British & American Investment Trust PLC

Annual Financial Report
for the year ended 31 December 2018

Registered number: 00433137

Directors

David G Seligman (Chairman) - appointed as Chairman 1 January 2018

Jonathan C Woolf (Managing Director)

Dominic G Dreyfus (Non-executive and Chairman of the Audit Committee)

Ronald G Paterson (Non-executive) – retired as Director 30 June 2018

Alex Tamlyn (Non-executive) - appointed as Director 1 July 2018

Registered office

Wessex House

1 Chesham Street

Telephone: 020 7201 3100

Registered in England

No.00433137

30 April 2019

This is the Annual Financial Report as required to be published under DTR 4 of the UKLA Listing Rules.

Financial Highlights

For the year ended 31 December 2018

	2018			2017		
	Revenue return £000	Capital return £000	Total £000	Revenue return £000	Capital return £000	Total £000
Profit/(loss) before tax – realised	2,489	(2,991)	(502)	2,210	(1,694)	516
Loss before tax – unrealised	–	(4,644)	(4,644)	–	(5,249)	(5,249)
Profit/(loss) before tax – total	2,489	(7,635)	(5,146)	2,210	(6,943)	(4,733)
Earnings per £1 ordinary share – basic	8.68p	(30.54)p	(21.86)p	7.58p	(27.77)p	(20.19)p
Earnings per £1 ordinary share – diluted	7.21p	(21.81)p	(14.60)p	6.41p	(19.84)p	(13.43)p
Net assets			7,919			15,534
Net assets per ordinary share – deducting preference shares at par			0p			22p
– diluted			23p			44p
Diluted net asset value per ordinary share at 26 April 2019			34p			
Dividends declared or proposed for the period per ordinary share						
– interim paid			2.7p			2.7p
– final proposed			6.0p			5.9p
per preference share			3.5p			3.5p

Basic net assets and earnings per share are calculated using a value of par for the preference shares. Consequently, when the net asset value attributed to ordinary shares remains below par the diluted net asset value will show a higher value than the basic net asset value.

Chairman's Statement

I report our results for the year ended 31 December 2018.

Revenue

The return on the revenue account before tax amounted to £2.5 million (2017: £2.2 million), an increase of 13 percent. This increase was due to higher levels of dividends received from our subsidiary companies compared to the previous year.

Gross revenues totalled £3.1 million (2017: £2.7 million). In addition, film income of £92,000 (2017: £101,000) and property unit trust income of £14,000 (2017: £15,000) was received in our subsidiary companies. In accordance with IFRS10, these income streams are not included within the revenue figures noted above.

The total return before tax amounted to a loss of £5.1 million (2017: £4.7 million loss), which comprised net revenue of £2.5 million, a realised loss of £2.6 million and an unrealised loss of £4.6 million. The revenue return per ordinary share was 8.7p (2017: 7.6p) on an undiluted basis and 7.2p (2017: 6.4p) on a diluted basis.

Net Assets and Performance

Net assets at the year end were £7.9 million (2017: £15.5 million), a decrease of 49.0 percent. This compares to decreases in the FTSE 100 and All Share indices of 12.5 percent and 13.0 percent, respectively, over the period. On a total return basis, after adding back dividends paid during the year, our net assets decreased by 32.9 percent compared to 9.0 percent and 9.5 percent decreases in the FTSE 100 and All Share indices, respectively.

This very poor end of year result followed the strong and market out-performing advance in net asset value which we were able to report at the half year stage of 12.8 percent and was the result of an unexpected setback in late September in the value of our largest US investment, Geron Corporation. Although the value of this investment had risen by 95 percent in the first 6 months of 2018 and by 260 percent towards the end of the third quarter, the very unexpected decision by Johnson and Johnson on 27th September to discontinue its clinical trial collaboration with Geron resulted in a collapse of over 80 percent in Geron's stock price over the fourth quarter, and a fall of 44 percent for the year as a whole. At the time, Johnson and Johnson cited general portfolio reasons for the discontinuation and not any perceived problems with the collaboration or the trials. This drop in Geron's stock price also coincided with a substantial reversal in US equity markets in December of 14 percent, which was the steepest intra-month fall in stock prices since the Great Recession of 2008.

The circumstances surrounding this unfortunate development and the outlook are discussed in greater detail in the managing director's report below. The shock of the unexpected loss of Johnson and Johnson as Geron's collaborator resulted in the immediate and severe market downgrade in Geron's value noted above. However, the efficacy and potential of Geron's haematological cancer treatment, Imetelstat, was nevertheless publicly reconfirmed at the American Society of Haematology (ASH) international conference some two months later in December, since when the value of Geron has recovered significantly. Geron is continuing its plans to initiate Phase 3 clinical trials on its own by mid 2019, having recently added a number of highly regarded and experienced clinical trial executives to its team (including the executive at Johnson and Johnson who had led the collaboration). This should allow the stock price to consolidate its recovery and hopefully regain the price levels seen in mid 2018, particularly since Geron now once again owns 100 percent of the technology having received back Johnson and Johnson's 80 percent share. Since the year end, however, the value of Geron has recovered substantially and has made strong gains of 91 percent, accounting for the substantial improvement in the company's net asset value as at 26 April 2019 shown below.

More generally in 2018, equity markets in the USA and UK made little or no progress overall. In the USA, a substantial fall of 10 percent at the beginning of the year caused by market reaction to erratic policy making in international trade and foreign relations by the White House was gradually reversed over the following months as investors began to expect a moderation in the previously expected course of rising US dollar interest rates for the rest of the year. By mid-year the market regained its opening year values, which had represented multi-year highs, but from October declined dramatically again by almost 20 percent to the end of the year as the continued war of words between the USA and China on trade policy and damaging trade sanctions between the two countries began to raise investor concerns about the impact on global growth levels going forward.

In the UK, the equity market followed the pattern set by the US market to mid-year, then declined steadily to the year end, falling 12.5 percent in the second half. Market performance was completely dominated by the ongoing travails of Brexit and the concomitant movements in sterling. The ongoing lack of progress in negotiations and the inexorable approach of the exit date of end March 2019 heralding a hard and 'no deal' Brexit began to weigh on levels of corporate investment in the UK, unnerving investors. By contrast, however, as sterling weakened in response to these concerns, it provided some support to the market, as large corporates' foreign earnings streams became better valued. The downward trend over this period was therefore punctuated by periods of stabilisation, but the overall decline to the year end was maintained with no progress being made on finding a solution to the most significant political and economic event in the UK's history for generations.

Dividend

We are pleased to recommend an increased final dividend of 6.0p per ordinary share, which together with the interim dividend makes a total payment for the year of 8.7p (2017: 8.6p) per ordinary share. This represents an increase of 1.2 percent over the previous year's total dividend and a yield of 18.3 percent based on the share price of 47.5p at the end of the year. The final dividend will be payable on 27 June 2019 to shareholders on the register at 24 May 2019. A dividend of 1.75p will be paid to preference shareholders resulting in a total payment for the year of 3.5p per share.

We are pleased to have been named as a 'Dividend Hero' by the Association of Investment Companies once again for the third year running as one of the 20 investment trusts which have maintained a consistent 20 year record of increasing dividends.

We have been able to maintain our progressive dividend policy over these years and particularly in recent years through an active programme of targeted investment at opportune times in higher yielding but mainstream investments together with the realisation of capital profits through our group subsidiary companies. When such profits are realised in these companies they can be paid out to our shareholders in dividends, as was the case this past year for example, when we were able to realise profits on part of our holdings in Geron

Corporation when its stock price rose substantially over the first three quarters of 2018. However, following the severe decline in Geron's stock price in the last quarter of 2018, the continued availability of profits from this source will be constrained unless the stock price returns to the levels seen in the earlier part of 2018. Without this, it is unlikely that we will be able to maintain our progressive dividend policy going forward.

Outlook

The multiple economic and political uncertainties which currently present themselves would normally presage deep concerns for investors generally. However, although markets have now been showing considerably higher levels of volatility than in recent years, as already noted, they remain at around historically high levels and do not for the time being appear to show an appetite for a sustained retrenchment into bear market territory. This is likely to be the result of the continued overhang of the unprecedented monetary easing programmes of prior years and more recently some early and possibly politically-motivated policy modulations by the Federal Reserve and other central banks to address the slowdown in global growth which was beginning to be seen in 2018. Time will tell whether such monetary interventions or the forces of politics in fiscal and trade policy will have a greater effect on sustaining current and future levels of economic growth in the world. For the time being, however, and despite the headwinds of trade wars and Brexit, markets appear to have found a level with which they seem to be relatively comfortable.

Against this background, we remain invested in our US biotechnology stocks waiting to capture the gains expected as their programmes advance and reach maturity but we do not expect to add to our other long term investments at this point.

As at 26 April 2019, our net assets had increased to £11.8 million, an increase of 49.3 percent since the beginning of the calendar year due principally to the 91.0 percent increase in the share price of Geron Corporation over this period. This is equivalent to 7.3 pence per share (prior charges deducted at par) and 33.8 pence per share on a diluted basis. Over the same period the FTSE 100 increased 10.4 percent and the All Share Index increased 10.8 percent.

David Seligman

30 April 2019

Managing Director's report

In 2018, our portfolio value was substantially affected by large positive and negative movements in the stock price of our largest investment, Geron Corporation. At the half year, we were able to report an increase in our NAV of 12.8 percent, outperforming the market by over 20 percent on a total return basis. This was largely due to the 91 percent increase in Geron's stock price over that period. Geron's price then continued to increase to the end of September by a further 80 percent. However, on 27th September Geron's price dropped substantially for the reasons detailed below and the value of our portfolio dropped by over 60 percent in the final quarter, resulting in significant end of year underperformance, as already noted above. This drop in the fourth quarter was exacerbated by a sharp fall in US and UK equity markets generally over the same period of 20 percent and 14 percent, respectively, and particularly in December when the US market experienced its largest one month fall for over ten years. Our other substantial US investments were therefore also affected by this last quarter movement in stock prices, contributing further to the decline in our portfolio valuation.

In the second half of 2018, it seemed as though the ten year bull market in US equities might reassert itself after a more volatile first half which had included at least two instances of technical correction. Despite the political headwinds emanating from the USA already noted above, economic strength and corporate profitability in the USA was persisting, buoyed along by the tax cuts of the previous year. For this reason, the Federal Reserve had mapped out a course of gradually increasing interest rates for 2018 which was generally being well digested by the market. However, as the year developed and progress in resolving the US/China trade dispute remained stalled, real economic consequences began to be shown through lower levels of growth in China, an increased trade deficit in the USA and signs of lower levels of corporate investment. This sapped investor confidence in the fourth quarter resulting in the large market sell-off in the final three months.

At the same time in the UK, no signs of a conclusion to the Brexit process was evident despite the looming approach of the 29th March 2019 exit deadline. Corporates were forced therefore to take contingency measures involving changes to their HQ or operational locations and emergency stock ordering programmes to guard against the disruption to their operations presented by a potential disorderly Brexit. The Government's own contingency preparations also attracted sustained criticism for inadequacies for example arrangements by the NHS to ensure adequate supplies of essential medicines or the availability of additional cross-Channel ferry freight operations. As the atmosphere of uncertainty increased during 2018, it transferred to the investment process generally in the UK, with corporates restraining their investment plans until a higher level of visibility was evident, the residential property market growing at its slowest rate for 6 years, in fact recording negative real annual growth for the first time since 2012, and financial investors showing little appetite for equities. The pound sterling was also under pressure at times when the path of the Brexit negotiations and the associated political dynamic indicated that the chances of a disorderly Brexit were becoming more likely. In the last few weeks, the previous March deadline has been extended by up to a further seven months, and the immediate pressure on corporates and politicians alike has been relieved with the likelihood of a disorderly Brexit now reduced. However, until a majority is able to be found in Parliament on a way forward, the basic questions surrounding the UK's relationship with its main trading partner will remain, prolonging the uncertainties for business and exposing the currently fractured and dysfunctional parliamentary setup.

While these significant political and macro-economic uncertainties persist, our main focus remains on achieving our capital growth objectives through our exposure to our US biotechnology investments and our income objectives through our existing UK fund investments, capturing of special dividends and income received from group subsidiaries.

Geron Corporation

As reported in detail in last year's interim report, Geron's stock price increased substantially during the first part of 2018 to its highest level for over 10 years, resulting in a fourfold increase in its market capitalisation from $320 million to over $1.2 billion. This was a function of favourable clinical trial results news and a strong expectation in the market that Johnson and Johnson would confirm by the fourth quarter the continuation of their four year collaboration with Geron to take their jointly owned oncology drug, Imetelstat, through the final clinical trial stage and on to approval and marketing. This decision point was to be the catalyst for the payment of future milestones of almost $1 billion to Geron plus substantial future royalty payments based on the drug's revenues.

Numerous indications of a positive continuation decision in the months leading up to the decision were evident from a number of sources. These included the acceleration by Johnson and Johnson earlier in the year of the decision date, positive interim clinical trial results published in early 2018, inclusion of Imetelstat as Johnson and Johnson's leading oncology drug candidate for approval in 2020 in their corporate review in August 2018, inclusion of Imetelstat on Johnson and Johnson's list of compassionate use drugs, and numerous job postings by Johnson and Johnson worldwide for executives to work on pricing/marketing strategy for its Myelodysplastic Syndrome (MDS) product pipeline (Imetelstat being its only such candidate drug).

The wholly unexpected decision by Johnson and Johnson on 27th September not to continue the collaboration for general portfolio reasons and with no explanation of substance being given at the time not surprisingly resulted in a large-scale sell off of the stock and a precipitous fall in the stock price. Without any confirmation, either from Johnson and Johnson or Geron, of the continued reliability of Imetelstat's previously published results and its continued viability, market confidence in Imetelstat was badly shaken.

Geron's management had felt unable to provide even minimal confirmation of this at the time as the company was subject to an information embargo related to a number of important presentations due to be given at the prestigious American Society of Haematology (ASH) conference some weeks later in early December. They were, however, able to announce that Geron intended to take the MDS trials forward themselves into the already planned Phase 3 phase by mid-2019.

At the ASH conference, the reports by the leading clinical trial investigators on Imetelstat's efficacy in treating patients with MDS and MF were even better than expected, showing never before seen improvements in blood transfusion independence and overall survival in these two diseases. The results showed that Imetelstat outperformed the current standard of care in the selected patient populations who rely on the drugs *Jakafi* in MF and *Revlimid* in MDS, which represent multi-billion dollar markets for their owners. Imetelstat was also shown to outperform another new drug in MDS, Luspatercept, for which Celgene is currently completing Phase 3 trials. In early 2019, Celgene which also owns Revlimid received a takeover bid from Bristol-Myers Squibb valued at $75 billion, indicating the value levels placed on drugs which can stabilise if not cure MDS, an ultimately fatal haematological cancer with a 3 to 5 year life expectancy on currently available drugs.

Geron's stock price remained weak through to the beginning of December awaiting clarity from the ASH presentations, with the stock trading only just above Geron's cash value of $185 million, thus effectively valuing the Imetelstat platform at close to zero. However, despite the excellent trial results announced at ASH, the value of Geron did not improve materially into the New Year and in fact reached a low around the Christmas week, accounting for the weakness in our portfolio value at the year end. The shock of Johnson and Johnson's unexpected decision and mistrust of management's ability to take the drug forward into the planned Phase 3 trials alone was sufficient to damage confidence in the stock despite it having the funding to do so.

However, in February, Geron began to announce a series of important initiatives to underpin its plans to take Imetelstat forward into the Phase 3 trials this summer. It included the hiring of a number of highly experienced clinical trial executives, including the executive who until last September had led Imetelstat's clinical trials at Johnson and Johnson which had produced such impressive results at ASH in December. A world leading Contract Research Organisation (CRO) was also engaged to manage the regulatory and administrative aspects of the trial.

These moves gave the market some confidence in Geron's ability to deliver on Imetelstat's clear potential by taking the drug through the final trial on to eventual approval and commercialisation. As a result, Geron's stock price has recovered by over 90 percent since the beginning of the year.

Over the past year, our investment in Geron has proved to be even more volatile than usual, in both positive and negative senses. We nevertheless remain committed to this investment in which we continue to expect major upside potential in the near future. Geron now owns 100 percent of Imetelstat again with the 80 percent share previously transferred to Johnson and Johnson being returned to it as a result of the ending of the partnership last year. This being the case, there would seem to be no reason why on valuation grounds the stock price of Geron should not return to at least those levels seen last year when the market was looking forward to positive final Phase 2 trial results, which have since been more than confirmed, and the anticipation of progress into Phase 3 and eventual approval and commercialisation. We also believe that given the circumstances of last year's discontinuation of the collaboration with Johnson and Johnson, the excellent Phase 2 trial results announced since then and the imminent commencement of Phase 3 trials, Geron should present an attractive and valuable target to other major pharmaceutical companies looking to consolidate or establish a position in the treatment of haematologic malignancies by acquiring or partnering with Geron's drug, Imetelstat, which is demonstrating results superior to other drugs currently or expected on the market.

Jonathan Woolf

30 April 2019

Income statement

For the year ended 31 December 2018

	2018			2017		
	Revenue return £ 000	Capital return £ 000	Total £ 000	Revenue return £ 000	Capital return £ 000	Total £ 000
Investment income (note 2)	3,056	-	3,056	2,732	-	2,732
Holding losses on investments at fair value through profit or loss	-	(4,644)	(4,644)	-	(5,249)	(5,249)
Losses on disposal of investments at fair value through profit or loss*	-	(2,647)	(2,647)	-	(1,442)	(1,442)
Foreign exchange (losses)/gains	(61)	(62)	(123)	53	53	106
Expenses	(457)	(237)	(694)	(526)	(272)	(798)
Profit/(loss) before finance costs and tax	2,538	(7,590)	(5,052)	2,259	(6,910)	(4,651)
Finance costs	(49)	(45)	(94)	(49)	(33)	(82)
Profit/(loss) before tax	2,489	(7,635)	(5,146)	2,210	(6,943)	(4,733)
Tax	31	-	31	35	-	35
Profit/(loss) for the year	2,520	(7,635)	(5,115)	2,245	(6,943)	(4,698)
Earnings per share						
Basic – ordinary shares	8.68p	(30.54)p	(21.86)p	7.58p	(27.77)p	(20.19)p
Diluted – ordinary shares	7.20p	(21.81)p	(14.61)p	6.41p	(19.84)p	(13.43)p

The company does not have any income or expense that is not included in the profit/(loss) for the year. Accordingly, the ‘Profit/(loss) for the year’ is also the ‘Total Comprehensive Income for the year’ as defined in IAS 1 (revised) and no separate Statement of Comprehensive Income has been presented.

The total column of this statement represents the 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 profit and total comprehensive income is attributable to the equity holders of the company.

*Losses on disposal of investments at fair value through profit or loss include Losses on sales of £917,000 (2017 – £1,208,000 losses) and Losses on provision for liabilities and charges of £1,730,000 (2017 – £234,000 losses).

Statement of changes in equity

For the year ended 31 December 2018

	Share capital	Capital reserve	Retained earnings	Total
	£ 000	£ 000	£ 000	£ 000
Balance at 31 December 2016	35,000	(14,224)	1,906	22,682
Changes in equity for 2017				
Profit/(loss) for the period	-	(6,943)	2,245	(4,698)
Ordinary dividend paid (note 4)	-	-	(2,100)	(2,100)
Preference dividend paid (note 4)	-	-	(350)	(350)
Balance at 31 December 2017	35,000	(21,167)	1,701	15,534
Changes in equity for 2018				
Profit/(loss) for the period	-	(7,635)	2,520	(5,115)
Ordinary dividend paid (note 4)	-	-	(2,150)	(2,150)
Preference dividend paid (note 4)	-	-	(350)	(350)
Balance at 31 December 2018	35,000	(28,802)	1,721	7,919

Registered number: 00433137

Balance Sheet

At 31 December 2018

	2018	2017
	£ 000	£ 000
Non-current assets		
Investments - fair value through profit or loss	8,722	15,565
Subsidiaries - fair value through profit or loss	5,269	5,277
	13,991	20,842
Current assets		
Receivables	3,417	2,399
Cash and cash equivalents	244	2,213
	3,661	4,612
Total assets	17,652	25,454
Current liabilities		
Trade and other payables	547	1,010
Bank loan	2,790	4,244
	(3,337)	(5,254)
Total assets less current liabilities	14,315	20,200
Non - current liabilities	(6,396)	(4,666)
Net assets	7,919	15,534
Equity attributable to equity holders		
Ordinary share capital	25,000	25,000
Convertible preference share capital	10,000	10,000
Capital reserve	(28,802)	(21,167)
Retained revenue earnings	1,721	1,701
Total equity	7,919	15,534

Approved: 30 April 2019

Cash flow statement

For the year ended 31 December 2018

	Year ended 2018 £ 000	Year ended 2017 £ 000
Cash flows from operating activities		
Loss before tax	(5,146)	(4,733)
Adjustments for:		
Losses on investments	7,291	6,691
Dividends in specie	(290)	-
Proceeds on disposal of investments at fair value through profit and loss	13,635	13,867
Purchases of investments at fair value through profit and loss	(12,335)	(11,570)
Finance costs	94	82
Operating cash flows before movements in working capital	3,249	4,337
Increase in receivables	(712)	(780)
(Decrease)/increase in payables	(773)	4
Net cash from operating activities before interest	1,764	3,561
Interest paid	(90)	(75)
Net cash from operating activities	1,674	3,486
Cash flows from financing activities		
Dividends paid on ordinary shares	(1,839)	(2,100)
Dividends paid on preference shares	(350)	(350)
Bank loan	(1,454)	754
Net cash used in financing activities	(3,643)	(1,696)
Net (decrease)/increase in cash and cash equivalents	(1,969)	1,790
Cash and cash equivalents at beginning of year	2,213	423
Cash and cash equivalents at end of year	244	2,213

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

1 Basis of preparation and going concern

The financial information set out above contains the financial information of the company for the year ended 31 December 2018. The company has prepared its financial statements under IFRS. The financial statements have been prepared on a going concern basis adopting the historical cost convention except for the measurement at fair value of investments, derivative financial instruments and subsidiaries.

The information for the year ended 31 December 2018 is an extract from the statutory accounts to that date. Statutory company accounts for 2017, which were prepared under IFRS as adopted by the EU, have been delivered to the registrar of companies and company statutory accounts for 2018, prepared under IFRS as adopted by the EU, will be delivered in due course.

The auditors have reported on the 31 December 2018 year end accounts and their reports were unqualified and did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The directors, having made enquiries, consider that the company has adequate financial resources to enable it to continue in operational existence for the foreseeable future. Accordingly, the directors believe that it is appropriate to continue to adopt the going concern basis in preparing the company's accounts.

2 Income

	2018 £ 000	2017 £ 000
Income from investments		
UK dividends	1,180	2,260
Overseas dividends	92	44
Scrip and in specie dividends	290	-
Dividend from subsidiary	1,445	400
Interest on fixed income securities	1	3
	3,008	2,707
Other income	48	25
Total income	3,056	2,732
Total income comprises:		
Dividends	3,007	2,704
Interest	1	3
Other interest	48	25
	3,056	2,732
Dividends from investments		
Listed investments	1,562	2,304
Unlisted investments	1,445	400
	3,007	2,704

Of the £3,007,000 (2017 – £2,704,000) dividends received, £997,000 (2017 – £1,891,000) related to special and other dividends received from investee companies that were bought after the dividend announcement. There was a corresponding capital loss of £1,007,000 (2017 – £1,949,000), on these investments.

Under IFRS 10 the income analysis is for the parent company only rather than that of the consolidated group. Thus film revenues of £92,000 (2017 – £101,000) received by the subsidiary British and American Films Limited and property unit trust income of £14,000 (2017 – £15,000) received by the subsidiary BritAm Investments Limited are shown separately in this paragraph.

3 Earnings per ordinary share

The calculation of the basic (after deduction of preference dividend) and diluted earnings per share is based on the following data:

	2018			2017		
	Revenue return	Capital return	Total	Revenue return	Capital return	Total
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Earnings:						
Basic	2,170	(7,635)	(5,465)	1,895	(6,943)	(5,048)
Preference dividend	350	-	350	350	-	350
Diluted	2,520	(7,635)	(5,115)	2,245	(6,943)	(4,698)

Basic revenue, capital and total return per ordinary share is based on the net revenue, capital and total return for the period after tax and after deduction of dividends in respect of preference shares and on 25 million (2017: 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 after tax and on 35 million (2017: 35 million) ordinary and preference shares in issue.

4 Dividends

	2018 £ 000	2017 £ 000
Amounts recognised as distributions to equity holders in the period:		
Dividends on ordinary shares:		
Final dividend for the year ended 31 December 2017 of 5.9p (2016:5.7p) per share	1,475	1,425
Interim dividend for the year ended 31 December 2018 of 2.7p (2017:2.7p) per share	675	675
	2,150	2,100
Proposed final dividend for the year ended 31 December 2018 of 6.0p (2017:5.9p) per share	1,500	1,475
Dividends on 3.5% cumulative convertible preference shares:		
Preference dividend for the 6 months ended 31 December 2017 of 1.75p (2016:1.75p) per share	175	175
Preference dividend for the 6 months ended 30 June 2018 of 1.75p (2017:1.75p) per share	175	175
	350	350
Proposed preference dividend for the 6 months ended 31 December 2018 of 1.75p (2017:1.75p) 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 have set out below the total dividend payable in respect of the financial year, which is the basis on which the retention requirements of Section 1158 of the Corporation Tax Act 2010 are considered.

Dividends proposed for the period

	2018	2017
	£ 000	£ 000
Dividends on ordinary shares:		
Interim dividend for the year ended 31 December 2018 of 2.7p (2017:2.7p) per share	675	675
Proposed final dividend for the year ended 31 December 2018 of 6.0p (2017:5.9p) per share	1,500	1,475
	2,175	2,150
Dividends on 3.5% cumulative convertible preference shares:		
Preference dividend for the year ended 31 December 2018 of 1.75p (2017:1.75p) per share	175	175
Proposed preference dividend for the year ended 31 December 2018 of 1.75p (2017:1.75p) per share	175	175
	350	350

5 Net asset values

		Net asset value per share		Net asset attributable
	2018	2017	2018	2017
	£	£	£ 000	£ 000
Ordinary shares				
Undiluted	-	0.22	-	5,534
Diluted	0.23	0.44	7,919	15,534

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.

The undiluted net asset value per convertible £1 preference share is the par value of £1. The diluted net asset value per ordinary share assumes the conversion of the preference shares to ordinary shares.

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. The other principal risks to the company are loss of investment trust status and operational risk. These will be explained in more detail in the notes to the 2018 Annual Report and Accounts, but remain unchanged from those published in the 2017 Annual Report and Accounts.

Related party transactions

The company rents its offices from Romulus Films Limited, and is also charged for its office overheads.

The salaries and pensions of the company's employees, except for the four non-executive directors and one employee are paid by Remus Films Limited and Romulus Films Limited and are recharged to the company.

During the year the company entered into the investment transactions to sell stock for £346,709 (2017 - £nil) to Second BritAm Investments Limited and for £2,472 (2017 - £nil) to BritAm Investments Limited.

There have been no other related party transactions during the period, which have materially affected the financial position or performance of the company.

Capital Structure

The company's capital comprises £35,000,000 (2017 – £35,000,000) being 25,000,000 ordinary shares of £1 (2017 – 25,000,000) and 10,000,000 non-voting convertible preference shares of £1 each (2017 – 10,000,000). The rights attaching to the shares will be explained in more detail in the notes to the 2018 Annual Report and Accounts, but remain unchanged from those published in the 2017 Annual Report and Accounts.

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 the (loss)/profit of the company 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, together with a description of the principal risks and uncertainties that the company faces.

Annual General Meeting

This year's Annual General Meeting has been convened for Wednesday 26 June 2019 at 12.15pm at Wessex House, 1 Chesham Street, London SW1X 8ND.