

British & American  
Investment Trust PLC

Report and accounts

31 December 2006

**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	19.49
Prudential	Life Assurance	12.20
Liberty International Holdings	Property	11.11
RIT Capital Partners	Investment Trust	6.38
The Alliance Trust	Investment Trust	6.00
Dunedin Income Growth	Investment Trust	5.67
Electra Private Equity	Investment Trust	4.78
British Assets Trust	Investment Trust	4.69
St James's Place		
International Unit Trust	Unit Trust	3.26
Lloyds TSB	Bank Retail	2.74
		<u>76.32</u>

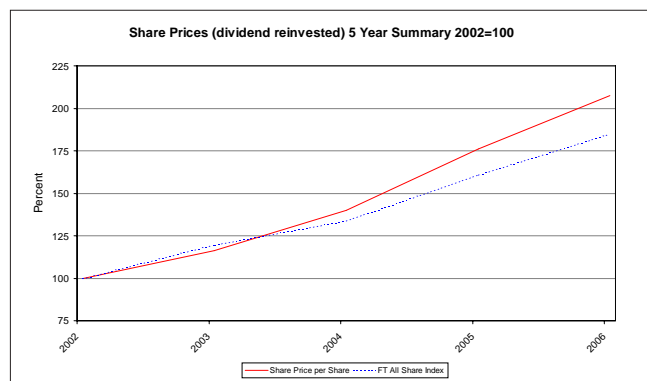
**Country Exposure**

Country	£m	%
UK	36.9	80.39
USA	9.0	19.61
Other	–	–
Total investments	<u>45.9</u>	<u>100.00</u>

**Share Price Total Return on £100**

	£
1 year	122.2
3 year	201.2
5 year	187.3

(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	74
Net Assets (£m)	47.6
Yield (excl. special dividend)	4.65%
Dividend Dates	Interim dividend – November Final dividend – June
Share price (p)	129
NAV/share (p)	136 (diluted) 151 (undiluted)
(Discount)/Premium	(5.2)% (14.6)%
Total expense ratio	0.94%
Sedol Code	0065311
ISIN Code	GB000065311

**Status**

Eligible to be held with an ISA, Savings Scheme or PEP.

**Contact**

British & American Investment Trust PLC

Wessex House

1 Chesham Street

London SW1X 8ND

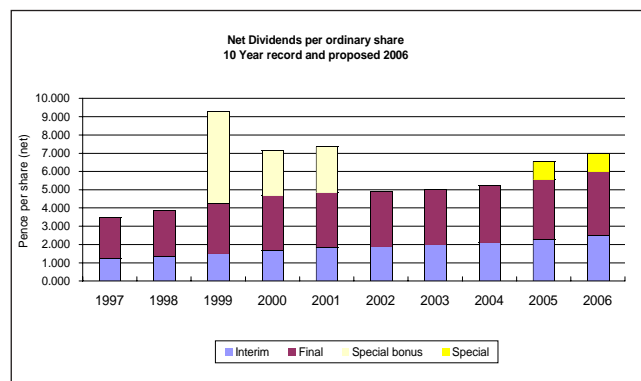
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Registered in England. Registered number 433137

VAT Reg. No. 241 1621 10



# **British & American Investment Trust PLC**

Annual Report and Accounts  
for the year ended 31 December 2006

Registered number: 433137

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## Directors and officials

### **Directors**

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

### **Secretary and registered office**

KJ Williams ACA  
Wessex House  
1 Chesham Street  
London SW1X 8ND

### **Registrars**

Capita Registrars  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield HD8 0LA

### **Bankers**

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

UBS AG  
1 Curzon Street  
London W1J 5UB

### **Stockbrokers**

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

### **Auditors**

RSM Robson Rhodes LLP  
30 Finsbury Square  
London  
EC2P 2YU

## Biographical details of directors and investment policy

### **Chairman**

J Anthony V Townsend (Age 59)

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

### **Managing Director**

Jonathan C Woolf (Age 50)

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

### **Non Executive**

Dominic G Dreyfus (Age 50)

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

Ronald G Paterson (Age 50)

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.

## 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.

## AIC

The company is a member of the Association of Investment Companies (formerly the Association of Investment Trust Companies – AITC).

## Notice of meeting

**NOTICE IS HEREBY GIVEN THAT** the fifty-ninth Annual General Meeting of the company will be held at Wessex House, 1 Chesham Street, London SW1X 8ND on Wednesday 20 June 2007 at 12.15pm for the following purposes:

- 1 To receive and consider the directors' report and group accounts for the year ended 31 December 2006 and the report of the auditors thereon.
- 2 To re-elect Mr DG Dreyfus as a director.
- 3 To re-elect Mr JC Woolf as a director.
- 4 To approve the directors' remuneration report.
- 5 To declare a final dividend of 3.5p per £1 ordinary share.
- 6 To appoint RSM Robson Rhodes LLP as auditors of the company until the conclusion of the next general meeting at which accounts of the company are presented.
- 7 To authorise the directors to approve the remuneration of the auditors.

**By order of the board**

**KJ Williams**

**Secretary**

30 April 2007

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 18 June 2007 or, if the meeting is adjourned, shareholders entered on the company's register of members not later than 48 hours before the time fixed for the adjourned meeting, shall be entitled to attend and vote at the meeting.

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

## Chairman's statement

I am pleased to report our results for the year ended 31 December 2006.

This year's accounts includes the new business review statement within the Director's report in compliance with recently introduced statutory regulations. This new presentation can be found on pages 13 and 14 and is designed to provide shareholders with a more formalised description of the objectives, performance and operations of the group over the year together with an appreciation of the associated risks.

### Revenue

The return on the revenue account before tax amounted to £1.8 million (2005: £1.8 million). Gross income amounted to £2.1 million (2005: £2.0 million), of which £1.7 million (2005: £1.6 million) represented income from investments and £0.4 million (2005: £0.4 million) film, property and other income. As in the previous year, income from investments included the receipt of special dividends from a number of our investee companies which was recognised by the payment of a special dividend of 1 penny per share during the year.

Total profit before tax, which includes realised and unrealised capital appreciation, amounted to £6.9 million (2005: £6.9 million) and reflected the growth in share values over the year, as discussed below. The capital element of this total was represented by £0.1 million of realised gains and £5.1 million of unrealised gains.

The revenue return per ordinary share was 5.8p (2005: 5.4p) on an undiluted basis and 5.2p (2005: 4.9p) on a diluted basis.

### Net Assets

Group net assets were £47.6 million (2005: £42.8 million), an increase of 11.2 percent. This compares to increases in the FTSE 100 and All Share indices of 10.7 percent and 13.1 percent, respectively, over the period. On a total return basis, after adding back dividends paid in the year, our portfolio returned 15.2 percent. This compares to an increase over the same period of 13.7 percent (dividends reinvested) in the FTSE 100 share index and 16.1 percent (dividends reinvested) in the All Share index. The net asset value per ordinary share increased to 136p (2005: 122p) on a diluted basis. Deducting prior charges at par, the net asset value per ordinary share increased to 151p (2005: 131p).

### Dividends

We are pleased to recommend an increased final dividend of 3.5p per ordinary share, which together with the interim dividend makes a total payment for the year of 6.0p (2005: 5.55p) per ordinary share. This represents an increase of 8.1 percent over the previous year's total dividend. The final dividend will be payable on 28 June 2007 to shareholders on the register at 1 June 2007. A dividend of 1.75p will be paid to preference shareholders resulting in a total payment for the year of 3.5p per share.

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



## Chairman's statement (continued)

### Shares and performance

As can be seen from the table on page 12, the discount to NAV at which our shares trade in the market has continued to improve annually and, at approximately 5 percent, now stands at a quarter of its level of four years ago. In addition, with performance based on net assets and total share price return modestly outperforming in one case and tracking in another our benchmark indices and the AIC Growth and Income sector over the year, the five year record of out-performance against these benchmarks, which can also be seen on page 12, has been maintained.

We will shortly be applying to CRESTCo to allow our shares to be traded through the Crest system. This will facilitate dealing in our shares and will allow certain fund management companies offering flexible trading accounts to their customers to hold our shares.

### Outlook

We look forward to continuing advances in the current year as equity and other financial markets remain generally firm although periods of greater volatility can now be expected as the continuing recovery in markets reaches a level of maturity.

As at 24 April 2007, group net assets had decreased to £46.6 million, a decrease of 2.1 percent since the beginning of the calendar year. This is equivalent to 147 pence per share (prior charges deducted at par) and 133 pence per share on a diluted basis. Over the same period the FTSE 100 increased 3.4 percent and the All Share Index increased 3.7 percent.

Anthony Townsend

30 April 2007

## Managing Director's Report

As noted in the Chairman's statement, we have included a new Business Review statement in this year's Directors' Report to comply with recently introduced statutory regulations.

### Performance

In 2006, the overall UK equity market grew strongly by 13 percent, although the rise was achieved in two roughly equal stages which were interrupted by a dramatic and sudden correction of 10 percent at the end of the first half. As reported at the interim stage, this reversal was the result of a sudden change in sentiment after a multi-year period of high annual growth as inflationary fears set in, particularly in relation to overheating in commodities prices and in industrial growth in China. By October, however, the first-half high point had been regained and the market continued further steady growth through to the year end, reaching levels last seen in the year 2000. The growth seen in 2006 was broadly based, led as in the previous year by the commodities sector but also reflecting high levels of domestic and international corporate activity as a result of mergers and particularly private capital buyouts of increasingly large-size quoted companies.

Our portfolio tracked the UK indices during the year, slightly out-performing the leading stocks index while slightly under-performing the wider index which, as in the previous year, grew faster reflecting higher post-recovery growth rates in smaller capitalisation companies. The portfolio's overall performance was dampened somewhat by the exposure to US stocks which showed no growth over the year in sterling terms. While the US leading index grew by 16 percent and the NASDAQ index grew by 9.5 percent over the year, the US dollar fell by 11 percent against sterling over the period.

As in previous years, we have been able to pay dividends this year substantially in excess (by over 50 percent, excluding special dividends) of index and sector yields while maintaining our capital base in line with our benchmark indices. The receipt of special dividends from investee companies has contributed to this result and our ability to pay another special dividend ourselves this year. This income strategy is in accordance with our policy of maintaining a balance of income and growth and measuring the success of the policy in terms of total shareholder return. Furthermore, the improvements in our share price discount in recent years, as noted in the Chairman's statement, have resulted in levels of share price total return which have outperformed the other investment trusts in our AIC peer group.

We remain committed to our US investments which now account for approximately 20 percent of the portfolio, and in particular to our largest holding in Geron Corporation, a ground-breaking bio-medical company based in California. This Nasdaq-listed company has developed technology in the areas of oncology and regenerative medicine based on stem cell science which is likely to represent a paradigm shift in medicine. The company's discoveries are protected by a world-wide patent estate and it has already concluded collaborative/licensing agreements with a number of leading international pharmaceutical and biomedical companies and institutions including Merck, Roche, Procter & Gamble, Corning and Edinburgh and Oxford Universities. Over the coming years, as these discoveries and collaborations are translated into marketed products, the importance and value of this company should become evident. In the meantime, as with all technology stocks, a certain degree of above market volatility can be expected which may be further compounded by movements in the US dollar/sterling exchange rate. Over the last two years, the sterling value of our US investments has been squeezed following a substantial downward revaluation in the US dollar against world currencies. This has been a long awaited adjustment to compensate for the structural imbalances which have grown up in the US economy over the past six years. At slightly over \$2.00 to the pound sterling, the dollar has reached a 26 year low against sterling which itself has been viewed as over-valued given the imbalances in the UK's current and trade accounts.

## Managing Director's Report (continued)

With the current interest rate cycle in both countries seen to be close to peak and the US congress now re-asserting control over the legislative programme, further significant deterioration in the US dollar/sterling rate affecting the sterling value of our US dollar investments is not expected and this should serve to minimise further adverse currency movements affecting our US investments.

### **Outlook**

The growth trend of the previous year in equities continued into the first quarter of 2007, with the UK indices gaining a further 7 percent to the end of February. At that point, a sudden reversal occurred in global equity markets and the UK indices fell by 7 percent in 2 weeks to lose all the gains since the beginning of the year. This reversal, which was again precipitated by concerns over growth in China and in the US housing market which fuelled a flight from risk was only short term in nature and by the end of March the UK indices had returned to their previous levels. As noted in the Chairman's statement, higher levels of volatility have returned to global equity and other financial markets, reflecting the growing maturity of the 5-year long market recovery but also to the increasingly destabilising effects of the ever more inter-connected and geared global market in financial instruments.

While companies continue to grow profits and interest rates in the developed economies are perceived to be close to the top of their current cycles, continued firmness in equity prices can be expected, together however, with dramatic short-term market movements arising out of unforeseen and seemingly unconnected localised events.

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

Jonathan Woolf

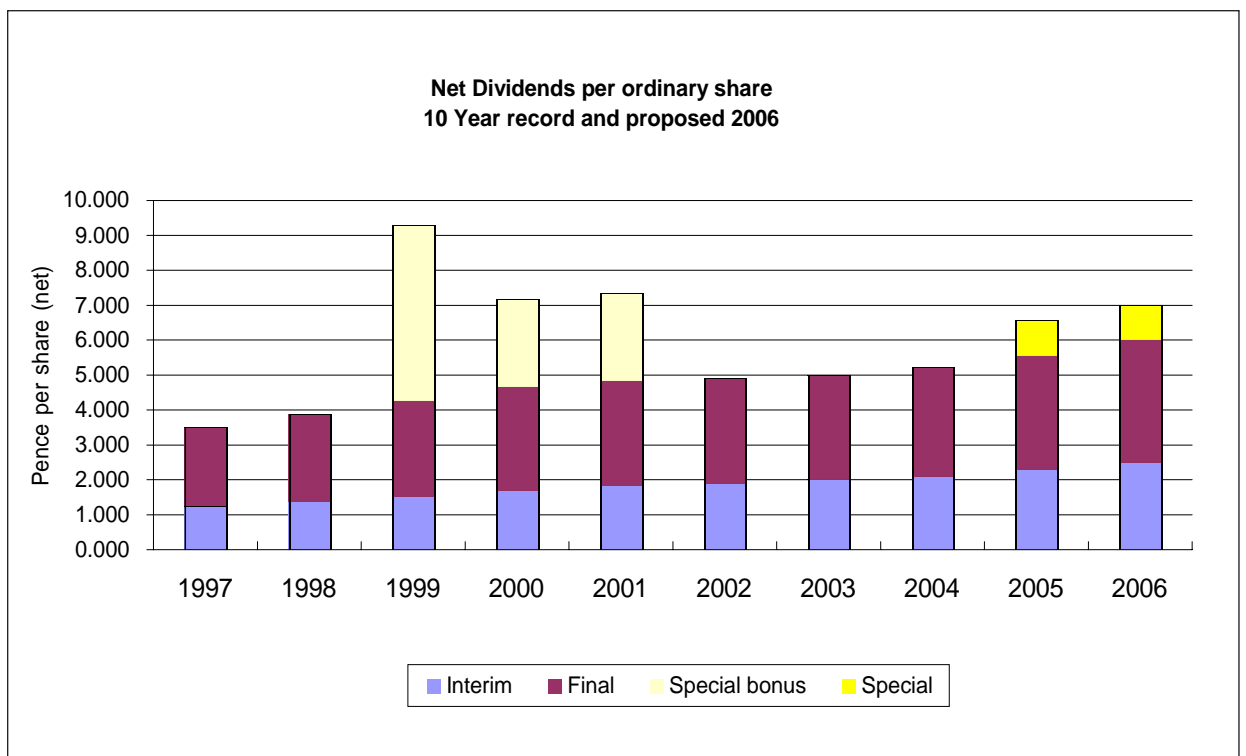
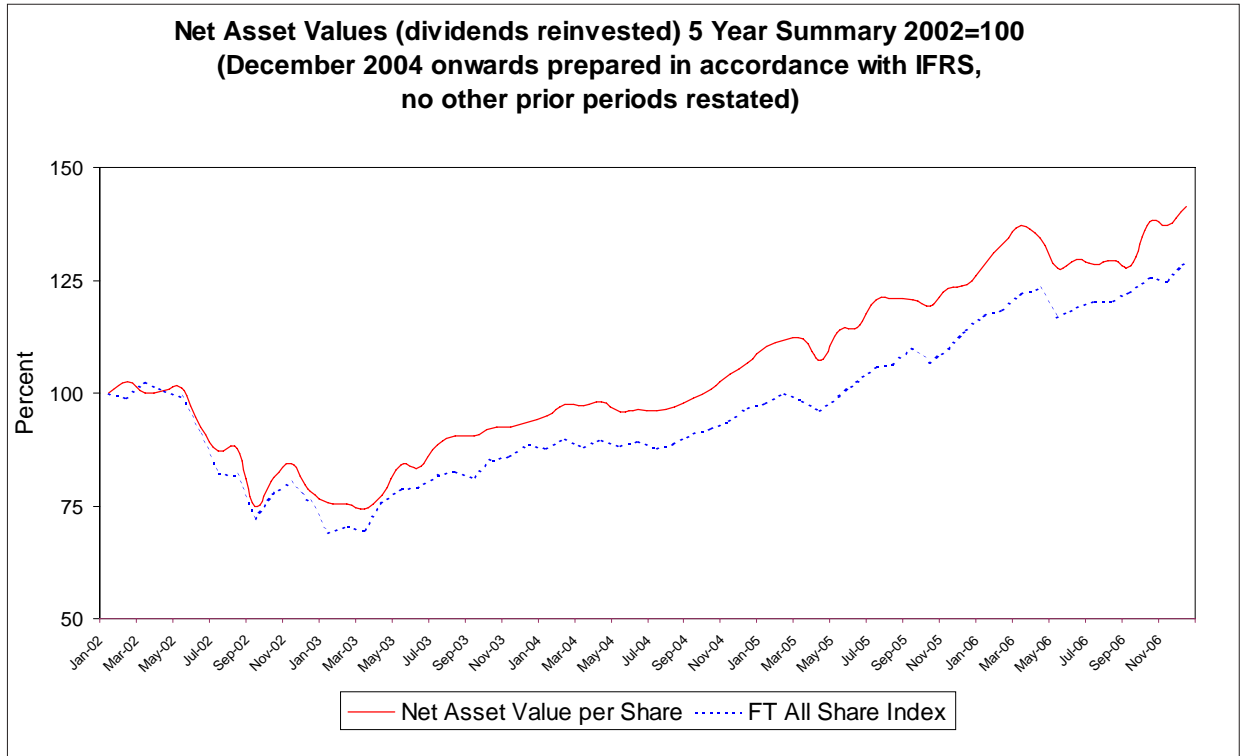
30 April 2007

## Financial highlights

For the year ended 31 December 2006

	2006			2005		
	Revenue return £000	Capital return £000	Total £000	Revenue return £000	Capital return £000	Total £000
Profit before tax – realised	1,829	(53)	1,776	1,759	479	2,238
Profit before tax – unrealised	–	5,159	5,159	–	4,665	4,665
Profit before tax – total	1,829	5,106	6,935	1,759	5,144	6,903
Earnings per £1 ordinary share – basic	5.85p	20.43p	26.28p	5.41p	20.57p	25.98p
Earnings per £1 ordinary share – diluted	5.18p	14.59p	19.77p	4.86p	14.70p	19.56p
Net assets			47,647			42,765
Net assets per ordinary share						
– deducting preference shares at par			151p			131p
– diluted			136p			122p
Diluted net asset value per ordinary share at 24 April 2007			133p			
Dividends declared or proposed for the period						
per ordinary share – interim paid			2.5p			2.3p
– final proposed			3.5p			3.25p
– special paid			1.0p			1.0p
per preference share			3.5p			3.5p

# Net asset and dividend growth



## Distribution of investments and cash

### Distribution of investments and cash balances:

	24 April 2007	At valuation	
		31 December 2006	31 December 2005
	£000	£000	£000
Investment Trusts (equities)	17,317	16,756	17,273
Biomedical – USA	7,363	8,943	3,523
Life Assurance	5,349	5,813	4,536
Property	4,414	5,620	4,903
Unit trusts	1,768	1,697	1,511
Banks retail	1,185	1,257	1,197
Other services and businesses	1,832	530	–
Software and computer services	374	525	427
Telecommunications	470	460	298
Media	77	386	1,096
Biotechnology	230	195	51
Leisure and hotels	82	184	521
Information technologies	125	124	131
Other Financial	79	84	114
Financial Services	53	54	–
Chemicals	27	45	85
Pharmaceuticals and healthcare	18	23	22
Overseas	16	12	–
Food Producers	120	–	–
Oil exploration and production	5	–	–
Retailers General	–	–	2,972
Breweries, pubs and restaurants	–	–	195
Multi Utilities	–	–	50
Support Service	–	–	16
<b>Total equities</b>	<b>40,904</b>	<b>42,708</b>	<b>38,921</b>
Property units (unquoted)	1,320	1,320	1,570
Fixed Interest stocks	1,123	655	797
Preference shares	519	529	509
Permanent interest bearing	340	353	372
Convertible loan stocks (unquoted)	311	311	200
<b>Total portfolio</b>	<b>44,517</b>	<b>45,876</b>	<b>42,369</b>
Balances at banks and stockbrokers	1,604	1,692	3,177
	<b>46,121</b>	<b>47,568</b>	<b>45,546</b>

## Group investment portfolio

At 31 December 2006

<u>Company</u>	<u>Nature of business</u>	Valuation £000	% of Group Portfolio
Geron Corporation	Biomedical – USA	8,943	19.49*
Prudential	Life Assurance	5,598	12.20
Liberty International Holdings	Property	5,095	11.11
RIT Capital Partners – Ordinary	Investment Trust	2,929	6.38
The Alliance Trust – Ordinary	Investment Trust	2,754	6.00
Dunedin Income Growth	Investment Trust	2,600	5.67
Electra Private Equity – Ordinary	Investment Trust	2,193	4.78
British Assets Trust	Investment Trust	2,149	4.69
St James's Place International Unit Trust	Unit Trust	1,495	3.26
Lloyds TSB	Bank Retail	1,257	2.74
Matrix Chatham Maritime EZT(unquoted)	Enterprise Zone Trust	1,000	2.18
Scottish & American Investment Co.	Investment Trust	965	2.10
Invesco Income Growth Trust	Investment Trust	709	1.55
Shires Income	Investment Trust	648	1.41
Georgica	Other services and businesses	530	1.16
Royal & Sun Alliance Insurance Group	Preference shares	529	1.15
Speymill Deutsche Immobilien Company	Property	525	1.15
Merchants Trust	Investment Trust	515	1.12
Rothschild Continuation Finance – Loan Notes	Debentures and Loan Stocks	508	1.11
Emblaze Systems	Software and computer services	390	0.85
20 Largest investments		41,332	90.10
Other investments (number of holdings : 54)		4,544	9.90
Total investments		45,876	100.00

\* 15.01% held by the company and 4.48% 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 2006, 13.2% 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 £000	Net asset value per share (diluted) p	Share price p	Discount %
2002*	28,742	82.1	69.5	15.3
2003	34,146	97.6	77.0	21.1
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

\* has not been restated for IFRS

### Revenue

Year to 31 December	Total income £000	Profit after tax £000	Earnings per ordinary share (diluted) p	Expense ratio %	Dividend per ordinary share (net) p
2002	1,819	1,234	3.52	0.98	4.90
2003	2,013	1,644	4.70	1.05	5.00
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+

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 (2001=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
2001	100	100	100	100	100
2002	78	64	68	65	75
2003	94	79	77	78	85
2004	109	93	93	93	93
2005	133	132	153	134	129
2006	146	158	187	163	150



## Directors' report

For the year ended 31 December 2006

### Directors' report

The directors present their annual report on the affairs of the group together with the accounts and auditors' report for the year ended 31 December 2006.

### Financial statements

The financial statements will be presented for approval at the fifty-ninth Annual General Meeting of the company to be held on Wednesday 20 June 2007.

### Future prospects

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

### Business review

#### Business and status

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

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

The company is an investment company under s266 of the Companies Act 1985.

The directors consider that the company has conducted its affairs in a manner to enable it to continue to comply with s842 of the Income and Corporation Taxes Act 1988. It is approved by HM Revenue & Customs as such, which enables it to realise its investments free from taxation on capital gains. Approval is retrospective and has been received in respect of the financial year to 31 December 2005. The company has since directed its affairs to enable it to continue to seek approval.

#### Objective and strategy

The company's objective is to achieve a balance 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 equity/fixed interest portfolio currently consists of a diversified list of around 70 UK quoted companies and 3 overseas quoted companies.

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

#### Financial Instruments

The financial instruments employed by the group primarily comprise equity investments, although it also holds convertible stock, loan stock and fixed interest investments, stock derivatives, cash and other items arising from its operations. Further details of the risk management objectives and policies relating to the use of financial instruments can be found in note 19 to the financial statements on pages 41 and 42.

## Directors' report (continued)

### 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.

### 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;
- the movement in the share price;
- 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 8, 9 and 12.

The board also considers peer group comparative performance.

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

### Principal risks and uncertainties

The principal risks facing the company relate to its investment activities and include market risk, interest rate risk, liquidity risk and loss of investment trust status. An explanation of these risks and how they are managed is contained in note 19 to the accounts on pages 41 and 42.

### Financials

The financial highlights for the year under review are as follows: the net asset value per share increased by 11.2% during the year, compared to an increase in the benchmark of 13.1%, dividends increased by 8.1% to 6.00p per share and the discount narrowed from 8.8% to 5.2%.

### **Personal Equity Plans/ISAs**

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

## Directors' report (continued)

### 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 2006.

	Revenue £000	Capital £000	Total £000
Profit before tax	1,829	5,106	6,935
Tax	(15)	–	(15)
Profit after tax	<u>1,814</u>	<u>5,106</u>	<u>6,920</u>

Dividends	Pence per share	£000
Interim per £1 ordinary share (paid 16 November 2006)	2.5	625
3.5% preference share paid (paid 16 November 2006)	1.75	175
Special per £1 ordinary share for the year ended 31 December 2006 of 1.0p (2005 – 1.0p) (paid 14 December 2006)	1.0	250
Final per £1 ordinary share – proposed	3.5	875
3.5% preference share (payable 28 June 2007)	1.75	175
		<u>2,100</u>

The dividends proposed above will be paid on 28 June 2007 to ordinary shareholders on the register at 1 June 2007 and to 3.5% preference shareholders on the register at 31 December 2006.

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

## Directors' report (continued)

The directors during the year ended 31 December 2006 had interests in the shares of the company as follows:

	2006		2005	
	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%) (2005 – 6,902,812 (27.6%)) ordinary shares held by Romulus Films Ltd, 7,868,750 (31.5%) (2005 – 7,868,750 (31.5%)) ordinary shares held by Remus Films Ltd and 80,000 (0.32%) (2005 – 80,000 (0.32%)) ordinary shares held by PKL Pictures Limited. Romulus Films Ltd also holds 10,000,000 cumulative convertible preference shares (2005 – 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 2007 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	1,000,000	4.0
Unwin Investments Limited	1,146,562	4.6

These interests relate to the ordinary shares of the company.

### Creditor Payment Policy

The company's payment policy is to agree terms of payment before business is transacted, to ensure suppliers are aware of their terms and to settle invoices in accordance with them. There were no trade creditors outstanding at the year end (2005 – £nil).

## Directors' report (continued)

### **Statement of compliance with the combined code of best practice**

The section 'Statement of Compliance with the Combined Code of Best Practice' on pages 43 to 46 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.

### **Auditors**

RSM Robson Rhodes LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

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

Jonathan Woolf  
Managing Director

Wessex House  
1 Chesham Street  
London  
SW1X 8ND

30 April 2007

## 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.

## Independent auditors' report

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

We have audited the group and parent company financial statements ('the financial statements') on pages 21 to 42 . These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

#### **Respective responsibilities of directors and auditors**

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. 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 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited group financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Managing Director's Report, the Statement of Compliance with the Combined Code of Best Practice and the information contained on pages 8 to 12. 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.

## Independent auditors' report (continued)

### **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 judgements 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 affairs of the group as at 31 December 2006 and of its profit for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the parent company as at 31 December 2006;
- 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.

RSM Robson Rhodes LLP

Chartered Accountants and Registered Auditors

London, England

30 April 2007



## Consolidated income statement

For the year ended 31 December 2006

		2006			2005		
	Notes	Revenue return £000	Capital return £000	Total £000	Revenue return £000	Capital return £000	Total £000
Investment income	2	2,105	–	2,105	2,032	–	2,032
Gains on investments at fair value through profit or loss - unrealised	9,12	–	5,159	5,159	–	4,665	4,665
Gains on investments at fair value through profit or loss - realised	9,11	–	97	97	–	618	618
Expenses	3	(276)	(150)	(426)	(273)	(139)	(412)
<b>Profit before tax</b>		<b>1,829</b>	<b>5,106</b>	<b>6,935</b>	<b>1,759</b>	<b>5,144</b>	<b>6,903</b>
Tax	6	(15)	–	(15)	(57)	–	(57)
<b>Profit for the period</b>		<b>1,814</b>	<b>5,106</b>	<b>6,920</b>	<b>1,702</b>	<b>5,144</b>	<b>6,846</b>
<b>Earnings per share</b>							
Basic - ordinary shares	8	5.85p	20.43p	26.28p	5.41p	20.57p	25.98p
Diluted - ordinary shares	8	5.18p	14.59p	19.77p	4.86p	14.70p	19.56p

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 25 to 42 form part of these financial statements.

## Statement of changes in equity

31 December 2006

### Group

	Share capital	Capital reserve realised	Capital reserve unrealised	Retained earnings	Total
	£000	£000	£000	£000	£000
<b>Balance at 31 December 2004</b>	35,000	13,114	(12,793)	2,548	37,869
<b>Changes in equity for 2005</b>					
Profit for the period	–	2,027	3,117	1,702	6,846
Ordinary dividend paid (note 7)	–	–	–	(1,600)	(1,600)
Preference dividend paid (note 7)	–	–	–	(350)	(350)
<b>Balance at 31 December 2005</b>	35,000	15,141	(9,676)	2,300	42,765
<b>Changes in equity for 2006</b>					
Profit for the period	–	2,013	3,093	1,814	6,920
Ordinary dividend paid (note 7)	–	–	–	(1,688)	(1,688)
Preference dividend paid (note 7)	–	–	–	(350)	(350)
<b>Balance at 31 December 2006</b>	35,000	17,154	(6,583)	2,076	47,647

### Reconciliation of movements in shareholders' funds

#### Company

	Share capital	Capital reserve realised	Capital reserve unrealised	Retained earnings	Total
		£000	£000	£000	£000
<b>Balance at 31 December 2004</b>	35,000	228	1,727	993	37,948
<b>Changes in equity for 2005</b>					
Profit for the period	–	(879)	5,578	2,141	6,840
Ordinary dividend paid (note 7)	–	–	–	(1,600)	(1,600)
Preference dividend paid (note 7)	–	–	–	(350)	(350)
<b>Balance at 31 December 2005</b>	35,000	(651)	7,305	1,184	42,838
<b>Changes in equity for 2006</b>					
Profit for the period	–	701	3,969	2,246	6,916
Ordinary dividend paid (note 7)	–	–	–	(1,688)	(1,688)
Preference dividend paid (note 7)	–	–	–	(350)	(350)
<b>Balance at 31 December 2006</b>	35,000	50	11,274	1,392	47,716

# Consolidated and company balance sheet

31 December 2006

	Notes	Group		Company	
		2006 £000	2005 £000	2006 £000	2005 £000
<b>Non - current assets</b>					
Investments - fair value through profit or loss	9	45,876	42,369	47,348	45,442
<b>Current assets</b>					
Receivables	11	553	3,379	2,057	603
Cash and cash equivalents	11	1,554	3,263	1,530	2,756
		2,107	6,642	3,587	3,359
<b>Total assets</b>		47,983	49,011	50,935	48,801
<b>Current liabilities</b>	12	(336)	(6,246)	(146)	(3,067)
<b>Total assets less current liabilities</b>		47,647	42,765	50,789	45,734
<b>Non - current liabilities</b>	13	–	–	(3,073)	(2,896)
<b>Net assets</b>		47,647	42,765	47,716	42,838
<b>Equity attributable to equity holders</b>					
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	17,154	15,141	50	(651)
Capital reserve - unrealised	15	(6,583)	(9,676)	11,274	7,305
Retained earnings	15	2,076	2,300	1,392	1,184
<b>Total equity</b>		47,647	42,765	47,716	42,838

The notes on pages 25 to 42 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 21 to 42 were approved by the board of directors on 30 April 2007.**

**Jonathan Woolf**  
Managing Director

## Consolidated cash flow statement

For the year ended 31 December 2006

	Notes	2006 £000	2005 £000
<b>Cash flow from operating activities</b>			
Profit before tax		6,935	6,903
Adjustment for:			
Gains on investments		(5,256)	(5,283)
Scrip dividends and interest		(27)	(4)
Film income tax deducted at source		(4)	(4)
Proceeds on disposal of investments at fair value through profit and loss		20,510	6,406
Purchases of investments at fair value through profit and loss		<u>(19,452)</u>	<u>(7,552)</u>
Operating cash flows before movements in working capital		2,706	466
Decrease/(increase) in receivables		13	(52)
(Decrease)/increase in payables		<u>(2,305)</u>	<u>2,576</u>
Net cash from operating activities before income taxes		414	2,990
Income taxes paid		<u>(85)</u>	<u>(4)</u>
<b>Net cash flows from operating activities</b>		<u>329</u>	<u>2,986</u>
<b>Cash flows from financing activities</b>			
Dividends paid on ordinary shares	7	(1,688)	(1,600)
Dividends paid on preference shares	7	<u>(350)</u>	<u>(350)</u>
<b>Net cash used in financing activities</b>		<u>(2,038)</u>	<u>(1,950)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		(1,709)	1,036
<b>Cash and cash equivalents at beginning of year</b>		<u>3,263</u>	<u>2,227</u>
<b>Cash and cash equivalents at end of year</b>		<u>1,554</u>	<u>3,263</u>

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 2006

## 1 Accounting policies

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

### a) Basis of preparation and statement of compliance

In accordance with European Union (EU) regulations, these group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as adopted for use in the EU effective at 31 December 2006. The company has elected to prepare its parent company accounts under UK Generally Accepted Accounting Practices (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 a subsidiary at cost.

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

The group's significant accounting policies are set out below, together with the judgements made by management in applying these policies, which have the most significant effect on the amounts recognised in the financial statements, apart from those involving estimations, which are dealt with separately below. These accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

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 have been applied consistently by group entities.

### b) Basis of consolidation

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

No income statement is published for British & American Investment Trust PLC as provided by s230 of the Companies Act 1985. The company's profit on ordinary activities after taxation for the year was £6,915,641 (2005 – £6,841,227).

## Notes to the financial statements (continued)

### 1 Accounting policies (continued)

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

Realised gains on sales of investments in the group financial statements are based on historical cost to the group.

#### 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, supplementary information which analyses the income statement between items of a revenue and capital nature has been presented alongside the income statement. In accordance with the company's status as a UK investment company under section 266 of the Companies Act 1985, net capital returns may not be distributed by way of dividend.

#### d) Valuation of investments

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 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 Stock Exchange quoted market bid prices or last traded prices, depending upon the convention of the exchange on which the investment is quoted at the close of business on the balance sheet date. Investments in units of unit trusts or shares in OEICs are valued at the closing price released by the relevant investment manager.

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

Investments in subsidiary companies are held at fair value (BritAm Investments Limited and British and American Films Limited) and cost (Second BritAm Investments Limited).

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.

## Notes to the financial statements (continued)

### 1 Accounting policies (continued)

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

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

When special dividends are received, the underlying circumstances are reviewed on a case by case basis in determining whether the amount is capital or 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.

#### f) Expenses

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

- material transaction costs which are incurred on the purchase or sale of an investment designated as fair value through profit or loss are expensed and included in the capital column of the income statement;
- expenses are split and presented partly as capital items where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated, and accordingly investment management and related costs have been allocated 50% (2005 - 50%) to revenue and 50% (2005 - 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 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.

## Notes to the financial statements (continued)

### 1 Accounting policies (continued)

#### h) Foreign currency

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

#### i) Segmental reporting

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

#### j) 3.5% cumulative convertible non-redeemable preference shares

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



## Notes to the financial statements (continued)

### 2 Income

	2006	2005
	£000	£000
Income from investments		
UK dividends (cash and in specie)	1,590	1,377
Overseas dividends	11	22
Scrip dividends	4	3
Interest on fixed income securities	130	176
Property unit trust income	100	102
Film revenues	185	205
	<u>2,020</u>	<u>1,885</u>
Other income		
Deposit interest	101	130
Other	(16)	17
	<u>85</u>	<u>147</u>
<b>Total income</b>	<u>2,105</u>	<u>2,032</u>
Total income comprises:		
Dividends	1,605	1,402
Interest	231	306
Film revenues	185	205
Property unit trust income	100	102
(Loss)/gain on foreign exchange	(16)	17
	<u>2,105</u>	<u>2,032</u>
Income from investments:		
Listed investments	1,664	1,472
Unlisted investments	356	413
	<u>2,020</u>	<u>1,885</u>

Of the £1,605,000 dividends received in the group accounts, £686,000 related to special dividends received from investee companies. A corresponding capital loss of £587,000 was realised.

## Notes to the financial statements (continued)

### 3 Administrative expenses

	2006	2005
	£000	£000
Staff costs – including directors (Notes 4 and 5)	335	312
Auditors' remuneration for:		
Current auditors		
Fees payable to the company's auditor for the audit of the company's individual financial statements and its consolidated financial statements	19	23
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	8	7
– all other services	6	–
Previous auditors		
Fees payable to the company's auditor for other services:		
– all other services	–	11
Other	39	42
Irrecoverable VAT	14	12
	<hr/>	<hr/>
	426	412
	<hr/>	<hr/>

### 4 Directors' remuneration

	2006	2005
	£000	£000
Fees:		
DG Dreyfus	11	11
JAV Townsend	16	16
RG Paterson	11	11
Salaries:		
JC Woolf	53	50
	<hr/>	<hr/>
	91	88
	<hr/>	<hr/>

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.

## Notes to the financial statements (continued)

### 5 Directors and staff costs

	2006	2005
	£000	£000
Wages and salaries	287	263
Social security costs	31	28
Pensions and post-retirement benefits	17	21
	<u>335</u>	<u>312</u>

The average number of persons (including directors) employed during the year was 11 (2005 – 11).

	2006	2005
	Number	Number
Non-executive directors	3	3
Investment	2	2
Administration	6	6
	<u>11</u>	<u>11</u>

### 6 Tax

	2006	2005
	£000	£000
Current tax:		
UK corporation tax	(13)	(60)
Foreign tax	3	4
Double taxation relief	(3)	(4)
Expenses utilised in capital	–	–
Adjustment in respect of prior periods	(2)	3
	<u>(15)</u>	<u>(57)</u>

Corporation tax is calculated at 30% (2005 – 30%) of the estimated assessable profit for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

## Notes to the financial statements (continued)

### 6 Tax (continued)

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

	2006		2005	
	£000	%	£000	%
Total profit before tax	6,935	30.0	6,903	30.0
Tax at the UK corporation tax rate of 30% (2005 – 30%)	(2,081)		(2,071)	
Tax effect of expenses that are not deductible in determining taxable profit	2		2	
Tax effect of non-taxable UK and scrip dividends	478		413	
Withholding tax suffered	3		4	
Capital gains	(35)		(11)	
Gains and losses on investments that are not taxable	1,576		1,585	
Tax effect of utilisation of tax losses not previously recognised	35		11	
Prior period adjustments	(2)		3	
Effect of different tax rates of subsidiaries in other jurisdictions	9		7	
Tax expense and effective tax rate for the year	(15)	0.2	(57)	0.8

### 7 Dividends

	2006	2005
	£000	£000

Amounts recognised as distributions to ordinary shareholders in the period:

Dividends on ordinary shares:

Final dividend for the year ended 31 December 2005

of 3.25p (2004 – 3.1p) per share

	813	775
--	-----	-----

Interim dividend for the year ended 31 December 2006

of 2.5p (2005 – 2.3p) per share

	625	575
--	-----	-----

Special dividend for the year ended 31 December 2006

of 1.0p (2005 – 1.0p) per share

	250	250
--	-----	-----

	1,688	1,600
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## Notes to the financial statements (continued)

### 7 Dividends (continued)

Proposed final dividend for the year ended 31 December 2006  
of 3.5p (2005 – 3.25p) per share

875	813

2006	2005
£000	£000

Dividends on 3.5% cumulative convertible preference shares:

Preference dividend for the year ended 31 December 2005

of 1.75p (2004 – 1.75p) per share

175	175
-----	-----

Preference dividend for the year ended 31 December 2006

of 1.75p (2005 – 1.75p) per share

175	175

350	350

Proposed preference dividend for the year ended 31 December 2006  
of 1.75p (2005 – 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

2006	2005
£000	£000

Dividends on ordinary shares:

Interim dividend for the year ended 31 December 2006

of 2.5p (2005 – 2.3p) per share

625	575
-----	-----

Special dividend for the year ended 31 December 2006

of 1.0p (2005 – 1.0p) per share

250	250
-----	-----

Proposed final dividend for the year ended 31 December 2006

of 3.5p (2005 – 3.25p) per share

875	813

1,750	1,638

Dividends on 3.5% cumulative convertible preference shares:

Preference dividend for the year ended 31 December 2006

of 1.75p (2005 – 1.75p) per share

175	175
-----	-----

Proposed preference dividend for the year ended 31 December 2006

of 1.75p (2005 – 1.75p) per share

175	175

350	350

## Notes to the financial statements (continued)

### 8 Earnings per ordinary share

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

	2006			2005		
	Revenue	Capital	Total	Revenue	Capital	Total
	return	return		return	return	
	£000	£000	£000	£000	£000	£000
Earnings:						
Basic	1,464	5,106	6,570	1,352	5,144	6,496
Preference dividend	350	–	350	350	–	350
Diluted	1,814	5,106	6,920	1,702	5,144	6,846

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 (2005 – 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 (2005 – 35 million) ordinary and preference shares in issue.

### 9 Investments – fair value through profit or loss

	Group		Company	
	2006	2005	2006	2005
	£000	£000	£000	£000
Investments listed on a recognised investment exchange	44,198	40,482	41,722	39,753
Unlisted investments				
– Subsidiary undertakings (Note 10)	–	–	5,395	5,489
– Property units	1,320	1,570	–	–
– Unlisted securities	358	317	231	200
	45,876	42,369	47,348	45,442

The potential taxation liability in subsidiary undertakings in respect of unrealised capital appreciation on which deferred taxation has not been provided at 31 December 2006 is estimated at £nil (2005 – £nil).

Film rights are valued, in the group, at £nil (2005 – £nil). The original cost of the film rights held in subsidiary undertakings is £510,000 with total amortisation to date of £441,921.

## Notes to the financial statements (continued)

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

Group:	Listed in UK	Listed overseas	Unlisted UK	Property Units	Total
	£000	£000	£000	£000	£000
Opening cost at 1 January	17,534	3,444	2,185	1,570	24,733
Gains/(losses) at 1 January	19,424	80	(1,868)	–	17,636
Opening fair value at 1 January	36,958	3,524	317	1,570	42,369
Purchases at cost	8,898	6,532	111	–	15,541
Transfers	(7)	–	7	–	–
Sales – proceeds	(15,663)	(1,716)	(103)	–	(17,482)
– realised gains on sales	219	90	–	–	309
Increase/(decrease) in unrealised appreciation	4,884	479	26	(250)	5,139
Closing fair value at 31 December	35,289	8,909	358	1,320	45,876
Closing cost at 31 December	13,154	8,522	2,205	1,570	25,451
Gains/(losses) at 31 December	22,135	387	(1,847)	(250)	20,425
Closing fair value at 31 December	35,289	8,909	358	1,320	45,876
Company:			Listed		
		Listed in UK	overseas	Unlisted UK	Total
		£000	£000	£000	£000
Opening cost at 1 January		26,398	3,108	8,607	38,113
Gains/(losses) at 1 January		10,247	–	(2,918)	7,329
Opening fair value at 1 January		36,645	3,108	5,689	45,442
Purchases at cost		5,507	4,410	–	9,917
Transfers		(4)	–	4	–
Sales – proceeds		(12,276)	(922)	(3)	(13,201)
– realised (loss)/gains on sales		(120)	66	–	(54)
Increase/(decrease) in unrealised appreciation		4,857	451	(64)	5,244
Closing fair value at 31 December		34,609	7,113	5,626	47,348
Closing cost at 31 December		20,901	6,598	8,609	36,108
Gains/(losses) at 31 December		13,708	515	(2,983)	11,240
Closing fair value at 31 December		34,609	7,113	5,626	47,348

Gains on fair value through profit or loss assets are net of transaction costs incurred on both the purchase and sale of those assets, in the amount of £46,608 being £22,955 on purchases and £23,653 on sales (2005 – £40,754 being £20,394 on purchases and £20,360 on sales).

## Notes to the financial statements (continued)

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

Gains on investments

	Group £000	Company £000
Realised gains on sales	2,375	1,240
Realised gains recognised as unrealised in prior years	(2,066)	(1,294)
	309	(54)
Unrealised appreciation in year	5,139	5,244
Total recognised gains on sales	5,448	5,170

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 2006 of £20,425,000 on page 35 and the group capital reserve unrealised of £(6,583,000) in note 15 on page 39.

### 10 Subsidiary undertakings

The company has investments in the following subsidiary undertakings:

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

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

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

### 11 Current assets

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Sales of investments awaiting settlement	138	3,166	138	388
Amount owed by subsidiary undertakings	–	–	1,351	2
Income tax recoverable	21	1	22	1
Corporation tax recoverable	8	4	–	–
Group relief receivable	–	–	170	99
Prepayments and accrued income	72	43	63	43
Other receivables	314	165	313	70
	553	3,379	2,057	603



## Notes to the financial statements (continued)

### 11 Current assets (continued)

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

Other receivables for group and company includes stock derivative assets of £279,000 (2005 - £nil) containing a realised loss at the year end of £211,908. These stock derivatives are a hedge against part of the investment in Geron Corporation. The company has the right, up to January 2008, to sell the hedged stock at \$10.00 and \$12.50.

#### Credit Risk

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

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

### 12 Current liabilities

	Group		Company	
	2006	2005	2006	2005
	£000	£000	£000	£000
Purchases of investments awaiting settlement	–	3,252	–	2,860
Trade payables	14	1	–	–
Corporation tax payable	10	60	–	–
Other taxes and social security	3	3	3	3
Other payables	267	2,877	115	173
Accruals and deferred income	35	41	28	31
Amounts due to related parties	7	12	–	–
	<u>336</u>	<u>6,246</u>	<u>146</u>	<u>3,067</u>

The directors consider that the carrying amount of other payables approximates to their fair value. Other payables includes stock derivative liabilities with a fair value of £222,895 (2005 - £188,374) for group, containing an unrealised gain at the year end of £19,684 (2005 - £41,128 loss). The amounts for the company are £71,531 (2005 - £147,600) and £19,602 unrealised gain (2005 - £37,954 loss) respectively. Other payables for 2005 also includes the liability to complete a transaction outstanding at the 2005 year end of £2,662,560, inclusive of an unrealised loss of £242,718, since completed.

### 13 Non-current liabilities

	Company	
	2006	2005
	£000	£000
Guarantee of subsidiary liability	<u>3,073</u>	<u>2,896</u>

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.

## Notes to the financial statements (continued)

### 14 Share capital

	2006	2005
	£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	<u>10,000</u>	<u>10,000</u>
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	<u>10,000</u>	<u>10,000</u>
	<u>35,000</u>	<u>35,000</u>

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

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

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

#### **Conversion right of non-voting 3.5% cumulative convertible non-redeemable preference shares**

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

## Notes to the financial statements (continued)

### 15 Retained earnings and capital reserves

	Capital reserve realised £000	Capital reserve unrealised £000	Retained earnings £000
Group			
1 January 2006	15,141	(9,676)	2,300
(Loss)/profit for the year	(53)	5,159	1,814
Transfer between realised and unrealised capital reserves	2,066	(2,066)	–
Ordinary and preference dividends paid	–	–	(2,038)
31 December 2006	<u>17,154</u>	<u>(6,583)</u>	<u>2,076</u>
Company			
1 January 2006	(651)	7,305	1,184
(Loss)/profit for the year	(593)	5,263	2,246
Transfer between realised and unrealised capital reserves	1,294	(1,294)	–
Ordinary and preference dividends paid	–	–	(2,038)
31 December 2006	<u>50</u>	<u>11,274</u>	<u>1,392</u>

### 16 Net asset values

	Net asset value per share		Net assets attributable	
	2006 £	2005 £	2006 £000	2005 £000
Ordinary shares				
Undiluted	1.51	1.31	37,647	32,765
Diluted	1.36	1.22	47,647	42,765

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.

## Notes to the financial statements (continued)

### 17 Related party transactions

The company rents its offices from Romulus Films Limited, and is also charged for its office overheads. During the year the company paid £10,456 (2005 – £10,176) 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 2006 were £275,595 (2005 – £248,680) in respect of salary costs and £17,285 (2005 – £20,500) in respect of pensions.

At the year end an amount of £3,393 (2005 – £5,800) was due to both Romulus Films Limited and Remus Films Limited. Romulus Films Limited and Remus Films Limited have significant shareholdings in the company – see page 16.

The company recharged £5,612 (2005 – £5,611) in respect of directors' fees during the year to each of its subsidiaries BritAm Investments Limited and British and American Films Limited.

At the year end the company was owed £54,478 (2005 – £nil) by BritAm Investments Limited, £718,049 (2005 – £2,049) by Second BritAm Investments Limited and £579,072 (2005 – £nil) by British and American Films Limited.

At the year end the company was owed group tax relief of £22,570 (2005 – £15,219) by BritAm Investments Limited and £147,685 (2005 – £84,065) by British and American Films Limited.

Second BritAm Investments Limited has negative total assets and its parent company British & American Investment Trust PLC has given a written guarantee in respect of balances owing to BritAm Investments Limited and British and American Films Limited.

## Notes to the financial statements (continued)

### 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 £491,625 (2005 – £350,412). The asset would be recovered if the company disposed of its investments, made sufficient future taxable profits and chargeable gains.

It is unlikely the group will generate sufficient taxable profits in the future to recover management expenses of £8,217 (2005 – £8,217) and no deferred tax asset has been recognised in the year or prior years.

### 19 Risk management and other financial instruments

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

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

As an investment trust, the company invests in securities for the long term. Accordingly, it is, and has been throughout the year, the company's policy that the company invests predominantly in investment trusts and other leading UK quoted companies. The company 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 totalled £242,579. The fair market value and resulting unrealised gain is disclosed in the note 12 on page 37.

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

#### Market price risk

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

#### Financial liabilities - interest rate risk

The company is financed through its ordinary share capital, preference share capital and its financial liabilities. The company's financial liabilities comprise short term trade payables, all of which mature in one year or less, or on demand.

#### Financial assets - interest rate risk

The majority of the company's financial assets are equity shares (93.1%) or other investments which pay dividends rather than interest and do not have a maturity date.

## Notes to the financial statements (continued)

### 19 Risk management and other financial instruments (continued)

#### Fair values of financial assets and financial liabilities

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

#### Liquidity risk

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

#### Currency risk

The vast majority (over 80%) of assets and liabilities are in sterling. Accordingly, due to the foreign currency content being almost exclusively in a single investment denominated in US dollars, and the associated limited currency risk no analysis of currency has been performed.

#### Loss of investment trust status

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

### 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.

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

## Statement of compliance with the Combined Code of Best Practice

For the year ended 31 December 2006

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

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

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

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

The board considers that the company has complied with the provisions of section 1 of the Code throughout the year ended 31 December 2006 and thereafter, as required by Listing Rule 9.8.6(6) issued by the UK Listing Authority.

### **Operation of the board**

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

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

The board has established a procedure under which each non-executive director 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:

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

### Number of meetings attended

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

\* Not a member of the committee but in attendance by invitation.

All the directors attended the Annual General Meeting.

### Independence of the directors

The non-executive directors (Mr JAV Townsend, Mr DG Dreyfus and Mr RG Paterson) are independent and have no other relationships or circumstances which might be perceived to interfere with the exercise of independent judgement. Mr DG Dreyfus, at the date of the Annual General Meeting, will have served on the board for more than ten years from the date of his 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 can be considered to be independent. In arriving at this conclusion the board considers that long service aids the understanding, judgement, objectivity and independence of directors.

### Re-election of directors

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

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

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

### Chairman

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

### Audit Committee

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



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

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

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

The provision of non-audit services is reviewed separately by the audit committee 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**

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

### **Board/Audit/Nomination Committee/Director ongoing evaluation**

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

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

### **Remuneration**

The remuneration of the executive director is decided by the board as a whole (comprising a majority of non-executive directors), rather than a remuneration committee. There is no performance-related element of the executive director's remuneration. The board considers that the interests of the Managing Director, 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 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 18.

The report of the independent auditors is set out on pages 19 and 20.

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 directors, through the Audit Committee procedures outlined on pages 44 and 45, have kept the effectiveness of the company's internal controls under review throughout the period covered by these financial statements and up to the date of approval of the Annual Report and Financial Statements. The Board has identified risk management controls in the key areas of business objectives, accounting, compliance, operations and secretarial as areas for the extended review. This accords with the guidance published in October 2005 by the Financial Reporting Council.

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 Combined Code.

### **Going concern**

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

### **Socially responsible investment**

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

### **Exercise of voting rights**

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

# Directors' remuneration report

For the year ended 31 December 2006

## 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 2006. An ordinary resolution to approve this report will be put to members at the forthcoming Annual General Meeting, but the directors' remuneration is not conditional upon the resolution being passed.

## Consideration by the directors' of matters relating to directors' remuneration

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

## Directors' remuneration policy

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

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

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

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

It is intended that their policy will continue for the year ending 31 December 2007 and subsequent years.

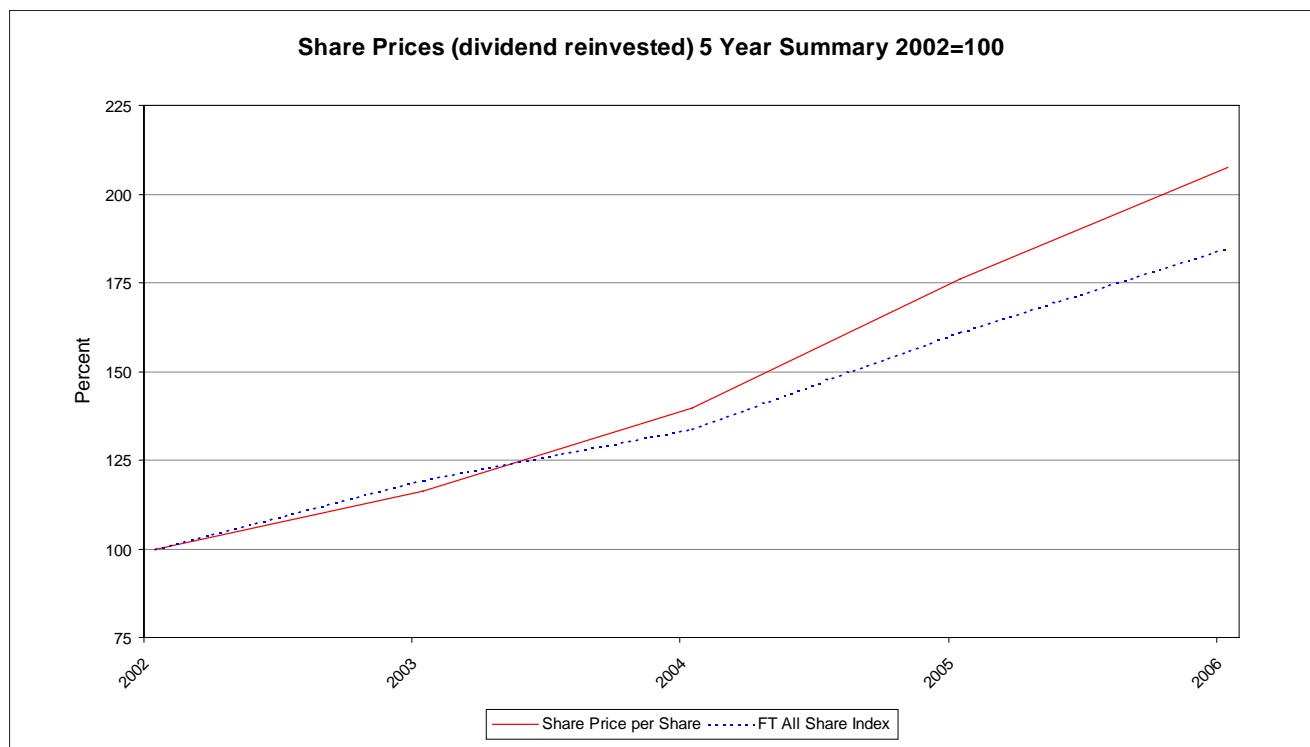
## Services contract

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

## Performance graph

The graph on page 48 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 2002. 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.

	<u>2006</u>	<u>2005</u>
	£000	£000
JC Woolf - salary	53	50
JAV Townsend - fees	16	16
DG Dreyfus - fees	11	11
RG Paterson - fees	11	11
Total	<u>91</u>	<u>88</u>

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

By order of the board

KJ Williams  
Secretary  
30 April 2007

# 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 Wednesday 20 June 2007 and at any adjournment thereof.

Signed .....

Dated ..... 2007.

RESOLUTIONS	For	Against	Vote Withheld
1. To adopt the report and accounts.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect Mr DG Dreyfus.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr JC Woolf.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. To approve the directors' remuneration report.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To declare a final dividend of 3.5p per £1 ordinary share.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To re-appoint RSM Robson Rhodes LLP as auditors.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. To authorise the directors to fix the remuneration of the auditors.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

### NOTES

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

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

Second fold

BUSINESS REPLY SERVICE  
Licence No. ANG 1468



**Capita Registrars  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield HD8 0LA**

First fold

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