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
8¹/₈% 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)**
8 1/8% 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)
8 1/8% 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
$8\frac{1}{8}$% 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 8¹/₈% 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
8¹/₈% 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.