# British & American Investment Trust PLC

Report and accounts

31 December 2007

## 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 | 15.85 |
| Prudential | Life Assurance | 10.61 |
| Liberty International Holdings | Property | 9.38 |
| RIT Capital Partners | Investment Trust | 7.37 |
| The Alliance Trust | Investment Trust | 6.68 |
| Dunedin Income Growth | Investment Trust | 6.44 |
| Electra Private Equity | Investment Trust | 5.85 |
| British Assets Trust | Investment Trust | 5.38 |
| St James's Place International Unit Trust | Unit Trust | 4.26 |
| Scottish & Amer. Investment Co. | Investment Trust | 2.53 |
| | | 74.35 |

## Country Exposure

| Country | £m | % |
|---|---|---|
| UK | 31.8 | 83.91 |
| USA | 6.1 | 16.09 |
| Other | – | – |
| Total investments | 37.9 | 100.00 |

## Value (dividends reinvested) of £100 invested

| | £ |
|---|---|
| 1 year | 81.9 |
| 3 year | 132.5 |
| 5 year | 197.2 |

(source: AIC)

## Salient Facts

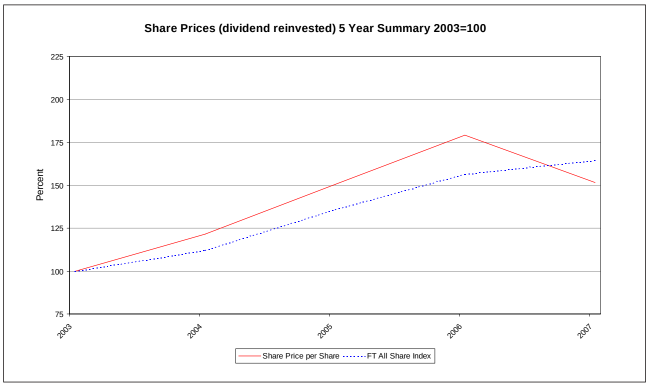
| | |
|---|---|
| Launch Date | 1996 |
| Management | Self managed |
| Year/Interim End | 31 December/30 June |
| Capital Structure | 25,000,000 Ordinary Shares of £1 (listed); 10,000,000 Convertible Preference Shares of £1 (unlisted) |
| Number of Holdings | 74 |
| Net Assets (£m) | 39.6 |
| Yield (excl. special dividend) | 6.43% |
| Dividend Dates | Interim dividend – November<br>Final dividend – June |
| Share price (p) | 99.5 |
| NAV/share (p) | 113 *(diluted)* 119 *(undiluted)* |
| (Discount)/Premium | (12.2)% (16.1)% |
| Total expense ratio | 1.05% |
| Sedol Code | 0065311 |
| ISIN Code | GB000065311 |

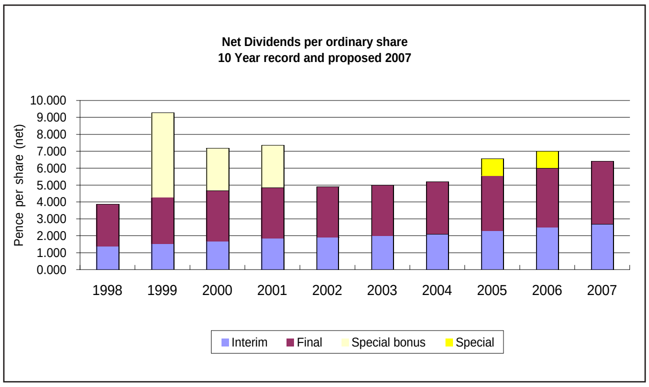
## Status

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
Tel: 020 7201 3100
Fax: 020 7201 3101
Website: www.baitgroup.co.uk
Registered in England. Registered number 433137
VAT Reg. No. 241 1621 10



# British & American Investment Trust PLC

Annual Report and Accounts

for the year ended 31 December 2007

Registered number: 433137

# Contents

# Directors and officials

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

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

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

**Bankers**
Lloyds 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 Stockbrokers Limited
Finsbury Tower
103-105 Bunhill Row
London EC1Y 8LZ

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

# Biographical details of directors and investment policy

**Chairman**

J Anthony V Townsend (Age 60)

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

**Managing Director**

Jonathan C Woolf (Age 51)

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

**Non Executive**

Dominic G Dreyfus (Age 51)

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 51)

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. Full details of the company's investment policy are contained in the Business Review on page 13.

## AIC

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

# Chairman's statement

I report our results for the year ended 31 December 2007.

**Revenue**

The return on the revenue account before tax amounted to £1.6 million (2006: £1.8 million). Gross income amounted to £1.9 million (2006: £2.1 million), of which £1.5 million (2006: £1.7 million) represented income from investments and £0.4 million (2006: £0.4 million) film, property and other income. The slightly lower level of income from investments arose from the lower level of special dividends received compared to the previous year.

The return before tax, which includes realised and unrealised capital appreciation, amounted to a loss of £6.1 million (2006: £6.9 million profit) reflecting in part a decline in the value of our US investments and weakness in the US dollar over the year, as discussed below. The capital element of this total was represented by £0.2 million of realised losses and £7.3 million of unrealised losses. This is a disappointing result which is further explained in the Managing Director's Report.

The revenue return per ordinary share was 5.0p (2006: 5.8p) on an undiluted basis and 4.6p (2006: 5.2p) on a diluted basis.

**Net Assets**

Group net assets at the year end were £39.6 million (2006: £47.6 million), a decrease of 16.8 percent. This compares to increases in the FTSE 100 and All Share indices of 4.5 percent and 2.6 percent, respectively, over the period. On a total return basis, after adding back dividends paid in the year, our portfolio returned a decrease of 12.8 percent. This compares to an increase over the same period of 7.5 percent (dividends reinvested) in the FTSE 100 share index and 5.6 percent (dividends reinvested) in the All Share index. The net asset value per ordinary share decreased to 113p (2006: 136p) on a diluted basis. Deducting prior charges at par, the net asset value per ordinary share decreased to 119p (2006: 151p).

**Dividends**

We are pleased to recommend an increased final dividend of 3.7p per ordinary share, which together with the interim dividend makes a total payment for the year of 6.4p (2006: 6.0p) per ordinary share. This represents an increase of 6.7 percent over the previous year's total dividend, excluding special dividends. The final dividend will be payable on 26 June 2008 to shareholders on the register at 30 May 2008. A dividend of 1.75p will be paid to preference shareholders resulting in a total payment for the year of 3.5p per share.

**Shares and performance**

The discount to NAV at which our shares trade in the market widened during the year to approximately 15 percent, continuing the trend reported at the interim stage. Widening discounts have been experienced generally in the investment trust sector as levels of investment and confidence have fallen as a consequence of the unprecedented credit crisis experienced in financial markets in the second half of 2007. As noted above, our performance based on net assets fell significantly behind our benchmarks over the period. A significant contributor to this was the fall in the value of Geron Corporation, our largest US based investment and, to a lesser extent by year end, the value of the dollar against sterling. In the months since the year end, however, a modest recovery in these valuations has been seen, allowing our NAV to recover some ground lost against the benchmarks. The Managing Director gives an overview of Geron Corporation in the investment focus that follows.

## Outlook

With the turmoil in credit markets continuing for longer than perhaps expected despite early and significant intervention by the authorities in the USA, the short term outlook remains decidedly uncertain for almost all forms of investment as confidence even between leading lending institutions remains extremely fragile. It is clear from recent actions that the financial authorities in the USA will take all and any measures necessary to ensure that financial markets stabilise and reopen for normal business; however, until a degree of clarity emerges in the exposures of lending institutions to doubtful debts and investments, financial markets will remain extremely difficult and volatile. This situation could easily continue for the greater part of the current year. Our own equity-focused investment strategy is based on long-term and income generating strategies in the UK and USA in quoted investments with underlying exposures to many world economies. This strategy remains relevant in current conditions and we look forward to the eventual return to normality in financial markets.

As at 25 April 2008, group net assets had decreased to £38.5 million, a decrease of 2.8 percent since the beginning of the calendar year. This is equivalent to 114 pence per share (prior charges deducted at par) and 110 pence per share on a diluted basis. Over the same period the FTSE 100 decreased 6.3 percent and the All Share Index decreased 6.3 percent.

Anthony Townsend

29 April 2008

# Managing Director's Report

**Performance**

As reported at the interim stage, strong gains in equity returns in the UK and USA were recorded in the first half of 2007 of 6 and 8 percent, respectively. However, growing concerns surrounding the US housing market and the widely-traded structured loan market based thereon began to be foreshadowed at the time through a significant rise in equity market volatility. These fears were finally realised in August when credit markets in the USA and the UK seized up as the extent of banks' exposures to and potential losses on these - and later other - structured investments began to be made known. A serious collapse in market confidence followed, resulting in the UK in the first run on a major retail bank for almost 100 years. This deteriorating situation prompted a series of emergency monetary interventions by the Federal Reserve, the Bank of England and the European Central Bank in the Autumn and into 2008 on a scale and in a fashion not seen before. These measures were designed to restore confidence and provide liquidity to banks and financial institutions which were unwilling to lend to each other. However, what started as a liquidity crisis developed towards the end of the year into a solvency crisis as banks were forced to write down the value of their exposures to these and other structured investments. This provoked the failure of a small number of banks and some hedge funds in the UK, USA and Europe and the central banks sought to restore confidence and prevent further bank failures through large-scale operations in the wholesale financial markets. This included acquiring for cash previously unacceptable assets, underwriting the takeover of some weaker institutions and, in the case of the UK, publicly acquiring one of the largest high street mortgage banks. In addition, some of the most affected banks including the world's largest commercial and investment banks, sought large capital injections from new investors including for the first time sovereign wealth funds.

Against this backdrop of disruption in the credit markets in the second half of the year, equity markets in the UK and USA gained by 4.5 percent and 6.4 percent, respectively, for the year as a whole. This growth was provided almost totally by the commodities and oils sectors in the face of significant declines in most other sectors, particularly financials and retailers as the effects of the financial crisis and its subsequent effects on the real economies began to be understood. Given the high weightings of commodities stocks in the leading companies indices and also a noticeable move by investors towards higher capitalisation stocks in times of investment uncertainty, the FTSE 100 index in the UK outperformed the All Share index in 2007 for the first time in over 10 years.

Under the circumstances, this overall result in equity markets was unexpectedly firm. The performance of investment funds, however, including investment trusts, significantly lagged the main equity benchmarks for the year with the generalist investment trust index falling by approximately 4 percent as retail investment inflows began to falter. As noted above, our portfolio declined by 16.8 percent, the main contributor to this being a drop in value of Geron Corporation, our largest investment, by 38% in US$ terms and 2% in respect of weakness in the US dollar, giving rise to significant underperformance by the portfolio overall. Since the year end the valuation of Geron has outperformed the benchmark and has allowed our overall portfolio valuation to recover some of the ground lost to the benchmarks in 2007.

**Outlook**

Since the year end, the continuing disruption in credit markets has resulted in steep falls in all developed country equity markets. In the first quarter, equity markets in the US and UK fell by approximately 7.6 percent and 12.3 percent, respectively. At the time of writing, transparency in banks' exposures to derivative investment losses has not yet been fully achieved and further rounds of asset value writedowns by leading banks are still expected by the markets. As a result, the major credit markets remain disrupted and equity markets continue to show extreme volatility. Although central banks and particularly the Federal Reserve remain ready to continue an aggressive programme of intervention, many traditional measures such as discount/bank rate reductions are not being fully reflected in the retail credit markets because of the lack of confidence in the interbank market. In addition, further aggressive loosening of monetary policy is constrained by above target and growing levels of inflation. Investors, therefore, both in securities and real assets are finding continuing difficulty in financing their operations and central banks are increasingly relying more on non-traditional avenues to stabilise the market such as opening the discount windows to a wider range of assets and lending institutions. Furthermore, governments, particularly in the UK, also find themselves with fewer alternatives to control events through fiscal intervention because of constraints imposed by the budgetary imbalances which have built up over recent years. Against this background and the lower levels of economic activity expected in the coming year as already seen in the increased numbers of profit warnings from major corporates including non-financials, equity markets are likely to remain uncertain for a considerable period in the current year. With the likely continued reduction in interest rates and other monetary loosening over the coming months, value should return as the disruption to the credit markets subsides and companies can focus again on the medium term. At that time, opportunities to lock in good long-term investment returns should present themselves again.

**Investment Focus**

Set out below are brief comments on three of the largest holdings in the portfolio which are considered core holdings:

**Geron Corporation Inc** is a NASDAQ listed bio-medical company based in California and currently represents 15.85 percent of the portfolio. The market capitalisation is US$ 395 million. As an early stage bio-pharmaceutical company with limited current earnings, Geron's share price has been subject to considerable volatility. The 12 and 36 month share price highs have been $9.32 and $11.22, and lows $4.12 and $4.12, respectively, compared to the current price of $5.05.

Over a period of 15 years, the company has discovered and patented a new form of science based around embryonic stem cell technology which has the potential to revolutionise the practice of medicine in the coming years, in particular in the areas of oncology and regenerative medicine. Geron's technology covers a broad range of platforms to treat a wide range of conditions including multiple cancer types, spinal cord injury, heart failure, diabetes, Parkinson's disease and HIV. Geron is currently conducting multiple clinical trials in the USA of both its cancer vaccine and inhibition technologies and is expected this year to commence the world's first embryonic stem cell trial for spinal cord injury.

In addition, through its ownership of the cloning technology used in the creation of Dolly the sheep, Geron has licensed rights to the procedures involved in the globally important markets of animal reproduction, bio-agribusiness, and other biotechnology sourced products and medicines. Following recent clearance by the FDA in the USA after a multi-year investigation into the safety of foods originated from cloned animals, the market for such products is now expected to commence in earnest and grow substantially.

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. Stem cell science is still in its infancy and, in the USA in particular, has been subject to a large amount of adverse political pressure from an anti-science administration. This interference has had the effect of holding back the industry in the USA by a considerable number of years but ironically it has also allowed Geron to pursue, develop and patent its discoveries using its own private resources and thereby gain a pre-eminent position in this new market which would have been impossible if the usual supply of public and university funding had been allowed to be applied to this new branch of medicine. Your company remains convinced that Geron is therefore in a unique position to capitalise on what is expected to be a very significant and highly valuable new branch of medical science and we intend to hold this investment until its potential is recognised in its market value.

**Prudential PLC** is one of the largest UK listed life assurance companies operating in the UK and internationally in savings, pension provision and fund management with a market capitalisation of £16 billion. Our investment represents 10.61 percent of the portfolio. The 12 and 36 month share price highs have been 811p and 811p and lows 573p and 463p, respectively, compared to the current price of 700p, yielding 2.6 percent and a P/E of 21.2.

Prudential derives 34% of its long-term operating profits in the UK, 25% in the USA and 41% in Asia. In the UK it has £167 billion of funds under management through M&G Investments.

Life assurance, pension provision and fund management are recognised to be global growth industries as populations worldwide increase, mature and age. The fast pace of population development in the Far East in particular and the growing shift of global capital away from the West to the East is likely to yield significant growth opportunities for financial service companies in the East and Prudential is well represented in all the major countries of the region including, Hong Kong and China, India, Japan, Korea Malaysia, Singapore and Thailand to take advantage of this.

Finally, in addition to the fundamental growth potential of this investment noted above, there remains the possibility that the significant inherited estate in the UK life assurance company may be reattributed between policy holders and shareholders, yielding a substantial windfall bonus to shareholders at some date in the future.

**RIT Capital Partners plc (‘RIT’)** is a UK listed investment trust investing to deliver long-term capital growth in a widely diversified international portfolio of both quoted and unquoted investments and third party funds. As at 30th September 2007 funds under management totalled £1.9 billion. The current share price premium is 2.8 percent, which compares to an average discount of 5.7 percent for its AIC sector and is an indication of investor esteem placed in this company. The 12 and 36 month share price highs have been £11.98 and £11.98, and lows £9.85 and £6.86, respectively, compared to the current price of £11.68 yielding 0.3 percent.

RIT has significantly outperformed the AIC international growth sector and its benchmarks of Morgan Stanley Capital International and FTSE All Share indices over 1,3,5 and 10 years and is placed in the top two of its AIC grouping over all periods.

As at the last report date, the majority of the portfolio (51%) was invested in quoted investments, 22% in unquoted securities and partnerships, 15% in long equity funds and 8% in government securities, money market funds and property. Individual investments vary widely in terms of their underlying industry, currency, investment type and nationality and together make up a portfolio of widely diversified international holdings which have served to outperform consistently all relevant capital growth indices for many years.

Jonathan Woolf

29 April 2008

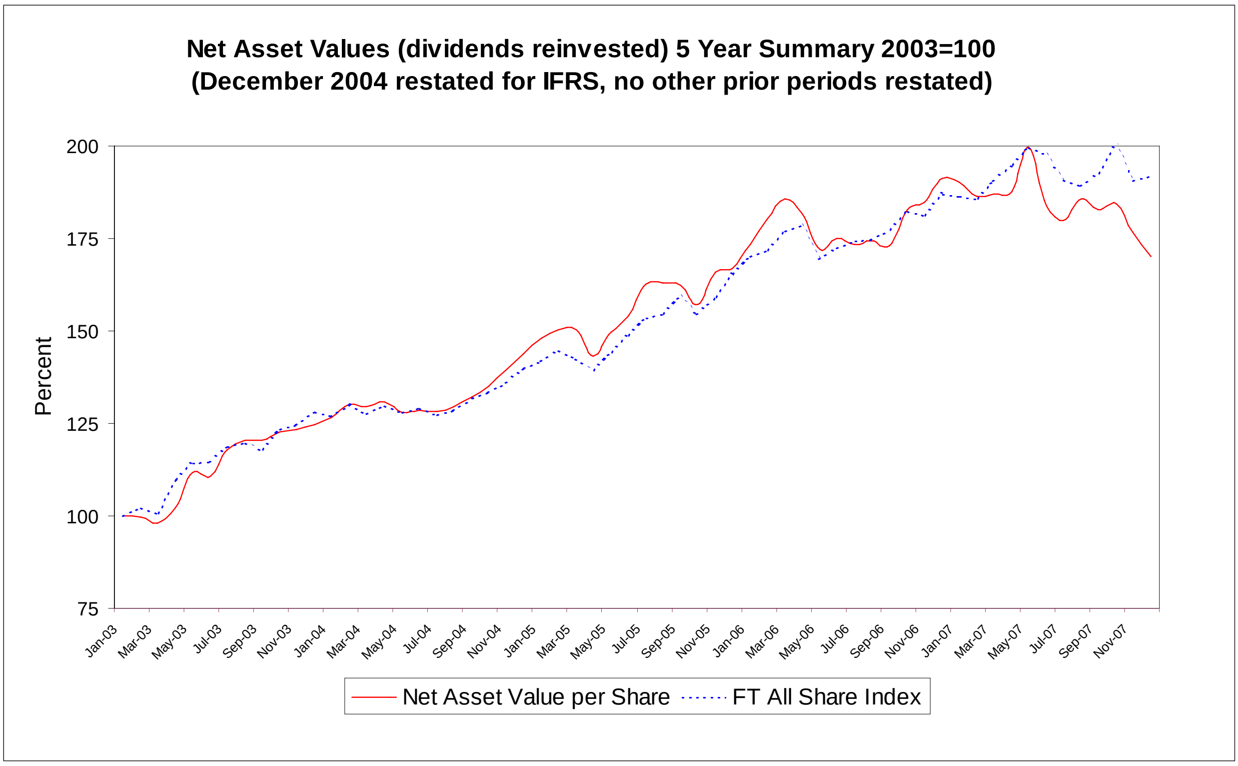
# Financial highlights

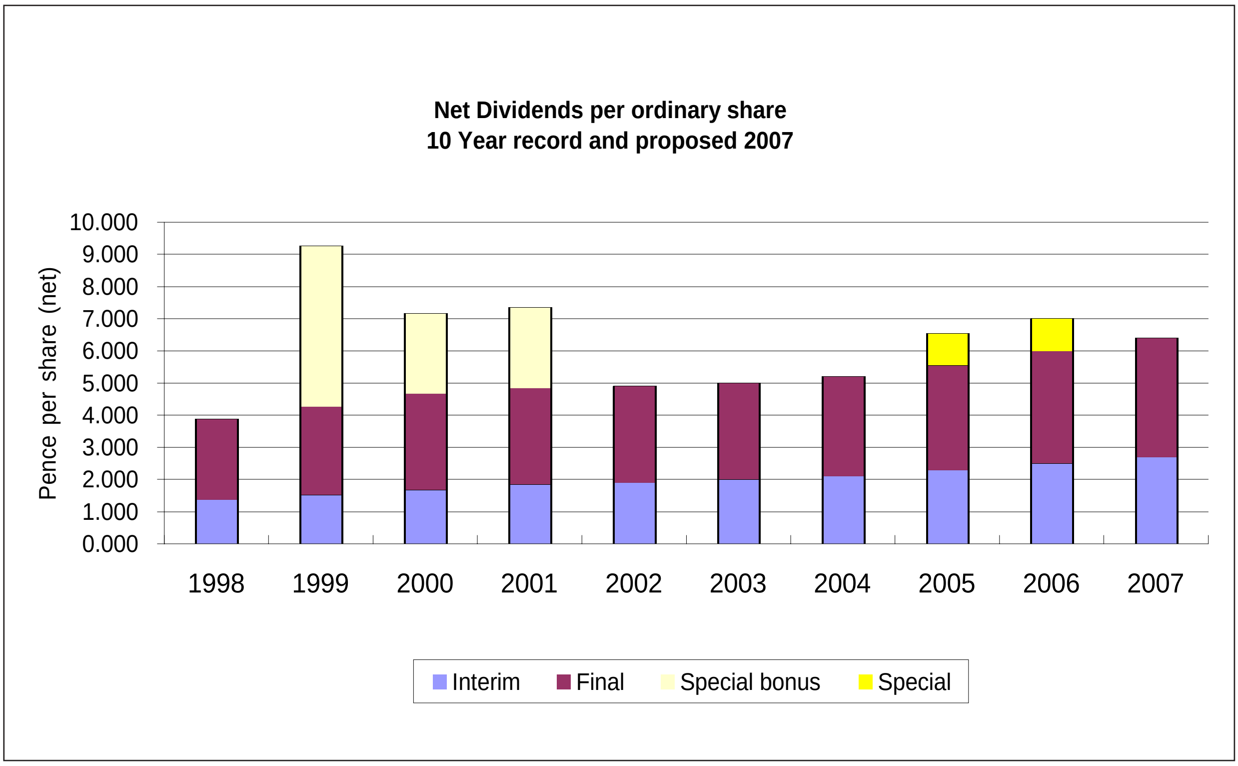
For the year ended 31 December 2007

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | Revenue return £000 | Capital return £000 | Total £000 | Revenue return £000 | Capital return £000 | Total £000 |
| Profit before tax – realised | 1,640 | (422) | 1,218 | 1,829 | (53) | 1,776 |
| (Loss)/profit before tax – unrealised | – | (7,278) | (7,278) | – | 5,159 | 5,159 |
| (Loss)/profit before tax – total | 1,640 | (7,700) | (6,060) | 1,829 | 5,106 | 6,935 |
| Earnings per £1 ordinary share – basic | 4.98p | (30.80)p | (25.82)p | 5.85p | 20.43p | 26.28p |
| Earnings per £1 ordinary share – diluted | 4.56p | (22.00)p | (17.44)p | 5.18p | 14.59p | 19.77p |
| Net assets | | | 39,643 | | | 47,647 |
| Net assets per ordinary share | | | | | | |
| – deducting preference shares at par | | | 119p | | | 151p |
| – diluted | | | 113p | | | 136p |
| Diluted net asset value per ordinary share at 25 April 2008 | | | 110p | | | |

| | 2007 | 2006 |
|---|---|---|
| Dividends declared or proposed for the period | | |
| per ordinary share – interim paid | 2.7p | 2.5p |
| – final proposed | 3.7p | 3.5p |
| – special paid | 0.0p | 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:**

| | At valuation | | |
|---|---|---|---|
| | 25 April 2008 | 31 December 2007 | 31 December 2006 |
| | £000 | £000 | £000 |
| Investment Trusts (equities) | 16,078 | 15,885 | 16,756 |
| Biomedical – USA | 5,444 | 6,006 | 8,943 |
| Life Assurance | 4,088 | 4,161 | 5,813 |
| Property | 3,300 | 3,554 | 5,620 |
| Unit trusts | 1,717 | 1,812 | 1,697 |
| Banks retail | 514 | 816 | 1,257 |
| Other services and businesses | 762 | 761 | 530 |
| Media | 13 | 493 | 386 |
| Telecommunications | 253 | 334 | 460 |
| Software and computer services | 198 | 281 | 525 |
| Leisure and hotels | 344 | 225 | 184 |
| Biotechnology | 88 | 111 | 195 |
| Information technologies | 76 | 105 | 124 |
| Overseas | 68 | 80 | 12 |
| Other Financial | 65 | 70 | 84 |
| Pharmaceuticals and healthcare | 17 | 22 | 23 |
| Financial Services | 20 | 20 | 54 |
| Oil exploration and production | 7 | 6 | – |
| Chemicals | – | – | 45 |
| Total equities | 33,052 | 34,742 | 42,708 |
| Property units (unquoted) | 945 | 945 | 1,320 |
| Fixed Interest stocks | 1,076 | 1,041 | 655 |
| Preference shares | 450 | 461 | 529 |
| Permanent interest bearing | 336 | 338 | 353 |
| Convertible loan stocks (unquoted) | 671 | 374 | 311 |
| Total portfolio | 36,530 | 37,901 | 45,876 |
| Balances at banks and stockbrokers | 1,086 | 1,596 | 1,692 |
| | 37,616 | 39,497 | 47,568 |

# Group investment portfolio

At 31 December 2007

| Company | Nature of business | Valuation £000 | % of Group Portfolio |
|---|---|---|---|
| Geron Corporation | Biomedical – USA | 6,006 | 15.85* |
| Prudential | Life Assurance | 4,023 | 10.61 |
| Liberty International Holdings | Property | 3,554 | 9.38 |
| RIT Capital Partners – Ordinary | Investment Trust | 2,792 | 7.37 |
| The Alliance Trust – Ordinary | Investment Trust | 2,531 | 6.68 |
| Dunedin Income Growth | Investment Trust | 2,443 | 6.44 |
| Electra Private Equity – Ordinary | Investment Trust | 2,219 | 5.85 |
| British Assets Trust | Investment Trust | 2,040 | 5.38 |
| St James's Place International Unit Trust | Unit Trust | 1,614 | 4.26 |
| Scottish & American Investment Co. | Investment Trust | 960 | 2.53 |
| Lloyds TSB | Bank Retail | 732 | 1.93 |
| Invesco Income Growth Trust | Investment Trust | 693 | 1.83 |
| Matrix Chatham Maritime EZT(unquoted) | Enterprise Zone Trust | 625 | 1.65 |
| The Rank Group Plc | Other services and businesses | 616 | 1.62 |
| Shires Income | Investment Trust | 507 | 1.34 |
| Reed Elsevier | Media | 476 | 1.26 |
| Merchants Trust | Investment Trust | 466 | 1.23 |
| Royal & Sun Alliance Insurance Group | Preference shares | 461 | 1.22 |
| Rothschild Continuation Finance – Loan Notes | Debentures and Loan Stocks | 443 | 1.17 |
| Edinburgh Investment Trust Plc | Investment Trust | 344 | 0.91 |
| 20 Largest investments | | 33,545 | 88.51 |
| Other investments (number of holdings : 54) | | 4,356 | 11.49 |
| Total investments | | 37,901 | 100.00 |

* 11.58% held by the company and 4.27% 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 2007, 14.2% 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 | Net asset value per share (diluted) | Share price | Discount |
|---|---|---|---|---|
| | £000 | p | p | % |
| 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 |
| 2007 | 39,643 | 113.3 | 99.5 | 12.2 |

## Revenue

| Year to 31 December | Total income | Profit after tax | Earnings per ordinary share (diluted) | Expense ratio | Dividend per ordinary share (net) |
|---|---|---|---|---|---|
| | £000 | £000 | p | % | p |
| 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+ |
| 2007 | 1,939 | 1,596 | 4.56 | 1.05 | 6.40 |

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 (2002=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 |
|---|---|---|---|---|---|
| 2002 | 100 | 100 | 100 | 100 | 100 |
| 2003 | 125 | 122 | 119 | 119 | 121 |
| 2004 | 146 | 144 | 149 | 142 | 136 |
| 2005 | 170 | 174 | 197 | 174 | 166 |
| 2006 | 194 | 208 | 241 | 212 | 194 |
| 2007 | 173 | 209 | 197 | 202 | 205 |

# Directors’ report

For the year ended 31 December 2007

**Directors’ report**

The directors present their annual report on the affairs of the group together with the financial statements and auditors’ report for the year ended 31 December 2007.

**Financial statements**

The financial statements will be presented for approval at the sixtieth Annual General Meeting of the company to be held on Wednesday 18 June 2008.

**Business review**

Business and status

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

| **Company** | **Activities** |
|---|---|
| British & American Investment Trust PLC (the ‘company’) | Investment trust |
| BritAm Investments Limited | Investment holding |
| Second BritAm Investments Limited | Investment holding |
| British & American Films Limited | Film investment company |

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

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

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

Future prospects

The future prospects of the company are explained in the Chairman’s Statement on pages 3 and 4 and in the Managing Director’s Report on pages 5 to 7.

Investment Policy

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

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

Historically, investments in other investment trusts have accounted for approximately 50 percent of the total portfolio with the balance being invested in a selection of leading quoted companies to provide opportunities for capital growth and income generation. These other investments have often been concentrated in a small number of companies, typically in the finance, property, insurance and leisure sectors and have individually represented as much as 10 to 15 percent of the portfolio. Currently, these individual exposures are in the US biomedical (15.21%), UK property (9.00%) and UK insurance (11.70%) sectors. Smaller size investments are made in other UK listed companies (currently 30, accounting for 8.94% of the portfolio) and further risk diversification is achieved by investment in fixed income securities (currently 4.44%) and direct property investments (currently 4.01%).

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

Whenever total investment in UK listed investment companies, which have not declared an investment policy to invest less than 15% of their gross assets in other UK listed investment companies, exceeds 10% of gross assets, no further investments in such companies are made until the total investments in such companies returns below 10% of gross assets. Currently these investments amount to 14.7% of gross assets.

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

Objective and strategy

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

Investments are self-managed. The portfolio currently consists of a diversified list of around 60 UK quoted companies, 10 UK unquoted holdings and 4 overseas quoted companies.

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

Performance

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

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

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

A historical record of these measures is shown on pages 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 3 and 4 and Managing Director’s Report on pages 5 to 7. Information on movements on investments since the year end is included on page 10.

Discount

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

Principal risks and uncertainties

The principal risks facing the company relate to its investment activities and include market risk (other price risk, interest rate risk and currency risk), liquidity risk and credit risk. An explanation of these risks and how they are managed is contained in note 19 to the accounts on pages 41 to 45. The other principal risk to the company is loss of investment trust status, which is explained on page 13.

Financials

The financial highlights for the year under review are as follows: the net asset value per share decreased by 16.8% during the year, compared to an increase in the benchmark of 2.6%, ordinary share dividends increased by 6.7% to 6.4p per share (excluding special dividends) and the discount widened from 5.2% to 12.2% at the year end.

**Personal Equity Plans/ISAs**

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

**Results and dividends of the group for the year**

The directors set out below the results and dividends of the group for the year ended 31 December 2007.

| | Revenue £000 | Capital £000 | Total £000 |
|---|---|---|---|
| Profit before tax | 1,640 | (7,700) | (6,060) |
| Tax | (44) | – | (44) |
| Profit after tax | 1,596 | (7,700) | (6,104) |

| Dividends | Pence per share | £000 |
|---|---|---|
| Interim per £1 ordinary share (paid 15 November 2007) | 2.7 | 675 |
| 3.5% preference share paid (paid 15 November 2007) | 1.75 | 175 |
| Final per £1 ordinary share – proposed | 3.7 | 925 |
| 3.5% preference share (payable 26 June 2008) | 1.75 | 175 |
| | | 1,950 |

The dividends proposed above will be paid on 26 June 2008 to ordinary shareholders on the register at 30 May 2008 and to 3.5% preference shareholders on the register at 31 December 2007.

**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 JAV Townsend who, being eligible, offer themselves for re-election. The Board recommends Mr DG Dreyfus' and Mr JAV Townsend's re-election. At the time of the Annual General Meeting Mr DG Dreyfus will have completed more than 11 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.

The directors during the year ended 31 December 2007 had interests in the shares of the company as follows:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | 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%) (2006 – 6,902,812 (27.6%)) ordinary shares held by Romulus Films Ltd, 7,868,750 (31.5%) (2006 – 7,868,750 (31.5%)) ordinary shares held by Remus Films Ltd and 80,000 (0.32%) (2006 – 80,000 (0.32%)) ordinary shares held by PKL Pictures Limited. Romulus Films Ltd also holds 10,000,000 cumulative convertible preference shares (2006 – 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 29 April 2008 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 | 1,685,000 | 6.7 |
| Unwin Investments Limited | 1,146,562 | 4.6 |

These interests relate to the ordinary shares of the company.

**Share Capital**

<u>Capital Structure</u>

The company's capital comprises £35,000,000 (2006 - £35,000,000) being 25,000,000 ordinary shares of £1 (2006 - 25,000,000) and 10,000,000 non-voting convertible preference shares of £1 each (2006 - 10,000,000). The rights attaching to the shares are described in note 14 to the accounts on page 39.

<u>Dividends</u>

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

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

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

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

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

Capital entitlement

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

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

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

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

Voting

The preference shares shall not have any right to vote unless the business of the meeting includes consideration of any resolution for the winding up of the company, purchase by the company of any of its own shares, or a reduction of the capital, or a varying of the rights of the preference shares.
On a show of hands, every ordinary shareholder (or preference shareholder in the situations described in the above paragraph) present in person (or, being a corporation, by a representative) has one vote and upon a poll every shareholder present has one vote for every share, and a proxy has one vote for every share. Information on the deadlines for proxy appointment is shown on page 52.

Conversion

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

Purchase of shares

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

**Amendment to the Articles of Association**

It is proposed to make certain changes to the company's Articles of Association in order to reflect the provisions of the Companies Act 2006 in so far as they apply to the company. Accordingly, a special resolution will be put to the Annual General Meeting to be held on 18 June 2008. Details of the changes are set out in the notes to the Notice of Annual General meeting on pages 52 to 54.

**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 (2006 – £nil).

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

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

**Statement of disclosure of information to auditors**

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

**Directors’ responsibility statement**

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations. The directors confirm that to the best of their knowledge the financial statements, within the annual report, have been prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and the loss for the year ended 31 December 2007, and that the Chairman’s Statement, Managing Director's Report and the Directors’ report include a fair review of the information required by 4.1.8R to 4.2.11R of the FSA’s Disclosure and Transparency Rules.

**Auditors**

RSM Robson Rhodes LLP (‘Robson Rhodes’) merged its audit practice with that of Grant Thornton UK LLP (‘Grant Thornton’) with effect from 2 July 2007, with the successor firm being Grant Thornton. Robson Rhodes resigned as auditors on 30 July 2007, creating a casual vacancy which the directors have filled by appointing Grant Thornton. A resolution to reappoint Grant Thornton as auditors of the group will be proposed at the forthcoming Annual General Meeting.

Jonathan Woolf
Managing Director

Wessex House
1 Chesham Street
London
SW1X 8ND

29 April 2008

# 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 TO THE SHAREHOLDERS OF BRITISH & AMERICAN INVESTMENT TRUST PLC

We have audited the group and parent company financial statements (the 'financial statements') of British & American Investment Trust Plc for the year ended 31 December 2007 which comprise the group income statement, the group Statement of changes in equity, the parent company Reconciliation of movements in shareholders' funds, the group and parent company balance sheets, the group cash flow statement, and notes 1 to 20. These group 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 United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the parent company financial statements and the Directors' Remuneration Report in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in Chairman's Statement and Managing Director's Report that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, the Managing Directors report, the Financial Highlights, the Net asset and dividend growth, the Distribution of investments and cash, the Group investment portfolio, the Five year record, the Directors' Report, the unaudited part of the Directors' Remuneration Report, and the Statement of compliance with the Combined Code of Best Practice. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

**Basis of audit opinion**

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

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

**Opinion**

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of its loss for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2007;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Grant Thornton UK LLP

Registered Auditor & Chartered Accountants

London

29 April 2008

# Consolidated income statement

For the year ended 31 December 2007

| | | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|---|
| | Notes | Revenue return £000 | Capital return £000 | Total £000 | Revenue return £000 | Capital return £000 | Total £000 |
| Investment income | 2 | 1,939 | – | 1,939 | 2,105 | – | 2,105 |
| (Losses)/gains on investments at fair value through profit or loss - unrealised | 9,12 | – | (7,278) | (7,278) | – | 5,159 | 5,159 |
| (Losses)/gains on investments at fair value through profit or loss - realised | 9,11 | – | (264) | (264) | – | 97 | 97 |
| Expenses | 3 | (299) | (158) | (457) | (276) | (150) | (426) |
| **(Loss)/profit before tax** | | 1,640 | (7,700) | (6,060) | 1,829 | 5,106 | 6,935 |
| Tax | 6 | (44) | – | (44) | (15) | – | (15) |
| **(Loss)/profit for the period** | | 1,596 | (7,700) | (6,104) | 1,814 | 5,106 | 6,920 |
| **Earnings per share** | | | | | | | |
| Basic - ordinary shares | 7 | 4.98p | (30.80)p | (25.82)p | 5.85p | 20.43p | 26.28p |
| Diluted - ordinary shares | 7 | 4.56p | (22.00)p | (17.44)p | 5.18p | 14.59p | 19.77p |

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 27 to 45 form part of these financial statements.

# Statement of changes in equity

31 December 2007

**Group**

| | Share capital £000 | Capital reserve realised £000 | Capital reserve unrealised £000 | Retained earnings £000 | Total £000 |
|---|---|---|---|---|---|
| **Balance at 31 December 2005** | 35,000 | 15,141 | (9,676) | 2,300 | 42,765 |
| **Changes in equity for 2006** | | | | | |
| Profit for the period | – | 2,013 | 3,093 | 1,814 | 6,920 |
| Ordinary dividend paid (note 8) | – | – | – | (1,688) | (1,688) |
| Preference dividend paid (note 8) | – | – | – | (350) | (350) |
| **Balance at 31 December 2006** | 35,000 | 17,154 | (6,583) | 2,076 | 47,647 |
| **Changes in equity for 2007** | | | | | |
| Loss for the period | – | 1,126 | (8,826) | 1,596 | (6,104) |
| Ordinary dividend paid (note 8) | – | – | – | (1,550) | (1,550) |
| Preference dividend paid (note 8) | – | – | – | (350) | (350) |
| **Balance at 31 December 2007** | 35,000 | 18,280 | (15,409) | 1,772 | 39,643 |

# Reconciliation of movements in shareholders' funds

**Company**

| | Share capital | Capital reserve realised £000 | Capital reserve unrealised £000 | Retained earnings £000 | Total £000 |
|---|---|---|---|---|---|
| **Balance at 31 December 2005** | 35,000 | (651) | 7,305 | 1,184 | 42,838 |
| **Changes in equity for 2006** | | | | | |
| Profit for the period | – | 701 | 3,969 | 2,246 | 6,916 |
| Ordinary dividend paid (note 8) | – | – | – | (1,688) | (1,688) |
| Preference dividend paid (note 8) | – | – | – | (350) | (350) |
| **Balance at 31 December 2006** | 35,000 | 50 | 11,274 | 1,392 | 47,716 |
| **Changes in equity for 2007** | | | | | |
| Loss for the period | – | 291 | (7,950) | 1,650 | (6,009) |
| Ordinary dividend paid (note 8) | – | – | – | (1,550) | (1,550) |
| Preference dividend paid (note 8) | – | – | – | (350) | (350) |
| **Balance at 31 December 2007** | 35,000 | 341 | 3,324 | 1,142 | 39,807 |

# Consolidated and company balance sheet

31 December 2007

| | Notes | Group 2007 £000 | Group 2006 £000 | Company 2007 £000 | Company 2006 £000 |
|---|---|---|---|---|---|
| **Non - current assets** | | | | | |
| Investments - fair value through profit or loss | 9 | 37,901 | 45,876 | 39,330 | 47,348 |
| **Current assets** | | | | | |
| Receivables | 11 | 531 | 274 | 2,559 | 1,778 |
| Investments - fair value through profit or loss | 11 | 542 | 279 | 461 | 279 |
| Cash and cash equivalents | | 1,846 | 1,554 | 1,761 | 1,530 |
| | | 2,919 | 2,107 | 4,781 | 3,587 |
| **Total assets** | | 40,820 | 47,983 | 44,111 | 50,935 |
| **Current liabilities** | 12 | | | | |
| Trade and other payables | | 586 | 58 | 585 | – |
| Current tax | | 42 | 10 | – | – |
| Other current liabilities | | 74 | 45 | 70 | 74 |
| Investments - fair value through profit or loss | | 475 | 223 | 56 | 72 |
| | | (1,177) | (336) | (711) | (146) |
| **Total assets less current liabilities** | | 39,643 | 47,647 | 43,400 | 50,789 |
| **Non - current liabilities** | 13 | – | – | (3,593) | (3,073) |
| **Net assets** | | 39,643 | 47,647 | 39,807 | 47,716 |
| **Equity attributable to equity holders** | | | | | |
| Ordinary share capital | 14 | 25,000 | 25,000 | 25,000 | 25,000 |
| Convertible preference share capital | 14 | 10,000 | 10,000 | 10,000 | 10,000 |
| Capital reserve - realised | 15 | 18,280 | 17,154 | 341 | 50 |
| Capital reserve - unrealised | 15 | (15,409) | (6,583) | 3,324 | 11,274 |
| Retained revenue earnings | 15 | 1,772 | 2,076 | 1,142 | 1,392 |
| **Total equity** | | 39,643 | 47,647 | 39,807 | 47,716 |

The notes on pages 27 to 45 form part of these financial statements.

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

**The financial statements on pages 23 to 45 were approved by the board of directors on 29 April 2008.**

**Jonathan Woolf**

Managing Director

# Consolidated cash flow statement

For the year ended 31 December 2007

| | Notes | 2007 £000 | 2006 £000 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| (Loss)/profit before tax | | (6,060) | 6,935 |
| Adjustment for: | | | |
| Loss/(gain) on investments | | 7,542 | (5,256) |
| Scrip dividends and interest | | (6) | (27) |
| Film income tax deducted at source | | (3) | (4) |
| Proceeds on disposal of investments at fair value through profit or loss | | 13,864 | 20,510 |
| Purchases of investments at fair value through profit or loss | | (12,867) | (19,452) |
| Operating cash flows before movements in working capital | | 2,470 | 2,706 |
| (Increase)/decrease in receivables | | (115) | 13 |
| Decrease in payables | | (148) | (2,305) |
| Net cash from operating activities before income taxes | | 2,207 | 414 |
| Income taxes paid | | (15) | (85) |
| **Net cash flows from operating activities** | | 2,192 | 329 |
| **Cash flows from financing activities** | | | |
| Dividends paid on ordinary shares | 8 | (1,550) | (1,688) |
| Dividends paid on preference shares | 8 | (350) | (350) |
| **Net cash used in financing activities** | | (1,900) | (2,038) |
| **Net increase/(decrease) in cash and cash equivalents** | | 292 | (1,709) |
| **Cash and cash equivalents at beginning of year** | | 1,554 | 3,263 |
| **Cash and cash equivalents at end of year** | | 1,846 | 1,554 |

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

## 1 Accounting policies

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

a) Basis of preparation and statement of compliance
The group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the IASB and International Accounting Standards and Standing Interpretations Committee interpretations approved by the IASC that remain in effect, and to the extent they have been adopted by the European Union at 31 December 2007. 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 subsidiaries using the alternative accounting rules under CA 85. The same accounting policies as those published in the statutory accounts for 31 December 2006 have been applied.

Where presentational guidance set out in the Statement of Recommended Practice (SORP) for investment trusts revised by the Association of Investment Companies (AIC) in 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 are consistent with those applied by the 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 loss on ordinary activities after taxation for the year was £6,009,002 (2006 – £6,915,641 profit).

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 (now section 833 of the Companies Act 2006), net capital returns may not be distributed by way of dividend.

**1 Accounting policies (continued)**

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 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.

Listed stock options are treated as for actively traded investments described in the previous paragraph. Until realisation of these options their fair value is held in Receivables or Current liabilities.

In respect of unquoted instruments, or where the market for a financial instrument is not active, fair value is established by using an appropriate valuation technique. 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 valuation as determined by the directors, which approximates the 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.

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

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

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

**1 Accounting policies (continued)**

f) Expenses

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

- expenses are split and presented partly as capital items where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated, and accordingly investment management and related costs have been allocated 50% (2006 - 50%) to revenue and 50% (2006 - 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.

h) Foreign currency

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

i) Distributable reserves

Subject to the parent company’s status as a UK investment company under section 266 of the Companies Act 1985, which does not permit net capital returns being distributed by way of dividend, unrealised gains and losses on quoted investments are included in the calculation of reserves available for distribution by way of dividend. However, in the interests of prudence the directors do not consider these reserves to be distributable.

j) 3.5% cumulative convertible non-redeemable preference shares

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

**2 Income**

| | 2007 | 2006 |
|---|---|---|
| Income from investments | £000 | £000 |
| UK dividends (cash and in specie) | 1,296 | 1,590 |
| Overseas dividends | 11 | 11 |
| Scrip dividends | 4 | 4 |
| Interest on fixed income securities | 153 | 130 |
| Rental income (Property Income Distribution) | 59 | – |
| Property unit trust income | 101 | 100 |
| Film revenues | 238 | 185 |
| | 1,862 | 2,020 |
| Other income | | |
| Deposit interest | 95 | 101 |
| Other | (18) | (16) |
| | 77 | 85 |
| **Total income** | 1,939 | 2,105 |
| Total income comprises: | | |
| Dividends | 1,370 | 1,605 |
| Interest | 248 | 231 |
| Film revenues | 238 | 185 |
| Property unit trust income | 101 | 100 |
| Loss on foreign exchange | (18) | (16) |
| | 1,939 | 2,105 |
| Income from investments: | | |
| Listed investments | 1,469 | 1,664 |
| Unlisted investments | 393 | 356 |
| | 1,862 | 2,020 |

Of the £1,311,000 (2006 – £1,605,000) dividends received in the group accounts, £468,000 (2006 – £686,000) related to special dividends received from investee companies. There was a corresponding capital loss of £445,000 (2006 – £587,000).

**3 Administrative expenses**

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Staff costs – including executive director (Notes 4 and 5) | 311 | 297 |
| Non-executive directors fees (Note 4) | 44 | 38 |
| Auditors’ remuneration: | | |
| Fees payable to the company's auditor for the audit of the company's individual financial statements and its consolidated financial statements | 24 | 19 |
| 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 | 9 | 8 |
| – all other services | 6 | 6 |
| Other | 44 | 39 |
| Irrecoverable VAT | 14 | 14 |
| | 457 | 426 |

**4 Directors’ remuneration**

Directors’ remuneration is disclosed in the Directors’ remuneration report on page 51.

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

## 5 Staff costs

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Wages and salaries | 259 | 249 |
| Social security costs | 32 | 31 |
| Pensions and post-retirement benefits | 20 | 17 |
| | 311 | 297 |

The average number of persons (including the executive director) employed during the year was 8 (2006 – 8).

| | 2007 Number | 2006 Number |
|---|---|---|
| Investment | 2 | 2 |
| Administration | 6 | 6 |
| | 8 | 8 |

## 6 Tax

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Current tax: | | |
| UK corporation tax | (45) | (13) |
| Foreign tax | 3 | 3 |
| Double taxation relief | (3) | (3) |
| Adjustment in respect of prior periods | 1 | (2) |
| | (44) | (15) |

Corporation tax is calculated at 30% (2006 – 30%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

**6 Tax (continued)**

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

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | £000 | % | £000 | % |
| Total (loss)/profit before tax | (6,060) | 30.0 | 6,935 | 30.0 |
| Tax at the UK corporation tax rate of 30% (2006 – 30%) | 1,818 | | (2,081) | |
| Tax effect of expenses that are not deductible in determining taxable profit | 2 | | 2 | |
| Tax effect of non-taxable UK and scrip dividends | 389 | | 478 | |
| Withholding tax suffered | 3 | | 3 | |
| Capital losses/(gains) | 203 | | (35) | |
| Gains and losses on investments that are not taxable | (2,263) | | 1,576 | |
| Tax effect of utilisation of tax losses not previously recognised | – | | 35 | |
| Tax effect of losses not utilised in the year | (203) | | – | |
| Prior period adjustments | – | | (2) | |
| Effect of different tax rates of subsidiaries in other jurisdictions | 7 | | 9 | |
| Tax expense and effective tax rate for the year | (44) | 0.7 | (15) | 0.2 |

**7 Earnings per ordinary share**

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

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | Revenue return £000 | Capital return £000 | Total £000 | Revenue return £000 | Capital return £000 | Total £000 |
| Earnings: | | | | | | |
| Basic | 1,246 | (7,700) | (6,454) | 1,464 | 5,106 | 6,570 |
| Preference dividend | 350 | – | 350 | 350 | – | 350 |
| Diluted | 1,596 | (7,700) | (6,104) | 1,814 | 5,106 | 6,920 |

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 (2006 – 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 (2006 – 35 million) ordinary and preference shares in issue.

**8 Dividends**

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Amounts recognised as distributions to ordinary shareholders in the period: | | |
| Dividends on ordinary shares: | | |
| Final dividend for the year ended 31 December 2006 of 3.5p (2005 – 3.25p) per share | 875 | 813 |
| Interim dividend for the year ended 31 December 2007 of 2.7p (2006 – 2.5p) per share | 675 | 625 |
| Special dividend for the year ended 31 December 2007 of 0.0p (2006 – 1.0p) per share | – | 250 |
| | 1,550 | 1,688 |
| Proposed final dividend for the year ended 31 December 2007 of 3.7p (2006 – 3.5p) per share | 925 | 875 |

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Dividends on 3.5% cumulative convertible preference shares: | | |
| Preference dividend for the 6 months ended 31 December 2006 of 1.75p (2005 – 1.75p) per share | 175 | 175 |
| Preference dividend for the 6 months ended 30 June 2007 of 1.75p (2006 – 1.75p) per share | 175 | 175 |
| | 350 | 350 |
| Proposed preference dividend for the 6 months ended 31 December 2007 of 1.75p (2006 – 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

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Dividends on ordinary shares: | | |
| Interim dividend for the year ended 31 December 2007 of 2.7p (2006 – 2.5p) per share | 675 | 625 |
| Special dividend for the year ended 31 December 2007 of 0.0p (2006 – 1.0p) per share | – | 250 |
| Proposed final dividend for the year ended 31 December 2007 of 3.7p (2006 – 3.5p) per share | 925 | 875 |
| | 1,600 | 1,750 |
| Dividends on 3.5% cumulative convertible preference shares: | | |
| Preference dividend for the year ended 31 December 2007 of 1.75p (2006 – 1.75p) per share | 175 | 175 |
| Proposed preference dividend for the year ended 31 December 2007 of 1.75p (2006 – 1.75p) per share | 175 | 175 |
| | 350 | 350 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| Investments listed on a recognised investment exchange | 36,565 | 44,198 | 34,852 | 41,722 |
| Unlisted investments | | | | |
| – Subsidiary undertakings (Note 10) | – | – | 4,278 | 5,395 |
| – Property units | 945 | 1,320 | – | – |
| – Unlisted securities | 391 | 358 | 200 | 231 |
| | 37,901 | 45,876 | 39,330 | 47,348 |

The potential taxation liability in subsidiary undertakings in respect of unrealised capital appreciation on which deferred taxation has not been provided at 31 December 2007 is estimated at £nil (2006 – £nil).

Film rights are valued, in the group, at £nil (2006 – £nil). The original cost of the film rights held in subsidiary undertakings is £510,000 with total amortisation to date of £446,459.

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

| Group: | Listed in UK £000 | Listed overseas £000 | Unlisted UK £000 | 2007 Total £000 | 2006 Total £000 |
|---|---|---|---|---|---|
| Opening cost at 1 January | 13,154 | 8,522 | 3,775 | 25,451 | 24,733 |
| Gains/(losses) at 1 January | 22,135 | 387 | (2,097) | 20,425 | 17,636 |
| Opening fair value at 1 January | 35,289 | 8,909 | 1,678 | 45,876 | 42,369 |
| Purchases at cost | 12,137 | 1,321 | – | 13,458 | 15,541 |
| Transfers | 4 | – | (4) | – | – |
| Sales – proceeds | (12,950) | (777) | – | (13,727) | (17,482) |
| – realised gains/(losses) on sales | (470) | 4 | – | (466) | 309 |
| (Decrease)/increase in unrealised appreciation | (3,531) | (3,371) | (338) | (7,240) | 5,139 |
| Closing fair value at 31 December | 30,479 | 6,086 | 1,336 | 37,901 | 45,876 |
| Closing cost at 31 December | 14,052 | 9,058 | 3,136 | 26,246 | 25,451 |
| Gains/(losses) at 31 December | 16,427 | (2,972) | (1,800) | 11,655 | 20,425 |
| Closing fair value at 31 December | 30,479 | 6,086 | 1,336 | 37,901 | 45,876 |

| Company: | Listed in UK £000 | Listed overseas £000 | Unlisted UK £000 | 2007 Total £000 |
|---|---|---|---|---|
| Opening cost at 1 January | 20,901 | 6,598 | 8,609 | 36,108 |
| Gains/(losses) at 1 January | 13,708 | 515 | (2,983) | 11,240 |
| Opening fair value at 1 January | 34,609 | 7,113 | 5,626 | 47,348 |
| Purchases at cost | 7,398 | 558 | – | 7,956 |
| Transfers | 4 | – | (4) | – |
| Sales – proceeds | (8,406) | (378) | – | (8,784) |
| – realised (losses)/gains on sales | 24 | (64) | – | (40) |
| Decrease in unrealised appreciation | (3,249) | (2,757) | (1,144) | (7,150) |
| Closing fair value at 31 December | 30,380 | 4,472 | 4,478 | 39,330 |
| Closing cost at 31 December | 21,027 | 6,701 | 8,302 | 36,030 |
| Gains/(losses) at 31 December | 9,353 | (2,229) | (3,824) | 3,300 |
| Closing fair value at 31 December | 30,380 | 4,472 | 4,478 | 39,330 |

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 £51,196 being £25,484 on purchases and £25,712 on sales (2006 – £46,608 being £22,955 on purchases and £23,653 on sales).

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

Gains on investments

| | Group £000 | Company £000 |
|---|---|---|
| Realised gains on sales | 1,082 | 764 |
| Realised gains recognised as unrealised in prior years | (1,548) | (804) |
| | (466) | (40) |
| Unrealised appreciation in year | (7,240) | (7,150) |
| Total recognised losses on investments | (7,706) | (7,190) |
| Realised gain included in Receivables (note 11) | 221 | 223 |
| Unrealised loss included in Current liabilities (note 12) | (57) | (14) |
| Realised loss included in Non-current liabilities (note 13) | – | (520) |
| | (7,542) | (7,501) |

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 2007 of £11,655,000 (2006 – £20,425,000) on page 36 and the group capital reserve unrealised of £(15,409,000) (2006 – £(6,583,000)) in note 15 on page 40.

**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 | 0 | 100 |
| Second BritAm Investments Limited | Ordinary £1 | 100 | 100 |

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

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

## 11 Receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| Sales of investments awaiting settlement | 335 | 138 | – | 138 |
| Trade debtors | 62 | – | – | – |
| Amount owed by subsidiary undertakings | – | – | 2,209 | 1,351 |
| Income tax recoverable | 36 | 21 | 36 | 22 |
| Corporation tax recoverable | – | 8 | – | – |
| Group relief receivable | – | – | 220 | 170 |
| Prepayments and accrued income | 54 | 72 | 52 | 63 |
| Other receivables | 586 | 314 | 503 | 313 |
| | 1,073 | 553 | 3,020 | 2,057 |

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

Other receivables for the group includes stock derivative assets of £542,000 (2006 - £279,000) containing a realised gain at the year end of £9,172 (2006 - £211,908 loss). Other receivables for the company includes stock derivative assets of £461,000 (2006 - £279,000) containing a realised gain of £11,310 (2006 - £211,908 loss). These stock derivatives are a hedge against part of the investment in Geron Corporation.

## 12 Current liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| Purchases of investments awaiting settlement | 585 | – | 585 | – |
| Trade payables | 1 | 14 | – | – |
| Corporation tax payable | 42 | 10 | – | – |
| Other taxes and social security | 3 | 3 | 4 | 3 |
| Other payables | 498 | 267 | 78 | 115 |
| Accruals and deferred income | 42 | 35 | 34 | 28 |
| Amounts owed to subsidiary undertakings | – | – | 10 | – |
| Amounts due to related parties | 6 | 7 | – | – |
| | 1,177 | 336 | 711 | 146 |

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 £138,300 (2006 - £222,895) for group, containing an unrealised loss at the year end of £33,455 (2006 - £19,684 gain). The amounts for the company are £56,013 (2006 - £71,531) and £9,940 unrealised gain (2006 - £19,602 gain) respectively. Other payables for group also includes short sale liabilities with a fair value of £337,250 (2006 - £nil) containing an unrealised loss at the year end of £2,753 (2006 - £nil).

### 13 Non-current liabilities

| | Company 2007 £000 | Company 2006 £000 |
|---|---|---|
| Guarantee of subsidiary liability | 3,593 | 3,073 |

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

### 14 Share capital

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Authorised: | | |
| 25,000,000 ordinary shares of £1 each | 25,000 | 25,000 |
| 10,000,000 non voting 3.5% cumulative convertible non-redeemable preference shares of £1 each | 10,000 | 10,000 |
| Allotted, called-up and fully-paid: | | |
| 25,000,000 ordinary shares of £1 each | 25,000 | 25,000 |
| 10,000,000 non voting 3.5% cumulative convertible non-redeemable preference shares of £1 each | 10,000 | 10,000 |
| | 35,000 | 35,000 |

The 3.5% cumulative convertible non-redeemable preference shares issued by the company have been classified as equity instruments in accordance with IAS 32 and FRS 25 - 'Financial Instruments - Presentation'. The directors are of the opinion that due to the fact the company has no contractual obligation to redeem the preference shares for cash or pay preference dividends unless also declaring a dividend to ordinary shareholders, they are correctly classified as equity and do not represent a financial liability.

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

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

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

## 15 Retained earnings and capital reserves

| | Capital reserve realised £000 | Capital reserve unrealised £000 | Retained earnings £000 |
|---|---|---|---|
| Group | | | |
| 1 January 2007 | 17,154 | (6,583) | 2,076 |
| Allocation of (loss)/profit for the year | (422) | (7,278) | 1,596 |
| Transfer between realised and unrealised capital reserves | 1,548 | (1,548) | – |
| Ordinary and preference dividends paid | – | – | (1,900) |
| 31 December 2007 | 18,280 | (15,409) | 1,772 |
| Company | | | |
| 1 January 2007 | 50 | 11,274 | 1,392 |
| Allocation of (loss)/profit for the year | (513) | (7,146) | 1,650 |
| Transfer between realised and unrealised capital reserves | 804 | (804) | – |
| Ordinary and preference dividends paid | – | – | (1,900) |
| 31 December 2007 | 341 | 3,324 | 1,142 |

## 16 Net asset values

| | Net asset value per share | | Net assets attributable | |
|---|---|---|---|---|
| | 2007 £ | 2006 £ | 2007 £000 | 2006 £000 |
| Ordinary shares | | | | |
| Undiluted | 1.19 | 1.51 | 29,643 | 37,647 |
| Diluted | 1.13 | 1.36 | 39,643 | 47,647 |

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

**17 Related party transactions**

The company rents its offices from Romulus Films Limited, and is also charged for its office overheads. During the year the company paid £10,234 (2006 – £10,456) 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 2007 were £288,037 (2006 – £275,595) in respect of salary costs and £19,860 (2006 – £17,285) in respect of pensions.

At the year end an amount of £2,832 (2006 – £3,393) 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 17.

The company recharged £5,612 (2006 – £5,612) 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 £805,342 (2006 – £718,049) by Second BritAm Investments Limited and £1,403,761 (2006 – £579,072) by British and American Films Limited. At the year end the company owed £10,005 (2006 – £54,478 receivable) to BritAm Investments Limited.

At the year end the company was owed payment in respect of group tax of £23,206 (2006 – £22,570) by BritAm Investments Limited and £196,372 (2006 – £147,685) 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.

**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 £942,113 (2006 – £491,625). The asset would be recovered if the company disposed of its investments and made sufficient future taxable profits and chargeable gains.

It is unlikely the parent company will generate sufficient taxable profits in the future as its taxable losses are usually more than offset by the taxable profits generated by subsidiary companies, to recover management expenses of £8,217 (2006 – £8,217) and no deferred tax asset has been recognised in the year or prior years.

**19 Risk management and other financial instruments**

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

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

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

At the year end written put and call options totalled £104,845 (2006 - £242,579). The fair market value and resulting unrealised loss is disclosed in the note 12 on page 38.

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

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

Other price risk

The group's exposure to other price risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the group might suffer through holding positions in the face of unfavourable market price movements. The board has established investment parameters to adequately monitor the investment performance, status of the business and the inherent risk in managing a portfolio of investments. The board receives financial information monthly, meets on four scheduled occasions each year and reviews annually the aforesaid investment parameters. The group’s exposure to other changes in market prices at 31 December on its quoted and unquoted equity investments was:

| | 2007 | 2006 |
|---|---|---|
| | £000 | £000 |
| Investments held at fair value through profit or loss | 37,901 | 45,876 |

Details of the group investment portfolio at the year end are shown on page 11.

Other price risk sensitivity

A 3% increase in group portfolio valuations at 31 December 2007 would result in an increase of £1,137,000 (2006 - £1,376,000) in net asset value and profit for the year. A decrease of 3% would have had an equal but opposite effect.

Financial assets - interest rate risk

The majority of the group's financial assets are equity shares 91.7% (2006 - 93.1%) or other investments which pay dividends rather than interest and do not have a maturity date.

Interest bearing investments, including cash deposits, comprise 8.3% of the group's financial assets, of which 4.4% are at fixed rate and 3.9% floating rate.

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

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

The interest rate risk profile of the financial assets of the group at 31 December 2007 is shown below.

| | | 2007 | | 2006 |
|---|---|---|---|---|
| | Fair Value | Maturity | Fair Value | Maturity |
| | £000 | | £000 | |
| Fixed Rate | | | | |
| UK convertible loan stocks (unquoted) | 374 | 6 months | 311 | 6 months |
| UK debenture stock | 143 | 3 years | 147 | 4 years |
| UK fixed interest stock | 323 | 19 years | – | – |
| UK notes and bonds | 913 | undated | 861 | undated |
| | 1,753 | | 1,319 | |
| Weighted average interest rate (on fair value) | 7.8% | | 7.9% | |

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

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

Interest rate sensitivity

An increase of 1% in sterling interest rates at 31 December 2007 would have decreased the fair value of fixed interest securities and hence total net assets by £155,000 (2006 - £117,000). A decrease of 1% would have had an equal but opposite effect.

Fair values of financial assets and financial liabilities

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

Currency risk

The vast majority 82% (2006 - 80%) of the group's assets and liabilities are in sterling. The remaining foreign currency content is almost exclusively in a single investment denominated in US dollars. The board monitors the group's exposure to foreign currencies on a regular basis. The Managing Director assesses the risk of this exposure and its possible effect on the net asset value of the group. Where appropriate, foreign currency contracts may be used to limit the group's exposure to anticipated future adverse changes in exchange rates.

| | 2007 | 2006 |
|---|---|---|
| | £000 | £000 |
| US dollar | | |
| Investments | 6,083 | 8,971 |
| Cash and cash equivalents | 753 | 524 |
| Other debtors and creditors | 129 | 56 |
| Net exposure | 6,965 | 9,551 |
| Total net assets | 39,643 | 47,647 |

Currency risk sensitivity

At 31 December 2007, if sterling had strengthened by 5% in relation to the US dollar, with all other variables held constant, total net assets would have decreased by £307,000 (2006 - £503,000). Similarly, a 5% weakening of sterling against the US dollar, with constant other variables, would have had an equal but opposite effect.

Liquidity risk

The group's assets almost entirely comprise listed realisable securities, which can be sold to meet funding requirements as necessary. Short-term flexibility is achieved through the use of surplus cash. The board has set, and regularly monitors, guidelines on limits for both individual holdings and exposure to quoted equities in total (see investment policy on pages 13 and 14). The group considers that its exposure is not significant.

Credit risk

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

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

The group manages this risk through the following controls:

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

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

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

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

| | | 2007 | | 2006 |
|---|---|---|---|---|
| | Balance sheet £000 | Maximum exposure £000 | Balance sheet £000 | Maximum exposure £000 |
| Investments at fair value through profit or loss | 37,901 | 37,901 | 45,876 | 45,876 |
| Current assets | | | | |
| Receivables | 1,073 | 1,073 | 553 | 553 |
| Cash and cash equivalent | 1,846 | 1,846 | 1,554 | 1,554 |
| | 40,820 | 40,820 | 47,983 | 47,983 |

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

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

Capital management policies and procedures

The group's capital management objectives are:

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

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

The group's total capital equity (ordinary and redeemable preference share capital and other reserves) at 31 December 2007 was £39,643,000 (2006 - £47,647,000).

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

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

**20 Companies Act / IFRS balance sheet headings**

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

| IFRS Heading | Companies Act 1985 Heading |
|---|---|
| Non - current assets | Fixed assets |
| Investments - fair value through profit or loss | Investments |
| 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 2007

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

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

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

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

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

**Operation of the board**

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

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

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

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

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

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

**Number of meetings attended**

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

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

All the directors attended the Annual General Meeting.

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

**Independence of the directors**

The non-executive directors (Mr JAV Townsend, Mr DG Dreyfus and Mr RG Paterson) are independent and have no other relationships or circumstances which might be perceived to interfere with the exercise of independent judgement. Mr DG Dreyfus, at the date of the Annual General Meeting, will have served on the board for more than eleven 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.

**Terms of appointment and re-election of directors**

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

Directors are subject to re-election by shareholders at the first AGM following their appointment and, subsequently, are subject to retirement by rotation over a period of a maximum of three years. Directors are not subject to automatic reappointment. 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 AIC Code, and in accordance with the company's Articles of Association, is Mr JAV Townsend. Mr DG Dreyfus is also due to stand for annual re-election in accordance with the AIC Code.

The board has carefully considered the position of Mr DG Dreyfus and Mr JAV Townsend and believes that, following formal evaluation, they continue to be effective and so it would be appropriate for them to be proposed for re-election. As stated previously, in respect of Mr DG Dreyfus 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 three other investment trusts and a director of a number of other companies. He does not have a full time executive role in any organisation and the board is satisfied that he has sufficient time available to discharge fully his responsibility as Chairman.

**Audit Committee**

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

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

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

The provision of non-audit services is reviewed separately by the audit committee on a case by case basis, having consideration of the cost effectiveness of the services and the independence and objectivity of the auditors.

**Nomination Committee**

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

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

**Board and director evaluation**

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

The Chairman is responsible for performing this review. Mr DG Dreyfus and Mr RG Paterson perform a similar role in respect of the performance of the Chairman. The formal evaluation confirmed that all directors continue to be effective on behalf of the company.

**Remuneration**

The remuneration of the executive director is decided by the board as a whole (comprising a majority of non-executive directors), rather than a remuneration committee. There is no performance-related element of the executive director's remuneration. The board considers that the interests of the Managing Director, who is himself a shareholder (see page 17), 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 17.

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

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

## Accountability, Internal Controls and Audit

The directors' statement of responsibilities in respect of the accounts is set out on page 20.

The report of the independent auditors is set out on pages 21 and 22.

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

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

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

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

## 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 2007

### 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 2007. An ordinary resolution to approve this report will be put to members at the forthcoming Annual General Meeting, but the directors' remuneration is not conditional upon the resolution being passed.

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

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

### Directors' remuneration policy

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

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

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

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

The company does not confer any share options, long term incentives or retirement benefits to any director, nor does it make a contribution to any pension scheme on behalf of the directors. The company has not added any performance-related elements in the remuneration package of executive directors. As noted on page 17 Mr JC Woolf is a significant shareholder in the company. The company also provides directors' liability insurance.

It is intended that their policy will continue for the year ending 31 December 2008 and subsequent years.

### Sums paid to third parties (audited)

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

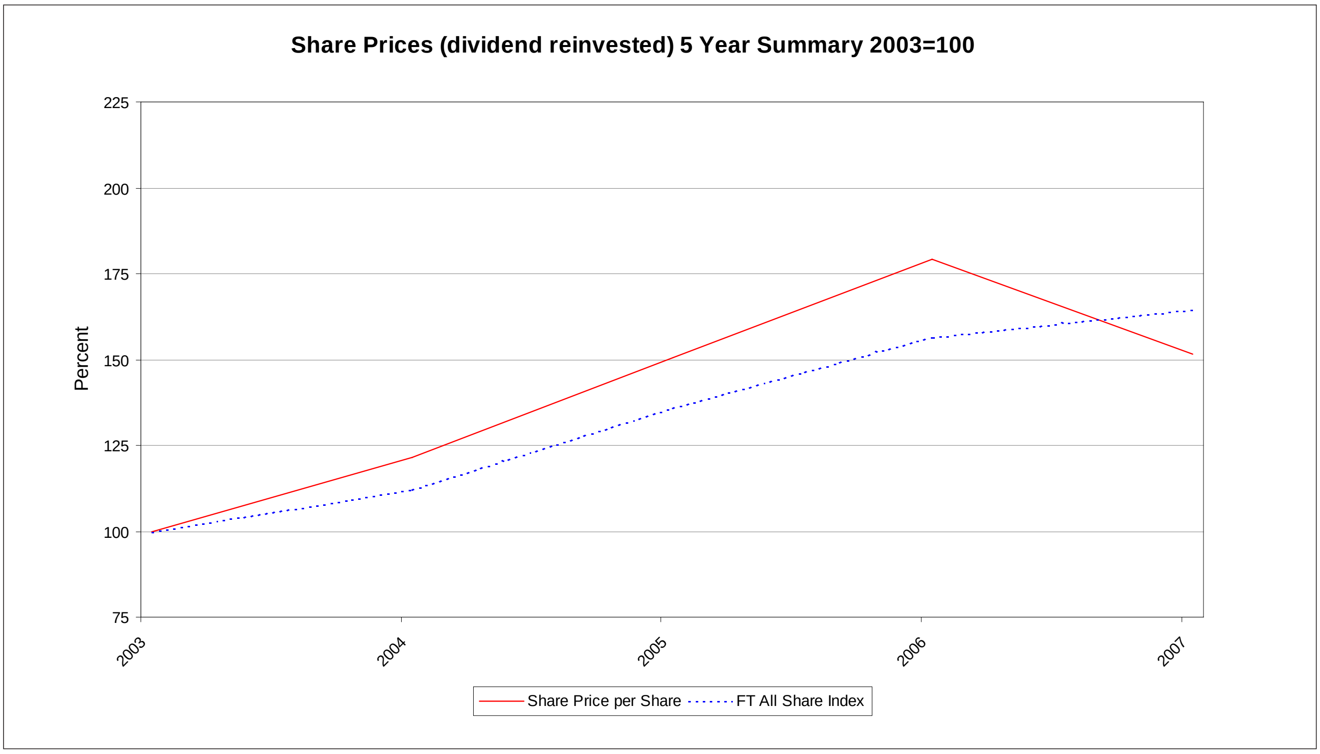
### Services contract

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

### Performance graph

The graph below shows the performance of British & American Investment Trust PLC's share price against the FTSE All Share index, in both instances with dividends reinvested, for the five years since 2003. 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.

| | 2007 | 2006 |
|---|---|---|
| | £000 | £000 |
| JC Woolf - salary | 55 | 53 |
| JAV Townsend - fees | 18 | 16 |
| DG Dreyfus - fees | 13 | 11 |
| RG Paterson - fees | 13 | 11 |
| Total | 99 | 91 |

With effect from 1 January 2007 the annual fees of the Chairman were increased to £17,500 and the non-executive directors to £12,500. The salary of the executive director was increased by 5%.

By order of the board

KJ Williams
Secretary
29 April 2008

# Notice of meeting

**NOTICE IS HEREBY GIVEN THAT** the sixtieth Annual General Meeting of the company will be held at Wessex House, 1 Chesham Street, London SW1X 8ND on Wednesday 18 June 2008 at 12.15pm for the following purposes:

1 To receive and consider the directors' report and group accounts for the year ended 31 December 2007 and the report of the auditors thereon.

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

3 To re-elect Mr JAV Townsend as a director.

4 To approve the directors' remuneration report.

5 To declare a final dividend of 3.7p per £1 ordinary share.

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

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

**Special Business**
To consider and, if thought fit, to pass the following resolution as a Special Resolution:

8 THAT the Articles of Association contained in the document produced to the meeting and signed by the Chairman for the purposes of identification be approved and adopted as the Articles of Association of the company in substitution for and to the exclusion of the existing Articles of Association with effect from the conclusion of the 2008 Annual General Meeting.

**By order of the board**

**KJ Williams**
**Secretary**
29 April 2008

Wessex House
1 Chesham Street
London SW1X 8NB

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

Under the company's articles of association only holders of the ordinary shares are entitled to attend and vote at this meeting. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the company's register of members not later than 12.15pm on 16 June 2008 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.

The company proposes to adopt new Articles of Association. These incorporate amendments to the current Articles of Association to reflect those provisions of the Companies Act 2006 ('the 2006 Act') which came, or will come, into effect in 2007 and 2008. Because the 2006 Act will not be fully in force until October 2009, and so it is not yet possible to amend the Articles of Association to reflect all the changes to be made by the 2006 Act, it is expected that shareholders will be asked to approve further changes to the articles of association at the 2009 AGM.

For a more detailed explanation of the proposed amendments please refer to the Appendix to this Notice of Annual General Meeting on pages 53 to 54.

A copy of the current Articles of Association and of the proposed new Articles of Association marked up to show the proposed amendments will be available for inspection during normal business hours (Saturdays, Sundays and public holidays excepted) at the company's registered office, Wessex House, 1 Chesham Street , London SW1X 8ND until the conclusion of the meeting.

**Appendix re new Articles of Association**

Set out below is a summary of the main differences between the current and the proposed new Articles of Association ('the Articles'). The principal changes in the new Articles to be adopted at the 2008 AGM relate to electronic communication with shareholders and shareholder meetings and resolutions, directors indemnities, transfers of shares and directors conflicts of interest, reflecting provisions of the Companies Act 2006 ('the 2006 Act') which came, or will come, into effect in 2007 and 2008.

<u>Abolition of Extraordinary General Meetings</u>

Throughout the Articles, references to a requirement for an 'extraordinary general meeting' have been replaced by 'general meeting' as the term 'extraordinary general meeting' has ceased to be applicable under the 2006 Act.

<u>Notice of General Meetings and circulation of Resolutions etc, on requisition of members</u>

The provisions in the new Articles dealing with the convening of general meetings, method of notice and the length of notice required to convene general meetings are in line with the relevant provisions of the 2006 Act and include reference to the rights of nominees (please see the wording under nomination rights in relation to this).

<u>Votes of members, proxies and corporate representatives</u>

Under the 2006 Act, proxies are entitled to vote on a show of hands as well as on a poll, and members may appoint a proxy to exercise or all of any of their rights to attend, speak and vote at meetings. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share or shares. The 2006 Act also provides for multiple corporate representatives to be appointed and the new Articles therefore refer to the right to appoint multiple corporate representatives.

<u>Security procedures at General Meetings</u>

The new Articles have been amended so as to clarify the provisions in relation to security at General Meetings

<u>Polls</u>

A new provision has been inserted to clarify that the company must publish the results of a poll on its website in accordance with the 2006 Act.

Directors' interests and conflicts of interests

The 2006 Act sets out directors' general duties that largely codify the existing law, but with some changes. Under the 2006 Act, from 1 October 2008 a director has a statutory duty to avoid a situation where he has, or can have, a direct or indirect interest that conflicts or possibly may conflict, with the company's interests. The 2006 Act allows the Articles to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. The new Articles allow directors to be interested in transactions and to be an officer of or employed by or interested in a body corporate in which the company is interested subject to such interests, offices or employment not infringing the director's conflict duty as codified in the 2006 Act and the director having disclosed the nature and extent of any material interest of his.

The new Articles grant directors the authority to approve conflict situations. There are safeguards that will apply when directors decide whether to authorise a conflict or potential conflict. First, only directors who have no interest in the matter being considered will be able to take the relevant decision and, secondly, in taking the decision, the directors must act in a way they consider, in good faith, will be most likely to promote the company's success. The directors will be able to impose limits or conditions when given authorisation if they think this is appropriate.

The new Articles contain provisions relating to confidential information and attendance at board meetings to protect a director from being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the directors.

The new Articles provide for a director being able to exercise the voting power conferred by shares of any company held or owned by the company or exercisable by them as directors of any other company as they think fit.

Service of Notices and other documents

The Articles have been amended so as to clarify the methods of service and to reflect the rights of nominees.

Right to stop sending dividend warrants, notices etc

A new Article has been inserted to grant the company the right to stop sending dividend cheques or warrants in certain circumstances namely where they have been returned, undelivered or left uncashed on 2 consecutive occasions during the periods which they are valid and reasonable enquiries have been made to establish any new address for the relevant member or person.

A new Article has been inserted to grant the company the right to stop sending members and all people granted information rights by virtue of the 2006 Act, notices etc, if they have been returned undelivered on at least two consecutive occasions or if following one such occasion reasonable enquiries have failed to establish a new address for service, subject to the passing of a director's resolution confirming that the company need not send such documents to the said member/person granted information rights.

Indemnity

The new Articles permit the directors (but not the Auditors) to be indemnified to the fullest extent permitted by the 2006 Act.

# 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 18 June 2008 and at any adjournment thereof.

Signed ................................................................

Dated ........................................................ 2008.

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

| **RESOLUTIONS** | For | Against | Vote Withheld |
|---|---|---|---|
| 1. To adopt the report and accounts. | ☐ | ☐ | ☐ |
| 2. To re-elect Mr DG Dreyfus. | ☐ | ☐ | ☐ |
| 3. To re-elect Mr JAV Townsend. | ☐ | ☐ | ☐ |
| 4. To approve the directors' remuneration report. | ☐ | ☐ | ☐ |
| 5. To declare a final dividend of 3.7p per £1 ordinary share. | ☐ | ☐ | ☐ |
| 6. To re-appoint Grant Thornton UK LLP as the company's auditors. | ☐ | ☐ | ☐ |
| 7. To authorise the directors to determine the remuneration of the auditors. | ☐ | ☐ | ☐ |
| 8. By Special Resolution, to approve amendments to the Articles of Association. | ☐ | ☐ | ☐ |

**NOTES**

1. Please indicate with an X in the boxes 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 company not less than 24 hours before the meeting.
3. A corporation's proxy must be either under its common seal or under the hand of a duly authorised officer or attorney.
4. A space is provided to appoint a proxy other than the person named above.
5. To appoint more than one proxy, (an) additional proxy form(s) may be obtained by contacting the company on 020 7201 3100 or you may copy this form. Pease indicate with the proxy holder's name the number of securities in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is in addition to a previous instruction. All forms must be returned together in the same envelope.
6. The 'Vote Withheld' option is provided to enable you to abstain on any particular resolution. However, it should be noted that a 'Vote Withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a resolution.

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

Second fold

Please affix postage stamp

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

First fold

Third fold