British & American Investment Trust PLC

Report and accounts

31 December 2008

Investment Policy

To invest predominantly in investment trusts and other leading UK-quoted companies to achieve a balance of income and growth.

Ten largest holdings (group basis)

Name	Sector	%
Geron Corporation	Biomedical – USA	25.75
RIT Capital Partners	Investment Trust	8.95
Prudential	Life Assurance	7.81
The Alliance Trust	Investment Trust	7.48
Liberty International	Property	5.91
Dunedin Income Growth	Investment Trust	5.56
British Assets Trust	Investment Trust	5.12
St James's Place - Unit Trust	Unit Trust	4.82
Electra Private Equity	Investment Trust	2.98
Earthport	Software and computer services	2.08
		76.46

Country Exposure

Country	£m	%
UK	20.1	71.28
USA	8.1	28.72
Other	–	–
Total net assets	28.2	100.00

Value (dividends reinvested) of £100 invested

	£
1 year	65.3
3 year	64.9
5 year	107.0

(source: AIC)

Salient Facts

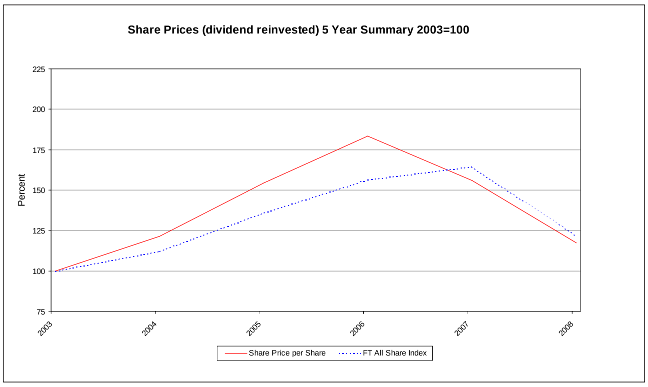
Launch Date	1996
Management	Self managed
Year/Interim End	31 December/30 June
Capital Structure	25,000,000 Ordinary Shares of £1 (listed); 10,000,000 Convertible Preference Shares of £1 (unlisted)
Number of Holdings	72
Net Assets (£m)	28.2
Yield (excl. special dividend)	11.00%
Dividend Dates	Interim dividend – November Final dividend – June
Share price (p)	60.0
NAV/share (p)	81 *(diluted)* 73 *(undiluted)*
(Discount)/Premium	(25.5)% (17.5)%
Total expense ratio	1.48%
Sedol Code	0065311
ISIN Code	GB000065311

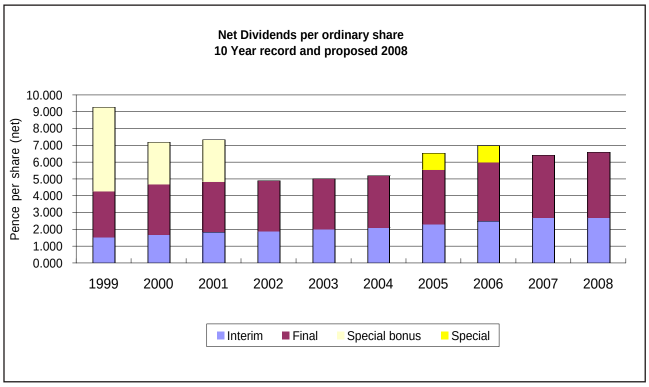
Status

Eligible to be held with an ISA or Savings Scheme.

Contact

British & American Investment Trust PLC
Wessex House
1 Chesham Street
London SW1X 8ND
Tel: 020 7201 3100
Fax: 020 7201 3101
Website: www.baitgroup.co.uk
Registered in England. Registered number 433137
VAT Reg. No. 241 1621 10





British & American Investment Trust PLC

Annual Report and Accounts

for the year ended 31 December 2008

Registered number: 433137

Contents

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 Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA

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

UBS AG
1 Curzon Street
London W1J 5UB

Stockbrokers
Walker Crips Stockbrokers Limited
Finsbury Tower
103-105 Bunhill Row
London EC1Y 8LZ

Auditors
Grant Thornton UK LLP
30 Finsbury Square
London
EC2P 2YU

Biographical details of directors and investment policy

Chairman

J Anthony V Townsend (Age 61)

Chairman of F&C Global Smaller Companies PLC, Finsbury Growth & Income Trust PLC and iimia Investment Trust PLC. Past chairman of the Association of Investment Companies (2001-2003). Non-executive director of Finsbury Worldwide Pharmaceutical Trust PLC. Appointed 6 October 1999.

Managing Director

Jonathan C Woolf (Age 52)

Director of Romulus Films Limited and associated companies, formerly merchant banker with S G Warburg & Co. Ltd. Appointed 14 July 1983.

Non Executive

Dominic G Dreyfus (Age 52)

Formerly a director of BCI Soditic Trade Finance Ltd, managing director of Soditic Limited and Membre du Directoire, Warburg Soditic SA, Geneva. Appointed 13 May 1996.

Ronald G Paterson (Age 52)

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 Companies. Appointed 1 January 2001.

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. Full details of the company's investment policy are contained in the Business Review on page 12.

AIC

The company is a member of the Association of Investment Companies (AIC).

Chairman's statement

I report our results for the year ended 31 December 2008.

Revenue

The return on the revenue account before tax amounted to £1.4 million (2007: £1.6 million). Gross income amounted to £1.7 million (2007: £1.9 million), of which £1.4 million (2007: £1.5 million) represented income from investments and £0.3 million (2007: £0.4 million) film, property and other income. The slightly lower level of income arose from the lower level of special dividends received and the first signs of decreases in dividend distributions generally in the market, as discussed in more detail below.

The return before tax, which includes realised and unrealised capital appreciation, amounted to a loss of £9.5 million (2007: £6.1 million loss) reflecting the steep decline in investment valuations both in the USA and the UK, particularly in the second half of the year, as discussed below. The capital element of this total was represented almost entirely by unrealised losses.

The revenue return per ordinary share was 4.2p (2007: 5.0p) on an undiluted basis and 4.0p (2007: 4.6p) on a diluted basis.

Net Assets

Group net assets at the year end were £28.2 million (2007: £39.6 million), a decrease of 28.9 percent. This compares to decreases in the FTSE 100 and All Share indices of 31.8 percent and 33.2 percent, respectively, over the period. This modest out-performance in a deeply negative year for investments generally is welcome and reflected relative out-performance by our principal US investment together with a strengthening in the US dollar. Nevertheless, the substantial overall decline in assets, albeit on an unrealised basis, is of course a great disappointment. The net asset value per ordinary share decreased to 81p (2007: 113p) on a diluted basis. Deducting prior charges at par, the net asset value per ordinary share decreased to 73p (2007: 119p).

Dividends

We are pleased to recommend an increased final dividend of 3.9p per ordinary share, which together with the interim dividend makes a total payment for the year of 6.6p (2007: 6.4p) per ordinary share. This represents an increase of 3.1 percent over the previous year's total dividend and an effective yield of 10.7 percent based on the year-end share price. The final dividend will be payable on 25 June 2009 to shareholders on the register at 29 May 2009. A dividend of 1.75p will be paid to preference shareholders resulting in a total payment for the year of 3.5p per share.

It has been our policy to maintain a progressive and full dividend payment policy and this has been achieved over the last 20 years, including the payment of significant special dividends from time to time. As a result, shareholders have enjoyed significantly higher levels of dividend income than average market yields, in fact in many years at twice the level of the FTSE 100 yield. In the second half of 2008, however, normal levels of income generation from equity investments started to become severely disrupted as the unprecedented combination of adverse conditions in markets globally took hold. Faced with a stalling of bank credit, the start of severe recessionary conditions and the prospect of a deflationary environment, even leading companies and banks have begun to reduce or even pass their dividends on an unprecedented scale. Yields on other good quality investment instruments have also suffered as returns have been affected by declines in capital values and the reduction in interest rates to historically low levels.

As a result, investment funds seeking to maintain levels of income for their investors are likely to experience considerable difficulty at the current time and until normal market conditions are resumed. In our case, however, while we expect significantly lower levels of income from our portfolio for a period of time, the group nature of our business permits us to supplement dividends efficiently where gains arise elsewhere within the group. Consequently, until markets resume normality, we will follow an approach to seek gains in subsidiaries to support our dividend policy.

Outlook

The downturn in global financial markets and economies accelerated again in the first quarter of 2009 and governments employed all means available on a coordinated basis to reduce the impact and reverse the decline, including cutting interest rates to historic lows, nationalising or guaranteeing banks and strategic industries, buying banking or corporate assets and providing unprecedented levels of liquidity through quantitive easing. Currently all the economic indicators remain negative and lagging effects such as unemployment and ballooning government deficits, particularly in the UK, will only serve to prolong the period until a turnaround can be observed and market conditions improve on a sustained basis.

At this stage, however, it is impossible to determine when these measures will begin to take effect, but given the unprecedented scale and coordinated nature of the intervention a recovery or at least stabilisation at some time is inevitable. The risk, however, is that if the unprecedented monetary and fiscal easing injected into world economies is not rebalanced swiftly at the appropriate time, inflationary forces and currency depreciations could easily be provoked which would be difficult to control. Even if the appropriate credit tightening responses are applied in a timely fashion, it is likely that the consequent interest rate and tax rises and de-leveraging together with the legacy of destroyed asset value seen in the current downturn will prevent previous levels of growth and value being re-visited for the foreseeable future.

Against this background, we maintain our primary equity-focused investment strategy based on long-term and income generating strategies in the UK and USA. While new opportunities to lock in good long-term investment returns may appear in current markets, until some degree of clarity emerges that capital values have stabilised, we will follow a strategy to invest resources in anticipation of possible adverse consequences arising in the medium-term out of the unprecedented quantities of monetary and fiscal stimulus being injected by governments into the major economies. This may include increasing our exposure to US dollar denominated investments and other potential inflation hedges.

As at 24 April 2009, group net assets had increased to £28.3 million, an increase of 0.5 percent since the beginning of the calendar year. This is equivalent to 73 pence per share (prior charges deducted at par) and 81 pence per share on a diluted basis. Over the same period the FTSE 100 decreased 6.3 percent and the All Share Index decreased 3.7 percent.

Anthony Townsend
30 April 2009

Managing Director's Report

Performance

The declines in global financial markets and economies in 2008 and into 2009 were unprecedented in speed, scope and scale. Not since the Great Depression in the 1930s has the world seen such a synchronised downturn, with substantial declines being registered in practically all investment assets, including equities, corporate/government bonds, real estate and, in the second half of the year, commodities following their boom in 2007/8. Only US treasuries posted positive returns as investors felt obliged to flee to the last bastion of investment safety, ignoring the inevitable price bubble which was being thereby created.

After the healthy levels of economic growth seen in world economies in the years up to 2007, particularly in the emerging markets of China, India and Brazil on the back of freely available credit and the global demand for energy, materials and low cost goods, the reversal which occurred to economic growth in 2008 as a result of the banking crisis was sudden and dramatic.

The declines of over 30 percent in the equity markets in the UK and USA in 2008 were characterised by the speed at which these declines occurred. By contrast, the declines of over 40 percent seen in the last major equity market downturn in the year 2000 took over three years to occur. The cause of this swift reaction was the unprecedented collapse of global bank credit which culminated in the demise of Lehman Brothers in September. The interconnected nature of the global financial and investment systems catalysed the economic downturn which had started in 2008 following weakness in US property prices and a price spiral in energy/commodities into a severe and coordinated slump. The systemic over-borrowing by the retail, corporate and banking markets became all too evident and damaged confidence further. Corporate and retail borrowers and banks themselves became unable to finance their operations and therefore had to reduce their activity significantly and sell assets. This affected all markets and valuations of even top-rated investments collapsed as bank balance sheets were cast into doubt, forcing governments to take emergency measures to support credibility in their banking systems.

The declines in equity markets in the UK and USA of around 14 percent already reported for the first half of 2008 continued and accelerated into the second half of 2008. Severe price drops occurred in the third quarter as leading US, UK and European banks were forced to seek re-capitalisation from their governments or merged with other banks from positions of weakness to strengthen their balance sheets. At the same time, a massive investment fraud was discovered in the USA which had implications for investors and funds world-wide. Equity prices consolidated into the year-end and finally recorded declines for the year of 31 percent and 29 percent in the UK and USA, respectively. Although the financial and property sectors recorded by far the largest declines for obvious reasons in some cases by up to 90 percent, declines were seen generally throughout all sectors including energy and commodities following the significant out-performance these sectors had enjoyed in the previous year.

As reported above, as a long-only fund, our portfolio was not immune to these large-scale falls in equity and other investment prices in 2008. However, due to firmness in our major US holding, Geron Corporation, and a significant recovery in the value of the US dollar against sterling, and despite significant exposures to the financial and property sectors, the portfolio outperformed the FTSE All Share index by approximately 4 percent.

The improved performance from Geron followed the election of the Obama administration in the USA in November 2008 which is greatly more supportive of the innovative embryonic stem cell technology which forms half of Geron's business. Furthermore, with the change in political climate, Geron was granted clearance in January 2009 by the US Federal Drug Administration to commence its ground-breaking and world-exclusive trials of its embryonic stem cell technology to cure spinal injuries in humans.

This extremely significant event was celebrated in a full front page article in the Times newspaper and in other leading publications worldwide.

The world recession and credit crisis has adversely affected investment activity not only in relation to asset values but also in relation to income. As noted above, equity and bond investors can expect significantly reduced levels of income over the coming period as interest rates have been reduced to historic lows and even leading corporates conserve resources to cope with the recession or credit/liquidity problems. In 2008, FTSE 100 companies reduced their dividends by over 40 percent which represents an unprecedented decline. Investment funds will therefore struggle to maintain levels of income. We are fortunate, however, to benefit from a group structure which will allow us to realise gains in our subsidiaries which we can distribute as dividends and we have been able to pay an increased dividend this year at almost twice the end-year yield on the FTSE 100.

Outlook

As noted above, declines in the global financial markets continued into the first quarter of 2009 with no respite being seen in the pace of deterioration. Negative sentiment in the market was reinforced by the end 2008 corporate reporting cycle which revealed the extent of difficulty being experienced by companies. Some measure of relief became evident, however, at the end of the first quarter into April in anticipation of the G20 Meeting in London. The unity displayed by the governments representing the vast majority of the world economy and the reconfirmation that all necessary measures would be taken to halt the global downturn had the effect of stabilising markets. In fact, equity prices in the USA rose at their fastest monthly pace ever, recording a rise of 18 percent in two weeks. In the UK, the FTSE 100 index rose by 14 percent over a four week period; however these markets still stand below their opening 2009 levels.

Whether this reversal indicates a bottom for equities markets in the current recession remains unclear. The peak to trough decline of over 50 percent since the start of the decline is more than commensurate with the size of previous bear market events; however, as noted above, the speed of the decline has been much faster. This could indicate further downward pressure as the lagging effects of recession such as unemployment, fiscal deficits and deflationary forces continue to be felt throughout the economy or alternatively it could herald an extended period of flat growth giving a U-shaped bottom to the market.

In the meantime, all financial parameters - interest rates, fiscal deficits, liquidity injections and, in the UK, currency levels - are set to stimulate renewed economic growth. Whether the UK economy responds accordingly, even in the face of such extraordinary reflationary pressures, will in the short term depend on a return of general confidence. In the medium term, it seems difficult to imagine that such extraordinary measures will not have the desired effect. The risk at that time will be the possible adverse consequences of over-stimulation if a swift and proportionate programme of monetary and fiscal tightening is not introduced leading to inflationary forces and currency depreciations which would be difficult to control.

For the longer term, the unprecedented upheavals experienced in the global banking markets and real economies over the last 18 months are likely to affect investment markets for a considerable period of time to come. While coordinated action by governments will hopefully now serve to stabilise the declines and improve sentiment generally, it will not be until the distortions in the valuations of banking assets and the fundamental and dangerous imbalances in economic activity around the world are addressed and eliminated that we will be likely to see a return to normalcy in investment markets.

Jonathan Woolf
30 April 2009

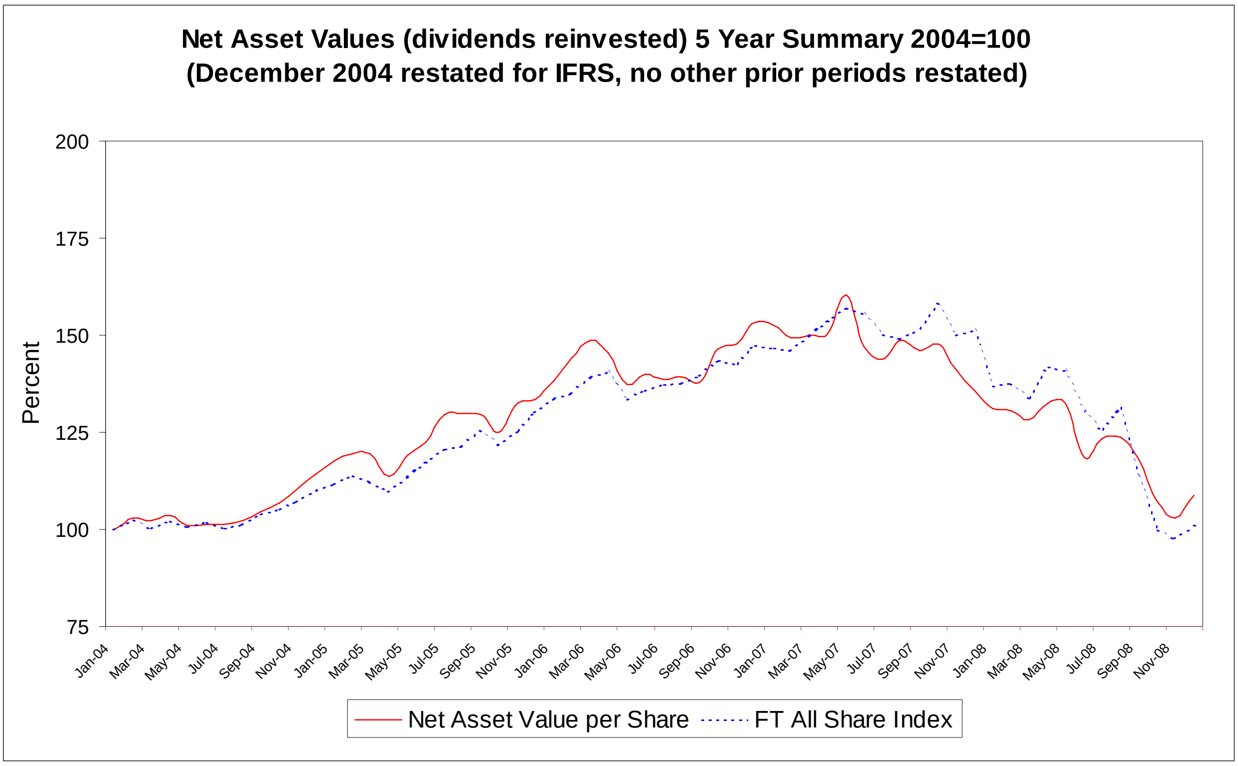
Financial highlights

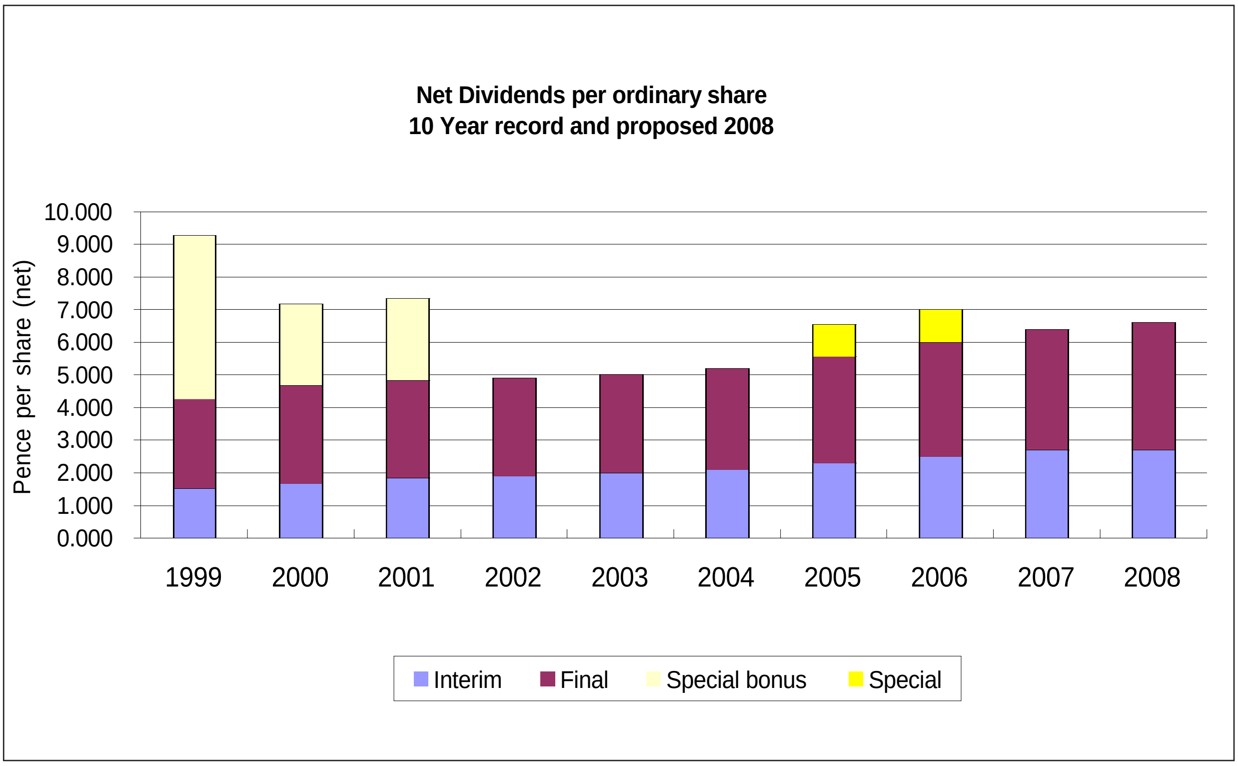
For the year ended 31 December 2008

	2008			2007		
	Revenue return £000	Capital return £000	Total £000	Revenue return £000	Capital return £000	Total £000
Profit before tax – realised	1,413	(208)	1,205	1,640	(422)	1,218
Loss before tax – unrealised	–	(10,698)	(10,698)	–	(7,278)	(7,278)
Loss before tax – total	1,413	(10,906)	(9,493)	1,640	(7,700)	(6,060)
Earnings per £1 ordinary share – basic	4.21p	(43.63)p	(39.42)p	4.98p	(30.80)p	(25.82)p
Earnings per £1 ordinary share – diluted	4.01p	(31.16)p	(27.15)p	4.56p	(22.00)p	(17.44)p
Net assets			28,190			39,643
Net assets per ordinary share						
– deducting preference shares at par			73p			119p
– diluted			81p			113p
Diluted net asset value per ordinary share at 24 April 2009			81p			

	2008	2007
Dividends declared or proposed for the period		
per ordinary share – interim paid	2.7p	2.7p
– final proposed	3.9p	3.7p
per preference share	3.5p	3.5p

Net asset and dividend growth





Distribution of investments and cash

Distribution of investments and cash balances:

	At valuation		
	24 April 2009	31 December 2008	31 December 2007
	£000	£000	£000
Investment Trusts (equities)	10,550	10,371	15,885
Biomedical – USA	7,414	6,869	6,006
Life Assurance	2,086	2,172	4,161
Property	496	1,577	3,554
Unit trusts	1,314	1,419	1,812
Software and computer services	542	679	281
Leisure and hotels	630	597	225
Telecommunications	284	338	334
Bank retail	155	183	816
Biotechnology	82	67	111
Overseas	208	66	80
Other services & businesses	68	61	761
Other Financial	63	27	70
Financial Services	31	24	20
Industrial Engineering	–	21	–
Information technology	63	21	105
Construction	46	20	–
Pharmaceuticals and healthcare	11	9	22
Media	6	8	493
Oil exploration and production	5	2	6
Beverages	222	–	–
Gas distribution	117	–	–
Total equities	24,393	24,531	34,742
Property units (unquoted)	611	658	945
Fixed Interest stocks	575	651	1,041
Preference shares	446	517	461
Permanent interest bearing	238	316	338
Convertible loan stocks (unquoted)	–	–	374
Total portfolio	26,263	26,673	37,901
Balances at banks and stockbrokers	376	618	1,596
	26,639	27,291	39,497

Group investment portfolio

At 31 December 2008

Company	Nature of business	Valuation £000	% of Group Portfolio
Geron Corporation	Biomedical – USA	6,869	25.75*
RIT Capital Partners	Investment Trust	2,387	8.95
Prudential	Life Assurance	2,083	7.81
Alliance Trust	Investment Trust	1,995	7.48
Liberty International	Property	1,577	5.91
Dunedin Income Growth	Investment Trust	1,483	5.56
British Assets Trust	Investment Trust	1,365	5.12
St James's Place International	Unit Trust	1,286	4.82
Electra Private Equity	Investment Trust	794	2.98
Earthport	Software & computer services	555	2.08
Scottish American Investment Company	Investment Trust	522	1.96
Invesco Income Growth Trust	Investment Trust	472	1.77
Royal & Sun Alliance Insurance Group			
7.375% Cum. irred. preference shares £1	Insurance – Non-Life	433	1.62
Rank Group	Leisure, entertainment and hotels	423	1.59
Matrix Chatham Maritime EZT(unquoted)	Enterprise Zone Trust	338	1.27
F&C Asset Management	General financial		
– 6.75% FRN Sub. Bonds 2026		323	1.21
Second Downing EZT(unquoted)	Enterprise Zone Trust	320	1.20
Rothschild Continuation Finance – 9% Perp. Sub. Gtd. Loan Notes	Financial	310	1.16
Merchants Trust	Investment Trust	289	1.08
Barclays – 9% PIB Capital Bonds	Banks retail	278	1.04
20 Largest investments		24,102	90.36
Other investments (number of holdings : 52)		2,571	9.64
Total investments		26,673	100.00

* 17.98% held by the company and 7.77% held by subsidiaries

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 the Listing Rules, 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, to 10% of its gross assets at the time of the investment. As at 31 December 2008, 15.8% 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.

Five year record

Capital

At 31 December	Equity shareholders' funds	Net asset value per share (diluted)	Share price	Discount
	£000	p	p	%
2004	37,869	108.2	90.0	16.8
2005	42,765	122.2	111.5	8.8
2006	47,647	136.1	129.0	5.2
2007	39,643	113.3	99.5	12.2
2008	28,190	80.5	60.0	25.5

Revenue

Year to 31 December	Total income	Profit after tax	Earnings per ordinary share (diluted)	Expense ratio	Dividend per ordinary share (net)
	£000	£000	p	%	p
2004	1,864	1,432	4.09	1.07	5.20
2005	2,032	1,702	4.86	1.02	6.55+
2006	2,105	1,814	5.18	0.94	7.00+
2007	1,939	1,596	4.56	1.05	6.40
2008	1,743	1,403	4.01	1.48	6.60

Earnings per ordinary share (diluted) is based on the revenue column of the Profit for the period in the Consolidated income statement and on 35,000,000 ordinary and convertible preference shares in issue.

Expense ratio is based on the ratio of Total expenses to average shareholders' funds.

+ includes special dividend of 1.0 penny.

Cumulative performance (2003=100)

Year to 31 December	Net asset value total return	AIC NAV Sector return	Share price total return	AIC Share price Sector return	FT All Share total return
2003	100	100	100	100	100
2004	117	117	124	117	113
2005	139	142	164	144	138
2006	160	169	200	174	145
2007	142	170	164	167	169
2008	114	118	107	123	119

Directors' report

For the year ended 31 December 2008

Directors' report

The directors present their annual report on the affairs of the group together with the financial statements and auditors' report for the year ended 31 December 2008.

Financial statements

The financial statements will be presented for approval at the sixty first Annual General Meeting of the company to be held on Thursday 18 June 2009.

Business review

<u>Business and status</u>

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

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

The company is an investment company under s833 of the Companies Act 2006.

Management and staff are conversant with the requirements of s842 of the Income and Corporation Taxes Act 1988. The board receives regular reports to monitor the company's compliance with the requirements of the Act. At the year end the company's tax advisors review the s842 calculation to be submitted to HMRC.

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 provisional and has been received in respect of the financial year to 31 December 2007, subject to any subsequent enquiry by HM Revenue & Customs into the company's tax return. Approval for 2005 and 2006 year ends has been received and is subject to a current HMRC investigation. The company has since directed its affairs to enable it to continue to seek approval.

<u>Future prospects</u>

The future prospects of the company are explained in the Chairman's Statement on pages 3 and 4 and in the Managing Director's Report on pages 5 and 6.

<u>Investment Policy</u>

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

In fulfilling this policy, the company acts as a long-only investment vehicle and in recognition of its status as an authorised investment trust and parent of a group of companies comprising two other investment companies and a film investment company. The company does not utilise gearing in its portfolio but does on occasion make use of derivative instruments to hedge exposures to particular investments or markets.

Historically, investments in other investment trusts have accounted for approximately 50 percent of the total portfolio with the balance being invested in a selection of leading quoted companies to provide opportunities for capital growth and income generation. These other investments have often been concentrated in a small number of companies, typically in the finance, property, insurance and leisure sectors and have individually represented as much as 10 to 15 percent of the portfolio. Currently, these individual exposures are in the US biomedical (25.17%), UK property (5.78%) and UK insurance (9.54%) sectors. Smaller size investments are made in other UK listed companies (currently 30, accounting for 13.72% of the portfolio) and further risk diversification is achieved by investment in fixed income securities (currently 4.49%) and property investments (currently 2.41%).

The investments in investment trusts are spread over a wide number and variety of trusts including UK, generalist, specialist, income, overseas and split capital trusts in order to respond to the objectives of the stated investment policy. Generally, for the larger of such investments, trusts offering exposure to both the UK and US markets, a discount greater than 5 percent and a yield in excess of the benchmark yield is sought.

Whenever total investment in UK listed investment companies, which have not declared an investment policy to invest less than 15% of their gross assets in other UK listed investment companies, exceeds 10% of gross assets, no further investments in such companies are made until the total investments in such companies returns below 10% of gross assets. Currently these investments amount to 17.07% of gross assets.

Portfolio performance in capital and income is measured and reported against the FTSE 100 and All Share Indices and relative performance against AIC peer group members is monitored. There is a recognition that at times, particularly when foreign or foreign currency denominated investments form a significant element of the portfolio that a certain degree of performance mismatch to the benchmarks is likely to occur.

Objective and strategy

The company’s objective is to achieve a balance to investors of growth in income and capital in order to sustain a progressive dividend policy. The policy of the investment portfolio is predominantly quoted UK investment trusts and other leading companies; other investments include overseas equities, bonds, indirect holdings in UK commercial property and the rights to receive royalties from certain longstanding commercial films.

Investments are self-managed. The portfolio currently consists of a diversified list of around 55 UK quoted companies, 13 UK unquoted holdings and 4 overseas quoted companies.

The property portfolio currently consists of an indirect partial interest in 2 commercial properties, situated outside of London, through Enterprise Zone Trusts.

Performance

The directors consider a number of performance measures to assess the company's success in achieving its objectives.

The key performance indicators (KPIs) used to measure the performance of the company over time are the following established industry measures:

- the movement in net asset value per ordinary share (after deducting preference shares at par) compared to the benchmark;
- share price total return;
- the discount (after deducting preference shares at par);
- the total expense ratio;
- earnings per share;
- dividend per share.

A historical record of these measures is shown on pages 7, 8 and 11.

The board also considers peer group comparative performance.

The review of the business is included in the Chairman's Statement on pages 3 and 4 and Managing Director's Report on pages 5 and 6. Information on movements on investments since the year end is included on page 9.

Discount

The discount, in absolute terms and relative to other similar investment trust companies, and the composition of the share register is monitored by the board. While there is no discount target the board is aware that discount volatility is unwelcome to many shareholders and that share price performance is the measure used by most investors. The board seeks to provide effective communication to existing and potential shareholders and maintain the profile of the company.

Principal risks and uncertainties

The principal risks facing the company relate to its investment activities and include market risk (other price risk, interest rate risk and currency risk), liquidity risk and credit risk. An explanation of these risks and how they are managed is contained in note 19 to the accounts on pages 40 to 44. The other principal risk to the company is loss of investment trust status, which is explained on page 12.

Financials

The financial highlights for the year under review are as follows: the net asset value per share decreased by 28.9% during the year, compared to a decrease in the benchmark of 33.2%, ordinary share dividends increased by 3.1% to 6.6p per share and the discount widened from 12.2% to 25.5% at the year end.

ISAs

The company has conducted its investment policy so as to remain a qualifying investment under the ISA 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 2008.

	Revenue £000	Capital £000	Total £000
Profit before tax	1,413	(10,906)	(9,493)
Tax	(10)	–	(10)
Profit after tax	1,403	(10,906)	(9,503)

Dividends	Pence per share	£000
Interim per £1 ordinary share (paid 13 November 2008)	2.7	675
3.5% preference share paid (paid 13 November 2008)	1.75	175
Final per £1 ordinary share – proposed	3.9	975
3.5% preference share (payable 25 June 2009)	1.75	175
		2,000

The dividends proposed above will be paid on 25 June 2009 to ordinary shareholders on the register at 29 May 2009 and to 3.5% preference shareholders on the register at 31 December 2008.

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. Further, having served as a director since 1999 Mr JAV Townsend and, being eligible, offers himself for re-election. The Board recommends Mr DG Dreyfus', Mr RG Paterson's and Mr JAV Townsend's re-election. At the time of the Annual General Meeting Mr DG Dreyfus will have completed more than 13 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 and Mr JAV Townsend remain 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.

The directors during the year ended 31 December 2008 had interests in the shares of the company as follows:

	2008		2007	
	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%) (2007 – 6,902,812 (27.6%)) ordinary shares held by Romulus Films Ltd, 7,868,750 (31.5%) (2007 – 7,868,750 (31.5%)) ordinary shares held by Remus Films Ltd and 80,000 (0.32%) (2007 – 80,000 (0.32%)) ordinary shares held by PKL Pictures Limited. Romulus Films Ltd also holds 10,000,000 cumulative convertible preference shares (2007 – 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 30 April 2009 the directors had been notified of the following interests of 3% or more of either class:

	Number of shares held	%
Jupiter Monthly Income Fund Unit Trust	1,835,000	7.3
Lady Lever of Manchester	1,146,562	4.6

These interests relate to the ordinary shares of the company.

Share Capital

Capital Structure

The company's capital comprises £35,000,000 (2007 - £35,000,000) being 25,000,000 ordinary shares of £1 (2007 – 25,000,000) and 10,000,000 non-voting convertible preference shares of £1 each (2007 – 10,000,000). The rights attaching to the shares are described in note 14 to the accounts on page 38.

Dividends

The ordinary shares carry a right to receive dividends. Interim dividends are approved by the directors and the proposed final dividend is subject to shareholder approval.

The preference shares have a 3.5% fixed cumulative preferential dividend payable half yearly in equal amounts.

The company's Articles of Association specifies the preference rate of dividend and provides that, if at any dividend date the profits available for distribution are insufficient to pay the ordinary and preference shareholders at the 3.5% rate then the dividend will be paid to all shareholders pari passu.

Further, any arrears of preference dividend cannot be paid in any year unless the ordinary shares have received a 3.5% dividend, on par.

Finally, no dividends on ordinary shares may be paid if there are unpaid arrears of the preference shares fixed rate dividend.

Capital entitlement

On a winding up, after meeting the liabilities of the company the surplus assets will be distributed as follows:

(i) firstly, any arrears of preference shares fixed rate dividend

(ii) secondly, an amount equal to the nominal value of the ordinary and preference shares to be paid pari passu

(iii) lastly, the balance of surplus assets to be paid rateably to the ordinary shares.

Voting

The preference shares shall not have any right to vote unless the business of the meeting includes consideration of any resolution for the winding up of the company, purchase by the company of any of its own shares, or a reduction of the capital, or a varying of the rights of the preference shares.
On a show of hands, every ordinary shareholder (or preference shareholder in the situations described in the above paragraph) present in person (or, being a corporation, by a representative) has one vote and upon a poll every shareholder present has one vote for every share, and a proxy has one vote for every share. Information on the deadlines for proxy appointment is shown on page 51.

Conversion

At any time, during the period from 1 January 2006 to 31 December 2025 (both dates inclusive), and, if published audited annual accounts showing Group shareholders' funds are £50 million or more, preference shareholders have the right to convert all or any of their shares on a one for one basis to new ordinary shares.

Purchase of shares

The company does not have a buy-back authority and no present intention to seek shareholders' approval for one.

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. There were no trade creditors outstanding at the year end (2007 – £nil).

Directors' & officers' liability insurance cover

Directors' & officers' liability insurance cover was maintained by the board during the year ended 31 March 2009. It is intended that this policy will continue for the year ended 31 December 2009 and subsequent years.

Directors' indemnities

As at the date of this report, indemnities are in force between the company and each of its directors under which the company has agreed to indemnify each director, to the extent permitted by law, in respect of certain liabilities incurred as a result of carrying out his role as a director of the company. The directors are also indemnified against the costs of defending any criminal or civil proceedings or any claim by the company or a regulator as they are incurred provided that where the defence is unsuccessful the director must repay those defence costs to the company. The indemnities are qualifying third party indemnity provisions for the purposes of the Companies Act 2006. A copy of each deed of indemnity is available for inspection at the company's registered office during normal business hours and will be available for inspection at the Annual General Meeting.

Statement of compliance with the combined code of best practice

The section 'Statement of Compliance with the Combined Code of Best Practice' on pages 45 to 48 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.

Statement of disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information (as defined by Section 234ZA of the Companies Act 1985) of which the company's auditors are unaware, and each member has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Directors' responsibility statement

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations. The directors confirm that to the best of their knowledge the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and loss of the company and the undertakings included in the consolidation taken as a whole and that the Chairman's Statement, Managing Director's Report and the Directors' report include a fair review of the information required by rules 4.1.8R to 4.2.11R of the FSA's Disclosure and Transparency Rules.

Auditors

A resolution to reappoint Grant Thornton UK LLP as auditors of the group will be proposed at the forthcoming Annual General Meeting.

Jonathan Woolf
Managing Director

Wessex House
1 Chesham Street
London
SW1X 8ND

30 April 2009

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 as regards the group financial statements 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.

Report of the independent auditor

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF BRITISH & AMERICAN INVESTMENT TRUST PLC

We have audited the group and parent company financial statements (the 'financial statements') of British & American Investment Trust Plc for the year ended 31 December 2008 which comprise the group income statement, the group Statement of changes in equity, the parent company Reconciliation of movements in shareholders' funds, the group and parent company balance sheets, the group cash flow statement, and notes 1 to 20. 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 members, 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 members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the parent company financial statements and the Directors' Remuneration Report in accordance with United Kingdom law and 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and the Managing Director's Report that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, 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 2006 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 financial statements. The other information comprises only the information presented on the inside front cover of the annual report, Chairman's Statement, the Managing Directors report, the Financial Highlights, the Net asset and dividend growth, the Distribution of investments and cash, the Group investment portfolio, the Five year record, the Directors' Report, the unaudited part of the Directors' Remuneration Report, and the Statement of compliance with the Combined Code of Best

Practice. 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 European Union, of the state of the group's affairs as at 31 December 2008 and of its loss 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 the parent company's affairs as at 31 December 2008;
- 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; and
- the information given in the Directors' Report is consistent with the financial statements.

Grant Thornton UK LLP

Registered Auditor & Chartered Accountants

London

30 April 2009

Group income statement

For the year ended 31 December 2008

	Notes	2008 Revenue return £000	2008 Capital return £000	2008 Total £000	2007 Revenue return £000	2007 Capital return £000	2007 Total £000
Investment income	2	1,743	–	1,743	1,939	–	1,939
Losses on investments at fair value through profit or loss - unrealised	9,12	–	(10,698)	(10,698)	–	(7,278)	(7,278)
Losses on investments at fair value through profit or loss - realised	9,11,12	–	(35)	(35)	–	(264)	(264)
Expenses	3	(330)	(173)	(503)	(299)	(158)	(457)
(Loss)/profit before tax		1,413	(10,906)	(9,493)	1,640	(7,700)	(6,060)
Tax	6	(10)	–	(10)	(44)	–	(44)
(Loss)/profit for the period		1,403	(10,906)	(9,503)	1,596	(7,700)	(6,104)
Earnings per share							
Basic - ordinary shares	7	4.21p	(43.63)p	(39.42)p	4.98p	(30.80)p	(25.82)p
Diluted - ordinary shares	7	4.01p	(31.16)p	(27.15)p	4.56p	(22.00)p	(17.44)p

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 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 26 to 44 form part of these financial statements.

Statement of changes in equity

31 December 2008

Group

	Share capital £000	Capital reserve realised £000	Capital reserve unrealised £000	Retained earnings £000	Total £000
Balance at 31 December 2006	35,000	17,154	(6,583)	2,076	47,647
Changes in equity for 2007					
Loss for the period	–	1,126	(8,826)	1,596	(6,104)
Ordinary dividend paid (note 8)	–	–	–	(1,550)	(1,550)
Preference dividend paid (note 8)	–	–	–	(350)	(350)
Balance at 31 December 2007	35,000	18,280	(15,409)	1,772	39,643
Changes in equity for 2008					
Loss for the period	–	(658)	(10,248)	1,403	(9,503)
Ordinary dividend paid (note 8)	–	–	–	(1,600)	(1,600)
Preference dividend paid (note 8)	–	–	–	(350)	(350)
Balance at 31 December 2008	35,000	17,622	(25,657)	1,225	28,190

Reconciliation of movements in shareholders' funds

Company

	Share capital	Capital reserve realised £000	Capital reserve unrealised £000	Retained earnings £000	Total £000
Balance at 31 December 2006	35,000	50	11,274	1,392	47,716
Changes in equity for 2007					
Loss for the period	–	291	(7,950)	1,650	(6,009)
Ordinary dividend paid (note 8)	–	–	–	(1,550)	(1,550)
Preference dividend paid (note 8)	–	–	–	(350)	(350)
Balance at 31 December 2007	35,000	341	3,324	1,142	39,807
Changes in equity for 2008					
Loss for the period	–	(1,821)	(9,742)	1,958	(9,605)
Ordinary dividend paid (note 8)	–	–	–	(1,600)	(1,600)
Preference dividend paid (note 8)	–	–	–	(350)	(350)
Balance at 31 December 2008	35,000	(1,480)	(6,418)	1,150	28,252

Group and company balance sheet

31 December 2008

	Notes	Group		Company	
		2008	2007	2008	2007
		£000	£000	£000	£000
Non - current assets					
Investments - fair value through profit or loss	9	26,673	37,901	27,450	39,330
Current assets					
Receivables	11	307	531	1,862	2,559
Derivatives - fair value through profit or loss	11	1,895	542	1,764	461
Cash and cash equivalents		864	1,846	513	1,761
		3,066	2,919	4,139	4,781
Total assets		29,739	40,820	31,589	44,111
Current liabilities	12				
Trade and other payables		386	586	–	585
Current tax		6	42	–	–
Other current liabilities		105	74	101	70
Derivatives - fair value through profit or loss		1,052	475	–	56
		(1,549)	(1,177)	(101)	(711)
Total assets less current liabilities		28,190	39,643	31,488	43,400
Non - current liabilities	13	–	–	(3,236)	(3,593)
Net assets		28,190	39,643	28,252	39,807
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	17,622	18,280	(1,480)	341
Capital reserve - unrealised	15	(25,657)	(15,409)	(6,418)	3,324
Retained revenue earnings	15	1,225	1,772	1,150	1,142
Total equity		28,190	39,643	28,252	39,807

The notes on pages 26 to 44 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 headings are set out in note 20 to the accounts.

The financial statements on pages 22 to 44 were approved by the board of directors on 30 April 2009.

Jonathan Woolf
Managing Director

Group cash flow statement

For the year ended 31 December 2008

	Notes	2008 £000	2007 £000
Cash flow from operating activities			
Loss before tax		(9,493)	(6,060)
Adjustment for:			
Loss on investments		10,733	7,542
Scrip dividends and interest		(23)	(6)
Film income tax deducted at source		(4)	(3)
Proceeds on disposal of investments at fair value through profit or loss		14,935	13,864
Purchases of investments at fair value through profit or loss		(14,653)	(12,867)
Operating cash flows before movements in working capital		1,495	2,470
Increase in receivables		(1,553)	(115)
Increase/(decrease) in payables		1,070	(148)
Net cash from operating activities before income taxes		1,012	2,207
Income taxes paid		(44)	(15)
Net cash flows from operating activities		968	2,192
Cash flows from financing activities			
Dividends paid on ordinary shares	8	(1,600)	(1,550)
Dividends paid on preference shares	8	(350)	(350)
Net cash used in financing activities		(1,950)	(1,900)
Net (decrease)/increase in cash and cash equivalents		(982)	292
Cash and cash equivalents at beginning of year		1,846	1,554
Cash and cash equivalents at end of year		864	1,846

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 2008

1 Accounting policies

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

a) Basis of preparation and statement of compliance

The group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the IASB and International Accounting Standards and Standing Interpretations Committee interpretations approved by the IASC that remain in effect, and to the extent they have been adopted by the European Union at 31 December 2008. The company has elected to prepare its parent company accounts under UK Generally Accepted Accounting Practice (GAAP).

The financial statements have been prepared on the historical cost basis except for the measurement at fair value of investments and derivative financial instruments and the inclusion of subsidiaries using the alternative accounting rules under CA 85. The same accounting policies as those published in the statutory accounts for 31 December 2007 have been applied.

Where presentational guidance set out in the Statement of Recommended Practice (SORP) for investment trusts revised by the Association of Investment Companies (AIC) in January 2009 is consistent with the requirements of IFRS, the directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

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.

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

These accounting policies are consistent with those applied by the group entities.

Future standards in place but not yet effective.

New and updated IAS's have been reviewed for their impact on the group and no material impact is expected on the financial statements from new and updated IAS's.

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 loss on ordinary activities after taxation for the year was £9,604,826 (2007 – £6,009,002 loss).

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.

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 AIC,

1 Accounting policies (continued)

supplementary information which analyses the income statement between items of a revenue and capital nature has been presented alongside the income statement. In accordance with the company's status as a UK investment company under section 833 of the Companies Act 2006, net capital returns may not be distributed by way of dividend

d) Valuation of investments

As the group'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, investments are designated as fair value through profit or loss on initial recognition. The group 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 group's key management personnel.

Investments held at fair value through profit or loss, including derivatives held for trading, are initially recognised at fair value.

After initial recognition, investments, which are designated 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 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.

Traded stock options are, until realisation, included under current assets or current liabilities.

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.

Investments in subsidiary companies are held at valuation as determined by the directors, which is equivalent to the fair value. Where a subsidiary has negative net assets it is included in investments at nil value and a provision made against it on the balance sheet.

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 revenue when the shareholders' rights to receive payment has been established, normally the ex-dividend date.

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 revenue in nature. Amounts recognised as revenue will form part of the company's distribution. Any tax thereon will follow the accounting treatment of the principal amount.

1 Accounting policies (continued)

f) Expenses

- transaction costs which are incurred on the purchase or sale of an investment designated as fair value through profit or loss are included in the capital column of the income statement and disclosed in note 9;

- 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% (2007 - 50%) to revenue and 50% (2007 - 50%) 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 and company'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 column of the income statement, then no tax relief is transferred to the capital 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) Distributable reserves

Subject to the parent company's status as a UK investment company under section 833 of the Companies Act 2006, which does not permit net capital returns being distributed by way of dividend, unrealised gains and losses on quoted investments are included in the calculation of reserves available for distribution by way of dividend. However, in the interests of prudence the directors do not consider these unrealised gains to be distributable.

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 - 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.

2 Income

	2008	2007
Income from investments	£000	£000
UK dividends (cash and in specie)	1,197	1,296
Overseas dividends	13	11
Scrip dividends	5	4
Interest on fixed income securities	148	153
Rental income (Property Income Distribution)	54	59
Property unit trust income	22	101
Film revenues	215	238
	1,654	1,862
Other income		
Deposit interest	38	95
Other	51	(18)
	89	77
Total income	1,743	1,939
Total income comprises:		
Dividends	1,269	1,370
Interest	186	248
Film revenues	215	238
Property unit trust income	22	101
Gain/(loss) on foreign exchange	51	(18)
	1,743	1,939
Income from investments:		
Listed investments	1,371	1,469
Unlisted investments	283	393
	1,654	1,862

Of the £1,215,000 (2007 – £1,311,000) dividends received in the group accounts, £362,000 (2007 – £468,000) related to special and other dividends received from investee companies that were bought after the dividend announcement. There was a corresponding capital loss of £357,000 (2007 – £445,000), on these investments.

3 Administrative expenses

	2008 £000	2007 £000
Staff costs – including executive director (Notes 4 and 5)	334	311
Non-executive directors fees (Note 4)	44	44
Auditors' remuneration:		
Fees payable to the company's auditor for the audit of the company's individual financial statements and its consolidated financial statements	24	24
Fees payable to the company's auditor for other services:		
– audit of the financial statements of the company's subsidiaries pursuant to legislation	5	5
– other services relating to taxation	15	9
– all other services	4	6
Other	59	44
Irrecoverable VAT	18	14
	503	457

4 Directors' remuneration

Directors' remuneration is disclosed in the Directors' remuneration report on page 50.

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 Staff costs

	2008 £000	2007 £000
Wages and salaries	273	259
Social security costs	34	32
Pensions and post-retirement benefits	27	20
	334	311

The average number of persons (including the executive director) employed during the year was 8 (2007 – 8).

	2008 Number	2007 Number
Investment	2	2
Administration	6	6
	8	8

6 Tax

	2008 £000	2007 £000
Current tax:		
UK corporation tax	(10)	(45)
Foreign tax	4	3
Double taxation relief	(4)	(3)
Adjustment in respect of prior periods	–	1
	(10)	(44)

Corporation tax is calculated at 28.5% (2007 – 30%) of the estimated assessable profit for the year.

6 Tax (continued)

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

	2008		2007	
	£000	%	£000	%
Total loss before tax	(9,493)	28.5	(6,060)	30.0
Tax at the UK corporation tax rate of 28.5% (2007 – 30%)	2,706		1,818	
Tax effect of expenses that are not deductible in determining taxable profit	2		2	
Tax effect of non-taxable UK and scrip dividends	343		389	
Withholding tax suffered	4		3	
Capital (gains)/losses	(329)		203	
Losses on investments that are not taxable	(3,059)		(2,263)	
Tax effect of utilisation of tax losses not previously recognised	329		–	
Tax effect of losses not utilised in the year	–		(203)	
Prior period adjustments	–		–	
Effect of different tax rates of subsidiaries	(6)		7	
Tax expense and effective tax rate for the year	(10)	0.11	(44)	0.7

At 31 December 2008 the group had capital losses of £nil (2007 – £1,391,000) in respect of which a deferred tax asset has not been recognised.

7 Earnings per ordinary share

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

	2008			2007		
	Revenue return £000	Capital return £000	Total £000	Revenue return £000	Capital return £000	Total £000
Earnings:						
Basic	1,053	(10,906)	(9,853)	1,246	(7,700)	(6,454)
Preference dividend	350	–	350	350	–	350
Diluted	1,403	(10,906)	(9,503)	1,596	(7,700)	(6,104)

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 (2007 – 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 (2007 – 35 million) ordinary and preference shares in issue.

8 Dividends

	2008 £000	2007 £000
Amounts recognised as distributions to ordinary shareholders in the period:		
Dividends on ordinary shares:		
Final dividend for the year ended 31 December 2007 of 3.7p (2006 – 3.5p) per share	925	875
Interim dividend for the year ended 31 December 2008 of 2.7p (2007 – 2.7p) per share	675	675
	1,600	1,550
Proposed final dividend for the year ended 31 December 2008 of 3.9p (2007 – 3.7p) per share	975	925

	2008 £000	2007 £000
Dividends on 3.5% cumulative convertible preference shares:		
Preference dividend for the 6 months ended 31 December 2007 of 1.75p (2006 – 1.75p) per share	175	175
Preference dividend for the 6 months ended 30 June 2008 of 1.75p (2007 – 1.75p) per share	175	175
	350	350
Proposed preference dividend for the 6 months ended 31 December 2008 of 1.75p (2007 – 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

	2008 £000	2007 £000
Dividends on ordinary shares:		
Interim dividend for the year ended 31 December 2008 of 2.7p (2007 – 2.7p) per share	675	675
Proposed final dividend for the year ended 31 December 2008 of 3.9p (2007 – 3.7p) per share	975	925
	1,650	1,600
Dividends on 3.5% cumulative convertible preference shares:		
Preference dividend for the year ended 31 December 2008 of 1.75p (2007 – 1.75p) per share	175	175
Proposed preference dividend for the year ended 31 December 2008 of 1.75p (2007 – 1.75p) per share	175	175
	350	350

9 Investments – fair value through profit or loss

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Investments listed on a recognised investment exchange	25,997	36,565	23,499	34,852
Unlisted investments				
– Subsidiary undertakings (Note 10)	–	–	3,951	4,278
– Property units	658	945	–	–
– Unlisted securities	18	391	–	200
	26,673	37,901	27,450	39,330

The potential taxation liability in subsidiary undertakings in respect of unrealised capital appreciation on which deferred taxation has not been provided at 31 December 2008 is estimated at £nil (2007 – £nil).

Film rights are valued, in the group, at £nil (2007 – £nil). The original cost of the film rights held in subsidiary undertakings is £510,000 with total amortisation to date of £450,997.

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

Group:	Listed in UK £000	Listed overseas £000	Unlisted UK £000	2008 Total £000	2007 Total £000
Opening cost at 1 January	14,052	9,058	3,136	26,246	25,451
Gains/(losses) at 1 January	16,427	(2,972)	(1,800)	11,655	20,425
Opening fair value at 1 January	30,479	6,086	1,336	37,901	45,876
Purchases at cost	10,471	3,981	24	14,476	13,458
Transfers	21	–	(21)	–	–
Sales – proceeds	(10,764)	(4,310)	–	(15,074)	(13,727)
– realised gains/(losses) on sales	(430)	498	–	68	(466)
(Decrease)/increase in unrealised appreciation	(10,715)	680	(663)	(10,698)	(7,240)
Closing fair value at 31 December	19,062	6,935	676	26,673	37,901
Closing cost at 31 December	13,061	9,100	3,140	25,301	26,246
Gains/(losses) at 31 December	6,001	(2,165)	(2,464)	1,372	11,655
Closing fair value at 31 December	19,062	6,935	676	26,673	37,901

Company:	Listed in UK £000	Listed overseas £000	Unlisted UK £000	2008 Total £000
Opening cost at 1 January	21,027	6,701	8,302	36,030
Gains/(losses) at 1 January	9,353	(2,229)	(3,824)	3,300
Opening fair value at 1 January	30,380	4,472	4,478	39,330
Purchases at cost	6,005	2,472	15	8,492
Transfers	115	–	(115)	–
Sales – proceeds	(6,055)	(2,748)	–	(8,803)
– realised (losses)/gains on sales	(1,048)	154	–	(894)
Decrease in unrealised appreciation	(10,759)	511	(427)	(10,675)
Closing fair value at 31 December	18,638	4,861	3,951	27,450
Closing cost at 31 December	19,484	6,465	7,934	33,883
Gains/(losses) at 31 December	(846)	(1,604)	(3,983)	(6,433)
Closing fair value at 31 December	18,638	4,861	3,951	27,450

Losses 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 £39,853 (2007 – £51,196) being £22,905 (2007 – £25,484) on purchases and £16,948 (2007 – £25,712) on sales.

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

Losses on investments

	Group 2008 £000	Group 2007 £000	Company 2008 £000
Realised (losses)/gains on sales	(382)	1,082	(1,835)
Realised gains/(losses) recognised as unrealised in prior years	450	(1,548)	941
	68	(466)	(894)
Unrealised depreciation in year	(10,698)	(7,240)	(10,675)
Total recognised losses on investments	(10,630)	(7,706)	(11,569)
Realised (losses)/gains included in Receivables (note 11)	(229)	221	(187)
Realised gains/(losses) included in Current liabilities (note 12)	126	(57)	10
Realised gain included in Non-current liabilities (note 13)	–	–	357
	(10,733)	(7,542)	(11,389)

At the time of the group/company reconstruction in December 1995 to an investment trust company, an amount of £27,045,000 from the group unrealised reserve was capitalised to help form the company's ordinary and preference share capital. This largely explains the difference between the group unrealised gain at 31 December 2008 of £1,372,000 (2007 – £11,655,000) on page 35 and the group capital reserve unrealised of £(25,657,000) (2007 – £(15,409,000)) in note 15 on page 39.

10 Subsidiary undertakings

The company has 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	0	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 Receivables

	Group		Company	
	2008	2007	2008	2007
	£000	£000	£000	£000
Sales of investments awaiting settlement	139	335	34	–
Trade debtors	–	62	–	–
Amount owed by subsidiary undertakings	–	–	1,403	2,209
Income tax recoverable	38	36	38	36
Group relief receivable	–	–	272	220
Prepayments and accrued income	45	54	45	52
Other receivables	85	44	70	42
Derivatives held at fair value through profit or loss	1,895	542	1,764	461
	2,202	1,073	3,626	3,020

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

Receivables for the group includes stock derivative assets of £1,895,328 (2007 - £542,000) containing a realised loss at the year end of £229,762 (2007 - £9,172 gain). Receivables for the company includes stock derivative assets of £1,763,587 (2007 - £461,000) containing a realised loss of £187,242 (2007 - £11,310 gain). These stock derivatives are a hedge against part of the investment in Geron Corporation.

12 Current liabilities

	Group		Company	
	2008	2007	2008	2007
	£000	£000	£000	£000
Purchases of investments awaiting settlement	385	585	–	585
Trade payables	1	1	–	–
Corporation tax payable	6	42	–	–
Other taxes and social security	3	3	3	4
Other payables	31	23	31	22
Derivatives held at fair value through profit or loss	1,052	475	–	56
Accruals and deferred income	64	42	56	34
Amounts owed to subsidiary undertakings	–	–	11	10
Amounts due to related parties	7	6	–	–
	1,549	1,177	101	711

The directors consider that the carrying amount of other payables approximates to their fair value. Current liabilities includes stock derivative liabilities with a fair value of £1,052,559 (2007 - £138,300) for group, containing a realised gain at the year end of £146,073 (2007 - £33,455 unrealised loss). The amounts for the company are £nil (2007 - £56,013) and £29,500 realised gain (2007 - £9,940 unrealised gain) respectively. Current liabilities for group also includes short sale liabilities with a fair value of £nil (2007 - £337,250) containing an unrealised loss at the year end of £nil (2007 - £2,753).

13 Non-current liabilities

	Company	
	2008	2007
	£000	£000
Guarantee of subsidiary liability	3,236	3,593

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

	2008	2007
	£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 equity instruments in accordance with IAS 32 and FRS 25 - 'Financial Instruments - 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 reserves

	Capital reserve realised £000	Capital reserve unrealised £000	Retained earnings £000
Group			
1 January 2008	18,280	(15,409)	1,772
Allocation of (loss)/profit for the year	(208)	(10,698)	1,403
Transfer between realised and unrealised capital reserves	(450)	450	–
Ordinary and preference dividends paid	–	–	(1,950)
31 December 2008	17,622	(25,657)	1,225
Company			
1 January 2008	341	3,324	1,142
Allocation of (loss)/profit for the year	(880)	(10,683)	1,958
Transfer between realised and unrealised capital reserves	(941)	941	–
Ordinary and preference dividends paid	–	–	(1,950)
31 December 2008	(1,480)	(6,418)	1,150

16 Net asset values

	Net asset value per share		Net assets attributable	
	2008 £	2007 £	2008 £000	2007 £000
Ordinary shares				
Undiluted	0.73	1.19	18,190	29,643
Diluted	0.81	1.13	28,190	39,643

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 £9,636 (2007 – £10,234) 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 2008 were £302,714 (2007 – £288,037) in respect of salary costs and £26,555 (2007 – £19,860) in respect of pensions.

At the year end an amount of £3,340 (2007 – £2,832) 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 16.

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 £817,015 (2007 – £942,113). The asset would be recovered if the company disposed of its investments and made sufficient future taxable profits and chargeable gains.

It is unlikely the parent company will generate sufficient taxable profits in the future as its taxable losses are usually more than offset by the taxable profits generated by subsidiary companies, to recover management expenses of £7,806 (2007 – £8,217) and no deferred tax asset has been recognised in the year or prior years.

19 Risk management and other financial instruments

The group'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 group'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. The group's stated investment policy is to invest 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.

At the year end written put and call options, which are traded on the Chicago Board Options Exchange, totalled £1,198,632 (2007 – £104,845). The fair market value and resulting realised gain is disclosed in the note 12 on page 37.

The main risks arising from the group's financial instruments are market risk (comprising other price risk, interest rate risk, currency risk), liquidity risk and credit 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.

19 Risk management and other financial instruments (continued)

Other price risk

The group's exposure to other price 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. The group’s exposure to other changes in market prices at 31 December on its quoted and unquoted equity investments was:

	2008	2007
	£000	£000
Investments held at fair value through profit or loss	26,673	37,901

Details of the group investment portfolio at the year end are shown on page 10.

Other price risk sensitivity

A 10% increase in group portfolio valuations at 31 December 2008 would result in an increase of £2,667,000 (2007 – £3,790,000) in net asset value and profit for the year. A decrease of 10% would have had an equal but opposite effect.

Financial assets - interest rate risk

The majority of the group's financial assets are equity shares 89.9% (2007 – 91.7%) or other investments which pay dividends rather than interest and do not have a maturity date.

Interest bearing investments, including cash deposits, comprise 7.6% of the group's financial assets, of which 5.4% are at fixed rate and 2.2% floating rate.

Interest rate movements may directly affect the fair value of fixed interest rate securities and the level of interest receivable on cash deposits. Interest rate movements may affect the general equity market valuation and thus indirectly affect the value of the group investment portfolio by significantly impacting the equity of investee companies. The potential effects of these direct and indirect movements are considered when making investment decisions.

The board regularly reviews the level of investments in cash and fixed income securities and the attendant level of interest receivable.

The interest rate risk profile of the financial assets of the group at 31 December 2008 is shown below.

		2008		2007
	Fair Value	Maturity	Fair Value	Maturity
	£000		£000	
Fixed Rate				
UK convertible loan stocks (unquoted)	–	–	374	6 months
UK debenture stock	–	–	143	3 years
UK fixed interest stock	341	18 years	323	19 years
UK notes and bonds	624	undated	913	undated
	965		1,753	
Weighted average interest rate (on fair value)	9.7%		7.8%	

19 Risk management and other financial instruments (continued)

Cash and cash equivalents comprise bank, broker and money market deposits with a maximum maturity period of one month.

Interest rate sensitivity

An increase of 1% in sterling interest rates at 31 December 2008 would have decreased the fair value of fixed interest securities and hence total net assets by £100,000 (2007 – £155,000). A decrease of 1% would have had an equal but opposite effect.

Fair values of financial assets and financial liabilities

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

Currency risk

The vast majority 71% (2007 – 82%) of the group's assets and liabilities are in sterling. The remaining foreign currency content is almost exclusively in a single investment denominated in US dollars. The board monitors the group's exposure to foreign currencies on a regular basis. The Managing Director assesses the risk of this exposure and its possible effect on the net asset value of the group. Where appropriate, foreign currency contracts may be used to limit the group's exposure to anticipated future adverse changes in exchange rates.

	2008	2007
	£000	£000
US dollar		
Investments	6,935	6,083
Cash and cash equivalents	297	753
Other debtors and creditors	843	466
Net exposure	8,075	7,302
Total net assets	28,190	39,643

Currency risk sensitivity

At 31 December 2008, if sterling had strengthened by 5% in relation to the US dollar, with all other variables held constant, total net assets would have decreased by £425,000 (2007 – £307,000). Similarly, a 5% weakening of sterling against the US dollar, with constant other variables, would have had an equal but opposite effect.

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. The board has set, and regularly monitors, guidelines on limits for both individual holdings and exposure to quoted equities in total (see investment policy on pages 12 and 13). The group considers that its exposure is not significant.

Credit risk

This is the risk of loss to the group arising from the failure of a transactional counterparty to discharge its obligations.

19 Risk management and other financial instruments (continued)

The group manages this risk through the following controls:

- when making an investment in a bond or other security with credit risk, the risk is assessed and compared to the forecast investment return for each security;
- the board receives regular valuations of bonds and other securities;
- investment transactions are primarily placed through the group's broker. The credit worthiness of the broker and other entities is reviewed by the board. Investment transactions are normally done on a delivery versus payment basis such that the group or its custodian bank has ensured that the counterparty has delivered on its obligations before effecting transfer of cash or securities;
- cash is held at banks considered by the board to be reputable and of high credit quality.

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.

Total exposure to credit risk is not considered to be significant. In summary, the maximum exposure to credit risk at 31 December was:

		2008		2007
	Balance sheet £000	Maximum exposure £000	Balance sheet £000	Maximum exposure £000
Investments designated as fair value through profit or loss	26,673	26,673	37,901	37,901
Current assets				
Receivables	307	307	531	531
Derivatives held at fair value through profit or loss	1,895	1,895	542	542
Cash and cash equivalent	864	864	1,846	1,846
	29,739	29,739	40,820	40,820

None of the group’s financial assets are past their due dates, impaired or secured by collateral or other credit enhancements.

19 Risk management and other financial instruments (continued)

Capital management policies and procedures

The group's capital management objectives are:

- to ensure that it will be able to continue as a going concern; and
- to maximise the income and capital return to its equity shareholders

through an appropriate balance of ordinary and redeemable preference equity capital.

The group's total capital equity (ordinary and redeemable preference share capital and other reserves) at 31 December 2008 was £28,190,000 (2007 – £39,643,000).

The Board monitors and reviews the broad structure of the group's capital on an ongoing basis.

The group's objectives, policies and processes for managing capital are unchanged from the preceding accounting period.

20 Companies Act / IFRS balance sheet headings

Where the respective headings under IFRS differ from those set out in the Companies Act, the differences are set out below.

IFRS Heading	Companies Act 1985 Heading
Non - current assets	Fixed assets
Investments - fair value through profit or loss	Investments - fair value through profit or loss
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

Statement of compliance with the Combined Code of Best Practice

For the year ended 31 December 2008

The board has considered the principles and recommendations of the AIC Code of Corporate Governance ('AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies ('AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Combined Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to British & American Investment Trust PLC.

The board considers that reporting against the principles and recommendations of the AIC Code will provide better information to shareholders.

The company has complied with the recommendations of the AIC Code and the relevant provisions of Section 1 of the Combined Code, except as set out below:

- the whole board review the performance and remuneration arrangements of the Managing Director
- the need for an internal audit function

British & American Investment Trust PLC is a self-managed investment company. The company has therefore reported further in respect of these exceptions below.

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 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 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:

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.

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

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 and Mr JAV Townsend, at the date of the Annual General Meeting, will have served on the board for more than thirteen years and nine years respectively from the date of their first election, but given the nature of the company as an investment trust and as permitted under the AIC Code, the board is firmly of the view that Mr DG Dreyfus and Mr JAV Townsend 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.

Tenure of directors

Letters which specify the terms of appointment are issued to new directors. The letters of appointment are available for inspection upon request.

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. All non-executive directors are appointed for fixed terms of three years. Biographical details of directors are set out on page 2.

The directors recognise that independence is not a function of service or age and that experience is an important attribute within the board. The directors may, therefore, decide to recommend a director with more than nine years service for re-election annually.

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

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

Chairman

The Chairman is also non-executive chairman of three other 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 and custodian, Walker Crips Stockbrokers Limited.

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 on a case by case basis, having consideration of the cost effectiveness of the services and the independence and objectivity of the auditors.

Nomination Committee

The board as a whole fulfils the function of the nomination committee.

The nomination committee oversees a formal review procedure governing the appointment of new directors and evaluates 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 and director 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. The formal evaluation confirmed that all directors continue to be effective on behalf of the company.

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, who is himself a shareholder (see page 16), 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 16.

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, with the exception of Mr DG Dreyfus, expect to be present at the AGM.

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

Accountability, Internal Controls and Audit

The directors' statement of responsibilities in respect of the accounts is set out on page 19.

The directors are responsible for the effectiveness of the internal control systems for the company, which are designed to ensure that proper accounting records are maintained, that the financial information on which the business decisions are made and which are issued for publication is reliable, and that the assets of the company are safeguarded. Such a system of internal control is designed to manage rather than eliminate the risks of failure to achieve the company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The board recognises its ultimate responsibilities for the company's system of internal controls and for monitoring its effectiveness. The board has established an internal control framework to provide reasonable assurance on the effectiveness of the internal controls operated. The board assesses on an ongoing basis the effectiveness of the internal controls. The board receives regular reports on all aspects of internal control (including financial, operational and compliance control, risk management and relationships with external service providers).

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

The board has produced a risk matrix against which the business risks and the effectiveness of the internal controls can be monitored, which is regularly reviewed by the Audit Committee and at other times as necessary. It is believed that an appropriate framework is in place to meet the requirements of the AIC Code and FRC guidance.

Powers to authorise conflict situations

Since 1 October 2008, in accordance with section 175 of the Companies Act 2006 and the Articles of Association, as amended at the AGM in June 2008, the company has procedures in place for ensuring that the unconflicted directors' powers to authorise conflict situations are operated effectively.

The board confirms that the above procedures have been complied with.

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.

Social, economic and environmental matters

As an investment trust the company has no direct impact on social, economic and environmental issues and the company's primary objective is to achieve capital and income growth by investing the company's assets in accordance with the stated investment policy. As such the company does not have any policies in these areas.

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 2008

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 2008. 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.

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 16 Mr JC Woolf is a significant shareholder in the company. The company also provides directors' liability insurance.

It is intended that their policy will continue for the year ending 31 December 2009 and subsequent years.

Sums paid to third parties (audited)

The directors' fees payable to RG Paterson were paid to Eversheds LLP. This payment was for services as a director of the company.

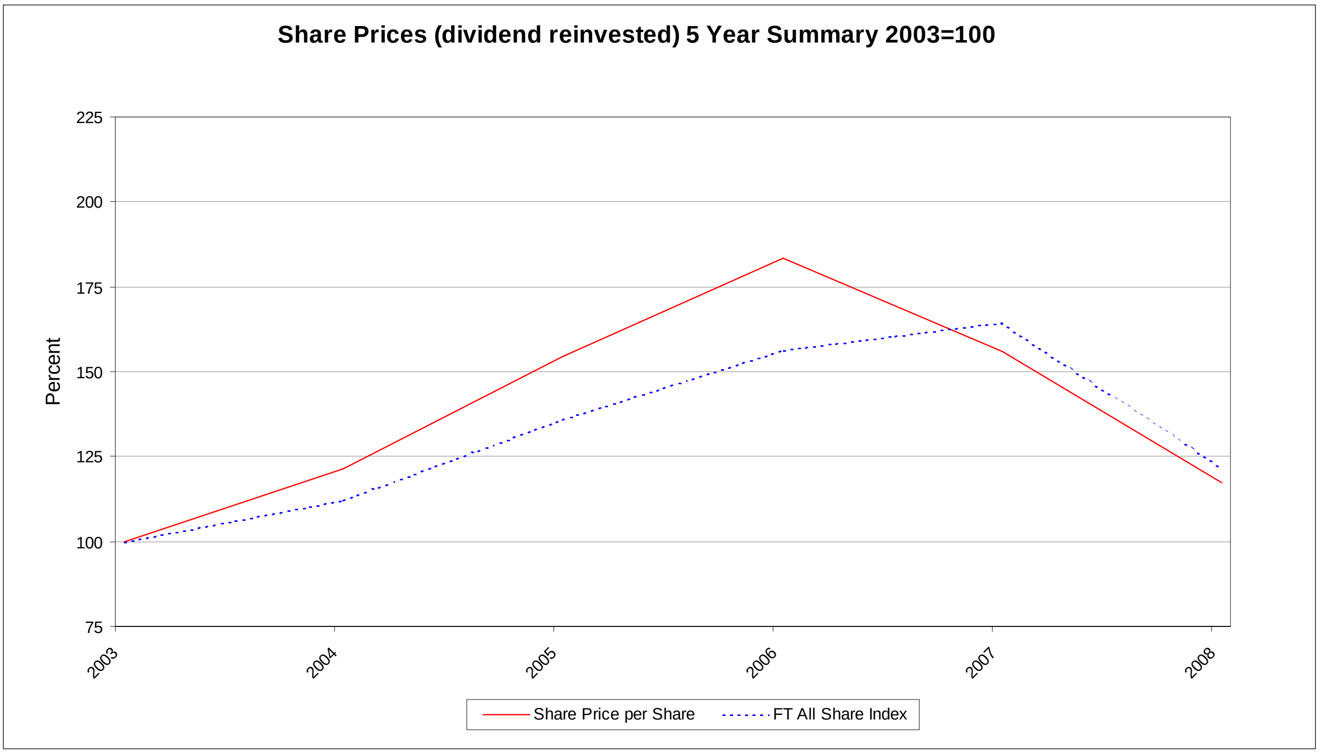
Services contract

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 for the unexpired portion on early termination. No other director has a service contract with the company.

Performance graph

The graph below 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 2004. 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.

	2008	2007
	£000	£000
JC Woolf - salary	58	55
JAV Townsend - fees	18	18
DG Dreyfus - fees	13	13
RG Paterson - fees	13	13
Total	102	99

The annual fees of the Chairman are £17,500 and the two non-executive directors £12,500. The salary of the executive director was increased by 5%.

By order of the board

KJ Williams
Secretary
30 April 2009

Notice of meeting

NOTICE IS HEREBY GIVEN THAT the sixty-first Annual General Meeting of the company will be held at Wessex House, 1 Chesham Street, London SW1X 8ND on Thursday 18 June 2009 at 12.15pm for the following purposes:

1 To receive and consider the directors' report and group accounts for the year ended 31 December 2008 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 re-elect Mr JAV Townsend as a director.

5 To approve the directors' remuneration report.

6 To declare a final dividend of 3.9p per £1 ordinary share.

7 To re-appoint Grant Thornton UK LLP as the company's auditors to hold office until the conclusion of the next general meeting of the company.

8 To authorise the directors to determine the remuneration of the auditors.

By order of the board

KJ Williams
Secretary
30 April 2009

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 16 June 2009 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.

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 18 June 2009 and at any adjournment thereof.

Signed ....

Dated .... 2009.

Please tick here to indicate that this proxy instruction is in addition to a previous instruction. Otherwise it will overwrite any previous instruction.

RESOLUTIONS	For	Against	Vote Withheld	Discretionary
1. To adopt the report and accounts.	☐	☐	☐	☐
2. To re-elect Mr DG Dreyfus.	☐	☐	☐	☐
3. To re-elect Mr RG Paterson.	☐	☐	☐	☐
4. To re-elect Mr JAV Townsend.	☐	☐	☐	☐
5. To approve the directors' remuneration report.	☐	☐	☐	☐
6. To declare a final dividend of 3.9p per £1 ordinary share.	☐	☐	☐	☐
7. To re-appoint Grant Thornton UK LLP as the company's auditors.	☐	☐	☐	☐
8. To authorise the directors to determine the remuneration of the auditors	☐	☐	☐	☐

NOTES

1. Please indicate with an X in the boxes above how you wish your votes to be cast. If you select 'Discretionary' or 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 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.
5. To appoint more than one proxy, (an) additional proxy form(s) may be obtained by contacting the company on 020 7201 3100 or you may copy this form. Pease indicate with the proxy holder's name the number of securities in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is in addition to a previous instruction. All forms must be returned together in the same envelope.
6. The 'Vote Withheld' option is provided to enable you to abstain on any particular resolution. However, it should be noted that a 'Vote Withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a resolution.

Second fold

Please affix postage stamp

British & American Investment Trust PLC
Wessex House
1 Chesham Street
London SW1X 8ND

First fold

Third fold