3,465
Interim dividend for the year ended 30 September 2018 of 2.00p (2017: 2.00p) per Ordinary Share	**2,260**	2,380
	13,817	17,851

Set out below are the interim and final dividends paid or proposed on Ordinary Shares in respect of the financial year, which is the basis on which the requirements of Section 1159 of the Corporation Tax Act 2010 are considered.

	2018 £'000	2017 £'000
Interim dividend for the year ended 30 September 2018 of 2.00p (2017: 2.00p) per Ordinary Share	**2,260**	2,380
Proposed final dividend for the year ended 30 September 2018 of 11.00p (2017: 10.00p) per Ordinary Share	**12,259***	11,557
	14,519	13,937

* Based on shares in circulation on 7 November 2018.

7. Earnings per Ordinary Share

The earnings per Ordinary Share is based on Company net profit after tax of £83,981,000 (2017: £141,699,000) and on 114,182,431 (2017: 120,666,358) Ordinary Shares, being the weighted average number of Ordinary Shares in issue (excluding shares in treasury) during the year.

The earnings per Ordinary Share detailed above can be further analysed between revenue and capital as follows:

	2018			2017		
Basic and diluted	Revenue	Capital	Total	Revenue	Capital	Total
Net profit (£'000)	**16,933**	**67,048**	**83,981**	12,603	129,096	141,699
Weighted average number of Ordinary Shares			**114,182,431**			120,666,358
Earnings per Ordinary Share	**14.83p**	**58.72p**	**73.55p**	10.44p	106.99p	117.43p

There are no dilutive instruments issued by the Company (2017: none).

8. Investments held at fair value through profit or loss

	30 September 2018 £'000	30 September 2017 £'000
Securities		
Opening book cost	**774,915**	718,435
Opening investment holding gains	**175,596**	167,934
Opening fair value	**950,511**	886,369
Movement in the year:		
Purchases at cost:		
Equities	**345,819**	465,243
Bonds	**–**	37,995
Sales – proceeds:		
Equities	**(381,521)**	(538,947)
Bonds	**–**	(37,982)
– realised gains on sales	**87,192**	130,171
(Decrease)/increase in investment holding gains	**(11,736)**	7,662
Closing fair value	**990,265**	950,511
Closing book cost	**826,405**	774,915
Closing investment holding gains	**163,860**	175,596
Closing fair value	**990,265**	950,511

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Transaction costs		
Costs on acquisition	**571**	918
Costs on disposals	**384**	840
	955	1,758
Analysis of capital gains		
Gains on sales of securities based on historical cost	**87,192**	130,171
Movement in investment holding gains for the year	**(11,736)**	7,662
Net gains on investments	**75,456**	137,833

9. Other receivables

	2018 £'000	2017 £'000
Amounts due from brokers	**401**	500
Overseas tax recoverable	**3,486**	2,801
Prepayments and accrued income	**2,647**	1,541
VAT recoverable	**16**	8
	6,550	4,850

Overseas tax recoverable relates to withholding tax in a number of countries, some of which is past due, but is in the process of being reclaimed by the Custodian through local tax authorities and which the Company expects to receive in due course.

No other receivables are past due or impaired.

10. Other payables

	2018 £'000	2017 £'000
Purchases for future settlement	**462**	4,215
Amounts owed for share buybacks	**400**	1,116
Other creditors	**1,363**	1,121
	2,225	6,452

11. Non-current liabilities

	2018 £'000	2017 £'000
$8^1/_8$% Debenture Stock 2023	**14,964**	14,957
4.184% Series A Sterling Unsecured Loan Notes 2036	**29,885**	29,878
3.249% Series B Euro Unsecured Loan Notes 2036	**26,633**	26,341
2.93% Euro Senior Unsecured Loan Notes 2037	**17,679**	–
Total	**89,161**	71,176

The amortised costs of issue expenses are set out in note 4.

The market values of the Debenture Stock and the Loan Notes are set out in note 14.

The Debenture Stock is secured by a floating charge over all of the assets of the Company. Under the terms of the Debenture Stock, total borrowings are not to exceed 100% of adjusted capital and reserves.

The Company issued two Loan Notes on 15 January 2016:

£30,000,000	4.184% Series A Sterling Unsecured Loan Notes due 15 January 2036
€30,000,000	3.249% Series B Euro Unsecured Loan Notes due 15 January 2036

The Company issued further Loan Notes on 1 November 2017:

€20,000,000	2.93% Euro Senior Unsecured Loan Notes due 1 November 2037

Under the terms of the Loan Notes, the net assets of the Company shall not be less than £300,000,000 and total indebtedness shall not exceed 40% of net assets.

Further information on the Debenture Stock and Loan Notes is set out on page 50.

12. Called-up share capital

	Ordinary Shares of 10p each	
	Number of shares	Nominal value £'000
Allotted, called up and fully paid	**129,526,165**	**12,953**
Treasury Shares:		
Balance at beginning of year	**13,372,622**	
Buyback of Ordinary Shares into treasury	**4,309,052**	
Balance at end of year	**17,681,674**	
Total Ordinary Share capital excluding Treasury Shares	**111,844,491**	

During the year, 4,309,052 (2017: 9,715,122) Ordinary Shares with a nominal value of £431,000 (2017: £972,000) and representing 3.33% of the issued share capital, were bought back and placed in treasury for an aggregate consideration of £31,713,000 (2017: £64,592,000). No Ordinary Shares were bought back for cancellation (2017: nil). No Ordinary Shares were cancelled from treasury during the year (2017: 30,487,924).

The allotted, called up and fully paid shares at 30 September 2018 consisted of 129,526,165 Ordinary Shares.

13. 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	
	2018	2017
Ordinary Shares (basic)	**841.95p**	777.62p

	Net asset value attributable	
	2018 £'000	2017 £'000
Ordinary Shares (basic)	**941,680**	903,229

Basic net asset value per Ordinary Share is based on net assets and on 111,844,491 Ordinary Shares (2017: 116,153,543), being the number of Ordinary Shares in issue excluding Treasury Shares at the year end.

At the year end, the net asset value per Ordinary Share adjusted to include the Debenture Stock and Loan Notes at fair value was 834.58p (2017: 769.91p).

14. Financial instruments and capital disclosures

Investment objective and policy

The investment objective of the Company 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 Company's investment objective and policy are detailed on page 38.

The Company's financial instruments comprise equity and fixed-interest investments, cash balances, receivables, payables and borrowings. The Company 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.

Risks

The risks identified arising from the financial instruments are market risk (which comprises market price risk, interest rate risk and foreign currency risk), liquidity risk and credit and counterparty risk. The Company may also enter into derivative transactions to manage risk.

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

Market risk

Market risk arises mainly from uncertainty about future prices of financial instruments used in the Company's business. It represents the potential loss which the Company might suffer through holding market positions by way of price movements, interest rate movements and exchange rate movements. The Investment Manager assesses the exposure to market risk when making each investment decision and these risks are monitored by the Investment Manager on a regular basis and the Board at quarterly meetings with the Investment Manager.

Market price risk

Market price risk (i.e. changes in market prices other than those arising from currency risk or interest rate risk) may affect the value of investments.

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. If the fair value of the Company's investments at the year end increased or decreased by 10%, then it would have had an impact on the Company's capital return and equity of £99,027,000 (2017: £95,051,000).

Foreign currency

The value of the Company's assets and the total return earned by the Company's shareholders can be significantly affected by foreign exchange rate movements as most of the Company's assets are denominated in currencies other than Pounds Sterling, the currency in which the Company's financial statements are prepared. Income denominated in foreign currencies is converted to Pounds Sterling upon receipt.

A 5% rise or decline of Sterling against foreign currency denominated (i.e. non Pounds Sterling) assets and liabilities held at the year end would have increased/decreased the net asset value by £40,918,000 (2017: £39,898,000).

The currency exposure is as follows:

Currency risk	GBP £'000	Euro £'000	USD £'000	SEK £'000	JPY £'000	NOK £'000	Other £'000	Total £'000
At 30 September 2018								
Other receivables	**651**	**701**	**145**	**–**	**1,517**	**2,138**	**1,398**	**6,550**
Cash and cash equivalents	**36,251**	**–**	**–**	**–**	**–**	**–**	**–**	**36,251**
Other payables	**(1,360)**	**(403)**	**–**	**–**	**(462)**	**–**	**–**	**(2,225)**
8¹/₈% Debenture Stock 2023	**(14,964)**	**–**	**–**	**–**	**–**	**–**	**–**	**(14,964)**
4.184% Series A Sterling Unsecured Loan Notes 2036	**(29,885)**	**–**	**–**	**–**	**–**	**–**	**–**	**(29,885)**
3.249% Series B Euro Unsecured Loan Notes 2036	**–**	**(26,633)**	**–**	**–**	**–**	**–**	**–**	**(26,633)**
2.93% Euro Senior Unsecured Loan Notes 2037	**–**	**(17,679)**	**–**	**–**	**–**	**–**	**–**	**(17,679)**
Currency exposure on net monetary items	**(9,307)**	**(44,014)**	**145**	**–**	**1,055**	**2,138**	**1,398**	**(48,585)**
Investments held at fair value through profit or loss – equities	**132,625**	**106,899**	**405,170**	**32,474**	**184,647**	**22,902**	**105,548**	**990,265**
Total net currency exposure	**123,318**	**62,885**	**405,315**	**32,474**	**185,702**	**25,040**	**106,946**	**941,680**

This exposure is representative at the Balance Sheet date and may not be representative of the year as a whole. The balances are shown in the reporting currencies of the investee companies and may not represent the underlying currency exposures of the investee companies.

	GBP £'000	Euro £'000	USD £'000	SEK £'000	JPY £'000	NOK £'000	Other £'000	Total £'000
At 30 September 2017								
Other receivables	62	580	109	–	1,505	1,903	691	4,850
Cash and cash equivalents	25,496	–	–	–	–	–	–	25,496
Other payables	(2,058)	(179)	(2,651)	–	(1,564)	–	–	(6,452)
8¹/₈% Debenture Stock 2023	(14,957)	–	–	–	–	–	–	(14,957)
4.184% Series A Sterling Unsecured Loan Notes 2036	(29,878)	–	–	–	–	–	–	(29,878)
3.249% Series B Euro Unsecured Loan Notes 2036	–	(26,341)	–	–	–	–	–	(26,341)
Currency exposure on net monetary items	(21,335)	(25,940)	(2,542)	–	(59)	1,903	691	(47,282)
Investments held at fair value through profit or loss – equities	126,599	138,001	317,609	61,124	176,214	33,934	97,030	950,511
Total net currency exposure	105,264	112,061	315,067	61,124	176,155	35,837	97,721	903,229

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.

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.

The Debenture Stock and Loan Notes issued by the Company pay a fixed rate of interest and are carried in the Company's Balance Sheet at amortised cost rather than at fair value. Hence, movements in interest rates will not affect net asset values, as reported under the Company's accounting policies, but may have an impact on the Company's share price and discount/premium. The fair value of the debt and its effect on the Company's assets is set out below.

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

	At 30 September 2018 £'000	At 30 September 2017 £'000
Exposure to floating interest rates:		
Cash and cash equivalents	**36,251**	25,496

If the above level of cash was maintained for a year, a 1% increase in interest rates would increase the revenue return and net assets by £363,000 (2017: £255,000). Management proactively manages cash balances. If there was a fall by 1% in interest rates, it would potentially impact the Company by turning positive interest to negative interest. The total effect would be a cost increase/revenue reduction of £363,000.

	30 September 2018		30 September 2017	
	Book cost £'000	Fair value £'000	Book cost £'000	Fair value £'000
8 1/8% Debenture Stock 2023	**14,964**	**18,975**	14,957	19,538
4.184% Series A Sterling Unsecured Loan Notes 2036	**29,885**	**32,493**	29,878	33,070
3.249% Series B Euro Unsecured Loan Notes 2036	**26,633**	**28,021**	26,341	27,518
2.93% Euro Senior Unsecured Loan Notes 2037	**17,679**	**17,920**	–	–
Total	**89,161**	**97,409**	71,176	80,126

The impact of holding the Debenture Stock and Loan Notes at fair value would be to reduce the Company's net assets by £8,248,000.

The fair value of the Company's Debenture Stock and Loan Notes at the year end was £97,409,000 (2017: £80,126,000). The interest rates of the non-current liabilities (Debenture Stock and Loan Notes) are fixed. A 1% increase in market interest rates would be expected to decrease the fair value of the non-current liabilities by approximately £10.3m (2017: £8.4m), all other factors being equal. A 1% decrease would increase the fair values by £12.1m (2017: £9.8m).

Liquidity risk

The Company's assets mainly comprise readily realisable securities which can be easily sold to meet funding commitments, if necessary. Unlisted investments, if any, 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.

The remaining contractual payments on the Company's financial liabilities at 30 September, based on the earliest date on which payment can be required and current exchange rates at the Balance Sheet date, were as follows:

	In 1 year or less £'000	In more than 1 year but not more than 2 years £'000	In more than 2 years but not more than 3 years £'000	In more than 3 years but not more than 10 years £'000	Total £'000
At 30 September 2018					
8$^{1}/_{8}$% Debenture Stock 2023	**(1,219)**	**(1,219)**	**(1,219)**	**(17,133)***	**(20,790)**
4.184% Series A Sterling Unsecured Loan Notes 2036	**(1,255)**	**(1,255)**	**(1,255)**	**(8,786)**	**(12,551)**
3.249% Series B Euro Unsecured Loan Notes 2036	**(868)**	**(868)**	**(868)**	**(6,076)**	**(8,680)**
2.93% Euro Senior Unsecured Loan Notes 2037	**(522)**	**(522)**	**(522)**	**(3,654)**	**(5,220)**
Other payables	**(2,225)**	**–**	**–**	**–**	**(2,225)**
	(6,089)	**(3,864)**	**(3,864)**	**(35,649)**	**(49,466)**

	In 1 year or less £'000	In more than 1 year but not more than 2 years £'000	In more than 2 years but not more than 3 years £'000	In more than 3 years but not more than 10 years £'000	Total £'000
At 30 September 2017					
8$^{1}/_{8}$% Debenture Stock 2023	(1,219)	(1,219)	(1,219)	(18,352)*	(22,009)
4.184% Series A Sterling Unsecured Loan Notes 2036	(1,255)	(1,255)	(1,255)	(8,786)	(12,551)
3.249% Series B Euro Unsecured Loan Notes 2036	(859)	(859)	(859)	(6,013)	(8,590)
Other payables	(6,452)	–	–	–	(6,452)
	(9,785)	(3,333)	(3,333)	(33,151)	(49,602)

* Comprises the remaining interest payments to 2023, together with the principal to be repaid in 2023.

Credit risk

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

The total credit exposure represents the carrying value of fixed-income investments, cash and receivable balances and totals £42,801,000 (2017: £30,346,000).

Fair values of financial assets and financial liabilities

Valuation of financial instruments

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements. Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant assets as follows:

- Level 1 – valued using quoted prices unadjusted in active markets for identical assets or liabilities.
- Level 2 – valued by reference to valuation techniques using observable inputs for the asset or liability other than quoted prices included within Level 1.
- Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data for the asset or liability.

The tables below set out fair value measurements of financial instruments as at the year end, by the level in the fair value hierarchy into which the fair value measurement is categorised.

Financial assets at fair value through profit or loss at 30 September 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	**964,491**	**25,774**	**–**	**990,265**

Financial assets at fair value through profit or loss at 30 September 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	920,866	29,645	–	950,511

The valuation of Level 2 financial assets is determined using the average of independent broker traded prices available in the market. The valuation techniques used by the Company are explained in the accounting policies note on page 56.

During the previous year, a Level 2 listed company completed a capital reorganisation, splitting capital between continuation and realisation funds. This was transferred to Level 3 at market value and realised during the year, as set out in the table below.

Level 3 financial assets at fair value through profit or loss at 30 September	2018 £'000	2017 £'000
Opening fair value	**–**	–
Transfer from Level 2 to Level 3	**–**	40,636
Sales – proceeds	**–**	(33,549)
Total losses included in gains on investments in the Statement of Comprehensive Income on sold assets	**–**	(7,087)
Closing fair value	**–**	–

Financial liabilities

The Company's 8 1/8% Debenture Stock 2023 and Loan Notes are carried at amortised cost (see note 1). The other financial assets and financial liabilities of the Company are carried in the Balance Sheet at an approximation to their fair value. The fair value is the amount at which the asset could be sold or the liability transferred in an orderly transaction between market participants, at the measurement date, other than a forced or liquidation sale.

	At 30 September 2018		At 30 September 2017	
	Amortised cost £'000	Fair value £'000	Amortised cost £'000	Fair value £'000
8 1/8% Debenture Stock 2023	**(14,964)**	**(18,975)**	(14,957)	(19,538)
4.184% Series A Sterling Unsecured Loan Notes 2036	**(29,885)**	**(32,493)**	(29,878)	(33,070)
3.249% Series B Euro Unsecured Loan Notes 2036	**(26,633)**	**(28,021)**	(26,341)	(27,518)
2.93% Euro Senior Unsecured Loan Notes 2037	**(17,679)**	**(17,920)**	–	–
Total	**(89,161)**	**(97,409)**	(71,176)	(80,126)

Quoted market prices have been used to determine the fair value of the Company's Debenture Stock and therefore it would be categorised as Level 1 under the fair value hierarchy. As there is no publicly available price for the Company's Loan Notes, their fair market value has been derived by calculating the relative premium (or discount) of the loan versus the publicly available market price of the reference market instrument and exchange rates. As this price is derived by model, using observable inputs, it would be categorised as Level 2 under the fair value hierarchy.

The financial liabilities in the table below are shown at fair value, being the amount at which the liability may be transferred in an orderly transaction between market participants. The costs of early redemption of the Debenture Stock and Loan Notes are set out on page 50. The Debenture Stock is valued by reference to the price prevailing on an active market, so is determined as Level 1. The market values of the Loan Notes are determined by the calculation above using observable inputs, and they are considered as Level 2.

Financial liabilities at fair value through profit or loss at 30 September 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Debenture Stock	**(18,975)**	**–**	**–**	**(18,975)**
Loan Notes	**–**	**(78,434)**	**–**	**(78,434)**
	(18,975)	**(78,434)**	**–**	**(97,409)**

Financial liabilities at fair value through profit or loss at 30 September 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Debenture Stock	(19,538)	–	–	(19,538)
Loan Notes	–	(60,588)	–	(60,588)
	(19,538)	(60,588)	–	(80,126)

Capital management policies and procedures

The structure of the Company's capital is described in note 1 and details of the Company's reserves are shown in the Statement of Changes in Equity on page 52.

The Company's capital management objectives are:

- to ensure that it will be able to continue as a going concern;
- 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; and
- to maximise the return to shareholders while maintaining a capital base to allow the Company to operate effectively and meet obligations as they fall due.

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

- the level of gearing, which takes account of the Company'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 Company's objectives, policies and processes for managing capital are unchanged from last year.

The Company 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.

15. Contingencies, guarantees and financial commitments

At 30 September 2018, the Company had £nil financial commitments (2017: £nil).

At 30 September 2018, the Company had £nil contingent liability in respect of any investments carrying an obligation for future subscription or underwriting commitments (2017: £nil).

16. Related party disclosures

The related party transaction pursuant to the IMA with AVI is set out in the Report of the Directors on page 39. Management fees for the year amounted to £6,434,000 (2017: £6,188,000).

As at the year end, the following amounts were outstanding in respect of management fees: £nil (2017: £nil).

Fees paid to the Company's Directors are disclosed in the Report on Remuneration Implementation on page 78. At the year end, £nil was outstanding due to Directors (2017: £nil).

17. Post balance sheet events

Since the year end, the Company has bought back 402,206 Ordinary Shares with a nominal value of £40,221 at a total cost of £2,939,000 and placed in treasury.

The Company's AIFM is Asset Value Investors Limited.

The AIFMD requires certain information to be made available to investors in AIFs before they invest and requires that material changes to this information be disclosed in the annual report of each AIF. Those disclosures that are required to be made pre-investment are included within an AIFMD Investor Disclosure Document. This, together with other necessary disclosures required under AIFMD, can be found on the Company's website www.british-empire.co.uk.

All authorised AIFMs are required to comply with the AIFMD Remuneration Code. The AIFM's remuneration disclosures can be found on the Company's website www.british-empire.co.uk.

The Audit Committee met six times during the year. In May, the Committee reviewed the Half Year Report for the period to 31 March 2018 and recommended its approval to the Board. The external Auditor's plan for their audit of the year end financial statements was also received and discussed, and reviews of the Company's internal controls and the service levels provided by the Company's Custodian and Depositary were undertaken. In September, the Committee considered its terms of reference and reviewed the controls reports issued by the Company's outsourced service providers, including those issued by the Company's Administrator, Depositary, Custodian and Investment Manager. In November, the Committee reviewed the year end financial statements and discussed the findings of the external audit with KPMG. More details are provided below. Additional meetings of the Committee were held to consider the implications of the introduction of Key Information Documents, to review the services and performance of the Custodian and Depositary and to approve the final versions of the financial statements.

Role of the Audit Committee

The Audit Committee's main functions are:

- To monitor the internal financial control and risk management systems on which the Company is reliant.
- To consider whether there is a need for the Company to have its own internal audit function.
- To monitor the integrity of the half year and annual financial statements of the Company by reviewing and challenging, where necessary, the actions and judgements of the Investment Manager and the Administrator.
- To meet the independent Auditor of the Company to review their proposed audit programme of work and the subsequent Audit Report and to assess the effectiveness of the audit process, the nature of the non-audit work and the levels of fees paid in respect of both audit and non-audit work.
- To make recommendations to the Board in relation to the appointment, re-appointment or removal of the Auditor, and to negotiate their remuneration and terms of engagement on audit and non-audit work.
- To monitor and review annually the external Auditor's independence, objectivity, effectiveness, resources and qualifications.

The Audit Committee operates within defined terms of reference, which are available on the Company's website.

Composition of the Audit Committee

The Audit Committee comprises the whole Board, being independent Directors. All members of the Committee have recent and relevant financial experience and two are Chartered Accountants.

Significant Issues

In planning its own work, and reviewing the audit plan of the Auditor, the Audit Committee takes account of the most significant issues and risks, both operational and financial, likely to impact on the Company's financial statements.

The valuation of the investment portfolio is a significant risk factor. However, 97.4% of the portfolio at the year end can be verified against daily market prices and observable price movements. The remaining 2.6% uses methodologies based on observable inputs.

A further significant risk control issue is to ensure that the investment portfolio accounted for in the financial statements reflects physical ownership of the relevant securities. The Company uses the services of an independent Custodian (JPMorgan Chase Bank, NA) to hold the assets of the Company. The investment portfolio is reconciled regularly by the Administrator to the Custodian's records, and the year-end reconciliation was reviewed by the Auditor. The systems and controls operated by the Custodian are also monitored by the Depositary, J.P. Morgan Europe Limited, whose responsibilities include oversight of the safekeeping of the Company's assets. The Audit Committee meets with the Depositary as necessary, principally to review the work of the Depositary, but also to consider the effectiveness of the internal controls at the Custodian.

Financial statements issued by the Company need to be fair, balanced and understandable. The Audit Committee has reviewed the Annual Report as a whole and made a recommendation to the Board. Several sections of the Annual Accounts are not subject to formal statutory audit, including the Strategic Report and Investment Manager's Review; the checking process for the financial information in these sections was considered by the Audit Committee, and by the Auditor.

The Company's Half Year Report was approved by the Audit Committee prior to publication, and was also reviewed by the Auditor.

The Audit Committee has assessed whether it is appropriate to prepare the Company's financial statements on a going concern basis, and made its recommendation to the Board. The Board's conclusions are set out in the Report of the Directors. The Audit Committee's remit includes consideration of a statement by the Directors on the long-term viability of the Company. That statement can be found on pages 48 and 49.

As explained below, the Audit Committee has considered carefully the internal control systems. The Company relies heavily on third-party suppliers; the Audit Committee monitors the services and control levels of all of its suppliers on an ongoing basis.

The Committee reviewed special dividends received in the year to determine their allocation to the revenue or capital account in the Statement of Comprehensive Income.

Given the nature of the Company's investments, substantial funds can be received from corporate actions at investee companies. The implementation of the corporate actions can be complex and challenging. The Committee reviews such corporate actions, and takes advice where necessary.

The Company suffers withholding tax on many of its dividends received, some of which is irrecoverable. The Audit Committee and the Investment Manager aim to ensure that any recoverable withholding tax is received in a timely manner. However, such recovery can be difficult in some jurisdictions, and the Company has incurred professional service fees in this area.

The Audit Committee expressed concern to Link Fund Solutions that, for the second year running, the service providers' report on IT controls only covered controls existent on one day rather than throughout the period under review.

The Audit Committee also considered the reports and controls required relating to the additional fixed-term debt assumed by the Company during the year.

Internal Controls

The Board, through the Audit Committee, is responsible for ensuring that suitable internal control systems to prevent and detect fraud and error are designed and implemented by the third-party service providers to the Company and is also responsible for reviewing the effectiveness of such controls. The Board confirms that there is an ongoing process for identifying, evaluating and managing the principal risks faced by the Company in line with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published in September 2014 and the FRC's Guidance on Audit Committees published in April 2016. This process has been in place for the year under review and up to the date of approval of this report, and accords with the guidance. In particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the Company and policies by which these risks are managed. The risks of any failure of such controls are identified in a Risk Matrix and a schedule of Key Risks, which are regularly reviewed by the Board and which identify the likelihood and severity of the impact of such risks and the controls in place to minimise the probability of such risks occurring. Where reliance is made on third parties to manage identified risks, those risks are matched to appropriate controls reported in the relevant third-party service provider's annual report on controls. The principal risks identified by the Board are set out in the Strategic Report on pages 10 to 12.

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

- The Board has agreed clearly defined investment criteria, which specify levels of authority and exposure limits. Reports on compliance with these criteria are regularly reviewed by the Board.
- The Board has a procedure to ensure that the Company can continue to be approved as an investment company by complying with sections 1158/1159 of the Corporation Tax Act 2010.
- The Investment Manager and Administrator prepare forecasts and management accounts which allow the Board to assess the Company's activities and to review its performance.
- The contractual agreements with the Investment Manager and other third-party service providers, and adherence to them, are regularly reviewed.
- The services and controls at the Investment Manager and at other third-party suppliers are reviewed at least annually.
- The Audit Committee receives and reviews assurance reports on the controls of all third-party service providers, including the Custodian and Administrator, undertaken by professional service providers.
- The Audit Committee seeks to ensure that the Company is recovering withholding tax on overseas dividends to the fullest extent possible.
- The Investment Manager's Compliance Officer continually reviews the Investment Manager's operations. The Investment Manager also employs a compliance consultant. Compliance reports are submitted to the Committee at least annually.

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

As the Company has no employees, it does not have a whistle-blowing policy and procedure in place. The Company delegates its main functions to third-party providers, each of whom report on their policies and procedures to the Audit Committee. During the year, the Audit Committee has ensured that all third party service providers have appropriate GDPR (Data Protection) policies in place and has reviewed the Company's own policies as applied to the Directors.

The Audit Committee believes that the Company does not require an internal audit function, principally because the Company delegates its day-to-day operations to third parties, which are monitored by the Committee, and which provide control reports on their operations at least annually.

External Audit Process

The Audit Committee meets at least twice a year with the Auditor. The Auditor provides a planning report in advance of the annual audit, a report on the annual audit, and a report on their review of the half year financial statements. The Audit Committee has an opportunity to question and challenge the Auditor in respect of each of these reports.

In addition, the Audit Committee Chairman discusses the audit plan and results of the audit with the external Auditor prior to the relevant Audit Committee meeting. After each audit, the Audit Committee reviews the audit process and considers its effectiveness. The review of the 2018 audit concluded that the audit process had worked well, and that the significant issues had been adequately addressed.

At least once a year, the Audit Committee has an opportunity to discuss any aspect of the Auditor's work with the Auditor in the absence of the Investment Manager and administrators.

Auditor Assessment and Independence

The Audit Committee has reviewed KPMG's independence policies and procedures, including quality assurance procedures. It was considered that those policies and procedures remained fit for purpose. Philip Merchant has been the Audit Partner allocated to the Company since the appointment of KPMG at the 2016 AGM. The audit of the financial statements for the year ended 30 September 2018 is therefore his second as Audit Partner. The Committee has also taken into consideration the standing, skills and experience of the audit firm and the audit team and is satisfied that KPMG is both independent and effective in carrying out their responsibilities.

The Audit Committee has discussed the findings of the FRC's recent 2018 Audit Quality Report on the quality of audits performed by KPMG and has satisfied itself that none of the shortcomings identified are relevant to the audit of the Company.

Fees Payable to the Auditor

Total fees payable to the Auditor were £33,000 (2017: £33,000). Of the total fees, the fees for audit services were £25,000 (2017: £25,000).

The Audit Committee has approved and implemented a policy on the engagement of the Auditor to supply non-audit services, taking into account the recommendations of the FRC, and does not believe there to be any impediment to the Auditor's objectivity and independence. All non-audit work to be carried out by the Auditor must be approved by the Audit Committee in advance. The cost of non-audit services provided by the Auditor for the financial year ended 30 September 2018 was £8,000 (2017: £8,000). This comprised: £6,000 in relation to the half year review and £2,000 in relation to review reports and filings required in respect of the Debenture and fixed-term debt.

These non-audit services are assurance related, and the Audit Committee firmly believes that KPMG have been best placed to provide them on a cost effective basis to the benefit of shareholders. The fees for non-audit services are considered not material in the context of the accounts as a whole.

The Audit Committee is satisfied that KPMG remains independent. The Audit Committee confirms that the non-audit work undertaken by the Company's Auditor satisfies, and does not compromise, the tests of the Auditor's independence, objectivity, effectiveness, resources and qualification. Given the assurance nature of the fees, the cost of these services are considered by the Audit Committee to be proportionate in relation to the fees for audit services.

Re-appointment of the Auditor

Taking into account the performance and effectiveness of the Auditor and the confirmation of their independence, the Committee recommends that KPMG LLP be re-appointed as Auditor to the Company.

Audit Tender

The audit was put out to competitive tender in 2016, following which KPMG were appointed as the Company's Auditor in respect of the financial year ended 30 September 2017. In accordance with the CMA Order, a competitive audit tender must be carried out at least every ten years. The Company is therefore required to carry out a tender no later than in respect of the financial year ending 30 September 2027.

CMA Order

British Empire Trust has complied throughout the year ended 30 September 2018 with the provisions of the Statutory Audit Services Order 2014, issued by the Competition and Markets Authority ('CMA Order').

Calum Thomson
Audit Committee Chairman
9 November 2018

This Remuneration Policy provides details of the remuneration policy for the Directors of the Company. All Directors are non-executive, appointed under the terms of Letters of Appointment, and none has a service contract. The Company has no employees.

A resolution to approve this Remuneration Policy was proposed at the AGM of the Company held on 20 December 2016. The resolution was passed, and the Remuneration Policy provisions set out below will apply until they are next put to shareholders for renewal of that approval, which must be at intervals of not more than three years, or if the Remuneration Policy is varied, in which event shareholder approval for the new Remuneration Policy will be sought.

The non-executive Directors of the Company are entitled to such rates of annual fees as the Board at its discretion shall from time to time determine. In addition to the annual fee, under the Company's Articles of Association, if any Director is requested to perform extra or special services, they will be entitled to receive such additional remuneration as the Board may think fit, and such remuneration may be either in addition to or in substitution for any other remuneration that they may be entitled to receive.

Total remuneration paid to Directors is subject to an annual aggregate limit of £200,000, as set out in the Company's Articles of Association. Any change to this limit would require shareholder approval. Directors are also entitled to reimbursement of reasonable fees and expenses incurred by them in the performance of their duties.

In line with the majority of investment trusts, no component of any Director's remuneration is subject to performance factors.

The rates of fees per Director are reviewed annually. Annual fees are pro-rated where a change takes place during a financial year.

Table of Directors' Remuneration Components

Component	Director	Rate at 30 September 2018	Purpose of reward	Operation
Annual Fee	All Directors	£25,300	For commitment as Directors of a public company	Determined by the Board at its discretion (see note 1)
Additional Fee	Chairman of the Board	£13,200	For additional responsibility and time commitment	Determined by the Board at its discretion (see note 1)
Additional Fee	Chairman of the Audit Committee	£4,400	For additional responsibility and time commitment	Determined by the Board at its discretion (see note 1)
Additional Fee	Senior Independent Director	£2,500	For additional responsibility and time commitment	Determined by the Board at its discretion (see note 1)
Additional Fee	All Directors	Discretionary	For performance of extra or special services in their role as a Director	Determined by the Board at its discretion (see notes 1 and 2)
Expenses	All Directors	N/A	Reimbursement of expenses paid by them in order to perform their duties	Reimbursement upon submission of appropriate invoices

Notes:

1. The Board only exercises its discretion in setting rates of fees after an analysis of fees paid to Directors of other companies having similar profiles to that of the Company, and consultation with third-party advisers. Individual Directors do not participate in discussions relating to their own remuneration.
2. Additional fees would only be paid in exceptional circumstances in relation to the performance of extra or special duties. No such fees were paid in the year to 30 September 2018.
3. The Company has no employees. Accordingly, there are no differences in policy on the remuneration of Directors and the remuneration of employees.
4. No Director is entitled to receive any remuneration which is performance-related. As a result there are no performance conditions in relation to any elements of the Directors' remuneration in existence to set out in this Remuneration Policy.

Views of Shareholders
Any views expressed by shareholders on the fees being paid to Directors would be taken into consideration by the Board when reviewing levels of remuneration.

Recruitment Remuneration Principles
1. The remuneration package for any new Chairman or non-executive Director will be the same as the prevailing rates determined on the bases set out above. The fees and entitlement to reclaim reasonable expenses will be set out in Directors' Letters of Appointment.
2. The Board will not pay any introductory fee or incentive to any person to encourage them to become a Director, but may pay the fees of search and selection specialists in connection with the appointment of any new non-executive Director.
3. The Company intends to appoint only non-executive Directors for the foreseeable future.
4. The maximum aggregate fees currently payable to all Directors is £200,000.

Service Contracts
None of the Directors has a service contract with the Company. Non-executive Directors are engaged under Letters of Appointment.

Loss of Office
Directors' Letters of Appointment expressly prohibit any entitlement to payment on loss of office.

Scenarios
The Chairman's and non-executive Directors' remuneration is fixed at annual rates, and there are no other scenarios where remuneration will vary unless there are payments for extra or special services in their role as Directors. It is accordingly not considered appropriate to provide different remuneration scenarios for each Director.

Statement of Consideration of Conditions Elsewhere in the Company
As the Company has no employees, the process of consulting with employees on the setting of the Remuneration Policy is not relevant.

Other Items
None of the Directors has any entitlement to pensions or pension related benefits, medical or life insurance schemes, share options, long-term incentive plans, or performance related payments. No Director is entitled to any other monetary payment or any assets of the Company except in their capacity (where applicable) as shareholders of the Company.

Directors' and Officers' liability insurance cover is maintained by the Company, at its expense, on behalf of the Directors.

The Company has also provided indemnities to the Directors in respect of costs or other liabilities which they may incur in connection with any claims relating to their performance or the performance of the Company whilst they are Directors.

The Directors' interests in contractual arrangements with the Company are as shown in the Report of the Directors. Except as noted in the Report of the Directors, no Director was interested in any contracts with the Company during the period or subsequently.

Review of the Remuneration Policy
The Board has agreed that there would be a formal review before any change to the Remuneration Policy; and at least once a year the Remuneration Policy will be reviewed to ensure that it remains appropriate.

This Report is prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

A resolution to approve this Report on Remuneration Implementation will be proposed at the AGM of the Company to be held on 19 December 2018.

Statement from the Chairman

As the Company has no employees and the Board is comprised wholly of non-executive Directors, the Board has not established a separate Remuneration Committee. Directors' remuneration is determined by the Board as a whole, at its discretion within an aggregate ceiling of £200,000 per annum. Each Director abstains from voting on their own individual remuneration.

Directors' fees for the year ended 30 September 2018 were at a level of £38,500 per annum for the Chairman and £25,300 per annum for other Directors. The Chairman of the Audit Committee received an additional fee of £4,400 per annum and the Senior Independent Director an additional fee of £2,500 per annum. There have been no changes relating to Directors' remuneration made during the year. Directors' fees were last increased on 1 April 2017.

There will be no significant change in the way that the approved Remuneration Policy will be implemented in the course of the next financial year.

Directors' Emoluments (audited information)

Directors are only entitled to fees at such rates as are determined by the Board from time to time and in accordance with the Directors' Remuneration Policy as approved by the shareholders.

None of the Directors has any entitlement to pensions or pension related benefits, medical or life insurance schemes, share options, long-term incentive plans, or performance-related payments. No Director is entitled to any other monetary payment or any assets of the Company. Accordingly the Single Total Figure table below does not include columns for any of these items or their monetary equivalents.

As the Company does not have a Chief Executive Officer or any executive Directors, there are no percentage increases to disclose in respect of their total remuneration, and it has not reported on those aspects of remuneration that relate to executive directors.

Directors' & Officers' liability insurance is maintained and paid for by the Company on behalf of the Directors.

In line with market practice, the Company has agreed to indemnify the Directors in respect of costs, charges, losses, liabilities, damages and expenses, arising out of any claims or proposed claims made for negligence, default, breach of duty, breach of trust or otherwise, or relating to any application under Section 1157 of the Companies Act 2006, in connection with the performance of their duties as Directors of the Company. The indemnities would also provide financial support from the Company should the level of cover provided by the Directors' & Officers' liability insurance maintained by the Company be exhausted.

Voting at AGM

A binding Ordinary Resolution approving the Directors' Remuneration Policy was approved by shareholders at the AGM held on 20 December 2016 and a non-binding Ordinary Resolution adopting the Directors' Remuneration Implementation Report for the year ended 30 September 2017 was approved by shareholders at the AGM held on 20 December 2017. The votes cast by proxy were as follows:

Remuneration Policy (AGM 2016)	
For – % of votes cast	99.50%
Against – % of votes cast	0.29%
At Chairman's discretion – % of votes cast	0.24%
Total votes cast	45,603,795
Number of votes withheld	75,111

Remuneration Implementation Report (AGM 2017)	
For – % of votes cast	99.72%
Against – % of votes cast	0.18%
At Chairman's discretion – % of votes cast	0.10%
Total votes cast	43,349,456
Number of votes withheld	9,883

The Directors who served during the year received the following emoluments:

Single Total Figure Table (audited information)

	Fees paid (£)		Taxable benefits (£)		Total (£)	
Name of Director	2018	2017	2018	2017	2018	2017
Strone Macpherson[1]	**8,490**	36,750	**–**	–	**8,490**	36,750
Susan Noble[2]	**35,606**	24,150	**–**	–	**35,606**	24,150
Anja Balfour[3]	**18,975**	–	**–**	–	**18,975**	–
Steven Bates	**27,800**	26,550	**–**	–	**27,800**	26,550
Nigel Rich	**25,300**	24,150	**–**	–	**25,300**	24,150
Andrew Robson[4]	**–**	18,450	**–**	–	**–**	18,450
Calum Thomson[5]	**29,700**	14,117	**–**	–	**29,700**	14,117
	145,871	144,167	**–**	–	**145,871**	144,167

[1] Retired 20 December 2017.
[2] Appointed as Chairman on 20 December 2017.
[3] Appointed 1 January 2018.
[4] Retired 31 May 2017.
[5] Appointed 1 April 2017 and appointed as Audit Committee Chairman on 31 May 2017.

Sums Paid to Third Parties (audited information)

None of the fees referred to in the above table were paid to any third party in respect of the services provided by any of the Directors.

Other Benefits

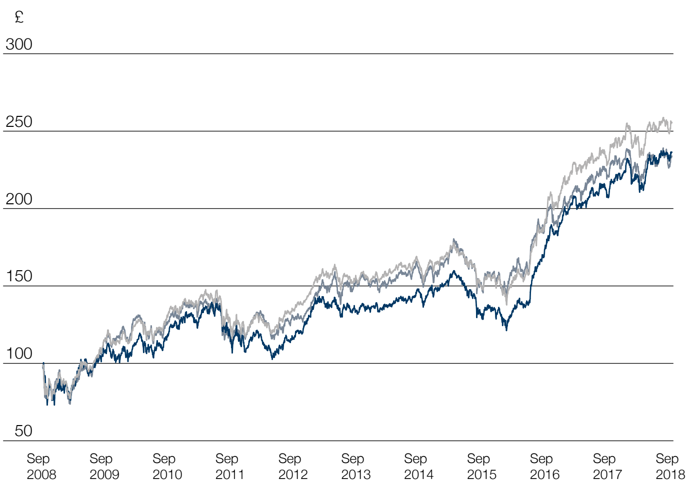
Taxable benefits – Article 117 of the Company's Articles of Association provides that Directors are entitled to be reimbursed for reasonable expenses incurred by them in connection with the performance of their duties and attendance at Board and General Meetings.

Pensions related benefits – Article 118 permits the Company to provide pension or similar benefits for Directors and employees of the Company. However, no pension schemes or other similar arrangements have been established and no Director is entitled to any pension or similar benefits.

Share Price Total Return

The chart below illustrates the total shareholder return for a holding in the Company's shares as compared to the MSCI All Country World ex-US Index (£ adjusted total return) which the Board has adopted as the measure for both the Company's performance and that of the Investment Manager for the year.

Ten years to 30 September 2018



British Empire Share Price Total Return.
British Empire NAV Total Return.
MSCI All Country World ex-US Total Return.

Relative Importance of Spend on Pay

The table below shows the proportion of the Company's income spent on pay.

	2018	2017	Difference
Spend on Directors' fees*	**£145,871**	£144,167	+1.2%
Management fee and other expenses	**£8,100,776**	£7,816,010	+3.6%
Distribution to shareholders:			
(a) dividends	**£14,519,108**	£13,936,523	+4.18%
(b) share buy back	**£31,713,098**	£64,592,666	-50.9%

* As the Company has no employees the total spend on remuneration comprises only the Directors' fees.

Note: the items listed in the table above are as required by the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 ss.20 with the exception of the management fee and other expenses, which has been included because the Directors believe it will help shareholders' understanding of the relative importance of the spend on pay. The figures for this measure are the same as those shown in note 3 to the financial statements.

Statement of Directors' Shareholding and Share Interests (audited information)

Neither the Company's Articles of Association nor the Directors' Letters of Appointment require a Director to own shares in the Company. The interests of the Directors and their connected persons in the equity and debt securities of the Company at 30 September (or date of appointment, if later) are shown in the table below:

	Ordinary Shares		Debenture Stock	
Director	2018	2017	2018	2017
Susan Noble	**13,630**	9,070	**–**	–
Anja Balfour	**7,300**	–	**–**	–
Steven Bates	**20,000**	20,000	**–**	–
Nigel Rich	**18,000***	18,000*	**–**	–
Calum Thomson	**7,600**	5,200	**–**	–

* Includes 3,000 held by Cynthia Rich.

Following the year end, Calum Thomson acquired a further 1,298 Ordinary Shares. There have been no other changes to Directors' interests between 30 September 2018 and the date of this Report.

Annual Statement

On behalf of the Board and in accordance with Part 2 of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, I confirm that the above Report on Remuneration Implementation summarises, as applicable, for the year to 30 September 2018:

(a) the major decisions on Directors' remuneration;
(b) any substantial changes relating to Directors' remuneration made during the year; and
(c) the context in which the changes occurred and decisions have been taken.

Susan Noble
Chairman
9 November 2018

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BRITISH EMPIRE TRUST PLC

1. Our opinion is unmodified

We have audited the financial statements of British Empire Trust plc ('the Company') for the year ended 30 September 2018 which comprise the Statement of Comprehensive Income, Statement of Changes in Equity, Balance Sheet, Statement of Cash Flows and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 30 September 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Overview		
Materiality: financial statements as a whole		£10.3m 1% of total assets
Risks of material misstatement		Versus 2017
Recurring risk	Carrying amount of listed equity investments	◀▶

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders on 20 December 2016. The period of total uninterrupted engagement is for the two financial years ended 30 September 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter (unchanged from 2017) in arriving at our audit opinion above, together with our key audit procedures to address this matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter.

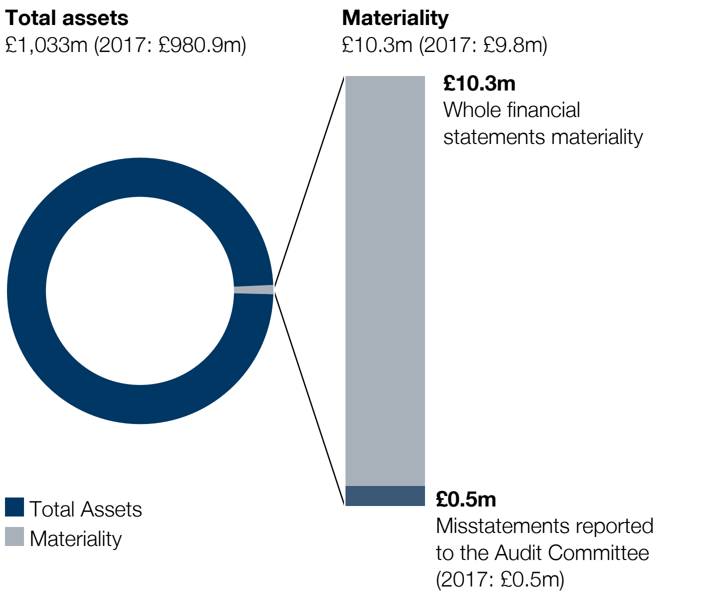
	The risk	Our response
Carrying amount of listed equity investments (£965m; 2017: £921m) *Refer to pages 73 to 75 (Report of the Audit Committee), page 56 (accounting policy) and pages 62 and 65 to 71 (financial disclosures).*	**Low risk; high value:** The Company's portfolio of listed equity investments makes up 93.4% (2017: 93.9%) of the Company's total assets (by value) and is considered to be the key driver of results. We do not consider these investments to be at a high risk of significant misstatement, or to be subject to a significant level of judgement because they comprise liquid, listed investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.	Our procedures included: — **Test of detail:** Agreeing the valuation of 100 per cent of listed equity investments in the portfolio to externally quoted prices; and — **Enquiry of custodians:** Agreeing 100% of listed equity investment holdings in the portfolio to independently received third party confirmations from investment custodians. **Our results** — We found the resulting carrying amount of listed equity investments to be acceptable (2017: acceptable).

3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £10.3m (2017: £9.8m), determined with reference to a benchmark of total assets, of which it represents 1% (2017: 1%).

We agreed to report to the Audit Committee any uncorrected identified misstatements exceeding £516k (2017: £490K), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was performed at the administrator's head office in Exeter.



4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- if the related statement under the Listing Rules set out on page 48 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic Report and Report of the Directors'

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Report of the Directors;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' Remuneration Report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the Viability Statement on pages 48 and 49 that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the Viability Statement of how they have assessed the prospects of the Company, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Viability Statement. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 49, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience, and through discussion with the Directors (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) as well as the Company's qualification as an Investment Trust under UK tax legislation, any breach of which could lead to the Company losing various deductions and exemptions from UK corporation tax. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Philip Merchant (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
319 St Vincent Street
Glasgow
G2 5AS

9 November 2018

This Document is Important and Requires your Immediate Attention
If you are in any doubt about the action to take, you should consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000 (as amended) without delay. If you have sold or transferred all of your Ordinary Shares in the capital of British Empire Trust plc (the 'Company') and, as a result, no longer hold any Ordinary Shares in the Company, please send this document and the accompanying form of proxy as soon as possible to the purchaser or transferee or to the person through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Notice is hereby given that the One Hundred and Twenty-Ninth Annual General Meeting of British Empire Trust plc will be held at 11 Cavendish Square, London W1G 0AN at 11.00am on Wednesday, 19 December 2018 to consider the following business:

Ordinary Business

1. To receive and adopt the financial statements of the Company for the financial year ended 30 September 2018 together with the Strategic Report and the Reports of the Directors and Auditor.
2. To approve a final ordinary dividend of 11.0p per Ordinary Share.
3. To elect Anja Balfour as a Director of the Company.
4. To re-elect Susan Noble as a Director of the Company.
5. To re-elect Nigel Rich as a Director of the Company.
6. To re-elect Calum Thomson as a Director of the Company.
7. To re-appoint KPMG LLP as the Company's Auditor.
8. To authorise the Audit Committee to determine the Auditor's remuneration.
9. To approve the Directors' Remuneration Implementation Report for the year ended 30 September 2018.

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

10. THAT the Directors of the Company be and are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the 'Act') to exercise all of the powers of the Company to allot Ordinary Shares of 10p each in the capital of the Company ('Ordinary Shares') and to grant rights to subscribe for or to convert any security into Ordinary Shares in the Company up to a maximum of 37,147,428 Ordinary Shares provided that such authority shall expire on the date which is 15 months after the date of the passing of this resolution or, if earlier, at the conclusion of the next Annual General Meeting of the Company, save that the Company may before such expiry make offers or agreements which would or might require Ordinary Shares to be allotted, or rights to be granted, after such expiry and the Directors may allot Ordinary Shares, or grant such rights, in pursuance of such offers or agreements as if the authority conferred hereby had not expired; and all unexercised authorities previously granted to the Directors to allot Ordinary Shares be and are hereby revoked.

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

11. THAT, subject to the passing of resolution 10 above, the Directors of the Company be and are hereby generally authorised and empowered pursuant to Sections 570 and 573 of the Companies Act 2006 (the 'Act') to allot equity securities (as defined in Section 560 of the Act) (including the grant of rights to subscribe for, or to convert any securities into, Ordinary Shares of 10p each in the capital of the Company ('Ordinary Shares') and the sale of Ordinary Shares held by the Company in treasury) wholly for cash pursuant to any existing authority given in accordance with Section 551 of the Act, as if Section 561 of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

(a) in connection with an offer of such securities by way of rights to holders of Ordinary Shares on the register of members of the Company on a fixed record date in proportion (as nearly as may be practicable) to their respective holdings of Ordinary Shares but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements or any legal or practical problems arising under the laws of, or the requirements of, any territory or any regulatory or governmental body or authority or stock exchange; and

(b) otherwise than pursuant to sub-paragraph (a) above, equating to a maximum of 5,572,114 Ordinary Shares being approximately 5% of the equity share capital in issue as at 7 November 2018,

and the authority hereby granted shall expire on the date which is 15 months after the date of the passing of this resolution or, if earlier, the date of the next Annual General Meeting of the Company, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities and sell Treasury Shares in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

12. THAT the Company be and is hereby generally and unconditionally authorised for the purposes of Section 701 of the Companies Act 2006 (the 'Act') to make one or more market purchases (within the meaning of Section 693(4) of the Act) of Ordinary Shares of 10p each in the capital of the Company ('Ordinary Shares') either for cancellation or to hold as Treasury Shares (within the meaning of Section 724 of the Act) provided that:

(a) the maximum aggregate number of Ordinary Shares hereby authorised to be purchased is 16,705,198;

(b) the Directors be authorised to determine at their discretion that any Ordinary Shares purchased be cancelled or held by the Company as Treasury Shares;

(c) the minimum price which may be paid for a share shall be 10p (exclusive of associated expenses);

(d) the maximum price which may be paid for an Ordinary Share shall be the higher of: (i) 5% above the average of the middle market quotations of the Ordinary Shares (as derived from the Daily Official List of the London Stock Exchange) for the five business days immediately preceding the date on which the relevant share is contracted to be purchased (exclusive of associated expenses); and (ii) the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange; and

(e) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on the date which is 15 months after the date of the passing of this resolution or, if earlier, the date of the next Annual General Meeting of the Company save that the Company may prior to such expiry enter into a contract or arrangement to purchase Ordinary Shares under this authority which will or may be completed or executed wholly or partly after the expiry of this authority and may make a purchase of Ordinary Shares pursuant to any such contract or arrangement as if the authority hereby conferred had not expired.

13. THAT a general meeting other than an Annual General Meeting may be called on not less than 14 clear days' notice.

By Order of the Board

Link Company Matters Limited
Corporate Secretary

Registered Office:
Beaufort House
51 New North Road
Exeter, Devon EX4 4EP

9 November 2018

Notes

1. Attending the AGM in Person

If you wish to attend the AGM in person, you should sign the admission card enclosed with this document and hand it to the Company's Registrars on arrival at the AGM.

2. Appointment of Proxy

Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company.

3. Appointment of Proxy

A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. Where two or more valid appointments of proxy are received in respect of the same share in relation to the same meeting, the one which is last sent shall be treated as replacing and revoking the other or others. If the Company is unable to determine which is last sent, the one which is last received shall be so treated. If the Company is unable to determine either which is last sent or which is last received, none of such appointments shall be treated as valid in respect of that share. The termination of the authority of a person to act as proxy must be notified to the Company in writing.

To be valid, any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at the Company's Registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA by 11.00am on Monday, 17 December 2018.

The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described in paragraph 8 below) will not prevent a shareholder attending the AGM and voting in person if he/she wishes to do so. If you require additional proxy forms, please contact the Registrar's helpline on 0371 384 2490 (+44 121 415 7047 from outside the UK). Lines are open 8.30am to 5.30pm Monday to Friday (excluding public holidays in England and Wales).

Alternatively, you may, if you wish, register the appointment of a proxy electronically by logging on to www.sharevote.co.uk. To use this service you will need your Voting ID, Task ID and Shareholder Reference Number printed on the accompanying form of proxy. Full details of the procedure are given on the website.

To be valid, the appointment of a proxy electronically must be made by 11.00am on Monday, 17 December 2018.

4. Appointment of Proxy by Joint Shareholders

In the case of joint shareholders, where more than one of the joint shareholders purports to appoint one or more proxies, only the purported appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint shareholders appear in the Company's register of members in respect of the joint shareholding, with the first named being the most senior.

5. Nominated Persons

Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

The statement of the rights of shareholders in relation to the appointment of proxies does not apply to Nominated Persons as such rights can only be exercised by registered shareholders of the Company.

6. Entitlement to Attend and Vote

To be entitled to attend and vote at the AGM (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company at 6.30pm on Monday, 17 December 2018 (or, in the event of any adjournment, 6.30pm on the date which is two business days before the time of the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

7. Issued Share Capital and Total Voting Rights

As at 7 November 2018, the Company's issued share capital consisted of 129,526,165 Ordinary Shares, carrying one vote each, of which 18,083,880 were in treasury. Therefore, the voting rights in the Company as at 7 November 2018 equate to a total of 111,442,285 votes.

8. CREST Members

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by 11.00am on Monday, 17 December 2018. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

You may not use any electronic address provided either in this Notice of Meeting or any related documents (including the Form of Proxy) to communicate with the Company for any purposes other than those expressly stated.

9. Corporate Members

Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares. To be able to attend and vote at the meeting, corporate representatives will be required to produce, prior to their entry to the meeting, evidence satisfactory to the Company of their appointment.

10. Rights to Publish Statements under Section 527 of the Companies Act 2006

Under Section 527 of the Companies Act 2006, members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to:

(i) the audit of the Company's financial statements (including the Auditor's Report and the conduct of the audit) that are to be laid before the AGM; or

(ii) any circumstance connected with an Auditor of the Company ceasing to hold office since the previous meeting at which annual financial statements and reports were laid in accordance with Section 437 of the Companies Act 2006.

The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under Section 527 of the Companies Act 2006, it must forward the statement to the Company's Auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on a website.

11. Questions and Answers

Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

However, where appropriate, the Chairman may offer to provide an answer to a question after the conclusion of the AGM.

12. Information on the Company's Website

In accordance with Section 311A of the Companies Act 2006, the contents of this notice of meeting and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Company's website www.british-empire.co.uk.

13. Display Documents

None of the Directors has a contract of service with the Company. Copies of the Letters of Appointment of the Directors will be available for inspection at the registered office of the Company during usual business hours on any weekday (except weekends and public holidays) until the date of the meeting and at the place of the meeting for a period of 15 minutes prior to and during the meeting.

SHAREHOLDER INFORMATION / SHAREHOLDER INFORMATION

Dividends

Shareholders who wish to have dividends paid directly into a bank account rather than by cheque to their registered address can complete a mandate form for the purpose. Mandate forms may be obtained from Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA on request or downloaded from Equinity's website www.shareview.com. The Company operates the BACS system for the payment of dividends. Where dividends are paid directly into shareholders' bank accounts, dividend tax vouchers are sent to shareholders' registered addresses.

Share Prices

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

Change of Address

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

Daily Net Asset Value

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

Provisional Financial Calendar 2018/2019

19 December 2018	Annual General Meeting
4 January 2019	Final dividend paid on Ordinary Shares
May 2019	Announcement of half year results
June 2019	Interim dividend paid on Ordinary Shares
November 2019	Announcement of annual results
November 2019	Posting of Annual Report
December 2019	Annual General Meeting

Alternative Performance Measure ('APM')
An APM is a numerical measure of the Company's current, historical or future financial performance, financial position or cash flows, other than a financial measure defined or specified in the applicable financial framework. In selecting these Alternative Performance Measures, the Directors considered the key objectives and expectations of typical investors in an investment trust such as the Company.

Comparator Benchmark
The Company's Comparator Benchmark is the MSCI All Country World ex-US Total Return Index, expressed in Sterling terms. The benchmark is an index which measures the performance of global equity markets, both developed and emerging. The weighting of index constituents is based on their market capitalisation.

Dividends paid by index constituents are assumed to be reinvested in the relevant securities at the prevailing market price. The Investment Manager's investment decisions are not influenced by whether a particular company's shares are, or are not, included in the benchmark. The benchmark is used only as a yard stick to compare investment performance.

Cost
The book cost of each investment is the total acquisition value, including transaction costs, less the value of any disposals or capitalised distributions allocated on a weighted average cost basis.

Discount/Premium
If the share price is lower than the NAV per share it is said to be trading at a discount. The size of the Company's discount is calculated by subtracting the share price of 764.00p from the NAV per share (with debt at fair value) of 834.58p and is usually expressed as a percentage of the NAV per share (8.46%). If the share price is higher than the NAV per share, this situation is called a premium.

Earnings before Interest and Tax ('EBIT')
A standard measure of operating profits and, therefore, the profits that are available to be distributed to both debt and equity investors. It is often compared with Enterprise Value in the 'EV / EBIT Ratio', similar to the price-to-earnings ratio.

Earnings before Interest, Tax, Depreciation and Amortisation ('EBITDA')
A proxy for the cash flow generated by a business – it is most commonly used for businesses that do not (yet) generate operating or shareholder profits.

Enterprise Value ('EV')
Enterprise value is the sum of a company's market value plus debt less cash.

Free Cash Flow Yield ('FCF')
Free cash flow is the amount of cash profits that a business generates, adjusted for the minimum level of capital expenditure required to maintain the company in a steady-state. It measures how much a business could pay out to equity investors without impairing the core business. When free cash flow is divided by the market value, we obtain the free cash flow yield.

Gearing
Gearing refers to the level of the Company's debt to its equity capital. The Company may borrow money to invest in additional investments for its portfolio. If the Company's assets grow, the shareholders' assets grow proportionately more because the debt remains the same. But if the value of the Company's assets falls, the situation is reversed. Gearing can therefore enhance performance in rising markets but can adversely impact performance in falling markets.

The gearing of 9.5% represents borrowings of £89,161,000 expressed as a percentage of shareholders' funds of £941,680,000.

The current values of the Debenture Stock and Loan Notes consist of the following:

	Debenture £'000	2036 GBP Loan £'000	2036 EUR Loan £'000	2037 EUR Loan £'000	Total £'000
Value of issue	15,000	30,000	22,962	17,526	85,488
Unamortised issue costs	(36)	(115)	(88)	(135)	(374)
Exchange movement	–	–	3,759	288	4,047
Amortised book cost	14,964	29,885	26,633	17,679	89,161
Market value	18,975	32,493	28,021	17,920	97,409
Redemption value	19,812	40,432	32,974	21,506	114,724

The values of the Loan Notes are calculated using net present values of future cash flows and the yields, taking account of the market spread and exchange rates. The redemption value includes the penalty payable on early redemption. The Debenture Stock is valued from the current listing on the London Stock Exchange and redemption value according to the Trust Deed.

Internal Rate of Return ('IRR')
The IRR is the annualised rate of return earned by an investment, adjusted for dividends, purchases and sales, since the holding was first purchased.

Net Asset Value ('NAV')
The NAV is shareholders' funds expressed as an amount per individual share. Shareholders' funds are the total value of all the Company's assets, at a current market value, having deducted all liabilities and prior charges at their par value (or at their asset value). The total NAV per share is calculated by dividing shareholders' funds of £941,680,000 by the number of Ordinary Shares in issue excluding Treasury Shares of 111,844,491 at the year end.

Net Financial Value ('NFV')
The NFV is cash *plus* investment securities *plus* treasury shares less total debt less net pension liabilities. It measures the amount of net surplus cash and securities that a company carries on its balance sheet.

Ongoing Charges Ratio
As recommended by the AIC in its guidance, the Company's ongoing charges are its annualised expenses (excluding finance costs and certain non-recurring items) of £8,100,000 (being investment management fees of £6,434,000 and other expenses of £1,666,000 (see note 3)) expressed as a percentage of the average month-end net assets of £934,893,000 during the year as disclosed to the London Stock Exchange.

Return on Investment ('ROI')
The ROI is the total profits earned to date on an investment divided by the total cost of the investment.

Shares Bought Back and Held in Treasury
The Company may repurchase its own shares and these are then held in treasury, reducing the freely traded shares ranking for dividends and enhancing returns and earnings per Ordinary Share to the remaining shareholders. When the Company repurchases its shares, it does so at a total cost below the prevailing NAV per share.

The estimated percentage added to NAV per share from buybacks of 0.4% is derived from the repurchase of shares in the market at a discount to the prevailing NAV at the point of repurchase. The shares were bought back at a weighted average discount of 10.1%.

Total Assets
Total assets include investments, cash, current assets and all other assets. An asset is an economic resource, being anything tangible or intangible that can be owned or controlled to produce positive economic value. The total assets less all liabilities will be equivalent to total shareholders' funds.

Total Return
Total return statistics enable the investor to make performance comparisons between investment trusts with different dividend policies. The total return measures the combined effect of any dividends paid, together with the rise or fall in the share price or NAV. This is calculated by the movement in the NAV or share price plus dividend income reinvested by the Company at the prevailing NAV or share price.

NAV Total Return
NAV total return is calculated by assuming that dividends paid out are re-invested into the NAV on the ex-dividend date. This is accounted for in the "benefits from re-investing dividends" line. The NAV used here includes debt marked to fair value and is inclusive of accumulated income.

	Page	30 September 2018	30 September 2017	
Closing NAV per share (p)	64	**834.58**	769.91	a
Dividends paid out (p)	61	**12.00**	14.50	b
Benefits from re-investing dividends (p)		**0.68**	2.15	c
Adjusted NAV per share (p)		**847.26**	786.56	d = a+b+c
Opening NAV per share (p)	64	**769.91**	661.81	e
NAV total return (%)		**10.0%**	18.8%	= (d/e)-1

Share Price Total Return
Share price total return is calculated by assuming that dividends paid out are re-invested into new shares on the ex-dividend date. This is accounted for in the "benefits from re-investing dividends" line.

	Page	30 September 2018	30 September 2017	
Closing price per share (p)		**764.00**	693.50	a
Dividends paid out (p)	61	**12.00**	14.50	b
Benefits from re-investing dividends (p)		**0.89**	1.90	c
Adjusted price per share (p)		**776.89**	709.90	d = a+b+c
Opening price per share (p)		**693.50**	598.00	e
Share price total return (%)		**12.0%**	18.7%	= (d/e)-1

Underlying discount
Underlying discount is the product of (a) the share price discount to British Empire Trust's net asset value (8.5%); and (b) the weighted-average discount at which the portfolio trades (30.4%).

Directors
Susan Noble (Chairman)
Anja Balfour
Steven Bates
Nigel Rich
Calum Thomson

Secretary
Link Company Matters Limited
Beaufort House
51 New North Road
Exeter
Devon EX4 4EP
Tel: 01392 477500

Registered Office
Beaufort House
51 New North Road
Exeter
Devon EX4 4EP

Registered in England & Wales
No. 28203

Investment Manager and AIFM
Asset Value Investors Limited
25 Bury Street
London SW1Y 6AL

Registrar and Transfer Office
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Registrar's Shareholder Helpline
Tel. 0371 384 2490
Lines are open 8.30am to 5.30pm, Monday to Friday.

Registrar's Broker Helpline
Tel. 0906 559 6025
Calls to this number cost £1 per minute from a BT landline, other providers' costs may vary. Lines are open 8.30am to 5.30pm, Monday to Friday.

Corporate Broker
Jefferies Hoare Govett
Vintners Place
68 Upper Thames Street
London EC4V 3BJ

Auditor
KPMG LLP
319 St Vincent Street
Glasgow
G2 5AS

Depositary
J.P. Morgan Europe Limited
25 Bank Street
London E14 5JP

Banker and Custodian
JPMorgan Chase Bank NA
125 London Wall
London EC2Y 5AJ

London Stock Exchange
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PREMIUM

HOW TO INVEST

British Empire Trust is a closed-end investment trust with shares listed on the London Stock Exchange and part of the FTSE 250 index. Shares in British Empire Trust can be bought directly on the London Stock Exchange or through platforms.

For more information visit: **www.british-empire.co.uk**

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