British & American Investment Trust PLC

Report and accounts

31 December 2005

British & American Investment Trust PLC

Annual Report and Accounts

for the year ended 31 December 2005

Registered number: 433137

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Directors and officials

Directors
J Anthony V Townsend (Chairman)
Jonathan C Woolf (Managing Director)
Dominic G Dreyfus (Non-executive)
Ronald G Paterson (Non-executive)

Secretary and registered office
KJ Williams ACA
Wessex House
1 Chesham Street
London SW1X 8ND

Registrars
Capita IRG Plc
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Bankers
Lloyds TSB plc
Business & Corporate Service Centre
49-51 Dean Street
Marlow
Buckinghamshire SL7 3BP

UBS AG
1 Curzon Street
London W1J 5UB

Stockbrokers
Walker, Crips, Weddle, Beck plc
Sophia House
76/80 City Road
London EC1Y 2BJ

Auditors
RSM Robson Rhodes LLP
30 Finsbury Square
London
EC2P 2YU

Biographical details of directors and investment policy

Chairman

J Anthony V Townsend (Age 58)

Chairman of iimia Investment Trust plc and The Ukraine Opportunities Trust PLC. Past chairman of the Association of Investment Trust Companies (2001-2003). Non-executive director of BRIT Insurance Holdings PLC, F&C Smaller Companies PLC and four Finsbury investment trusts.

Managing Director

Jonathan C Woolf (Age 49)

Director of Romulus Films Limited and associated companies, formerly merchant banker with S G Warburg & Co. Ltd.

Non Executive

Dominic G Dreyfus (Age 49)

Formerly a director of BCI Soditic Trade Finance Ltd, managing director of Soditic Limited and Membre du Directoire, Warburg Soditic SA, Geneva.

Ronald G Paterson (Age 49)

Solicitor, partner in Eversheds LLP. Formerly a partner in Frere Cholmeley Bischoff and Bischoff & Co. A member of the Technical Committee of the Association of Investment Trust Companies.

Investment policy

The company's policy is to invest predominantly in investment trusts and other leading UK quoted companies to achieve a balance of income and growth.

AITC

The company is a member of the Association of Investment Trust Companies.

Notice of meeting

NOTICE IS HEREBY GIVEN THAT the fifty-eighth Annual General Meeting of the company will be held at Wessex House, 1 Chesham Street, London SW1X 8ND on Thursday 15 June 2006 at 12.15pm for the following purposes:

1. To receive and consider the directors' report and group accounts for the year ended 31 December 2005 and the report of the auditors thereon.

2. To re-elect Mr DG Dreyfus as a director.

3. To re-elect Mr RG Paterson as a director.

4. To approve the directors' remuneration report.

5. To declare a final dividend of 3.25p per £1 ordinary share.

6. To appoint RSM Robson Rhodes LLP as auditors of the company until the conclusion of the next general meeting at which accounts of the company are presented.

7. To authorise the directors to approve the remuneration of the auditors.

By order of the board

KJ Williams
Secretary
2 May 2006

Wessex House
1 Chesham Street
London SW1X 8NB

Notes:
Any member of the company entitled to attend and vote at the meeting may appoint another person (whether a member or not) as his/her proxy to attend and, on a poll, to vote instead of him/her.

Under the company's articles of association only holders of the ordinary shares are entitled to attend and vote at this meeting. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the company's register of members not later than 12.15pm on 13 June 2006 or, if the meeting is adjourned, shareholders entered on the company's register of members not later than 48 hours before the time fixed for the adjourned meeting, shall be entitled to attend and vote at the meeting.

The register of directors' interests and copies of the managing director's service agreement will be available for inspection at the registered office of the company during normal business hours from the date of this notice until the conclusion of the Annual General Meeting.

Chairman's statement

I am pleased to report our results for the year ended 31 December 2005.

As noted in our interim statement, we are now obliged to report our results under the new International Financial Reporting Standards (IFRS). The Association of Investment Trust Companies (AITC) has issued guidance to investment trusts on the presentation of their accounts under IFRS and we are pleased to follow this guidance in our accounts to provide shareholders with the most helpful format possible within the constraints of IFRS. The main differences in the presentation of our accounts this year compared to previous years relate to the profit and loss account and the recognition of dividends declared in the year. As more fully explained at note 1(k) to the accounts on page 26, statutory profits or losses now include gains or losses on the capital account, whether realised or unrealised, and dividends are only recognised in the accounts when shareholders' right to receive the dividend has been established. Consequently, the final dividend for the year 2005 proposed in these accounts is not in fact recognised in the accounts, even on an accrued basis, until it is approved by shareholders at the AGM in June of this year. This year's accounts also include a restatement of the prior year's results to conform with IFRS.

In my statement, I will continue as before to highlight those results which we believe present the most useful indicators of an investment trust's performance during the year, including revenue returns and dividends paid relating to those returns in the year they were earned. We also show in the accounts the split between realised and unrealised gains and losses to give shareholders a better perspective of the return on investments over time in comparison with movements in the market.

Revenue

The return on the revenue account before tax amounted to £1.8 million (2004 restated: £1.5 million). Gross income amounted to £2.0 million (2004 restated: £1.9 million), of which £1.6 million (2004 restated: £1.5 million) represented income from investments and £0.4 million (2004 restated: £0.4 million) film, property and other income. The increase in income was, as reported at the interim stage, primarily accounted for by the receipt of special dividends from a number of our investee companies over the period.

Total profit before tax, which includes realised and unrealised capital appreciation, amounted to £6.9 million (2004 restated: £5.4 million), reflecting the continued recovery in equity valuations over the period as noted below. The capital element of this total was represented by £0.6 million of realised gains and £4.7 million of unrealised gains.

The revenue return per ordinary share was 5.4p (2004 restated: 4.3p) on an undiluted basis and 4.9p (2004 restated: 4.1p) on a diluted basis.

Net Assets

Group net assets were £42.8 million (2004 restated: £37.9 million), an increase of 12.9 percent. Total return for the period, after adding back dividends, was 18.2 percent. This compares to an increase over the same period of 19.7 percent (dividends reinvested) in the FTSE 100 share index and 21.6 percent (dividends reinvested) in the All Share index. The net asset value per ordinary share (NAV) increased to 122p (2004 restated: 108p) on a diluted basis. Deducting prior charges at par, the net asset value per ordinary share increased to 131p (2004 restated: 111p).

Dividends

We are pleased to recommend an increased final dividend of 3.25p per ordinary share, which together with the interim dividend makes a total payment for the year of 5.55p (2004 restated: 5.2p) per ordinary share; this represents an increase of 6.7 percent over the previous year's total dividend. The final dividend will be payable on 22 June 2006 to shareholders on the register at 26 May 2006. A dividend of 1.75p will be paid to preference shareholders resulting in a total payment for the year of 3.5p per share.

In addition to these regular dividends, we paid an additional special dividend of 1p per share during the year, in recognition of special dividends received during the year. By separating out our special dividend we believe shareholders will find it easier to keep track of our normal interim and final dividends and monitor their progress.

Discount and performance

I am pleased to note that the reduced discount to NAV at which our shares trade in the market on which I reported last year has continued to be maintained, in line with the general narrowing of discounts which has been seen in the investment trust sector as a whole. In recent months, our shares have traded at discounts in the range of 5 to 8 percent. I can also report that the company has continued to out perform its benchmark in the UK income and growth sector and is positioned in the top quartile of its AITC sector by total return. These results reflect out-performance against benchmark in capital and income over a number of years, as is evident from the graphs on page 9.

We look forward to continuing advances in the current year as equity and other financial markets continue to recover and form a base for future growth.

As at 21 April 2006, group net assets had increased to £47.0 million, an increase of 10.0 percent since the beginning of the calendar year. This is equivalent to 148 pence per share (prior charges deducted at par) and 134 pence per share on a diluted basis. Over the same period the FTSE 100 increased 9.1 percent and the All Share Index increased 9.8 percent.

Anthony Townsend

2 May 2006

Managing Director's Report

International Financial Reporting Standards

As noted in the Chairman's statement, we have adopted the accounting format suggested by the AITC to allow investment trusts to present their results in the most helpful way possible for shareholders within the constraints of the IFRS. Whilst this has allowed us to present the accounts in a somewhat more accessible way than was the case at the interim stage, there remain nevertheless a number of areas in which the requirements of the IFRS do not sit well with the operations of an investment trust and the communication of its performance to shareholders.

These deficiencies were referred to in my report at the interim stage and we have attempted to address them by including where possible in the notes or other parts of the report the information considered necessary to convey a proper understanding of the operations of the company. As a result, however, the statutory accounts themselves - the income statement and balance sheet - which constitute the document of record of the operations of the company, regrettably remain subject to these deficiencies. Without the fuller explanation, which can now only be shown in notes or ancillary parts of the accounts, these statements which present the basic or 'headline' results, remain confusing and in some respects misleading.

For example, using the AITC's model format we are able to add in the income statement the split in profits (or losses) between income and capital; however, unrealised capital gains (or losses) are now included as statutory profits (or losses) for the year despite the fact that they have not actually been 'earned' ie realised and might at any time be reversed. At the very least this will add a significant level of uncontrollable volatility to the principal results of the company from year to year and will be of no help to shareholders analysing either the past or possible future direction of the company based on its profits. It is hard to imagine any other circumstance where shareholders are presented with a 'profit' in the income statement on an unsold asset within the company's main business activity which could, at any later stage, be totally reversed or even converted into a loss, in respect of the very same unsold asset in which the earlier 'profit' was reported.

It is not surprising that the IFRS has encountered widespread criticism from companies, both large and small, for the lack of clarity, common sense and continuity which accounts produced under IFRS offer to shareholders. As noted above, this criticism can equally and perhaps even more justifiably be levelled in the case of investment trusts.

Performance

In 2005 UK equity markets experienced a further year of broadly based gains resulting in a cumulative recovery of 65 percent since the lows reached in 2001. As at 31 December, the market had returned to its 2002 levels and, as noted below, by April of this year the FTSE 100 finally broke through the 6000 level last achieved in 2001.

As reported at the interim stage, the advances during 2005 were boosted by the out-performance of the oil and natural resources sectors on the back of continuing record prices in these commodities due to supply worries and heavy demand from newly industrialised countries such as China and India. The UK market was also buoyed by substantial levels of corporate activity including buyouts, demergers and takeovers in a number of the leading stocks across a variety of sectors. The trend of private capital funds bidding for listed company assets has been growing during the recent period of downturn in stock prices while companies have been repairing their balance sheets and cashflows but price multiples have remained subdued. The acceleration in this private capital activity and the larger volumes involved has contributed to the strength of the market and the growth in multiples to more normal levels.

Our portfolio underperformed the main indices during the year primarily due to some underweighting in the oil and natural gas sectors which out-performed significantly during the period and now form a substantial part of the FTSE 100 at approximately 25 percent. Our slightly higher holdings of cash also contributed to this effect. In the first quarter, however, the portfolio has outperformed the indices, as reported above, by a modest amount.

In the US, the leading indices recovered from the fall at mid-year to finish the year in positive territory with a gain of 2 percent. The dull performance of stocks in the USA reflected the continuing programme of monetary tightening by the Federal Reserve towards a level of perceived equilibrium in US dollar rates and general tensions within the economy arising out of the structural imbalances in the fiscal and trade accounts.

In the first quarter, equity prices in the UK have continued to advance strongly, rising by over six percent with the FTSE 100 exceeding 6000 for the first time since the multi-year downturn commenced in 2001. This performance marks a continuation of the trends seen in 2005 as described above. While this rate of advance can not be expected to be maintained indefinitely in the current year without price levels out-running improvements in fundamentals, equity markets are generally expected to remain firm over the coming period in the absence of external shocks as corporate profitability continues to grow.

Against this background, we will continue to pursue our generalist investment approach, remaining invested in leading stocks with good yield.

Jonathan Woolf

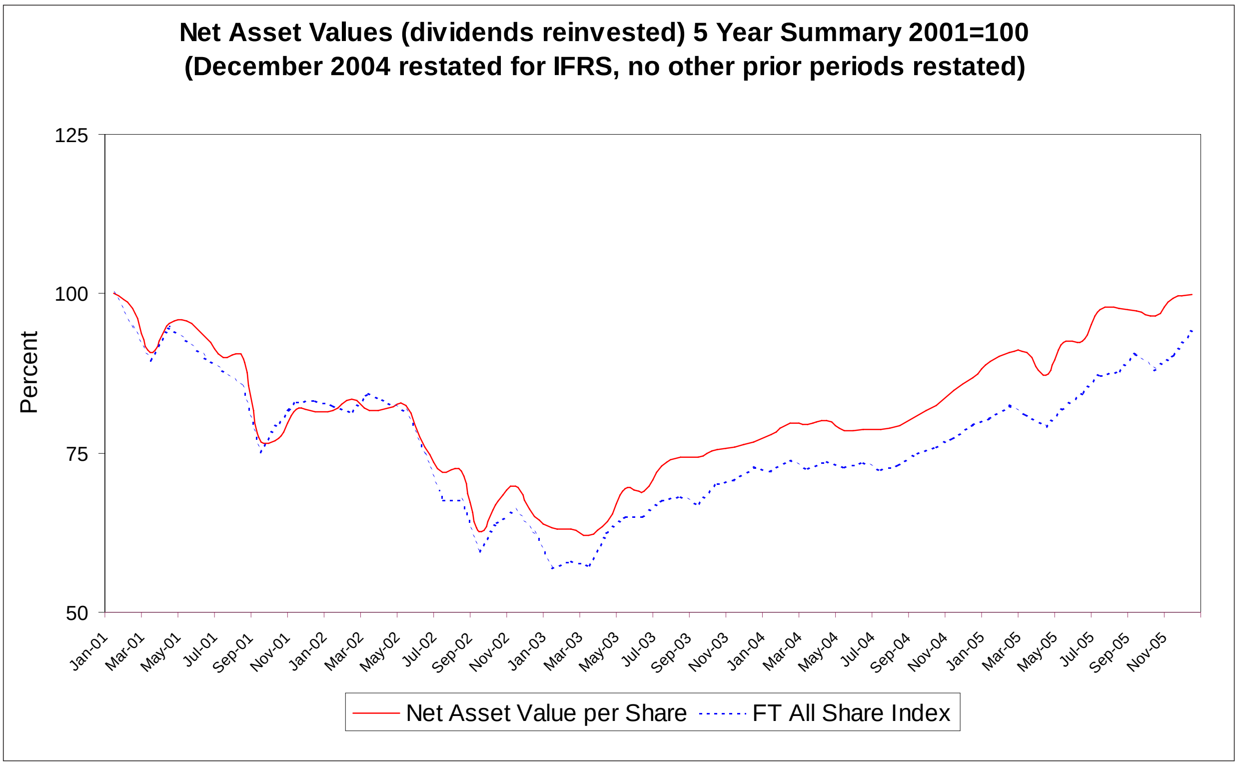
Financial highlights

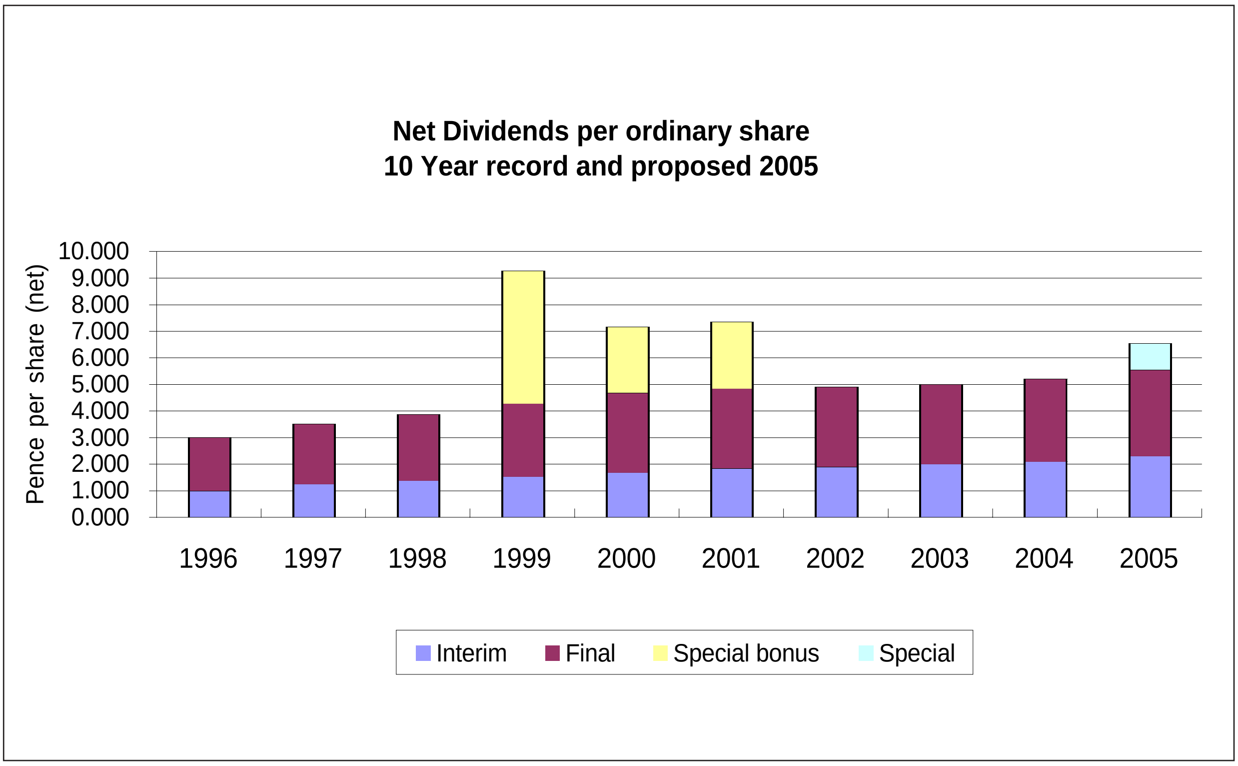
For the year ended 31 December 2005

	2005			2004 (restated)		
	Revenue return £000	Capital return £000	Total £000	Revenue return £000	Capital return £000	Total £000
Profit before tax – realised	1,759	479	2,238	1,487	457	1,944
Profit before tax – unrealised	–	4,665	4,665	–	3,459	3,459
Profit before tax – total	1,759	5,144	6,903	1,487	3,916	5,403
Earnings per £1 ordinary share – basic	5.41p	20.57p	25.98p	4.33p	15.66p	19.99p
Earnings per £1 ordinary share – diluted	4.86p	14.70p	19.56p	4.09p	11.19p	15.28p
Net assets			42,765			37,869
Net assets per ordinary share						
– deducting preference shares at par			131p			111p
– diluted			122p			108p
Diluted net asset value per ordinary share at 21 April 2006			134p			

	2005	2004
Dividends declared or proposed for the period		
per ordinary share – interim paid	2.3p	2.1p
– final proposed	3.25p	3.1p
– special paid	1.0p	0.0p
per preference share	3.5p	3.5p

Net asset and dividend growth





Distribution of investments and cash

The distribution of investments and cash balances is as follows:

	At valuation		
	21 April 2006	31 December	31 December (restated)
		2005	2004
	£000	£000	£000
Investment Trusts (equities)	18,723	17,273	17,446
Property	5,438	4,903	4,853
Life Assurance	5,433	4,536	3,731
Biomedical – USA	4,806	3,523	616
Retailers General	139	2,972	–
Unit trusts	1,640	1,511	1,168
Banks retail	1,326	1,197	804
Media	1,095	1,096	984
Leisure and hotels	994	521	1,057
Software and computer services	553	427	228
Telecommunications	408	298	241
Breweries, pubs and restaurants	–	195	305
Information technologies	155	131	162
Other Financial	128	114	108
Chemicals	129	85	–
Biotechnology	93	51	49
Multi Utilities	51	50	–
Pharmaceuticals and healthcare	41	22	232
Support Service	–	16	–
Transport	–	–	111
Retailers – food	–	–	54
Gas Distribution	–	–	24
Engineering	–	–	14
Total equities	41,152	38,921	32,187
Fixed Interest stocks	688	797	762
Preference shares	533	509	468
Permanent interest bearing	359	372	355
Convertible loan stocks	311	200	268
Property units	1,570	1,570	1,570
Total portfolio	44,613	42,369	35,610
Balances at banks and stockbrokers	1,956	3,177	2,183
	46,569	45,546	37,793

Group investment portfolio

At 31 December 2005

Company	Nature of business	Valuation £000	% of Portfolio
Liberty International Holdings	Property	4,903	11.57
Prudential Corporation	Life Assurance	4,402	10.39
Geron Corporation	Biomedical – USA	3,521	8.31
Electra Investment Trust	Investment Trust	2,857	6.74
RIT Capital Partners – Ordinary	Investment Trust	2,823	6.66
The Alliance Trust – Ordinary	Investment Trust	2,736	6.46
GUS – Ordinary*	Retailers General	2,667	6.29
Dunedin Income Growth	Investment Trust	2,120	5.00
British Assets Trust	Investment Trust	2,014	4.75
St James's Place International Unit Trust	Unit Trust	1,344	3.17
Matrix Chatham Maritime EZT	Enterprise Zone Trust	1,250	2.95
Lloyds TSB	Bank Retail	1,197	2.83
Scottish & American Investment Co.	Investment Trust	875	2.07
Shires Income	Investment Trust	595	1.41
Invesco Income Growth Trust	Investment Trust	582	1.37
British Sky Broadcasting Group	Media	546	1.29
Rothschild Continuation Finance – Loan Notes	Debentures and Loan Stocks	539	1.27
Royal & Sun Alliance Insurance Group plc	Preference shares	509	1.20
Witan Investment Trust	Investment Trust	455	1.08
Merchants Trust	Investment Trust	431	1.02
20 Largest investments		36,366	85.83
Other investments (number of holdings : 76)		6,003	14.17
Total investments		42,369	100.00

* An amount is shown in creditors representing an obligation of a subsidiary company to deliver this stock after the year end.

Holdings in other investment companies

It is the company's stated policy to have an unlimited percentage of its gross assets in other listed investment companies. In accordance with Listing Rule 21, the company will restrict any future investments in listed investment companies which themselves do not have a policy of restricting their investments in other listed investment companies to 15% (or less) of their gross assets. As at 31 December 2005, 14.5% of the company's total assets were invested in the securities of other UK listed investment companies which themselves do not have a policy of restricting their investments to the 15% mentioned above. Of the twenty largest investments shown above, The Alliance Trust and RIT Capital Partners fall into this category of investments as they have not specifically announced a policy to restrict their own investments to no more than 15% of gross assets.

Directors' report

For the year ended 31 December 2005

Directors' report

The directors present their annual report on the affairs of the group together with the accounts and auditors' report for the year ended 31 December 2005.

Financial statements

The financial statements will be presented for approval at the fifty-eighth Annual General Meeting of the company to be held on Thursday 15 June 2006.

Future prospects

The future prospects of the company are explained in the Chairman's Statement on pages 4 and 5 and in the Managing Director's Report on pages 6 and 7.

Business review

The activities of the company and its subsidiary undertakings during the accounting year were as follows:

Company	Activities
British & American Investment Trust PLC	Investment trust
BritAm Investments Limited	Investment holding
Second BritAm Investments Limited	Investment holding
British & American Films Limited	Film investment company

The review of the business is included in the Chairman's Statement on pages 4 and 5 and Managing Director's Report on pages 6 and 7. Information on movements on investments since the year end is included on page 10.

The company is registered as an investment company under s266 of the Companies Act 1985.
The directors consider that the company has conducted its affairs in a manner to enable it to continue to comply with s842 of the Income and Corporation Taxes Act 1988. It is approved by HM Revenue & Customs as such, which enables it to realise its investments free from taxation on capital gains. Approval is retrospective and has been received in respect of the financial year to 31 December 2004. The company has since directed its affairs to enable it to continue to seek approval.

Personal Equity Plans/ISAs

The company has conducted its investment policy so as to remain a qualifying investment under the ISA and Personal Equity Plan regulations. It is the intention of the directors to continue to satisfy these regulations.

Results and dividends of the group for the year

The directors set out below the results and dividends of the group for the year ended 31 December 2005.

	Revenue £000	Capital £000	Total £000
Profit before tax	1,759	5,144	6,903
Tax	(57)	–	(57)
Profit after tax	1,702	5,144	6,846

Dividends	Pence per share	£000
Interim per £1 ordinary share (paid 17 November 2005)	2.3	575
3.5% preference share paid (paid 17 November 2005)	1.75	175
Special per £1 ordinary share for the year ended 31 December 2005 of 1.0p (2004 – nil) (paid 15 December 2005)	1.0	250
Final per £1 ordinary share – proposed	3.25	813
3.5% preference share (payable 22 June 2006)	1.75	175
		1,988

The dividends proposed above will be paid on 22 June 2006 to ordinary shareholders on the register at 26 May 2006 and to 3.5% preference shareholders on the register at 31 December 2005.

Directors and their interests

The present directors of the company are as set out on page 1. The directors retiring by rotation are Mr DG Dreyfus and Mr RG Paterson who, being eligible, offer themselves for re-election. The Board recommends Mr DG Dreyfus' and Mr RG Paterson's re-election. At the time of the Annual General Meeting Mr DG Dreyfus will have completed more than 10 years service as a non-executive director. In making the recommendation, the Board has carefully reviewed the composition of the Board as a whole and borne in mind the need for a proper balance of skills and experience. The Board does not believe that length of service detracts from the independence of a director, particularly in relation to an investment trust, and on that basis considers that Mr DG Dreyfus remains independent. It is confirmed that, following formal evaluation, the performance of each director continues to be effective and each continues to demonstrate commitment to the role. Mr JC Woolf is employed under an employment agreement which requires twelve months' notice of termination. Mr Dreyfus, Mr Townsend and Mr Paterson do not have contracts of service with the company. No director has served for more than three years without offering himself for re-election.

The directors during the year ended 31 December 2005 had interests in the shares of the company as follows:

	2005		2004	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
Ordinary shares of £1				
JC Woolf	1,380,812	14,851,562	1,380,812	14,851,562
DG Dreyfus	5,000	–	5,000	–
JAV Townsend	7,500	–	7,500	–
RG Paterson	1,000	–	1,000	–
Non voting convertible preference shares of £1 each				
JC Woolf	–	10,000,000	–	10,000,000

Included in the non-beneficial interest in the ordinary shares of £1 each referred to above, are 6,902,812 (27.6%) (2004 – 6,902,812 (27.6%)) ordinary shares held by Romulus Films Ltd, 7,868,750 (31.5%) (2004 – 7,868,750 (31.5%)) ordinary shares held by Remus Films Ltd and 80,000 (0.32%) (2004 – 80,000 (0.32%)) ordinary shares held by PKL Pictures Limited. Romulus Films Ltd also holds 10,000,000 cumulative convertible preference shares (2004 – 10,000,000). Mediterranean Holdings Ltd has also notified an interest in all the holdings of Romulus Films Ltd and Remus Films Ltd.

Except in the ordinary course of business no director had an interest in any contract in relation to the company's business at any time during the year.

Other information

In addition to the directors' interests in shares detailed above, at 2 May 2006 the directors had been notified of the following interests of 3% or more of either class:

	Number of shares held	%
Apollo Fund plc	750,000	3.0
Jupiter Monthly Income Fund Unit Trust	750,000	3.0
Unwin Investments Limited	1,146,562	4.6

These interests relate to the ordinary shares of the company.

Creditor Payment Policy

The company's payment policy is to agree terms of payment before business is transacted, to ensure suppliers are aware of their terms and to settle invoices in accordance with them.

Financial Instruments

The financial instruments employed by the group primarily comprise equity investments, although it also holds convertible stock, loan stock and fixed interest investments, stock derivatives, cash and other items arising from its operations. Further details of the risk management objectives and policies relating to the use of financial instruments can be found in note 19 to the financial statements on pages 39 and 40.

Statement of compliance with the combined code of best practice

The section 'Statement of Compliance with the Combined Code of Best Practice' on pages 46 to 49 and the contents of the directors' report constitutes the statement on the application by the company of the principles of the Combined Code on Corporate Governance, as required by the UK Listing Authority.

Auditors

On 19 December 2005 Deloitte & Touche LLP resigned as auditors to the company and RSM Robson Rhodes LLP were appointed. RSM Robson Rhodes LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the board of directors and signed on behalf of the board

Jonathan Woolf
Managing Director

Wessex House
1 Chesham Street
London
SW1X 8ND

2 May 2006

Statement of Directors' responsibilities in respect of the Annual Report and accounts

The directors are responsible for preparing the Annual Report and the group and parent company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards.

The group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU, subject to any material departures disclosed and explained in these financial statements;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in these financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for the system of internal control, for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and the Corporate Governance Statement that comply with that law and those regulations.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BRITISH & AMERICAN INVESTMENT TRUST PLC

We have audited the group and parent company financial statements ('the financial statements') on pages 19 to 45. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the parent company financial statements and the Directors' Remuneration Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited group financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Managing Director's Report and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of affairs of the group as at 31 December 2005 and of its profit for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the parent company as at 31 December 2005; and
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

RSM Robson Rhodes LLP

Chartered Accountants and Registered Auditors

London, England

2 May 2006

Consolidated income statement

For the year ended 31 December 2005

		2005			2004 (restated*)		
	Notes	Revenue return £000	Capital return £000	Total £000	Revenue return £000	Capital return £000	Total £000
Income	2	2,032	–	2,032	1,864	–	1,864
Gains on investments at fair value through profit or loss - unrealised	9,12	–	4,665	4,665	–	3,459	3,459
Realised gains on sales	9	–	618	618	–	457	457
Expenses	3	(273)	(139)	(412)	(377)	–	(377)
Profit before finance costs and tax		1,759	5,144	6,903	1,487	3,916	5,403
Profit before tax		1,759	5,144	6,903	1,487	3,916	5,403
Tax	6	(57)	–	(57)	(55)	–	(55)
Profit for the period		1,702	5,144	6,846	1,432	3,916	5,348
Earnings per share							
Basic - ordinary shares	8	5.41p	20.57p	25.98p	4.33p	15.66p	19.99p
Diluted - ordinary shares	8	4.86p	14.70p	19.56p	4.09p	11.19p	15.28p

* restated - see note 21 on pages 41 to 45.

The total column of this statement represents the Group's Income Statement, prepared in accordance with IFRS. The supplementary revenue return and capital return columns are both prepared under guidance published by the Association of Investment Trust Companies. All items in the above statement derive from continuing operations.

All income is attributable to the equity holders of the parent company. There are no minority interests.

The notes on pages 23 to 45 form part of these financial statements.

Statement of changes in equity

31 December 2005

Group

	Share capital £000	Capital reserve realised £000	Capital reserve unrealised £000	Retained earnings £000	Total £000
Balance at 31 December 2003 restated* (note 21(d))	35,000	14,824	(18,419)	2,741	34,146
Changes in equity for 2004 restated*					
Profit for the period (note 21(b))	–	(1,710)	5,626	1,432	5,348
Ordinary dividend paid (note 7)	–	–	–	(1,275)	(1,275)
Preference dividend paid (note 7)	–	–	–	(350)	(350)
Balance at 31 December 2004 restated* (note 21(a))	35,000	13,114	(12,793)	2,548	37,869
Changes in equity for 2005					
Profit for the period	–	2,027	3,117	1,702	6,846
Ordinary dividend paid (note 7)	–	–	–	(1,600)	(1,600)
Preference dividend paid (note 7)	–	–	–	(350)	(350)
Balance at 31 December 2005	35,000	15,141	(9,676)	2,300	42,765

Company

	Share capital	Capital reserve realised £000	Capital reserve unrealised £000	Retained earnings £000	Total £000
Balance at 31 December 2003 restated* (note 21(d))	35,000	2,612	(4,352)	968	34,228
Changes in equity for 2004 restated*					
Profit for the period (note 21(b))	–	(2,384)	6,079	1,650	5,345
Ordinary dividend paid (note 7)	–	–	–	(1,275)	(1,275)
Preference dividend paid (note 7)	–	–	–	(350)	(350)
Balance at 31 December 2004 restated* (21(a))	35,000	228	1,727	993	37,948
Changes in equity for 2005					
Profit for the period	–	(879)	5,578	2,141	6,840
Ordinary dividend paid (note 7)	–	–	–	(1,600)	(1,600)
Preference dividend paid (note 7)	–	–	–	(350)	(350)
Balance at 31 December 2005	35,000	(651)	7,305	1,184	42,838

* restated - see note 21 on pages 41 to 45

Consolidated balance sheet

31 December 2005

	Notes	Group		Company	
		2005	2004 (restated*)	2005	2004 (restated*)
		£000	£000	£000	£000
Non - current assets					
Investments - fair value through profit or loss	9	42,369	35,610	45,442	38,498
Current assets					
Receivables	11	3,379	187	603	414
Cash and cash equivalents	11	3,263	2,227	2,756	1,343
		6,642	2,414	3,359	1,757
Total assets		49,011	38,024	48,801	40,255
Current liabilities	12	(6,246)	(155)	(3,067)	(125)
Total assets less current liabilities		42,765	37,869	45,734	40,130
Non - current liabilities					
Provisions for liabilities and charges	13	–	–	(2,896)	(2,182)
Net assets		42,765	37,869	42,838	37,948
Equity attributable to equity holders					
Ordinary share capital	14	25,000	25,000	25,000	25,000
Convertible preference share capital	14	10,000	10,000	10,000	10,000
Capital reserve - realised	15	15,141	13,114	(651)	228
Capital reserve - unrealised	15	(9,676)	(12,793)	7,305	1,727
Retained earnings	15	2,300	2,548	1,184	993
Total equity		42,765	37,869	42,838	37,948

* restated - see note 21 on pages 41 to 45

The notes on pages 23 to 45 form part of these financial statements

Where the respective headings under Companies Act 1985 schedule 4 part 1 for the company balance sheet are different to those under IFRS, the respective headings are set out in note 20 to the accounts.

The financial statements on pages 19 to 51 were approved by the board of directors on 2 May 2006.

Jonathan Woolf

Managing Director

Consolidated cash flow statement

For the year ended 31 December 2005

	Notes	2005 £000	2004 (restated) £000
Cash flow from operating activities			
Profit before tax		6,903	5,403
Adjustment for:			
Gains on investments		(5,283)	(3,916)
Scrip dividends		(4)	(4)
Film income tax deducted at source		(4)	(4)
Proceeds on disposal of fair value through profit and loss investments		6,406	6,765
Purchases of fair value through profit and loss investments		(7,552)	(5,952)
Operating cash flows before movements in working capital		466	2,292
Increase in receivables		(52)	(40)
Increase in payables		2,576	19
Net cash from operating activities before income taxes		2,990	2,271
Income taxes paid		(4)	–
Net cash from operating activities		2,986	2,271
Cash flows from financing activities			
Dividends paid on ordinary shares	7	(1,600)	(1,275)
Dividends paid on preference shares	7	(350)	(350)
Net cash used in financing activities		(1,950)	(1,625)
Net increase in cash and cash equivalents		1,036	646
Cash and cash equivalents at beginning of year		2,227	1,581
Cash and cash equivalents at end of year		3,263	2,227

Purchases and sales of investments are considered to be operating activities of the company, given its purpose, rather than investing activities.

Notes to the financial statements

31 December 2005

1 Accounting policies

A summary of the principal accounting policies is set out below.

a) Basis of preparation and statement of compliance
In accordance with European Union (EU) regulations, these financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as adopted for use in the EU effective at 31 December 2005. The company has elected to prepare its parent company accounts under UK Generally Accepted Accounting Practices (GAAP).

These are the group's first consolidated financial statements prepared in accordance with adopted IFRS.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the group is provided in note 21.

The financial statements have been prepared on the historical cost basis except where IFRS require an alternative treatment. The principal variations from the historical cost basis relate to financial instruments (IAS 32 and 39).

Where presentational guidance set out in the Statement of Recommended Practice (SORP) for investment trusts revised by the Association of Investment Trust Companies (AITC) in December 2005 is consistent with the requirements of IFRS, the directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

The group's significant accounting policies are set out below, together with the judgements made by management in applying these policies, which have the most significant effect on the amounts recognised in the financial statements, apart from those involving estimations, which are dealt with separately below. These accounting policies have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at 1 January 2004 for the purposes of the transition to IFRS.

These financial statements are presented in pounds sterling because that is the currency of the primary economic currency within which the group operates. There are no foreign operations.

These accounting policies have been applied consistently by group entities.

b) Basis of consolidation
The consolidated financial statements incorporate the financial statements of the company and its subsidiary undertakings made up to 31 December each year. Control is achieved where the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

No income statement is published for British & American Investment Trust PLC as provided by s230 of the Companies Act 1985. The company's profit on ordinary activities after taxation for the year was £6,841,227
(2004 restated – £5,343,522).

1 Accounting policies (continued)

In the company's financial statements, investments in subsidiary undertakings are stated in accordance with the policies outlined under (d) below.

Realised gains on sales of investments in the group financial statements are based on historical cost to the group and on brought forward market value.

c) Presentation of income statement
In order better to reflect the activities of an investment trust company and in accordance with guidance issued by the AITC, supplementary information which analyses the income statement between items of a revenue and capital nature has been presented alongside the income statement. In accordance with the company's status as a UK investment company under section 266 of the Companies Act 1985, net capital returns may not be distributed by way of dividend.

d) Valuation of investments
Investments held at fair value through profit or loss are initially recognised at fair value.

Investments are classified as either fair value through profit or loss or available-for-sale. As the entity's business is investing in financial assets with a view to profiting from their total return in the form of interest, dividends or increases in fair value, listed equities and fixed income securities are designated as fair value through profit or loss on initial recognition. The entity manages and evaluates the performance of these investments on a fair value basis in accordance with its investment strategy, and information about the group is provided internally on this basis to the entity's key management personnel.

After initial recognition, investments, which are designated as at fair value through profit or loss, are measured at fair value. Gains or losses on investments designated as at fair value through profit or loss are included in net profit or loss as a capital item, and material transaction costs on acquisition or disposal of investments are expensed and included in the capital column of the income statement. For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices or last traded prices, depending upon the convention of the exchange on which the investment is quoted at the close of business on the balance sheet date. Investments in units of unit trusts or shares in OEICs are valued at the closing price released by the relevant investment manager.

In respect of unquoted instruments, or where the market for a financial instrument is not active, fair value is established by using an appropriate valuation technique. Where no reliable fair value can be estimated for such unquoted equity instruments, they are carried at cost, subject to any provision for impairment.

Investments in subsidiary companies are held at directors' valuation.

All purchases and sales of investments are recognised on the trade date i.e. the date that the group commits to purchase or sell an asset.

e) Income
Dividend income from investments is recognised as income when the shareholders' rights to receive payment has been established, normally the ex-dividend date.

1 Accounting policies (continued)

Interest income on fixed interest securities is recognised on a time apportionment basis so as to reflect the effective interest rate of the security.

Property unit trust income is recognised on the date the distribution is receivable. Film royalty income is recognised on receipt of royalty statements covering periods ending in the financial year.

When special dividends are received, the underlying circumstances are reviewed on a case by case basis in determining whether the amount is capital or income in nature. Amounts recognised as income will form part of the company's distribution. Any tax thereon will follow the accounting treatment of the principal amount.

f) Expenses
All expenses are accounted for on an accruals basis. Expenses are charged as revenue items in the income statement except as follows:

- material transaction costs which are incurred on the purchase or sale of an investment designated as fair value through profit or loss are expensed and included in the capital column of the income statement;

- expenses are split and presented partly as capital items where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated, and accordingly investment management and related costs have been allocated 50% (2004 - 100%) to revenue and 50% (2004 - nil%) to capital, in order to reflect the directors' long-term view of the nature of the expected investment returns of the company.

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

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Investment trusts which have approval under section 842 Income and Corporation Taxes Act 1988 are not liable for taxation on capital gains.

h) Foreign currency

Transactions in currencies other than sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items and non-monetary assets and liabilities that are fair valued and are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Gains and losses arising on retranslation are included in net profit or loss for the period where investments are classified as fair value through profit or loss and presented as revenue or capital as appropriate.

i) Segmental reporting

The directors are of the opinion that the group is engaged in a single segment of business, that is investment business, and therefore no segmental reporting is provided.

j) 3.5% cumulative convertible non-redeemable preference shares

The 3.5% cumulative convertible non-redeemable preference shares issued by the company are classified as equity instruments in accordance with IAS 32 ‘Financial Instruments - Disclosure and Presentation’ and FRS 25 as the company has no contractual obligation to redeem the preference shares for cash or pay preference dividends unless similar dividends are declared to ordinary shareholders.

k) Differences between UK GAAP and IFRS presentation

Under old UK GAAP the profit and loss account of the group was the revenue column of the Statement of Total Return. However, under IFRS the profit and loss account is now the total column of the income statement. As a result, all of the items in the capital column of the income statement form part of the profit or loss of the group.

Under old UK GAAP the dividends declared by the company were recognised in the period in which they were declared. Under IFRS dividends declared by the company are only recognised when the shareholders' right to receive the dividend has been established.

Under old UK GAAP investments were valued on the basis of quoted mid prices. Under IFRS investments held at fair value through profit or loss are valued on the basis of quoted bid prices.

Under old UK GAAP transaction costs relating to the purchase and sale of investments were added to the purchase cost of the investment or deducted from the sales proceeds on sale of the investment. Under IFRS material transaction costs are expensed and included in the capital column of the income statement.

2 Income

	2005	2004 (restated)
Income from investments	£000	£000
UK dividends (cash and in specie)	1,377	1,360
Overseas dividends	22	44
Scrip dividends	3	3
Interest on fixed income securities	176	106
Property unit trust income	102	101
Film revenues	205	197
	1,885	1,811
Other income		
Deposit interest	130	62
Other	17	(9)
	147	53
Total income	2,032	1,864
Total income comprises:		
Dividends	1,402	1,407
Interest	306	168
Film revenues	205	197
Property unit trust income	102	101
Gain/(loss) on foreign exchange	17	(9)
	2,032	1,864
Income from investments:		
Listed investments	1,472	1,480
Unlisted investments	413	331
	1,885	1,811

Notes to the financial statements (continued)

3 Administrative expenses

	2005 £000	2004 £000
Staff costs – including directors (Notes 4 and 5)	312	281
Auditors' remuneration for:		
Current auditors		
– audit	28	–
– other services to the company and its subsidiaries	7	–
Previous auditors		
– audit	11	34
– other services to the company and its subsidiaries	–	12
Other	42	36
Irrecoverable VAT	12	14
	412	377

4 Directors' remuneration

	2005 £000	2004 £000
Fees:		
DG Dreyfus	11	11
JAV Townsend	16	12
RG Paterson	11	11
Salaries:		
JC Woolf	50	48
	88	82

The directors do not receive any performance related pay or any benefits in kind. None of the directors has any share options and no pension contributions are paid on their behalf. There are no long-term incentive schemes for any directors.

5 Directors and staff costs

	2005 £000	2004 £000
Wages and salaries	263	238
Social security costs	28	26
Pensions and post-retirement benefits	21	17
	312	281

5 Directors and staff costs (continued)

The average number of persons (including directors) employed during the year was 11 (2004 – 10).

	2005 Number	2004 Number
Non-executive directors	3	3
Investment	2	2
Administration	6	5
	11	10

6 Tax

	2005 £000	2004 (restated) £000
Current tax:		
UK corporation tax	(60)	(5)
Foreign tax	4	4
Double taxation relief	(4)	(4)
Expenses utilised in capital	–	–
Adjustment in respect of prior periods	3	(19)
	(57)	(24)
Deferred tax		
Current year	–	(15)
Adjustment in respect of prior periods	–	(16)
	–	(31)
	(57)	(55)

Corporation tax is calculated at 30% (2004 – 30%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

6 Tax (continued)

The charge for the year can be reconciled to the profit per the income statement as follows:

	2005		2004 (restated)	
	£000	%	£000	%
Profit before tax	6,903	30.0	5,403	30.0
Tax at the UK corporation tax rate of 30% (2004 – 30%)	(2,071)		(1,621)	
Tax effect of expenses that are not deductible in determining taxable profit	2		4	
Non-taxable income	–		3	
Tax effect of non-taxable UK and scrip dividends	413		408	
Withholding tax suffered	4		4	
Capital gains	(11)		(5)	
Gains and losses on investments that are not taxable	1,585		1,175	
Tax effect of utilisation of tax losses not previously recognised	11		22	
Prior period adjustments	3		(19)	
Effect of different tax rates of subsidiaries in other jurisdictions	7		5	
Tax expense and effective tax rate for the year	(57)	0.8	(24)	0.4

At the balance sheet date, there is a deferred tax asset of £8,217 (2004 – £8,217) due to surplus management expenses. It is unlikely the group will generate sufficient taxable profits in the future to recover these amounts and no deferred tax asset has been recognised in the year or prior years.

7 Dividends

	2005	2004
	£000	£000
Amounts recognised as distributions to ordinary shareholders in the period:		
Dividends on ordinary shares:		
Final dividend for the year ended 31 December 2004 of 3.1p (2003 – 3.0p) per share	775	750
Interim dividend for the year ended 31 December 2005 of 2.3p (2004 – 2.1p) per share	575	525
Special dividend for the year ended 31 December 2005 of 1.0p (2004 – nil) per share	250	–
	1,600	1,275

7 Dividends (continued)

Proposed final dividend for the year ended 31 December 2005 of 3.25p (2004 – 3.1p) per share	813	775

	2005 £000	2004 £000
Dividends on 3.5% cumulative convertible preference shares:		
Preference dividend for the year ended 31 December 2004 of 1.75p (2003 – 1.75p) per share	175	175
Preference dividend for the year ended 31 December 2005 of 1.75p (2004 – 1.75p) per share	175	175
	350	350
Preference dividend payable for the year ended 31 December 2005 of 1.75p (2004 – 1.75p) per share	175	175

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements in accordance with IFRS.

We also set out below the total dividend payable in respect of the financial year, which is the basis on which the retention requirements of section 842 Income and Corporation Taxes Act 1988 are considered.

Dividends proposed for the period

	2005 £000	2004 £000
Dividends on ordinary shares:		
Interim dividend for the year ended 31 December 2005 of 2.3p (2004 – 2.1p) per share	575	525
Special dividend for the year ended 31 December 2005 of 1.0p (2004 – nil) per share	250	–
Proposed final dividend for the year ended 31 December 2005 of 3.25p (2004 – 3.1p) per share	813	775
	1,638	1,300
Dividends on 3.5% cumulative convertible preference shares:		
Preference dividend for the year ended 31 December 2005 of 1.75p (2004 – 1.75p) per share	175	175
Preference dividend payable for the year ended 31 December 2005 of 1.75p (2004 – 1.75p) per share	175	175
	350	350

8 Earnings per ordinary share

The calculation of the basic and diluted earnings per share is based on the following data:

	2005			2004 (restated)		
	Revenue return £000	Capital return £000	Total £000	Revenue return £000	Capital return £000	Total £000
Earnings:						
Basic	1,352	5,144	6,496	1,082	3,916	4,998
Preference dividend	350	–	350	350	–	350
Diluted	1,702	5,144	6,846	1,432	3,916	5,348

Basic revenue, capital and total return per ordinary share is based on the net revenue, capital and total return for the period and after deduction of dividends in respect of preference shares and on 25 million (2004 – 25 million) ordinary shares in issue.

The diluted revenue, capital and total return is based on the net revenue, capital and total return for the period and on 35 million (2004 – 35 million) ordinary and preference shares in issue.

9 Investments – fair value through profit or loss

	Group		Company	
	2005 £000	2004 (restated*) £000	2005 £000	2004 (restated*) £000
Investments listed on a recognised investment exchange	40,482	33,737	39,753	33,370
Unlisted investments				
– Subsidiary undertakings (Note 10)	–	–	5,489	4,927
– Property units	1,570	1,570	–	–
– Unlisted securities	317	303	200	201
	42,369	35,610	45,442	38,498

* restated - see note 21 on pages 41 to 45.

The potential taxation liability in subsidiary undertakings in respect of unrealised capital appreciation on which deferred taxation has not been provided at 31 December 2005 is estimated at £nil (2004 – £140,000).

Film rights are valued, in group, at £nil (2004 – £nil). The original cost of the film rights held in subsidiary undertakings is £510,000 with total amortisation to date of £437,383.

9 Investments – fair value through profit or loss (continued)

Group:	Listed in UK £000	Listed overseas £000	Unlisted UK £000	Property Units £000	Total £000
Opening cost at 1 January	17,428	708	1,666	1,570	21,372
Gains/(losses) at 1 January	15,692	(91)	(1,363)	–	14,238
Opening fair value at 1 January restated*	33,120	617	303	1,570	35,610
Purchases at cost	7,328	3,414	–	–	10,742
Transfers	(48)	–	48	–	–
Sales – proceeds	(8,705)	(839)	(5)	–	(9,549)
– realised gains on sales	509	109	–	–	618
Increase/(decrease) in unrealised appreciation	4,754	223	(29)	–	4,948
Closing fair value at 31 December	36,958	3,524	317	1,570	42,369
Closing cost at 31 December	17,534	3,444	2,185	1,570	24,733
Gains/(losses) at 31 December	19,424	80	(1,868)	–	17,636
Closing fair value at 31 December	36,958	3,524	317	1,570	42,369

Company:	Listed in UK £000	Listed overseas £000	Unlisted UK £000	Total £000
Opening cost at 1 January	27,712	740	8,334	36,786
Gains/(losses) at 1 January	5,088	(170)	(3,206)	1,712
Opening fair value at 1 January restated*	32,800	570	5,128	38,498
Purchases at cost	7,086	2,725	–	9,811
Transfers	(31)	–	31	–
Sales – proceeds	(8,076)	(377)	(5)	(8,458)
– realised gains on sales	517	42	–	559
Increase in unrealised appreciation	4,349	148	535	5,032
Closing fair value at 31 December	36,645	3,108	5,689	45,442
Closing cost at 31 December	26,398	3,108	8,607	38,113
Gains/(losses) at 31 December	10,247	–	(2,918)	7,329
Closing fair value at 31 December	36,645	3,108	5,689	45,442

* restated - see note 21 on pages 41 to 45

Gains on fair value through profit or loss assets are net of transaction costs incurred on both the purchase and sale of those assets, in the amount of £40,754 being £20,394 on purchases and £20,360 on sales (2004 restated – £35,139 being £18,946 on purchases and £16,193 on sales).

10 Subsidiary undertakings

The company has investments in the following subsidiary undertakings:

Name of undertaking	Description of shares held	Proportion of nominal value of issued shares and voting rights held by: Company (%)	Group (%)
BritAm Investments Limited	Ordinary £1	100	100
British and American Films Limited	Ordinary £1	100	100
Second BritAm Investments Limited	Ordinary £1	100	100

BritAm Investments Limited and Second BritAm Investments Limited are investment holding companies. British and American Films Limited is a film distribution company.

All of these subsidiary undertakings are included in the consolidation. All are incorporated in Great Britain.

11 Current assets

	Group		Company	
	2005 £000	2004 £000	2005 £000	2004 £000
Sales of investments awaiting settlement	3,166	24	388	24
Trade debtors	–	34	–	–
Amount owed by subsidiary undertakings	–	–	2	163
Income tax recoverable	1	6	1	–
Corporation tax recoverable	4	–	–	–
Group relief receivable	–	–	99	123
Prepayments and accrued income	43	46	43	46
Other receivables	165	77	70	58
	3,379	187	603	414

The directors consider that the carrying amount of other receivables approximates their fair value.

Credit Risk

The group's principal financial assets are bank balances and cash, other receivables and investments, which represent the group's maximum exposure to credit risk in relation to financial assets.

Cash and cash equivalents comprise bank balances and cash held by the group. The carrying amount of these assets approximates their fair value.

12 Current liabilities

	Group		Company	
	2005	2004	2005	2004
	£000	£000	£000	£000
Purchases of investments awaiting settlement	3,252	68	2,860	68
Trade payables	1	1	–	–
Corporation tax payable	60	12	–	–
Other taxes and social security	3	2	3	2
Other payables	2,877	31	173	31
Accruals and deferred income	41	34	31	24
Amounts due to related parties	12	7	–	–
	6,246	155	3,067	125

The directors consider that the carrying amount of other payables approximates to their fair value. Other payables includes stock derivative liabilities with a fair value of £188,374 (2004 - £nil) for group, containing an unrealised loss at the year end of £41,128 (2004 - £nil). The amounts for the company are £147,600 and £37,954 respectively. Other payables also includes the liability at the year end of £2,662,560, inclusive of an unrealised loss of £242,718, to complete a transaction outstanding at the year end, since completed.

13 Provisions for liabilities and charges

	Company	
	2005	2004
	£000	£000
Guarantee of subsidiary liability	2,896	2,182
	2,896	2,182

The provision is in respect of a guarantee made by the company for liabilities between its wholly owned subsidiaries, Second BritAm Investments Limited, BritAm Investments Limited and British and American Films Limited.

14 Share capital

	2005	2004
	£000	£000
Authorised:		
25,000,000 ordinary shares of £1 each	25,000	25,000
10,000,000 non voting 3.5% cumulative convertible non-redeemable preference shares of £1 each	10,000	10,000
Allotted, called-up and fully-paid:		
25,000,000 ordinary shares of £1 each	25,000	25,000
10,000,000 non voting 3.5% cumulative convertible non-redeemable preference shares of £1 each	10,000	10,000
	35,000	35,000

The 3.5% cumulative convertible non-redeemable preference shares issued by the company have been classified as

14 Share capital (continued)

equity instruments in accordance with IAS 32 - 'Financial Instruments - Disclosure and Presentation'. The directors are of the opinion that due to the fact the company has no contractual obligation to redeem the preference shares for cash or pay preference dividends unless also declaring a dividend to ordinary shareholders, they are correctly classified as equity and do not represent a financial liability.

The non-voting cumulative convertible non-redeemable preference shares entitle holders of such shares to receive notice of, but not attend or vote at, any general meeting of the company, unless the business of the meeting includes consideration of any resolution (a) for winding up the company (b) for the purchase of the company's own shares or (c) abrogating or varying the rights attached to such shares.

On a winding up, the rights to dividends and amounts receivable are first to be applied in paying arrears of preference dividends, the balance to rank pari passu with those of the holders of the ordinary shares.

Conversion right of non-voting 3.5% cumulative convertible non-redeemable preference shares
If at any time during the period from 1 January 2006 to 31 December 2025 (both dates inclusive) and prior to the giving of a conversion notice, the company shall have published audited annual accounts showing shareholders' funds (on a consolidated basis if such accounts are published on a consolidated basis) of more than £50 million, each holder of non-voting cumulative convertible preference shares shall have the right in the period from 1 January 2006 to 31 December 2025 (both dates inclusive) to convert all or any of the non-voting cumulative convertible non-redeemable preference shares held into fully paid ordinary shares at the rate of one ordinary share for each non-voting cumulative convertible preference share.

15 Retained earnings and capital reserve

	Retained earnings		Capital reserve	
	Group £000	Company £000	Group £000	Company £000
1 January 2005 (restated)	2,548	993	321	1,955
Profit for the period	1,702	2,141	5,144	4,699
Dividends paid	(1,950)	(1,950)	–	–
31 December 2005	2,300	1,184	5,465	6,654

Retained earnings do not include the proposed final dividend.
The capital reserve shown above comprises both realised and unrealised amounts which are analysed below.

	2005		2004 (restated)	
	Group £000	Company £000	Group £000	Company £000
Capital reserve – realised	15,141	(651)	13,114	228
Capital reserve – unrealised	(9,676)	7,305	(12,793)	1,727
	5,465	6,654	321	1,955

15 Retained earnings and capital reserve (continued)

	Capital reserve realised £000	Capital reserve unrealised £000	Retained earnings £000
Group			
1 January 2005 (restated)	13,114	(12,793)	2,548
Profit for the year	479	4,665	1,702
Transfer between realised and unrealised capital reserves	1,548	(1,548)	–
Ordinary and preference dividends paid	–	–	(1,950)
31 December 2005	15,141	(9,676)	2,300
Company			
1 January 2005 (restated)	228	1,727	993
Profit for the year	(294)	4,993	2,141
Transfer between realised and unrealised capital reserves	(585)	585	–
Ordinary and preference dividends paid	–	–	(1,950)
31 December 2005	(651)	7,305	1,184

16 Net asset values

	Net asset value per share		Net assets attributable	
	2005 £	2004 £	2005 £000	2004 £000
Ordinary shares				
Undiluted	1.31	1.11	32,765	27,869
Diluted	1.22	1.08	42,765	37,869

The undiluted and diluted net asset values per £1 ordinary share are based on net assets at the year end and 25 million (undiluted) ordinary and 35 million (diluted) ordinary and preference shares in issue.

17 Related party transactions

The company rents its offices from Romulus Films Limited, and is also charged for its office overheads. During the year the company paid £10,176 (2004 – £9,398) in respect of those services.

The salaries and pensions of the company's employees, except for the three non-executive directors, are paid by Remus Films Limited and Romulus Films Limited and are recharged to the company. Amounts charged by these companies in the year to 31 December 2005 were £248,680 (2004 – £229,259) in respect of salary costs and £20,500 (2004 – £17,221) in respect of pensions.

At the year end an amount of £5,800 was due to both Romulus Films Limited and Remus Films Limited. Romulus Films Limited and Remus Films Limited have significant shareholdings in the company – see page 14.

The company recharged £5,611 (2004 - £5,611) in respect of directors' fees during the year to each of its subsidiaries BritAm Investments Limited and British and American Films Limited.

At the year end the company was owed £nil (2004 - £163,000) by BritAm Investments Limited and £2,049 (2004 - £1 payable) by Second BritAm Investments Limited.

At the year end the company was owed group tax relief of £15,219 (2004 - £5,224) by BritAm Investments Limited and £84,065 (2004 - £117,733) by British and American Films Limited.

During the year BritAm Investments Limited transferred, at cost, investments totalling £529,217 (2004 - £189,608) to fellow subsidiary Second BritAm Investments Limited.

At the year end BritAm Investments Limited was owed £2,680,995 (2004 - £1,890,829) by Second BritAm Investments Limited and £nil (2004 - £99,000) by British and American Films Limited.

At the year end BritAm Investments Limited owed £178 (2004 - £203,657 receivable) to Second BritAm Investments Limited in respect of group tax relief.

At the year end British and American Films Limited was owed £114,757 (2004 - £94,136) by Second BritAm Investments Limited.

At the year end British and American Films Limited owed group tax relief of £nil (2004 - £182) to Second BritAm Investments Limited.

18 Deferred taxation

A deferred tax asset has not been recognised in respect of timing differences relating to capital losses and accelerated capital allowances on film rights and excess management expenses as there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised is £350,412 (2004 – £420,927). The asset would be recovered if the company disposed of its investments, made sufficient future taxable profits and chargeable gains.

19 Risk management and other financial instruments

The company's financial instruments primarily comprise equity investments, although it also holds convertible stock, loan stock and fixed interest investments, stock derivatives, cash and other items arising from its operations.

The company's investing activities undertaken in pursuit of its investment objective as set out on page 2 involve certain inherent risks.

As an investment trust, the group invests in securities for the long term. Accordingly, it is, and has been throughout the year, the group’s policy that the group invests predominantly in investment trusts and other leading UK quoted companies. The group may write options on shares held within the investments portfolio where such options are priced attractively relative to longer term expectations of the relevant share prices.

The main risks arising from the group’s financial instruments are market price risk, interest rate risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The policies have remained unchanged throughout the year.

Market price risk
The group’s exposure to market risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the group might suffer through holding positions in the face of unfavourable market price movements. The board has established investment parameters to adequately monitor the investment performance, status of the business and the inherent risk in managing a portfolio of investments. The board receives financial information monthly, meets on four scheduled occasions each year and reviews annually the aforesaid investment parameters.

Financial liabilities - interest rate risk
The group is financed through its ordinary share capital, preference share capital and its financial liabilities. The group’s financial liabilities comprise short term trade payables, all of which mature in one year or less, or on demand.

Financial assets - interest rate risk
The majority of the group’s financial assets are equity shares (93.9%) or other investments which pay dividends rather than interest and do not have a maturity date.

19 Risk management and other financial instruments (continued)

Fair values of financial assets and financial liabilities
All investments are carried at fair value. Other financial assets and liabilities of the company and the group are held at amounts that approximate to fair value.

Liquidity risk
The group's assets almost entirely comprise listed realisable securities, which can be sold to meet funding requirements as necessary. Short-term flexibility is achieved through the use of surplus cash.

Currency risk
The vast majority (over 90%) of assets and liabilities are in sterling. Accordingly, due to the small foreign currency content which almost exclusively is a single investment denominated in US dollars, and the associated limited currency risk no analysis of currency has been performed.

20 UK GAAP balance sheet headings

IFRS Heading	Companies Act 1985 Heading
Non - current assets	Fixed assets
Investments - fair value through profit or loss	Investments
Receivables	Debtors
Cash and cash equivalents	Cash at bank and in hand
Current liabilities	Creditors: amounts falling due within one year
Non - current liabilities	Provisions for liabilities and charges
Equity attributable to equity holders	Capital and reserves
Ordinary share capital	Called - up share capital
Convertible preference share capital	Called - up share capital
Retained earnings	Revenue reserve
Total equity	Total shareholder's funds

21 Transition to IFRS for the group / new Financial Reporting Standards for company

This is the first year that the company has presented its group financial statements under IFRS. The last set of annual financial statements was for the year ended 31 December 2004, and the date of transition to IFRS was therefore 1 January 2004. As stated in the accounting policies, the board has elected that the parent company will continue to adopt UK Generally Accepted Accounting Principles (UK GAAP) and therefore complies with the new Financial Reporting Standards issued as part of the programme to converge UK GAAP with IFRS. Accordingly, a full reconciliation of the changes is shown below.

21(a) Restatement of balances for the year ended 31 December 2004

Group

	Notes	Previously reported (UK GAAP) 31 December 2004 £000	Effect of transition to IFRS £000	Restated (IFRS) 31 December 2004 £000
Investments – fair value through profit or loss	1	35,663	(53)	35,610
Current assets		2,414	–	2,414
Current liabilities	2	(1,105)	950	(155)
Total assets less current liabilities		36,972		37,869
Net assets		36,972		37,869
Equity attributable to equity holders				
Share capital				
– ordinary shares		25,000	–	25,000
– preference shares		10,000	–	10,000
Capital reserves - realised		13,114	–	13,114
Capital reserves - unrealised	1	(12,740)	(53)	(12,793)
Retained earnings	2	1,598	950	2,548
Total equity		36,972		37,869

21 Transition to IFRS for the group / new Financial Reporting Standards for company (continued)

21(a) Restatement of balances for the year ended 31 December 2004 (continued)

Company

	Notes	Previously reported 31 December 2004 £000	Effect of transition to FRS £000	Restated 31 December 2004 £000
Investments – fair value through profit or loss	1	38,550	(52)	38,498
Current assets		1,757	–	1,757
Current liabilities	2	(1,075)	950	(125)
Total assets less current liabilities		39,232		40,130
Provisions for liabilities and charges		(2,182)		(2,182)
Net assets		37,050		37,948
Equity attributable to equity holders				
Share capital				
– ordinary shares		25,000	–	25,000
– preference shares		10,000	–	10,000
Capital reserves - realised		228	–	228
Capital reserves - unrealised	1	1,779	(52)	1,727
Retained earnings	2	43	950	993
Total equity		37,050		37,948

Notes

1. Group investments are designated as held at fair value under IFRS and are carried at bid prices. Previously, under UK GAAP approximately 77 percent by value were already carried at bid equivalent with the balance being carried at mid prices or cost. This results in a downward revaluation of £53,000 (company - £52,000) in investments and a decrease in capital reserves. Under FRS 26 - 'Financial Instruments: Recognition and Measurement' the company investments are valued at bid equivalent.

2. No provision has been made for the final dividend on the ordinary and preference shares for the year ended 31 December 2004 of £950,000. Under IFRS the group final dividend is not recognised until approved by shareholders. Under FRS 21 - 'Events after the Balance Sheet Date' dividends should only be accrued in the financial statements if they are a liability at the balance sheet date. Consequently, the company's figures have been restated with the same value as for group.

21 Transition to IFRS for the group / new Financial Reporting Standards for company (continued)

21(b) Reconciliation of the Statement of Total Return to the Income Statement for the year ended 31 December 2004

	Group	**Company**
	2004	2004
	£000	£000
Reported revenue gain under UK GAAP	1,432	1,650
Reported capital gain under UK GAAP	3,946	3,724
Total return under UK GAAP	5,378	5,374
Movement in mid to bid December 2003	23	23
Movement in mid to bid December 2004	(53)	(52)
Reported income under IFRS (Company - FRS)	5,348	5,345

21(c) Reconciliation of the Cash Flow Statement for the year ended 31 December 2004

Group

	Notes	Previously reported (UK GAAP) 31 December 2004 £000	Effect of transition to IFRS £000	Restated (IFRS) 31 December 2004 £000
Net cash flow from operating activities before and after tax		1,458	813	2,271
Net cash flow on investing activities	1	813	(813)	–
Equity dividends paid	2	(1,275)	1,275	–
		996		2,271
Net cash used in financing activities		(350)	(1,275)	(1,625)
Net change in cash and cash equivalents		646		646

Note to reconciliation

1. Under IFRS cash flow on purchases and sales of investments which are designated as fair value through profit or loss are considered to be operating activities of the company. Therefore, these cash flows have been reclassified to reflect this.

2. Under IFRS dividends are treated as a finance cost and these have been reclassified to reflect this.

21 Transition to IFRS for the group / new Financial Reporting Standards for company (continued)

21(d) Restatement of balances for the year ended 31 December 2003

Group

	Notes	Previously reported (UK GAAP) 31 December 2003 £000	Effect of transition to IFRS £000	Restated (IFRS) 31 December 2003 £000
Investments – fair value through profit or loss	1	32,482	(23)	32,459
Current assets		1,743	–	1,743
Current liabilities	2	(981)	925	(56)
Total assets less current liabilities		33,244		34,146
Net assets		33,244		34,146
Equity attributable to equity holders				
Share capital				
– ordinary shares		25,000	–	25,000
– preference shares		10,000	–	10,000
Capital reserves - realised		14,824		14,824
Capital reserves - unrealised	1	(18,396)	(23)	(18,419)
Retained earnings	2	1,816	925	2,741
Total equity		33,244		34,146

21 Transition to IFRS for the group / new Financial Reporting Standards for company (continued)

21(d) Restatement of balances for the year ended 31 December 2003 (continued)

Company

	Notes	Previously reported 31 December 2003 £000	Effect of transition to FRS £000	Restated 31 December 2003 £000
Investments – fair value through profit or loss	1	34,826	(23)	34,803
Current assets		1,450	–	1,450
Current liabilities	2	(968)	925	(43)
Total assets less current liabilities		35,308		36,210
Provisions for liabilities and charges		(1,982)		(1,982)
Net assets		33,326		34,228
Equity attributable to equity holders				
Share capital				
– ordinary shares		25,000	–	25,000
– preference shares		10,000	–	10,000
Capital reserves - realised		2,612	–	2,612
Capital reserves - unrealised	1	(4,329)	(23)	(4,352)
Retained earnings	2	43	925	968
Total equity		33,326		34,228

Notes

1. Group investments are designated as held at fair value under IFRS and are carried at bid prices. Previously, under UK GAAP approximately 76 percent by value were already carried at bid equivalent with the balance being carried at mid prices or cost. This results in a downward revaluation of £23,000 (company - £23,000) in investments and a decrease in capital reserves. Under FRS 26 - 'Financial Instruments: Recognition and Measurement' the company investments are valued at bid equivalent.

2. No provision has been made for the final dividend on the ordinary and preference shares for the year ended 31 December 2003 of £925,000. Under IFRS the group final dividend is not recognised until approved by shareholders. Under FRS 21 - 'Events after the Balance Sheet Date' dividends should only be accrued in the financial statements if they are a liability at the balance sheet date. Consequently, the company's figures have been restated with the same value as for group.

Statement of compliance with the Combined Code of Best Practice

For the year ended 31 December 2005

The UK Listing authority requires all listed companies to disclose how they have applied the principles and complied with the provisions of the Combined Code (the 'Code').

The board attaches great importance to ensuring that the company operates to high ethical and compliance standards. In addition, the board seeks to observe the principles set out in the Code insofar as these are consistent with the company's status and objectives as an investment trust.

The board also complies with the Code of Corporate Governance as published by the Association of Investment Trust Companies as far as practical. The Code provides a guide to best practice in certain areas of governance where the specific characteristics of investment trusts suggest that alternative approaches to those set out in the Combined Code may be preferable. This is particularly relevant to the company as a self-managed trust.

This statement sets out how the relevant principles have been complied with by the company or explains areas of non-compliance.

The board considers that the company has complied with the provisons of section 1 of the Code throughout the year ended 31 December 2005 and thereafter, as required by Listing Rule 9.8.6(6) issued by the UK Listing Authority.

Operation of the board

The board currently consists of four directors, one of whom is the executive Managing Director. The three non-executive directors are all independent, including the Chairman.

There is a formal schedule of matters to be specifically approved by the board and of the division of responsibilities between the chairman and managing director and individual directors may seek independent advice at the expense of the company.

The board has established a procedure under which each non-executive director has or will be issued with a formal letter of appointment when he is next re-appointed by shareholders at an annual general meeting and such terms and conditions of appointment of non-executive directors are or will when issued be available for inspection at the registered office of the Company.

The board has delegated investment management, within clearly defined parameters and dealing limits to the Managing Director, who also has responsibility for the overall management of the business. The board makes all strategic decisions and reviews the performance of the company at board meetings.

As the Chairman is non-executive the board regards him as the Senior Independent Director and no separate Senior Independent Director has been appointed.

There were four board meetings and two audit committee meetings held during the year and the attendance by directors was as follows:

Statement of compliance with the Combined Code of Best Practice (continued)

Number of meetings attended

	Board	Audit
JAV Townsend	4/4	2/2
DG Dreyfus	4/4	2/2
RG Paterson	4/4	2/2
JC Woolf	4/4	2/2*

* Not a member of the committee but in attendance by invitation.
All the directors attended the Annual General Meeting.

Independence of the directors

The non-executive directors (Mr JAV Townsend, Mr DG Dreyfus and Mr RG Paterson) are independent and have no other relationships or circumstances which might be perceived to interfere with the exercise of independent judgement. Mr DG Dreyfus, at the date of the Annual General Meeting, will have served on the board for more than nine years from the date of his first election, but given the nature of the company as an investment trust and as permitted under the AITC Code, the board is firmly of the view that Mr DG Dreyfus can be considered to be independent. In arriving at this conclusion the board considers that long service aids the understanding, judgement, objectivity and independence of directors.

Re-election of directors

Directors are subject to re-election by shareholders at the first AGM following their appointment and, subsequently, are subject to retirement by rotation over a period of a maximum of three years. Directors are not subject to automatic reappointment. Biographical details of directors are set out on page 2.

The director due to stand for annual re-election at the forthcoming AGM in accordance with the requirements of the Combined Code, and in accordance with the company's Articles of Association, is Mr RG Paterson. Mr DG Dreyfus is also due to stand for annual re-election in accordance with the Combined Code.

The board has carefully considered the position of Mr DG Dreyfus and Mr RG Paterson and believes it would be appropriate for them to be proposed for re-election. As stated previously, in respect of Mr DG Dreyfus it is the view of the board that long service in no way reduces the independence and objectivity of the directors. Mr DG Dreyfus will stand for re-election annually.

Chairman

The Chairman is also non-executive chairman of two other quoted investment trusts and a director of a number of other companies. He does not have a full time executive role in any organisation and the board is satisfied that he has sufficient time available to discharge fully his responsibility as Chairman.

Audit Committee

The audit committee is a formally constituted committee of the board with defined terms of reference, which include its role and the authority delegated to it by the board, which are available for inspection at the company's registered office. It meets twice yearly and among its specific responsibilities are the review of the company's annual and half yearly results together with supporting documentation. The committee also reviews the internal and financial controls applicable to the company and its stockbroker.

Statement of compliance with the Combined Code of Best Practice (continued)

All the non-executive directors are members of the audit committee and its chairman is Mr DG Dreyfus. The audit committee considers Mr Dreyfus as the member of the audit committee having relevant and recent financial experience.

The audit committee has agreed that Mr Townsend should remain one of its members due to his knowledge and audit committee experience. This experience has proven to be invaluable when the committee is preparing annual and interim reports and financial statements, as well as liaising with the company's external auditors.

The provision of non-audit services is reviewed separately by the audit committee to ensure that auditor objectivity and independence is safeguarded.

Nomination Committee

A nomination committee, comprising all the directors has been established to oversee a formal review procedure governing the appointment of new directors and to evaluate the overall composition of the board from time to time, taking into account the existing balance of skills and knowledge. Its chairman is the Chairman of the board. No new directors were appointed during the year. There are procedures for a new director to receive relevant information on the company together with appropriate induction.

Board/Audit/Nomination Committee/Director ongoing evaluation

On an annual basis the board formally reviews its performance. The review covers an assessment of how cohesively the board, audit committee and nomination committee work as a whole as well as the performance of the individuals within them.

The Chairman is responsible for performing this review. Mr DG Dreyfus and Mr RG Paterson perform a similar role in respect of the performance of the Chairman.

Remuneration

The remuneration of the executive director is decided by the board as a whole (comprising a majority of non-executive directors), rather than a remuneration committee. There is no performance-related element of the executive director's remuneration. The board considers that the interests of the Managing Director are aligned with those of other shareholders.

Relations with shareholders

Shareholder relations are given high priority by the board. The principal medium of communication with shareholders is through the interim and annual reports. This is supplemented by monthly NAV announcements.

The board largely delegates responsibility for communication with shareholders to the Managing Director and, through feedback, expects to be able to develop an understanding of their views.

Currently, there is a small number of major shareholders, details of which can be found on page 14.

All members of the board are willing to meet with shareholders for the purpose of discussing matters relating to the operation and prospects of the company.

The board welcomes investors to attend the AGM and encourages questions and discussions on issues of concern or areas of uncertainty. All directors expect to be present at the AGM.

Accountability, Internal Controls and Audit

The directors' statement of responsibilities in respect of the accounts is set out on page 16.

The report of the independent auditors is set out on pages 17 and 18.

The directors are responsible for the company's system of internal control and for reviewing its effectiveness. The board meets on four scheduled occasions in each year and receives sufficient information to enable it to monitor adequately the investment performance and status of the business.

The board has also established a series of investment parameters, which are reviewed annually, designed to limit the risk inherent in managing a portfolio of investments. The safeguarding of assets is split between the company and its stockbroker. All holdings are regularly reconciled.

The effectiveness of the overall system of internal control is reviewed on an annual basis by the board. Such a system can provide only reasonable and not absolute assurance against material misstatement or loss. The board believes that there is a robust framework of internal controls in place to meet the requirements of the Code.

Given the size of the business the company does not have a separate internal audit function. This is subject to periodic review.

Based on the above, the company has a continuing process for identifying, evaluating and managing the risks it faces. This process has been in place for the reporting period and to the date of this report. This process is regularly reviewed by the board in accordance with the requirements of the ‘Internal Control Guidance for Directors on the Combined Code’ (the 'Turnbull Guidance') and the Combined Code.

Going concern

The assets of the company consist mainly of securities that are readily realisable and, accordingly, the company has adequate financial resources to continue its operational existence for the foreseeable future. Therefore, the directors believe that it is appropriate to continue to adopt the going concern basis in preparing the accounts.

Socially responsible investment

The board believes its primary duty is to act in the best financial interests of the company and its shareholders. Consequently, whilst the company seeks to favour companies which pursue best practice in these matters this must not be to the detriment of the return on the investment portfolio.

Exercise of voting rights

The board has delegated authority to the Managing Director to vote on behalf of the company, in accordance with the company's best interests.

Directors’ remuneration report

For the year ended 31 December 2005

Introduction

This report is submitted in accordance with the requirements of Schedule 7A to the Companies Act 1985 in respect of the year ended 31 December 2005. An ordinary resolution to approve this report will be put to members at the forthcoming Annual General Meeting, but the directors’ remuneration is not conditional upon the resolution being passed.

Consideration by the directors’ of matters relating to directors’ remuneration

The board as a whole considers the directors’ remuneration. The board has not appointed a committee to consider matters relating to directors’ remuneration. The board has not been provided with advice or services by any person in respect of its consideration of directors’ remuneration (although the directors expect from time to time to review the fees paid to the boards of directors of other investment companies).

Directors’ remuneration policy

The company’s policy is that fees payable to non-executive directors should reflect their expertise, responsibilities and time spent on company matters. In determining the level of non-executive remuneration, market equivalents are considered in comparison to the overall activities and size of the company.

The maximum level of non-executive directors’ remuneration is fixed by the company’s Articles of Association, amendment to which is by way of an ordinary resolution subject to ratification by shareholders. The current level is that aggregate non-executive directors fees should not exceed £45,000 per annum.

The emoluments and benefits of any executive director for his services as such shall be determined by the directors and may be of any description, including membership of any pension or life assurance scheme for employees or their dependants.

The company’s policy is to allow executive directors to accept appointments and retain payments from sources outside the company as long as such appointments do not interfere with the performance of their company responsibilities.

It is intended that their policy will continue for the year ending 31 December 2006 and subsequent years.

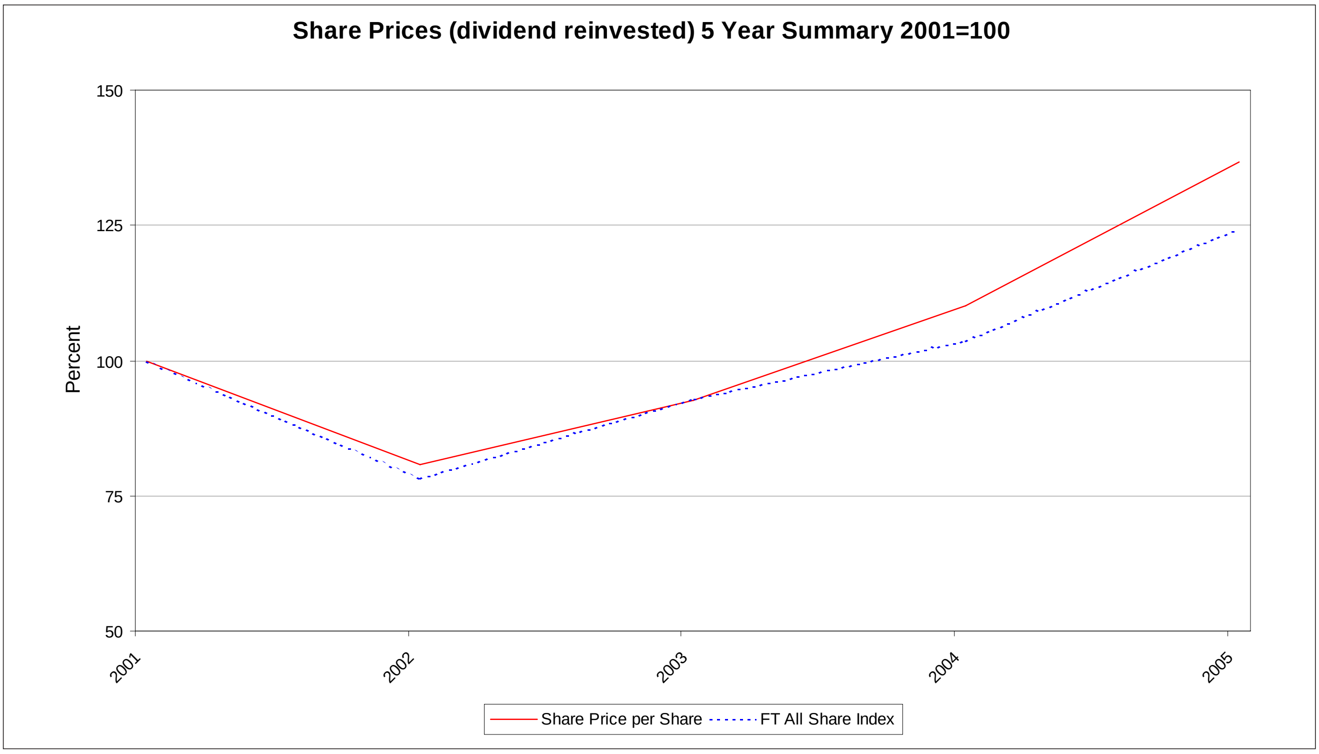
Services contract

Mr JC Woolf has a service contract dated 1 September 1992 with the company. The contract does not have a fixed term, requires 12 months notice of termination, with salary and benefits compensation payable on early termination. No other director has a service contract with the company.

Performance graph

The graph on page 51 shows the performance of British & American Investment Trust PLC’s share price against the FTSE All Share index, in both instances with dividends reinvested, for the five years since 2001. The FTSE All Share is selected because it is the single broad equity market index that most closely matches the company’s benchmark.

Share prices



Directors' remuneration

The following items have been audited.

The following table shows a breakdown of the remuneration of individual directors.

	Year ended 31 December 2005			Year ended 31 December 2004		
	Salary/ Fees	Expenses	Total	Salary/ Fees	Expenses	Total
	£000	£000	£000	£000	£000	£000
JC Woolf - salary	50	–	50	48	–	48
JAV Townsend	16	–	16	12	–	12
DG Dreyfus	11	–	11	11	–	11
RG Paterson	11	–	11	11	–	11

Mr JAV Townsend was appointed Chairman from 1 October 2004 at annual fees of £16,000. The company does not confer any share options, long term incentives or retirement benefits to any director, nor does it make a contribution to any pension scheme on behalf of the directors. The company has not added any performance-related elements in the remuneration package of executive directors. As noted on page 14 Mr JC Woolf is a significant shareholder in the company. The company provides directors' liability insurance.

By order of the board

KJ Williams
Secretary
2 May 2006

FORM OF PROXY

BRITISH & AMERICAN INVESTMENT TRUST PLC

(For use by ordinary shareholders)

I/We .... (Please complete in BLOCK CAPITALS)

of ....

being (a) member(s) of the above company, hereby appoint the Chairman of the meeting or .... to be my/our proxy to vote on my/our behalf at the Annual General Meeting of the company to be held at Wessex House, 1 Chesham Street, London SW1X 8ND at 12.15 pm on Thursday 15 June 2006 and at any adjournment thereof.

Signed ....

Dated .... 2006.

RESOLUTIONS		For	Against	Vote Withheld
1.	To adopt the report and accounts.			
2.	To re-elect Mr DG Dreyfus.			
3.	To re-elect Mr RG Paterson.			
4.	To approve the directors' remuneration report.			
5.	To declare a final dividend of 3.25p per £1 ordinary share.			
6.	To re-appoint RSM Robson Rhodes LLP as auditors.			
7.	To authorise the directors to fix the remuneration of the auditors.			

NOTES

1. Please indicate with an X in the spaces above how you wish your votes to be cast. If the form is returned without any indication as to how the proxy shall vote on any particular matter, and on any other business which may come before the meeting, the proxy will vote or abstain as he thinks fit.
2. This proxy must reach the registrars of the company not less than 24 hours before the meeting.
3. A corporation's proxy must be either under its common seal or under the hand of a duly authorised officer or attorney.
4. A space is provided to appoint a proxy other than the person named above.

This form of proxy should only be completed by the ordinary shareholders.

Second fold

BUSINESS REPLY SERVICE
Licence No. ANG 1468

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Capita IRG plc
The Registry
34 Beckenham Road
KENT

First fold

Third fold