

British & American
Investment Trust PLC

Report and accounts

31 December 2004

British & American Investment Trust PLC

Annual Report and Accounts
for the year ended 31 December 2004

Registered number: 433137

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Directors and officials

Directors

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

Secretary and registered office

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

Registrars

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

Bankers

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

UBS AG
1 Curzon Street
London W1J 5UB

Stockbrokers

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

Auditors

Deloitte & Touche LLP
London

Biographical details of directors and investment policy

Chairman

J Anthony V Townsend

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

Managing Director

Jonathan C Woolf

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

Non Executive

Dominic G Dreyfus

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

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

Investment policy

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

An ordinary resolution to amend this policy by inserting 'predominantly' after 'to invest' will be placed before the Annual General Meeting for approval by members of the company.

AITC

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

Notice of meeting

NOTICE IS HEREBY GIVEN THAT the fifty-seventh Annual General Meeting of the company will be held at Wessex House, 1 Chesham Street, London SW1X 8ND on Thursday 16 June 2005 at 12.15pm for the following purposes:

- 1 To receive and consider the directors' report and group accounts for the year ended 31 December 2004 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 3.1p per £1 ordinary share.
- 6 To appoint Deloitte & Touche LLP as auditors of the company until the conclusion of the next general meeting at which accounts of the company are presented.
- 7 To authorise the directors to approve the remuneration of the auditors.
- 8 As special business to consider and, if thought fit, pass the following ordinary resolution:
THAT the investment policy of the company be changed to the following:
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.

By order of the board

KJ Williams

Secretary

29 April 2005

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 14 June 2005 or, if the meeting is adjourned, shareholders entered on the company's register of members not later than 48 hours before the time fixed for the adjourned meeting, shall be entitled to attend and vote at the meeting.

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

Chairman's statement

Following our adoption last year of the industry's current corporate governance standards, Jonathan Woolf stood down as Chairman to concentrate on his role of Managing Director and I was appointed. I am therefore pleased to report for the first time as Chairman our results for the year ended 31 December 2004.

The return on the revenue account before tax amounted to £1.5 million (2003: £1.7 million). Gross income amounted to £1.9 million (2003: £2.0 million), of which £1.6 million (2003: £1.8 million) represented income from investments and £0.3 million (2003: £0.2 million) film, property and other income. The small decline in income was primarily accounted for by the reduction in dividend from Prudential plc, our second largest investment.

Total return before tax, including realised and unrealised capital appreciation, amounted to £5.4 million (2003: £6.1 million).

The return on the revenue account per ordinary share was 4.3p (2003: 5.2p) on an undiluted basis and 4.1p (2003: 4.7p) on a diluted basis.

Group net assets were £37.0 million (2003: £33.2 million), an increase of 11.2 percent. This compares to an increase over the same period of 7.5 percent in the FTSE 100 share index and 9.2 percent in the All Share index. The net asset value per ordinary share increased to 106p (2003: 95p) on a diluted basis. Deducting prior charges at par, the net asset value per ordinary share increased to 108p (2003: 93p).

We are pleased to recommend a final dividend of 3.1p per ordinary share. Together with the interim dividend this makes a total payment for the year of 5.2p (2003: 5.0p) per Ordinary share, representing an increase of 4.0 percent over the previous year's dividend. A dividend of 1.75p will be paid to preference shareholders resulting in a total payment for the year of 3.5p per share.

In the last quarter of 2004, we became a member of the Association of Investment Trust Companies ("AITC") and I am pleased to report that since joining, the company has consistently been rated in the top quartile of its investment trust sector, UK Income and Growth, by total return. I can also report that since the beginning of 2005, the company's shares, which have historically traded at a discount range of between 15 and 25 percent, have traded at the narrower discount of approximately 10 percent and below. In addition, in February of this year, our shares traded at above 100p for the first time since 2001. I believe that the recent share price performance more appropriately reflects the investment potential of an investment trust which has outperformed its benchmark, the UK All Share index, over a period of 10 years while at the same time paying dividends substantially in excess of the benchmark yield.

As a minor housekeeping measure, we are proposing a slight amendment to the wording of our investment policy at this year's AGM to take into account the modest growth in our investments in US stocks, as noted in the Chairman's statement at the interim stage. Shareholders will also note some change in the presentation of our accounts this year, particularly in relation to the reporting of corporate governance issues, as a result of the adoption of new standards on corporate governance and also the newly introduced International Financial Reporting Standards. We will be adopting these latter fully commencing from the 2005 Interim Report but it is not expected that these measures will have any substantial effect on the accounting procedures or presentation of our accounts

While we look forward to another encouraging year in which asset values will hopefully consolidate the recovery seen in the last year from the multi-year declines experienced since 2000, the market has shown signs of weakness since the first quarter and increased levels of volatility.

Chairman's statement (continued)

As at 22 April 2005, group net assets had increased to £37.8 million (net of the recommended final ordinary dividend, equivalent to 3.1p per ordinary share, and preference dividend, payable in June), an increase of 2.3 percent since the beginning of the calendar year. This is equivalent to 111 pence per share (prior charges deducted at par) and 108 pence per share on a diluted basis. Over the same period the FTSE 100 increased 0.7 percent and the All Share Index increased 0.9 percent.

Anthony Townsend

29 April 2005

Managing Director's Report

As reported at the interim stage, UK equity markets moved in a narrow range in the first half of 2004 and finished the first half relatively unchanged. Markets firmed during the third quarter, following a lead from the USA, commencing a period of sustained growth through to the end of the year. During this period, coinciding with the conclusion of the US presidential elections, the leading US indices rose by almost 10 percent and in the UK, the FTSE 100 index by over 10 percent and the FTSE All Share by over 12 percent. While these gains were broadly based across all sectors, hi-tech stocks in particular benefited from sustained buying interest as sentiment towards these sectors recovered from the multi-year bear market following the severe downturn in 2000. Growth stocks generally were favoured as the perception took hold that continued growth in the US economy was achievable absent external shocks to the system.

As already noted, indices in the UK finished the year comfortably in positive territory by which time the FTSE had recovered approximately 45 percent of the decline experienced since the sustained downtrend commencing in 2000.

Our portfolio outperformed the rise in leading UK stock prices over the year and exceeded the even greater recovery in the All Share index, as noted above. At the same time, we have been able to maintain our high level of income return to ordinary shareholders through dividend distribution. Dividends, excluding special dividends, have increased each year since 1995 and ordinary shareholders have consistently received distributions substantially in excess of general market yields over many years. Over the last 10 years, our total return (including special dividends) has averaged 77 percent against 60 percent for the All Share index (dividends reinvested).

In the first quarter of 2005, growth in the UK and US equity markets extended further reaching 2 year highs in February. Significant gains in oil and commodity stocks particularly drove this upward momentum on the back of strong commodity prices. This firm sentiment was also evident in the revival of the new issue market, particularly AIM in the UK, again being strongly focused on the oil and commodities sectors. By March, however, the upward trend had cooled and consolidation was seen as the beginnings of inflationary concerns began to be mooted in the USA following the ninth monthly increase in US dollar rates and an expectation that the pace of monetary tightening might quicken in the months ahead.

Against this background, we will continue to pursue our generalist investment approach, remaining invested in leading stocks with good yield. We also intend to continue to build our exposure to targeted US stocks where good long term value is perceived.

The outlook for the current year remains promising with growth in the UK and the USA underpinned by relatively benign interest and inflation rate conditions. Demand within these economies is relatively well balanced against supply, with the exception of oil prices which are subject to political and other external forces.

With effect from January of this year, we will introduce a change in our accounting policy with respect to the allocation of expenses. As recommended by the Statement of Recommended Practice for Investment Trusts, our expenses will now be split equally between capital and revenue accounts to reflect more fairly the application of these expenses in the running of the company.

Jonathan Woolf

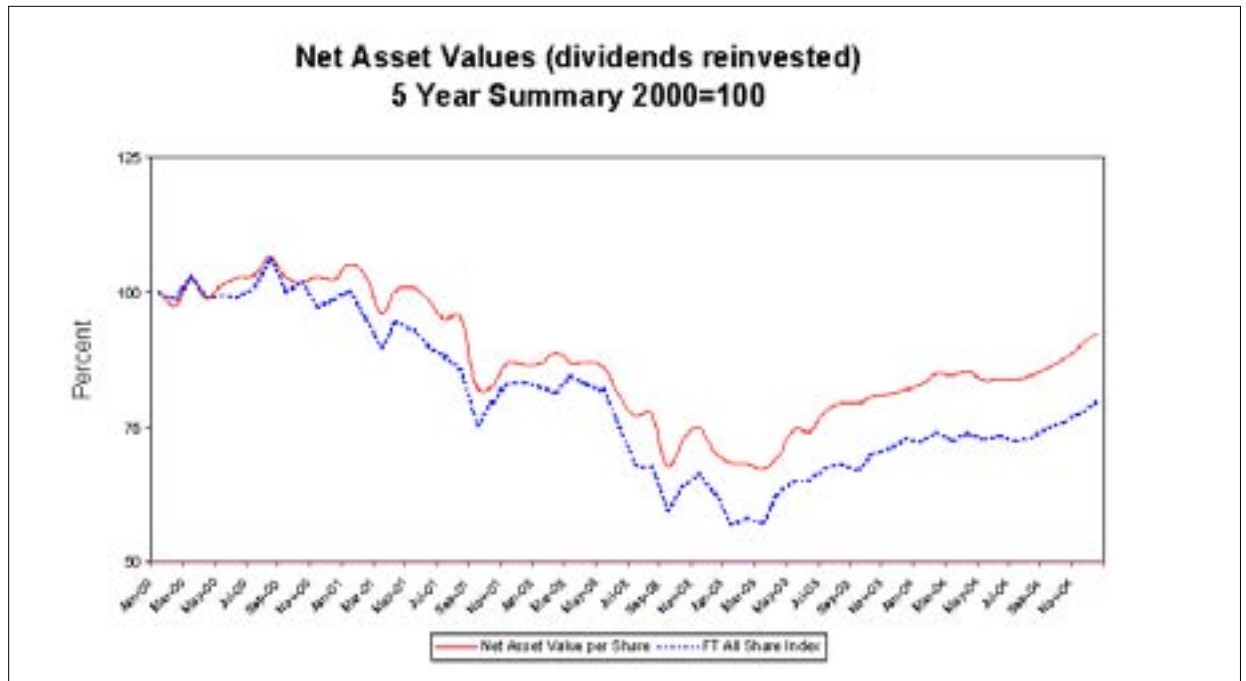
Financial highlights

For the year ended 31 December 2004

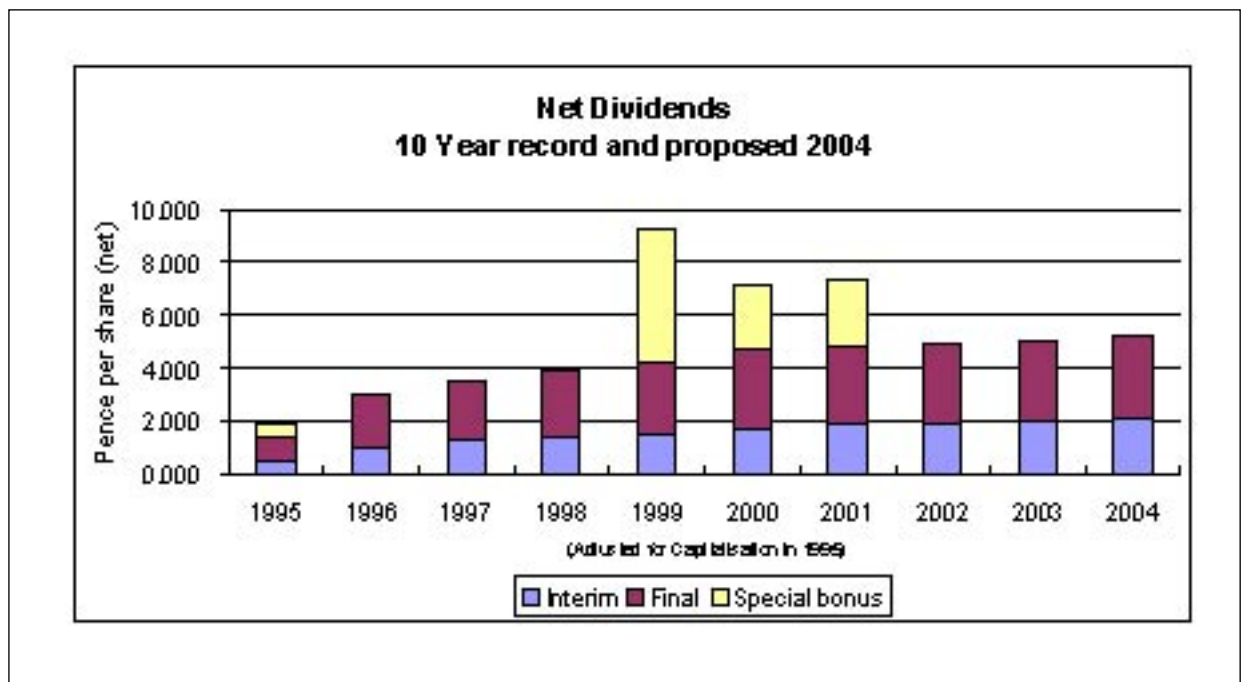
	2004			2003		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Return before taxation	1,487	3,946	5,433	1,653	4,458	6,111
Earnings per £1 ordinary share – basic	4.33p	15.78p	20.11p	5.18p	17.83p	23.01p
Earnings per £1 ordinary share – diluted	4.09p	11.28p	15.37p	4.70p	12.74p	17.44p
Net asset value			36,972			33,244
Net assets per ordinary share						
– deducting preference shares at par			108p			93p
– diluted			106p			95p
Diluted net asset value per ordinary share at 22 April 2005 – unaudited (net of recommended final ordinary dividend of 3.1p per share and preference dividend of 1.75p per share).			108p			

Net asset and dividend growth

Net asset values



Net dividends



Distribution of investments and cash

The distribution of investments and cash balances is as follows:

			At valuation
	22 April 2005	31 December	31 December
	unaudited	2004	2003
	£000	£000	£000
Investment Trusts (equities)	17,441	17,455	15,965
Property	4,708	4,853	4,398
Life Assurance	3,974	3,731	3,859
Leisure and hotels	1,724	1,058	347
Unit trusts	1,233	1,199	1,077
Media	1,042	984	792
Banks retail	825	804	672
Fixed Interest Stocks	676	661	622
Overseas	495	618	350
Preference shares	460	469	747
Permanent interest bearing	358	359	347
Software and computer services	355	228	197
Telecommunications	246	241	190
Breweries, pubs and restaurants	239	305	895
Other Financial	189	108	73
Information technologies	153	167	94
Transport	105	111	86
Biotechnology	59	50	10
Multi Utilities	50	–	–
Pharmaceuticals and healthcare	39	232	21
Engineering	13	14	–
Convertibles	–	65	34
Gas Distribution	–	24	–
Retailers – food	–	54	–
Water	–	–	136
	<hr/>	<hr/>	<hr/>
Listed investments	34,384	33,790	30,912
	<hr/>	<hr/>	<hr/>
Unlisted investments/property units	1,870	1,873	1,570
	<hr/>	<hr/>	<hr/>
Total portfolio	36,254	35,663	32,482
	<hr/>	<hr/>	<hr/>
Balances at banks and stockbrokers	2,228	2,183	1,581
	<hr/>	<hr/>	<hr/>
	38,482	37,846	34,063
	<hr/>	<hr/>	<hr/>

Group investment portfolio

At 31 December 2004

<u>Company</u>	<u>Nature of business</u>	Valuation £000	% of Portfolio
Liberty International Holdings	Property	4,853	13.61
Prudential Corporation	Life Assurance	3,626	10.17
RIT Capital Partners – Ordinary	Investment Trust	2,298	6.44
The Alliance Trust – Ordinary	Investment Trust	2,202	6.17
Electra Investment Trust	Investment Trust	2,178	6.11
Securities Trust of Scotland	Investment Trust	2,058	5.77
Dunedin Income Growth	Investment Trust	1,873	5.25
British Assets Trust	Investment Trust	1,635	4.58
Matrix Chatham Maritime EZT	Enterprise Zone Trust	1,250	3.51
St James's Place International Unit Trust	Unit Trust	1,078	3.02
Murray International Trust	Investment Trust	873	2.45
Lloyds TSB	Bank Retail	804	2.25
Intercontinental Hotels Group plc	Leisure, Entertainment and Hotels	694	1.95
Geron Corporation	Overseas - USA	670	1.88
Scottish & American Investment Co.	Investment Trust	670	1.88
Shires Income	Investment Trust	540	1.51
British Sky Broadcasting Group	Media	506	1.42
Rothschild Continuation Finance – Loan Notes	Debentures and Loan Stocks	502	1.41
Invesco Income Growth Trust	Investment Trust	485	1.36
Royal & Sun Alliance Insurance Group plc	Preference shares	461	1.29
20 Largest investments		29,256	82.03
Other investments (number of holdings : 76)		6,407	17.97
Total investments		35,663	100.00

Holdings in other investment companies

It is the company's stated policy to have an unlimited percentage of its gross assets in other listed investment companies. In accordance with Listing Rule 21, the company will restrict any future investments in listed investment companies which themselves do not have a policy of restricting their investments in other listed investment companies to 15% (or less) of their gross assets. As at 31 December 2004, 13.7% 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

Directors' report

For the year ended 31 December 2004

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.

Financial statements

The financial statements will be presented for approval at the fifty-seventh Annual General Meeting of the company to be held on Thursday 16 June 2005.

Directors' report

The directors present their annual report on the affairs of the group together with the accounts and auditors' report for the year ended 31 December 2004.

Future prospects

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

Business review

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

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

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

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

The directors consider that the company has conducted its affairs in a manner to enable it to continue to comply with s842 of the Income and Corporation Taxes Act 1988. It is approved by the Inland Revenue 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 2003. The company has since directed its affairs to enable it to continue to seek approval.

Personal Equity Plans/ISAs

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

Directors' report (continued)

Results and dividends

The directors set out below the results and dividends for the year ended 31 December 2004.

	Revenue £000	Capital £000	Total £000
Return for the financial year before taxation	1,487	3,946	5,433
Tax	(55)	–	(55)
Return for the financial year after taxation	<u>1,432</u>	<u>3,946</u>	5,378
	Pence per share	£000	
Dividends			
Interim per £1 ordinary share (paid 11 November 2004)	2.1	525	
3.5% preference shares paid	1.75	175	
Final proposed per £1 ordinary share – proposed	3.1	775	
3.5% preference shares – proposed	<u>1.75</u>	<u>175</u>	(1,650)
Transfer to other reserves – other recognised gains			<u>(3,946)</u>
Transferred from revenue reserve			<u>(218)</u>

The dividends proposed above will be paid on 23 June 2005 to ordinary shareholders on the register at 27 May 2005 and to 3.5% preference shareholders on the register at 31 December 2004.

Directors and their interests

The present directors of the company are as set out on page 1. Mr JC Woolf resigned as Chairman on 30 September 2004 and Mr JAV Townsend was appointed Chairman on 1 October 2004. In recognition of the increased time and responsibility required as Chairman, Mr Townsend's fees were increased to £16,000 per annum. 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 9 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 does not consider that Mr DG Dreyfus is not independent. It is confirmed that, following formal evaluation, the performance of each director continues to be effective and each continues to demonstrate commitment to the role. Mr JC Woolf is employed under an employment agreement which requires twelve months' notice of termination. Mr Dreyfus, Mr Townsend and Mr Paterson do not have contracts of service with the company. No director has served for more than three years without offering himself for re-election.

Directors' report (continued)

The directors during the year ended 31 December 2004 had interests in the shares of the company as follows:

	2004		2003	
	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	–	–	–
RG Paterson	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%) (2003 – 6,902,812 (27.6%)) ordinary shares held by Romulus Films Ltd, 7,868,750 (31.5%) (2003 – 7,868,750 (31.5%)) ordinary shares held by Remus Films Ltd and 80,000 (0.32%) (2003 – 80,000 (0.32%)) ordinary shares held by PKL Pictures Limited. Romulus Films Ltd also holds 10,000,000 cumulative convertible preference shares (2003 – 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.

The posts of chairman and managing director were separated from 1 October 2004 in accordance with the new Combined Code of Best Practice.

Other information

In addition to the directors' interests in shares detailed above, at 29 April 2005 the directors had been notified of the following interests in excess of 3% of either class:

	Number of shares held	%
Quilter & Co Managed Funds	2,115,000	8.5
Unwin Investments Limited	1,146,562	4.6

These interests relate to the ordinary shares of the company.

Creditor Payment Policy

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

Directors' report (continued)

Statement of compliance with the combined code of best practice

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

Auditors

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

Audit Committee

There is an audit committee, consisting of the non-executive directors, which is chaired by DG Dreyfus.

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

Jonathan Woolf
Managing Director

Wessex House
1 Chesham Street
London
SW1X 8ND

29 April 2005

Statement of directors' responsibilities

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for that period. In preparing those 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

Independent auditors' report

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

We have audited the financial statements of British & American Investment Trust PLC for the year ended 31 December 2004 which comprise the statement of total return, the balance sheets, the cashflow statement and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

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

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Independent auditors' report (continued)

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards 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 described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company and the group, 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 described as having been 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 described as having been audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2004 and of the return of the group for the year then ended; and
- the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

29 April 2005

Consolidated statement of total return (incorporating the revenue account)

For the year ended 31 December 2004

	Notes	2004			2003		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Income	2	1,864	–	1,864	2,013	–	2,013
Realised gains on investments	10	–	457	457	–	508	508
Increase in unrealised appreciation	10	–	3,489	3,489	–	3,950	3,950
Administrative expenses	3	(377)	–	(377)	(330)	–	(330)
Net return before finance costs and taxation		1,487	3,946	5,433	1,683	4,458	6,141
Interest payable and similar charges	6	–	–	–	(30)	–	(30)
Return on ordinary activities before tax for the financial year		1,487	3,946	5,433	1,653	4,458	6,111
Tax on ordinary activities	7	(55)	–	(55)	(9)	–	(9)
Return on ordinary activities after tax for the financial year		1,432	3,946	5,378	1,644	4,458	6,102
Dividends and other appropriations in respect of preference shares	8	(350)	–	(350)	(350)	–	(350)
Return attributable to ordinary shareholders		1,082	3,946	5,028	1,294	4,458	5,752
Dividends in respect of ordinary shares	8	(1,300)	–	(1,300)	(1,250)	–	(1,250)
Transfer (from)/to reserves		(218)	3,946	3,728	44	4,458	4,502
Return per ordinary share							
Basic	9	4.33p	15.78p	20.11p	5.18p	17.83p	23.01p
Diluted	9	4.09p	11.28p	15.37p	4.70p	12.74p	17.44p

The revenue column of this statement is the consolidated profit and loss account of the group. The accompanying notes are an integral part of this statement of total return. All revenue and capital items in the above statement for the year ended 31 December 2004 and the year ended 31 December 2003 derive from continuing operations. No operations were acquired in the year.

Balance sheets

31 December 2004

	Notes	Group		Company	
		2004 £000	2003 £000	2004 £000	2003 £000
Fixed assets					
Investments	10	35,663	32,482	38,550	34,826
Current assets					
Debtors	13	187	162	414	312
Cash at bank and in hand		2,227	1,581	1,343	1,138
		2,414	1,743	1,757	1,450
Creditors: amounts falling due within one year	14	(1,105)	(981)	(1,075)	(968)
Net current assets		1,309	762	682	482
Total assets less current liabilities		36,972	33,244	39,232	35,308
Provisions for liabilities and charges	15	–	–	(2,182)	(1,982)
Net assets		36,972	33,244	37,050	33,326
Capital and reserves					
Called-up share capital	16	35,000	35,000	35,000	35,000
Other reserves					
– Capital reserve – realised	17	13,114	14,824	228	2,612
– Capital reserve – unrealised	17	(12,740)	(18,396)	1,779	(4,329)
Revenue reserve	17	1,598	1,816	43	43
Total shareholders' funds	18	36,972	33,244	37,050	33,326
Total shareholders' funds attributable to:					
Equity shareholders		26,972	23,244	27,050	23,326
Preference shareholders		10,000	10,000	10,000	10,000
Net asset value per ordinary share:	19				
– Basic		108p	93p		
– Diluted		106p	95p		

The financial statements on pages 18 to 41 were approved by the board of directors on 29 April 2005.

Jonathan Woolf
Managing Director

The accompanying notes are an integral part of these balance sheets.

Consolidated cash flow statement

For the year ended 31 December 2004

	Notes	2004 £000	2004 £000	2003 £000	2003 £000
Net cash inflow from operating activities	21		1,458		1,726
Servicing of finance					
Interest paid		–		(30)	
Preference dividends paid		(350)		(350)	
Net cash outflow from servicing of finance			(350)		(380)
Taxation					
UK tax paid			–		(267)
Financial investment					
Purchases of investments		(5,952)		(4,605)	
Sales of investments		6,765		4,563	
Net cash inflow/(outflow) from capital expenditure and financial investment			813		(42)
Equity dividends paid			(1,275)		(1,250)
Cash inflow/(outflow) before management of liquid resources and financing			646		(213)
Financing			–		–
Increase/(decrease) in cash			646		(213)
Reconciliation of net cash flow to movement in net funds					
Increase/(decrease) in cash		646		(213)	
Change in net funds			646		(213)
Net funds at 1 January			1,581		1,794
Net funds at 31 December	20		2,227		1,581

The accompanying notes are an integral part of this statement.

Notes to the financial statements

31 December 2004

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

a) Basis of accounting

The accounts are prepared under the historical cost convention, modified to include the revaluation of investments. The accounts have been prepared in accordance with applicable United Kingdom law and accounting standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies'.

b) Basis of consolidation

The consolidated statement of total return and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 31 December 2004.

No profit and loss account is published for British & American Investment Trust PLC as provided by s230 of the Companies Act 1985. The company's profit on ordinary activities after taxation for the year was £1,649,647 (2003 – £1,630,042).

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

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

c) Valuation of investments

Quoted investments are valued at middle market prices. Where trading in the securities of an investee company is suspended, the investment is valued at the board's estimate of its net realisable value. Unquoted investments, including property units, are valued by the board at the directors' latest valuation.

Realised surpluses or deficits on the disposal of investments and permanent impairments in the value of investments are taken to capital reserve – realised. Unrealised surpluses and deficits on the revaluation of investments are taken to capital reserve – unrealised as explained in note. 1(i) below.

The company invests in options from time to time. Realised surpluses or deficits on exercise or disposal of these options are taken to capital reserve – realised. Unrealised surpluses or deficits on the revaluation of options are taken to capital reserve – unrealised as explained in note 1(i) below. Options are valued at market valuation.

d) Income

Dividends receivable on quoted equity shares are brought into account on the ex-dividend date.

The fixed return on a debt security is recognised on a time apportionment basis so as to reflect the effective yield on the debt security.

Notes to the financial statements (continued)

1 Accounting policies (continued)

e) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account except as follows:

- expenses which are incidental to the acquisition of an investment are included within the cost of the investment;
- expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment; and
- expenses are charged to capital reserve – realised where a connection with the maintenance or enhancement of the value of the investments can be demonstrated.

f) Finance costs

Finance costs, including dividends and other finance costs of non-equity shares, are accounted for on an accruals basis, and in accordance with the provisions of Financial Reporting Standard 4 “Capital Instruments”. Finance costs of debt, insofar as they relate to the financing of the company’s investments or to financing activities aimed at maintaining or enhancing the value of the company’s investments, are allocated 100% to revenue account.

g) Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

h) Foreign currency

Transactions denominated in foreign currencies are recorded at the rates ruling at the dates of the transactions. Overseas listed investments are translated at the rates of exchange at the balance sheet date. Realised exchange gains and losses are taken to the revenue account.

i) Capital reserves

Capital reserve – realised

This is the accumulated historical gains and losses on the realisation of investments.

Capital reserve – unrealised

This is the difference between the historical cost of investments and their market value at the balance sheet date.

Notes to the financial statements (continued)

2 Income

	2004	2003
	£000	£000
Income from investments		
Franked investment income	1,360	1,593
Overseas dividends	44	51
Scrip dividends	3	3
Other	207	187
	<u>1,614</u>	<u>1,834</u>
Other income		
Film revenues	197	154
Deposit interest	62	37
Other	(9)	(12)
	<u>250</u>	<u>179</u>
Total income	<u>1,864</u>	<u>2,013</u>
Total income comprises:		
Dividends	1,407	1,648
Interest	168	121
Film revenues	197	154
Property unit trust income	101	102
Loss on foreign exchange	(9)	(12)
	<u>1,864</u>	<u>2,013</u>
Income from investments:		
Listed UK	1,469	1,681
Listed overseas	44	51
Unlisted UK	101	102
	<u>1,614</u>	<u>1,834</u>

Notes to the financial statements (continued)

3 Administrative expenses

	2004	2003
	£000	£000
Staff costs – including directors (Notes 4 and 5)	281	244
Auditors' remuneration for:		
– audit	34	33
– other services to the company and its subsidiaries	12	19
Other	36	19
Irrecoverable VAT	14	15
	<u>377</u>	<u>330</u>

4 Directors' remuneration

	2004	2003
	£000	£000
Fees:		
DG Dreyfus	11	11
JAV Townsend	12	11
RG Paterson	11	11
Salaries:		
JC Woolf	38	35
	<u>72</u>	<u>68</u>

Included in the non-executives' fees is £nil recharged to subsidiaries (2003 - £1,000). The directors do not receive any performance related pay or any benefits in kind. None of the directors has any share options and no pension contributions are paid on their behalf. There are no long-term incentive schemes for any directors.

5 Directors and staff costs

	2004	2003
	£000	£000
Wages and salaries	238	222
Social security costs	26	7
Pensions and post-retirement benefits	17	15
	<u>281</u>	<u>244</u>

Notes to the financial statements (continued)

5 Directors and staff costs (continued)

The average number of persons (including directors) employed during the year was 9 (2003 – 8).

	2004 Number	2003 Number
Investment	2	2
Administration	7	6
	<u>9</u>	<u>8</u>

6 Interest payable and similar charges

	2004 £000	2003 £000
On overdue corporation tax	–	30
	<u>–</u>	<u>30</u>

7 Tax on ordinary activities

	2004 £000	2003 £000
Analysis of tax charge on ordinary activities		
United Kingdom corporation tax at 30% (2003 – 30%) based on the profit for the period	(5)	–
Adjustment in respect of prior periods	(19)	(14)
Double taxation relief	4	3
	<u>(20)</u>	<u>(11)</u>
Foreign taxation for current period	(4)	(3)
	<u>(24)</u>	<u>(14)</u>
Deferred taxation		
Timing differences, origination and reversal	(15)	–
Adjustment in respect of prior periods	(16)	5
	<u>(55)</u>	<u>(9)</u>

Notes to the financial statements (continued)

7 Tax on ordinary activities (continued)

The tax assessed for the period is lower than that resulting from applying the standard rate of corporation tax in the UK 30% (2003 – 30%). The differences are explained below:

Factors affecting tax charge for the current period	2004 £000	2003 £000
Profit on ordinary activities before tax	1,487	1,653
Tax at 30% thereon	(446)	(496)
Effects of:		
Capital allowance in excess of depreciation	4	13
Utilisation of tax losses	22	(2)
UK dividend income	408	479
Capital gains	(5)	6
Non taxable income	3	–
Double taxation relief	4	–
Rate differences	5	–
Prior period adjustments	(19)	(14)
	<u>(24)</u>	<u>(14)</u>

8 Dividends

	2004 £000	2003 £000
Dividends on ordinary shares:		
Interim paid of 2.1p per £1 share (2003 – 2.0p per share)	525	500
Final proposed of 3.1p per £1 share (2003 – 3.0p per share)	775	750
	<u>1,300</u>	<u>1,250</u>
Dividends on 3.5% cumulative convertible preference shares:		
1.75p paid	175	175
1.75p payable	175	175
	<u>350</u>	<u>350</u>

The dividends on ordinary shares are based on 25,000,000 (2003 – 25,000,000) ordinary £1 shares in the year to 31 December 2004. Dividends on preference shares are based on 10,000,000 (2003 – 10,000,000) non-voting 3.5% cumulative convertible preference shares of £1 in the year to 31 December 2004.

The holders of the 3.5% cumulative convertible preference shares will be paid a dividend of £175,000 being 1.75p per share. The payment will be made on the same date as the dividend to the ordinary shareholders.

Notes to the financial statements (continued)

9 Return per ordinary share

	2004			2003		
	Revenue	Capital	Total	Revenue	Capital	Total
Group:						
Basic	4.33p	15.78p	20.11p	5.18p	17.83p	23.01p
Diluted	4.09p	11.28p	15.37p	4.70p	12.74p	17.44p

Basic revenue return per ordinary share is based on the net revenue on ordinary activities after taxation and after deduction of dividends in respect of preference shares of £1,082,000 (2003 – £1,294,000) and on 25 million (2003 – 25 million) ordinary shares in issue.

The diluted revenue return is based on the net revenue on ordinary activities after taxation of £1,432,000 (2003 – £1,644,000) and on 35 million (2003 – 35 million) shares in issue.

Basic capital return per ordinary share is based on capital gains, both realised and unrealised, for the financial year of £3,946,000 (2003 – £4,458,000) and on 25 million (2003 – 25 million) ordinary shares in issue.

The diluted capital return per share is based on the same aggregate return but on 35 million (2003 – 35 million) shares in issue.

10 Investments at valuation

	Group		Company	
	2004 £000	2003 £000	2004 £000	2003 £000
Investments listed on a recognised investment exchange	33,790	30,912	33,422	30,095
Unlisted investments				
– Subsidiary undertakings (Note 11)	–	–	4,927	4,731
– Property units	1,570	1,570	–	–
– Unlisted shares	303	–	201	–
	<u>35,663</u>	<u>32,482</u>	<u>38,550</u>	<u>34,826</u>

The potential taxation liability in subsidiary undertakings in respect of unrealised capital appreciation on which deferred taxation has not been provided at 31 December 2004 is estimated at £140,000 (2003 - £27,000).

Notes to the financial statements (continued)

10 Investments at valuation (continued)

Group:	Listed in UK	Listed overseas	Unlisted UK	Property Units	Total
	£000	£000	£000	£000	£000
Opening book cost	17,957	402	3,918	1,570	23,847
Opening unrealised appreciation	12,663	(110)	(3,918)	–	8,635
Opening valuation	30,620	292	–	1,570	32,482
Movements in the year:					
Purchases at cost	5,146	578	300	–	6,024
Transfers	(32)	–	32	–	–
Sales – proceeds	(6,606)	(177)	(6)	–	(6,789)
– realised gains/(losses) on sales	467	(16)	6	–	457
Increase/(decrease) in unrealised appreciation	3,577	(59)	(29)	–	3,489
Closing valuation	33,172	618	303	1,570	35,663
Closing book cost	17,428	708	1,666	1,570	21,372
Closing unrealised appreciation	15,744	(90)	(1,363)	–	14,291
	33,172	618	303	1,570	35,663

Company:	Listed in UK	Listed overseas	Unlisted UK	Total
	£000	£000	£000	£000
Opening book cost	28,228	402	10,540	39,170
Opening unrealised appreciation	1,575	(110)	(5,809)	(4,344)
Opening valuation	29,803	292	4,731	34,826
Movements in the year:				
Purchases at cost	4,753	425	200	5,378
Transfers	(32)	–	32	–
Sale – proceeds	(5,572)	–	(6)	(5,578)
– realised gains/(losses) on sales	335	(9)	6	332
Increase/(decrease) in unrealised appreciation	3,565	(138)	165	3,592
Closing valuation	32,852	570	5,128	38,550
Closing book cost	27,712	740	8,334	36,786
Closing unrealised appreciation	5,140	(170)	(3,206)	1,764
	32,852	570	5,128	38,550

11 Subsidiary undertakings

Notes to the financial statements (continued)

The company has investments in the following subsidiary undertakings:

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

BritAm Investments Limited and Second BritAm Investments Limited are investment holding companies. British and American Films Limited is a film distribution company. British and American Investments was dissolved on 23 March 2004.

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

12 Significant interests

The group's holding in the following company is more than 10% of the group's assets at the balance sheet date:

Name of undertaking	Country of incorporation and operation	Description of shares held	Percentage of undertaking held by:	
			Company	Group
Liberty International Holdings plc	Great Britain	Ordinary	0.16%	0.16%

The company or group had no holding of 3% or more of any class of capital in any company other than its subsidiaries that is material in the context of the financial statements other than as stated above.

13 Debtors

	Group		Company	
	2004 £000	2003 £000	2004 £000	2003 £000
Amounts due from brokers	24	–	24	–
Trade debtors	34	–	–	–
Amount owed by subsidiary undertakings	–	–	163	130
Income tax and ACT recoverable	6	14	–	9
Deferred taxation	–	31	–	–
Group relief receivable	–	–	123	68
Prepayments and accrued income	46	45	46	45
Other debtors	77	72	58	60
	<u>187</u>	<u>162</u>	<u>414</u>	<u>312</u>

Notes to the financial statements (continued)

14 Creditors

	Group		Company	
	2004 £000	2003 £000	2004 £000	2003 £000
Amounts due to brokers	68	–	68	–
Trade creditors	1	6	–	–
Amounts due to subsidiaries	–	–	–	–
Corporation tax payable	12	–	–	–
Group relief payable	–	–	–	–
Other taxes and social security	2	3	2	3
Other creditors	31	12	31	12
Accruals and deferred income	34	35	24	28
Amounts due to related parties	7	–	–	–
Dividends proposed and payable	950	925	950	925
	<u>1,105</u>	<u>981</u>	<u>1,075</u>	<u>968</u>

15 Provisions for liabilities and charges

	Company	
	2004 £000	2003 £000
Guarantee of subsidiary liability	2,182	1,982
	<u>2,182</u>	<u>1,982</u>

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

16 Called-up share capital

	2004 £000	2003 £000
Authorised:		
25,000,000 ordinary shares of £1 each	25,000	25,000
10,000,000 non voting 3.5% cumulative convertible preference shares of £1 each	10,000	10,000
	<u>35,000</u>	<u>35,000</u>
Allotted, called-up and fully-paid:		
25,000,000 ordinary shares of £1 each	25,000	25,000
10,000,000 non voting 3.5% cumulative convertible preference shares of £1 each	10,000	10,000
	<u>35,000</u>	<u>35,000</u>

Notes to the financial statements (continued)

16 Called-up share capital (continued)

The non-voting cumulative convertible 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 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 preference shares held into fully paid ordinary shares at the rate of one ordinary share for each non-voting cumulative convertible preference share.

17 Reserves

	Capital reserve – realised £000	Capital reserve – unrealised £000	Revenue reserve £000
Group			
1 January 2004	14,824	(18,396)	1,816
Revenue return after dividends for the year	–	–	(218)
Transfer between realised and unrealised capital reserves	(2,167)	2,167	–
Increase in unrealised appreciation	–	3,489	–
Gain on realisation of investments	457	–	–
31 December 2004	13,114	(12,740)	1,598
Company			
1 January 2004	2,612	(4,329)	43
Revenue return after dividends for the year	–	–	–
Transfer between realised and unrealised capital reserves	(2,516)	2,516	–
Increase in unrealised appreciation	–	3,592	–
Loss on guarantee	(200)	–	–
Gain on realisation of investments	332	–	–
31 December 2004	228	1,779	43

Notes to the financial statements (continued)

18 Reconciliation of movements in shareholders' funds

	Group	
	2004	2003
	£000	£000
Revenue return for the financial year	1,432	1,644
Dividends and other appropriations	(1,650)	(1,600)
	(218)	44
Recognised capital gains relating to the year	3,946	4,458
Net increase in shareholders' funds	3,728	4,502
Opening shareholders' funds	33,244	28,742
Closing shareholders' funds	36,972	33,244

19 Net asset value per share

The net asset value per ordinary share has been calculated with reference to total net assets, less net assets attributable to preference shares, divided by 25,000,000 ordinary shares.

Diluted net asset value per share has been calculated by reference to total net assets divided by 35,000,000 ordinary and preference shares.

The analysis of shareholders' funds on the face of the balance sheet has been computed in accordance with the provisions of Financial Reporting Standard 4 'Capital Instruments', which reflects the rights under the Articles of Association of the respective classes of share on a return of assets.

	Net asset value per share		Net asset value	
	2004	2003	2004	2003
	Pence	Pence	£000	£000
Attributable to ordinary shareholders	108	93	26,972	23,244
Attributable to preference shareholders			10,000	10,000
Attributable to ordinary and preference shareholders	106	95	36,972	33,244

Notes to the financial statements (continued)

19 Net asset value per share (continued)

The movements during the year of the assets attributable to each class of share were as follows:

	Ordinary shares £000	Cumulative convertible preference shares £000	Total £000
Total net assets attributable at beginning of year	23,244	10,000	33,244
Total recognised gains	5,028	350	5,378
Ordinary dividends appropriated	(1,300)	–	(1,300)
Preference dividends appropriated	–	(350)	(350)
	<u>26,972</u>	<u>10,000</u>	<u>36,972</u>

20 Analysis of net funds

	Balance 1 January 2004 £000	Cash flow £000	Balance 31 December 2004 £000
Cash at bank	839	159	998
Liquid resources – cash at brokers	742	487	1,229
	<u>1,581</u>	<u>646</u>	<u>2,227</u>

21 Reconciliation of operating revenue to net cash inflow from operating activities

	Group	
	2004 £000	2003 £000
Net revenue before finance costs and taxation	1,487	1,683
Scrip dividends	(4)	(3)
Increase/(decrease) in other creditors	19	(25)
(Increase)/decrease in debtors	(40)	74
Tax on unfranked investment income	–	–
Tax on film revenue	(4)	(3)
	<u>1,458</u>	<u>1,726</u>
Net cash inflow from operating activities		

Notes to the financial statements (continued)

22 Related party transactions

The company rents its offices from Romulus Films Limited, and is also charged for its office overheads. During the year the company paid £9,398 (2003 – £9,042) 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 2004 were £229,259 (2003 – £206,307) in respect of salary costs and £17,221 (2003 – £14,730) in respect of pensions.

At the year end an amount of £3,288 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 13.

23 Deferred taxation

	Group	
	2004	2003
	£000	£000
Capital losses unrealised	–	(381)
Enterprise zone trusts	–	409
	–	28

A deferred tax asset has not been recognised in respect of timing differences relating to property units, capital losses, 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: £420,927 (2003: £428,025). The asset would be recovered if the company disposed of its investments in property units, made sufficient future taxable profits and chargeable gains.

24 Derivatives and other financial instruments

The group's financial instruments during the year comprised:

- Cash at bank, UK and foreign equities, debentures and loan stocks, preference shares, convertible stock, unit trusts and property units. These are held in accordance with the group's investment objectives and policies.
- Bank loans and cumulative convertible preference shares. These are held to finance the group's operations.
- Various financial instruments including trade debtors, creditors, accruals and prepayments arising directly from the group's operations.

As an investment trust, the group invests in securities for the long term. Accordingly, it is, and has been throughout the year, the group's policy that no short-term trading in investments or other financial instruments is undertaken.

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

Notes to the financial statements (continued)

24 Derivatives and other financial instruments (continued)

Market price risk

The group's exposure to market risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the group might suffer through holding market positions in the face of price movements. From time to time investments in index options are made as a means to hedge such risk.

Interest rate risk

The group finances its operations from internal resources, including cash deposits, preference shares and bank loans. The preference shares of £10.0 million pay a fixed dividend and mature in 2025, unless converted beforehand during the period 1 January 2006 to 31 December 2025, dependent upon certain conditions being met (see note 16). The majority of the group's financial assets are equity shares or other investments which pay dividends rather than interest and do not have a maturity date.

	Fixed rate £000	Weighted average fixed rate %	Weighted average time to maturity
Financial liabilities			
Convertible preference shares	10,000	3.5	20 years

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, which is held in cash at bank.

Maturity of financial liabilities

The maturity profile of the group's financial liabilities, other than short-term creditors such as trade creditors and accruals, at 31 December 2004 was as follows:

	2004 £000	2003 £000
In one year or less, or on demand	–	–
In more than five years	10,000	10,000
	<u>10,000</u>	<u>10,000</u>

The liability of £10.0 million is in respect of the convertible preference shares maturing in 2025, unless converted beforehand into ordinary shares during the period 1 January 2006 to 31 December 2025, under certain conditions (see note 16), which are not currently met. All financial instruments held or issued for investment purposes are carried in the financial statements at fair value. Market values have been used to determine the value of options. Listed investments are valued at middle market prices. Unlisted investments are valued by the board at the directors' latest valuation.

Currency risk

The vast majority (97.7%) of assets and all liabilities are in sterling. Accordingly, due to the very small foreign currency content, and the associated limited currency risk no analysis of currency has been performed.

Statement of compliance with the Combined Code of Best Practice

For the year ended 31 December 2004

The company is committed to high ethical and compliance standards. In addition, it seeks to observe the principles set out in the UK Listing Authority's Combined Code on Corporate Governance insofar as these are consistent with the company's status and objectives as an investment trust. The directors consider that the company has complied during the year ended 31 December 2004 with all the relevant provisions of the Code except where disclosed below.

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

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 (with effect from 1 October 2004). The roles of chairman and managing director were combined until 30 September 2004 when the Managing Director ceased to be 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 made 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 five 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	2
DG Dreyfus	4	2
RG Paterson	3	2
JC Woolf	5	2

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 nine years from the date of his first election, but given the nature of the company as an investment trust and as permitted under the AITC Code, the board is firmly of the view that Mr DG Dreyfus can be considered to be independent. In arriving at this conclusion the board considers that long service aids the understanding, judgement, objectivity and independence of directors.

Re-election of directors

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

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

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

Chairman

The Chairman is also non-executive chairman of one other quoted investment trust 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 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. All the non-executive directors are members of the audit committee and its chairman is Mr DG Dreyfus.

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

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

Nomination Committee

A nomination committee, comprising all the directors has been established to oversee a formal review procedure governing the appointment of new directors and to evaluate the overall composition of the board from time to time, taking into account the existing balance of skills and knowledge. Its chairman is the Chairman of the board. No new directors were appointed during the year. Neither an external agency nor open advertising was used in the appointment of Mr JAV Townsend as Chairman as the board considered that Mr Townsend was extremely well qualified for this position. There are procedures for a new director to receive relevant information on the company together with appropriate induction.

Board/Audit/Nomination Committee/Director ongoing evaluation

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

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

Remuneration

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

Relation 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 13.

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

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

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

Accountability, Internal Controls and Audit

The directors' statement of responsibilities in respect of the accounts is set out on page 15.

The report of the independent auditors is set out on page 16.

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

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

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

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

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

Going concern

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

Socially responsible investment

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

Exercise of voting rights

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

Directors' remuneration report

For the year ended 31 December 2004

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 2004. 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).

Mr JAV Townsend was appointed chairman from 1 October 2004 and his fees were reviewed and increased to £16,000 per annum from that date to reflect the level of work and responsibility involved.

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.

Services contract

Mr JC Woolf has a service contract with the company which requires 12 months notice of termination. No other director has a service contract with the company.

Performance graph

The graph on page 41 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 2000. The FTSE All Share is selected because it is the single broad equity market index that most closely matches the company's benchmark..

Share prices



Directors' remuneration

The following items have been audited.

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

	Year ended 31 December 2004			Year ended 31 December 2003		
	Fees £000	Expenses £000	Total £000	Fees £000	Expenses £000	Total £000
JC Woolf	38	—	38	35	—	35
JAV Townsend	12	—	12	11	—	11
DG Dreyfus	11	—	11	11	—	11
RG Paterson	11	—	11	11	—	11

Mr JAV Townsend was appointed Chairman from 1 October 2004 at annual fees of £16,000. The company does not confer any share options, long term incentives or retirement benefits to any director, nor does it make a contribution to any pension scheme on behalf of the directors. The company has not added any performance-related elements in the remuneration package of executive directors. As noted on page 13 Mr JC Woolf is a significant shareholder in the company. The company provides directors' liability insurance.

By order of the board

KJ Williams

Secretary

29 April 2005

FORM OF PROXY

BRITISH & AMERICAN INVESTMENT TRUST PLC

(For use by ordinary shareholders)

I/We (Please complete in
BLOCK CAPITALS)
of

being (a) member(s) of the above company, hereby appoint the Chairman of the meeting or
..... to be my/our proxy to vote on my/our behalf at the Annual
General Meeting of the company to be held at Wessex House, 1 Chesham Street, London SW1X 8ND
at 12.15 pm on Thursday 16 June 2005 and at any adjournment thereof.

Signed

Dated 2005.

RESOLUTIONS

	FOR	AGAINST
1. To adopt the report and accounts.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect Mr DG Dreyfus.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr JAV Townsend.	<input type="checkbox"/>	<input type="checkbox"/>
4. To approve the directors' remuneration report.	<input type="checkbox"/>	<input type="checkbox"/>
5. To declare a final dividend of 3.1p per £1 ordinary share.	<input type="checkbox"/>	<input type="checkbox"/>
6. To re-appoint Deloitte & Touche LLP as auditors.	<input type="checkbox"/>	<input type="checkbox"/>
7. To authorise the directors to fix the remuneration of the auditors.	<input type="checkbox"/>	<input type="checkbox"/>
8. To approve the modified investment policy.	<input type="checkbox"/>	<input type="checkbox"/>

NOTES

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

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

Second fold

BUSINESS REPLY SERVICE
Licence No. ANG 1468



Capita IRG plc
The Registry
34 Beckenham Road
KENT
BR3 4TU

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