British & American Investment Trust PLC

Annual Financial Report
for the year ended 31 December 2017

Registered number: 00433137

Directors	**Registered office**
J Anthony V Townsend (Chairman) – retired 31 December 2017	Wessex House
Jonathan C Woolf (Managing Director)	1 Chesham Street
David G Seligman (Non-executive) – appointed as Director 26 September 2017 and as Chairman 1 January 2018	London SW1X 8ND
Dominic G Dreyfus (Non-executive and Chairman of the Audit Committee)	Telephone: 020 7201 3100
Ronald G Paterson (Non-executive)	Registered in England
	No.00433137
	27 April 2018

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

Financial Highlights

For the year ended 31 December 2017

			2017			2016
	Revenue return £000	Capital return £000	Total £000	Revenue return £000	Capital return £000	Total £000
Profit/(loss) before tax – realised	2,210	(1,694)	516	1,474	(2,502)	(1,028)
Loss before tax – unrealised	–	(5,249)	(5,249)	–	(4,134)	(4,134)
Profit/(loss) before tax – total	2,210	(6,943)	(4,733)	1,474	(6,636)	(5,162)
Earnings per £1 ordinary share – basic	7.58p	(27.77)p	(20.19)p	4.63p	(26.55)p	(21.92)p
Earnings per £1 ordinary share – diluted	6.41p	(19.84)p	(13.43)p	4.31p	(18.96)p	(14.65)p
Net assets			15,534			22,682
Net assets per ordinary share – deducting preference shares at par			22p			51p
– diluted			44p			65p
Diluted net asset value per ordinary share at 25 April 2018			58p			
Dividends declared or proposed for the period per ordinary share						
– interim paid			2.7p			2.7p
– final proposed			5.9p			5.7p
per preference share			3.5p			3.5p

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

Chairman's Statement

I am pleased to report for the first time as Chairman our results for the year ended 31 December 2017. I would also like to thank my predecessor, Anthony Townsend, who retired from the board at the end of 2017 for his many years of excellent service as Chairman and director of the company.

Revenue

The return on the revenue account before tax amounted to £2.2 million (2016: £1.5 million), an increase of 50 percent. This increase was due to higher levels of both external dividend receipts and dividends received from subsidiary companies compared to the previous year.

Gross revenues totalled £2.7 million (2016: £2.3 million). Film income of £101,000 (2016: £85,000) and property unit trust income of £15,000 (2016: £15,000) was received in our subsidiary companies. In accordance with IFRS10, these income streams are not included within the revenue figures noted above.

The total return before tax amounted to a loss of £4.7 million (2016: £5.2 million loss), which comprised net revenue of £2.2 million, a realised loss of £1.4 million and an unrealised loss of £5.2 million. The revenue return per ordinary share was 7.6p (2016: 4.6p) on an undiluted basis and 6.4p (2016: 4.3p) on a diluted basis.

Net Assets and Performance

Net assets at the year end were £15.5 million (2016: £22.7 million), a decrease of 31.5 percent. This compares to increases in the FTSE 100 and All Share indices of 7.6 percent and 9.0 percent, respectively, over the period. On a total return basis, after adding back dividends paid during the year, our net assets decreased by 20.7 percent compared to a 11.0 percent increase and a 12.0 percent increase in the FTSE 100 and All Share indices, respectively.

This significant underperformance was due to substantial falls in the value of our US investments. Geron Corporation, our largest investment, fell 13.0 percent in US dollar terms over the year and 20.5 percent in sterling terms. Although the value of this investment had risen by 34 percent in the first 6 months of 2017 as reported at the interim stage, the share price suffered a drop of over 25 percent in August following the announcement of a short delay in reporting on its clinical oncology trials which was taken badly by the markets. The main reasons for the delay were firstly that one of the primary endpoints of the trial, median overall survival (50 percent of patients), had not been reached and secondly that considerably higher response rates to the drug had been discovered in a particular subset of patients and it had been decided to add a further 20 such patients to the trial for confirmation purposes. Although these two findings would in normal circumstances be construed as positive developments, the fact that the trial results which had been expected to be announced in the fourth quarter of 2017 would be delayed by a further up to 12 months resulted in a strong and somewhat unjustified adverse market reaction.

The value of our other holdings in US stocks, Biotime Inc and Asterias Biotherapeutics, also decreased in 2017 following equity fundraisings in the first half of the year in those stocks from which their prices did not recover, resulting in falls of 41 and 51 percent, respectively, in US dollar terms over the year. Furthermore, given the depreciation of the US dollar against sterling of 10 percent over the year, the effect of these declines in sterling terms on net asset value was even more pronounced.

Since the year end, however, the value of Geron has recovered substantially and has made strong gains. A further and very positive update of the trial was announced in early March this year which has resulted in Geron's value increasing by 136 percent in the first quarter of 2018. These developments are explained in more detail in the Managing Director's report below and account for the substantial improvement in the company's net asset value as at 25 April 2018 shown below.

More generally in 2017, the UK and US equity markets showed strong and abnormally steady growth throughout the year of 8 percent and 25 percent, respectively, to reach all time highs by the end of the year. This was despite a wide number of unfolding political and financial events over the year which could easily have had a destabilising effect. These included a snap general election in the UK with an unexpected result which lost the Conservative government its majority, many months of impasse and frustration in the Brexit negotiation process with no initial agreements achieved until the end of the year, and an angry political stand-off between the USA and North Korea over its nuclear ambitions. In addition, confrontation between Congress and the Trump administration and a dysfunctional White House which brought into doubt the administration's ability to deliver on its promised reflationary programme of tax cuts and infrastructure investment with the resulting uncertainties on the pace and size of US dollar interest rate normalisation over the year. Despite all this, volatility remained at its lowest levels for many years as markets decided to ignore the risks associated with these events. The main reason for the strong market advances was the recognition that most world economies had entered into a period of synchronised growth with corporate profitability showing strong performance against a background of cheap money and low inflationary pressures. Although central banks had started to the follow the lead of the Federal Reserve in reducing the monetary stimulus of earlier years by ending or moderating the levels of quantitative easing applied to their economies, they were also careful to make it known that any rises in rates would be gradual and limited. Consequently, while bond prices continued to adjust downwards to reflect likely increases in rates in the forthcoming periods, it was not a disorderly reaction and equities by contrast enjoyed strong support pushing valuations forward to record levels.

This strength in equities was further magnified at the year end when the Trump administration finally pushed through a programme of tax cuts which was considered very favourable to business, particularly companies operating in the digital economy and other sectors with significant accrued profits held overseas. The fact that this large and unfunded tax cut would add significantly to the already large US budget deficit in the coming years was not sufficient to curb enthusiasm in the market and stocks rose a further 9 percent in the USA over the end of the year.

Since that time, however, a significant reversal in US stock prices occurred in the first quarter of 2018. At one point the DOW index retreated by 9 percent in the first week of February after suffering the largest intra-day fall on record of 1600 points or 7 percent. The market had finally been destabilised by statistics which suggested a significant increase in hourly labour costs in the USA, indicating a return of inflationary pressures and a potentially faster rise in US dollar interest rates than previously indicated by the Federal Reserve. Shortly thereafter, the Trump administration embarked upon a new and more aggressive trade policy threatening and even welcoming the prospect of an international trade war. This had the effect of destabilising the market further just as it had begun to recover from the falls experienced at the beginning of February. By the end of the quarter, the US equity market had fallen by 9.5 percent since the high point achieved at the end of January and the UK market had fallen by 9.0 percent reversing all of the gains achieved in 2017.

Dividend

We are pleased to recommend an increased final dividend of 5.9p per ordinary share, which together with the interim dividend makes a total payment for the year of 8.6p (2016: 8.4p) per ordinary share. This represents an increase of 2.4 percent over the previous year's total dividend and a yield of 12.3 percent based on the share price of 70p at the end of the year. The final dividend will be payable on 28 June 2018 to shareholders on the register at 25 May 2018. A dividend of 1.75p will be paid to preference shareholders resulting in a total payment for the year of 3.5p per share.

We are pleased to have been named as a ‘Dividend Hero’ by the Association of Investment Companies for the second year running as one of the 20 investment trusts which have maintained a consistent 20 year record of increasing dividends. This is obviously good news for the company and shareholders alike.

Investment Policy

We made various modifications to our published investment policy during the year which were approved by shareholders at the Annual General Meeting held on 27 June 2017. These changes were set out in detail in last year’s annual report.

Outlook

With the unprecedented run of low volatility and unabated growth in equities in 2017, we took the opportunity to take profits in some of our UK fund investments and reduce debt after having exited our fixed interest positions in the previous year.

The sustained pattern of growth in equity markets in the US and UK has now broken down and in the USA the market has now experienced two albeit brief technical corrections of 10 percent in the first 4 months of the year, perhaps presaging a possible end to the bull market which has run since 2009.

Erratic and seemingly ‘on the hoof’ policy making from the Trump administration together with the UK entering the politically difficult period of the final 12 months prior to Brexit do not bode well for strength in equity markets over the medium term, even if in the short term economic growth and corporate earnings remain firm.

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

As at 25 April 2018, our net assets had increased to £20.4 million, an increase of 31.4 percent since the beginning of the calendar year due principally to the 132.8 percent increase in the share price of Geron Corporation over this period. This is equivalent to 41.7 pence per share (prior charges deducted at par) and 58.3 pence per share on a diluted basis. Over the same period the FTSE 100 decreased 4.0 percent and the All Share Index decreased 3.8 percent.

David Seligman

27 April 2018

Managing Director's report

2017 was characterised by strong growth in equity markets, very low levels of volatility, synchronised growth in the world's major economies, good corporate earnings and continued if moderating levels of monetary stimulus provided by central banks. Equity markets in the USA and UK reached all time highs after a year of high and steady growth although the UK market was somewhat less buoyant as a steady recovery in sterling from its post-Brexit lows created a headwind for UK stocks with significant foreign earnings.

As the year progressed, doubts began to grow about the sustainability of this pattern of strong market performance against a background of increasing political risk. In the USA concerns grew that the legislative confrontation between Congress and the Trump administration and erratic policy making and management by a White House pre-occupied by the special counsel's investigations into Russian involvement in the US presidential election would derail the administration's reflationary programme of tax cuts and infrastructure investment. In the UK, the unexpected snap general election result and lack of progress on Brexit negotiations within the tight timetable had the effect of dampening growth and delaying corporate investment decisions as visibility on the UK's status post Brexit in terms of trade and investment remained unclear.

Nevertheless, markets chose to ignore these concerns, focusing instead on the arrival of the long awaited synchronised growth in major economies and strong earnings momentum. When the promised tax cuts in the USA were finally agreed in late November, equities received a further boost as it became clear that instead of benefiting middle America as originally promised during the presidential campaign, the bulk of the cuts were mainly aimed at corporate America. This also meant, however, that the general trickle down effects of the tax cuts on middle income earners and the economy in general would be less likely to occur. Corporates and their wealthier owners would be more likely to retain the windfall benefits of the cuts and therefore the increases to an already bloated US government debt caused by the tax cuts over the medium term would be less likely to be offset by increases in general economic activity.

Since the year end, equity markets have become increasingly volatile, falling back considerably from their end-January highs. This follows concerns of overheating in the USA, the potential revival of inflation and higher interest rates as the recent tax cuts give an unnecessary fiscal stimulus to an already growing economy. In addition, the Trump administration's apparent eagerness to promote an international trade war together with recent unwarranted attacks on the operations of Amazon have served to undermine further confidence in equities at this time.

Following gradual reductions in our portfolio's exposure to fixed interest and UK fund investments over the past 18 months in response to perceived over-valuations, we have reduced our modest debt position while continuing to maintain our progressive dividend policy in anticipation of a period of greater volatility in equity markets and a return to valuation levels more commensurate with the medium term background risks noted above and in the Chairman's statement.

Our main focus for the time being is on achieving our capital growth objectives through our exposure to our US biotechnology investments and our income objectives through our existing UK fund investments, capturing of special dividends and income received from group subsidiaries. As already noted, after a long period of weakness, Geron's share price has recently recovered strongly as the next and important stage in its clinical trials process in collaboration with Johnson & Johnson reaches a conclusion. Greater detail on the background to this is given below.

Geron Corporation

As set out in detail in last year's annual report, Geron Corporation is in the process of conducting clinical trials of its telomerase inhibitor drug, Imetelstat, in collaboration with its partner Johnson & Johnson in two haematological malignancies (blood cancer), Myelofibrosis (MF) and Myelodysplastic syndrome (MDS). Under the collaboration agreement entered into in 2014, Johnson & Johnson co-funds and manages these trials and will pay Geron a series of substantial milestone payments totalling US$ 1 billion as the trials proceed through the various trial stages to approval and commercialisation.

A significant stage was due to be reached in the last quarter of 2017 when interim results from the MF trial were due to be released at which time Johnson & Johnson would make a one-time decision whether to continue with the trial and trigger the next in the series of milestone payments. As noted in the Chairman's statement above, this decision point was delayed in August last year for up to a further 12 months because data released at that time in relation to median overall survival and enhanced efficacy in a subset of patients suggested further time to collect additional results would provide a more compelling set of data on which to base the eventual submission to the FDA to approve the drug for commercialisation.

Although these interim trial results announced in August were very positive for the ultimate success of the drug, the market focused more on the delay rather than the reason for the delay. The fact that the median overall survival rate had not been reached indicates more patients were surviving for longer on the drug. The fact that a subset of patients responded even more vigorously to the drug, requiring additional recruiting of such patients to confirm the outstanding result, is a further sign of the potential success and likely approval of the drug. Nevertheless, the market price of Geron fell 20 percent at this time and drifted to a low point by year end.

However, a further and very positive update of the trial was recently announced in early March this year indicating that median overall survival had still not been reached and bringing forward the Johnson & Johnson decision point to the third quarter of this year. In addition the trial was permitted to be extended by the FDA beyond its original end date to allow patients to continue benefiting from the drug.

The fact that median overall survival has still not been reached after a further six months is a significant result as it shows that Geron's drug offers MF patients significantly longer life expectancy by a factor of two or three times more than the leading alternative drug on the market, the single-product owner of which is valued at US$ 20 billion. This latest news was well received and served to re-invigorate Geron's market value, with the price climbing over 150 percent from its earlier levels after this announcement.

As previously noted, our strategy is to achieve the portfolio's growth objectives though our US investments. Geron's latest promising results and recent re-rating by the market bodes well for our continued holding of this investment. Furthermore, having been granted Fast Track status by the FDA at the end of last year, there is now also the potential for the normal trial and approval process timetable to be accelerated.

Packaged Retail and Insurance-based Investment Products (PRIIPs)

Under the EU's PRIIPs regulation, collective investment schemes, including this company as an investment trust, are required from this year to produce a Key Information Document (KID) to be published on their websites setting out various performance and cost statistics. The format and calculation of the statistics are strictly prescribed by the regulation and, particularly in respect of the performance statistics, differ significantly from the ways in which we report our financial information in our accounts. This is because the calculation required by PRIIPs of future performance using various possible scenarios is based wholly on past performance only. As market participants have pointed out, making future projections based on past performance is a potentially misleading exercise and is normally vigorously avoided. Furthermore, integral to these calculations is a projection of future dividends which, under Stock Exchange rules, has long been a basic error which listed companies have been meticulous to avoid in their reporting or presentations as such projections require formal verification in an accountant's report.

Following strong objections by participants, the FCA moved in January to relax the rule, allowing participants to include performance statistics as previously reported and with all the caveats existing and future shareholders would expect to see with regard to projections of future performance and dividends. Our treatment of the statistics under the KID is shown and explained in more detail on our website where the KID is required to be published. It is regrettable that such basic errors which flout normal listed company reporting rules were not identified and amended earlier by the regulators before being brought into effect. Prior consultation with market participants and professionals would have quickly identified the serious problems inherent in the new rules.

Markets in Financial Instruments Directive II (MiFID II)

Another area where regulators have regrettably fallen short has been in relation to the mishandled introduction at the beginning of this year of the EU's rules under MiFID II. These rules had been brought in to amend and broaden the rules of transparency in reporting and markets as implemented by the original MiFID in 2007 which had singularly failed to achieve their original objectives, in fact making markets less transparent in many ways.

The introduction of MifID II was also less than optimal as major clearing exchanges were not ready for the implementation and had to be granted wholesale and multi-year exemptions from the rules (ICE Futures Europe, London Metal Exchange and Eurex Clearing). On a participant level, MiFID II's additional regulation on trading procedures, reporting and risk has imposed such levels of administrative burden on market traders and brokers that best execution is not always achievable within an acceptable timeframe. The risk reporting procedures now required in respect of complex instruments, trading strategies or specialised market sectors such as traded options, CFD trading, short sales or even whole asset classes such as investment trusts has in some cases resulted in brokers withdrawing coverage of these instruments or practices completely from their clients.

Lastly, the new rules surrounding transparency in the cost of providing research has discouraged many firms from sourcing or providing any research to clients at all and as a result yet further barriers are placed between retail investors and their existing or prospective investments.

Altogether, this can hardly be considered an effective way of promoting transparency in markets, efficiency and competition in trading or effectiveness in investing. Once again, rules developed by EU bureaucrats without the due benefit of professional and market-based input have, in many respects, resulted in outcomes diametrically opposite to those intended.

Jonathan Woolf

27 April 2018

Income statement

For the year ended 31 December 2017

	2017			2016		
	Revenue return £ 000	Capital return £ 000	Total £ 000	Revenue return £ 000	Capital return £ 000	Total £ 000
Investment income (note 2)	2,732	-	2,732	2,263	-	2,263
Holding losses on investments at fair value through profit or loss	-	(5,249)	(5,249)	-	(4,134)	(4,134)
Losses on disposal of investments at fair value through profit or loss	-	(1,442)	(1,442)	-	(2,081)	(2,081)
Foreign exchange gains/(losses)	53	53	106	(143)	(138)	(281)
Expenses	(526)	(272)	(798)	(596)	(267)	(863)
Profit/(loss) before finance costs and tax	2,259	(6,910)	(4,651)	1,524	(6,620)	(5,096)
Finance costs	(49)	(33)	(82)	(50)	(16)	(66)
Profit/(loss) before tax	2,210	(6,943)	(4,733)	1,474	(6,636)	(5,162)
Tax	35	-	35	33	-	33
Profit/(loss) for the period	2,245	(6,943)	(4,698)	1,507	(6,636)	(5,129)
Earnings per share						
Basic – ordinary shares	7.58p	(27.77)p	(20.19)p	4.63p	(26.55)p	(21.92)p
Diluted – ordinary shares	6.41p	(19.84)p	(13.43)p	4.31p	(18.96)p	(14.65)p

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

The total column of this statement represents the Income Statement, prepared in accordance with IFRS. The supplementary revenue return and capital return columns are both prepared under guidance published by the Association of Investment Companies. All items in the above statement derive from continuing operations.

All profit and total comprehensive income is attributable to the equity holders of the company.

Statement of changes in equity

For the year ended 31 December 2017

	Share capital	Capital reserve	Retained earnings	Total
	£ 000	£ 000	£ 000	£ 000
Balance at 31 December 2015	35,000	(7,588)	2,799	30,211
Changes in equity for 2016				
(Loss)/profit for the period	-	(6,636)	1,507	(5,129)
Ordinary dividend paid (note 4)	-	-	(2,050)	(2,050)
Preference dividend paid (note 4)	-	-	(350)	(350)
Balance at 31 December 2016	35,000	(14,224)	1,906	22,682
Changes in equity for 2017				
Profit/(loss) for the period	-	(6,943)	2,245	(4,698)
Ordinary dividend paid (note 4)	-	-	(2,100)	(2,100)
Preference dividend paid (note 4)	-	-	(350)	(350)
Balance at 31 December 2017	35,000	(21,167)	1,701	15,534

Registered number: 00433137

Balance Sheet

For the year ended 31 December 2017

	2017	2016
	£ 000	£ 000
Non-current assets		
Investments - fair value through profit or loss	15,565	23,654
Subsidiaries - fair value through profit or loss	5,277	6,058
	20,842	29,712
Current assets		
Receivables	2,399	1,469
Cash and cash equivalents	2,213	423
	4,612	1,892
Total assets	25,454	31,604
Current liabilities		
Trade and other payables	1,010	1,000
Bank loan	4,244	3,490
	(5,254)	(4,490)
Total assets less current liabilities	20,200	27,114
Non - current liabilities	(4,666)	(4,432)
Net assets	15,534	22,682
Equity attributable to equity holders		
Ordinary share capital	25,000	25,000
Convertible preference share capital	10,000	10,000
Capital reserve	(21,167)	(14,224)
Retained revenue earnings	1,701	1,906
Total equity	15,534	22,682

Approved: 27 April 2018

Cash flow statement

For the year ended 31 December 2017

	Year ended 2017 £ 000	Year ended 2016 £ 000
Cash flows from operating activities		
Loss before tax	(4,733)	(5,162)
Adjustments for:		
Losses on investments	6,691	6,215
Scrip dividends	-	(4)
Proceeds on disposal of investments at fair value through profit and loss	13,867	31,918
Purchases of investments at fair value through profit and loss	(11,570)	(23,689)
Finance costs	82	66
Operating cash flows before movements in working capital	4,337	9,344
(Increase)/decrease in receivables	(780)	174
Increase/(decrease) in payables	4	(8,138)
Net cash from operating activities before interest	3,561	1,380
Interest paid	(75)	(52)
Net cash from operating activities	3,486	1,328
Cash flows from financing activities		
Dividends paid on ordinary shares	(2,100)	(2,050)
Dividends paid on preference shares	(350)	(350)
Bank loan	754	1,151
Net cash used in financing activities	(1,696)	(1,249)
Net increase in cash and cash equivalents	1,790	79
Cash and cash equivalents at beginning of year	423	344
Cash and cash equivalents at end of year	2,213	423

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

1 Basis of preparation and going concern

The financial information set out above contains the financial information of the company for the year ended 31 December 2017. The company has prepared its financial statements under IFRS. The financial statements have been prepared on a going concern basis adopting the historical cost convention except for the measurement at fair value of investments, derivative financial instruments and subsidiaries.

The information for the year ended 31 December 2017 is an extract from the statutory accounts to that date. Statutory company accounts for 2016, which were prepared under IFRS as adopted by the EU, have been delivered to the registrar of companies and company statutory accounts for 2017, prepared under IFRS as adopted by the EU, will be delivered in due course.

The auditors have reported on the 31 December 2017 year end accounts and their reports were unqualified and did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

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

2 Income

	2017 £ 000	2016 £ 000
Income from investments		
UK dividends	2,260	1,951
Overseas dividends	44	214
Scrip and in specie dividends	-	4
Dividend from subsidiary	400	-
Interest on fixed income securities	3	70
	2,707	2,239
Other income	25	24
Total income	2,732	2,263
Total income comprises:		
Dividends	2,704	2,169
Interest	3	70
Other interest	25	24
	2,732	2,263
Dividends from investments		
Listed investments	2,304	2,169
Unlisted investments	400	-
	2,704	2,169

Of the £2,304,000 (2016 – £2,169,000) dividends received, £1,891,000 (2016 – £1,693,000) related to special and other dividends received from investee companies that were bought after the dividend announcement. There was a corresponding capital loss of £1,949,000 (2016 – £1,976,000), on these investments.

Under IFRS 10 the income analysis is for the parent company only rather than that of the consolidated group. Thus film revenues of £101,000 (2016 – £85,000) received by the subsidiary British and American Films Limited and property unit trust income of £15,000 (2016 – £15,000) received by the subsidiary BritAm Investments Limited are shown separately in this paragraph.

3 Earnings per ordinary share

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

	2017			2016		
	Revenue return	Capital return	Total	Revenue return	Capital return	Total
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Earnings:						
Basic	1,895	(6,943)	(5,048)	1,157	(6,636)	(5,479)
Preference dividend	350	-	350	350	-	350
Diluted	2,245	(6,943)	(4,698)	1,507	(6,636)	(5,129)

Basic revenue, capital and total return per ordinary share is based on the net revenue, capital and total return for the period after tax and after deduction of dividends in respect of preference shares and on 25 million (2016: 25 million) ordinary shares in issue.

The diluted revenue, capital and total return is based on the net revenue, capital and total return for the period after tax and on 35 million (2016: 35 million) ordinary and preference shares in issue.

4 Dividends

	2017 £ 000	2016 £ 000
Amounts recognised as distributions to equity holders in the period:		
Dividends on ordinary shares:		
Final dividend for the year ended 31 December 2016 of 5.7p (2015:5.5p) per share	1,425	1,375
Interim dividend for the year ended 31 December 2017 of 2.7p (2016:2.7p) per share	675	675
	2,100	2,050
Proposed final dividend for the year ended 31 December 2017 of 5.9p (2016:5.7p) per share	1,475	1,425
Dividends on 3.5% cumulative convertible preference shares:		
Preference dividend for the 6 months ended 31 December 2016 of 1.75p (2015:1.75p) per share	175	175
Preference dividend for the 6 months ended 30 June 2017 of 1.75p (2016:1.75p) per share	175	175
	350	350
Proposed preference dividend for the 6 months ended 31 December 2017 of 1.75p (2016:1.75p) per share	175	175

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements in accordance with IFRS.

We have set out below the total dividend payable in respect of the financial year, which is the basis on which the retention requirements of Section 1158 of the Corporation Tax Act 2010 are considered.

Dividends proposed for the period

	2017 £ 000	2016 £ 000
Dividends on ordinary shares:		
Interim dividend for the year ended 31 December 2017 of 2.7p (2016:2.7p) per share	675	675
Proposed final dividend for the year ended 31 December 2017 of 5.9p (2016:5.7p) per share	1,475	1,425
	2,150	2,100
Dividends on 3.5% cumulative convertible preference shares:		
Preference dividend for the year ended 31 December 2017 of 1.75p (2016:1.75p) per share	175	175
Proposed preference dividend for the year ended 31 December 2017 of 1.75p (2016:1.75p) per share	175	175
	350	350

5 Net asset values

	Net asset value per share 2017 £	2016 £	Net asset attributable 2017 £ 000	2016 £ 000
Ordinary shares				
Undiluted	0.22	0.51	5,534	12,682
Diluted	0.44	0.65	15,534	22,682

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

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

Principal risks and uncertainties

The principal risks facing the company relate to its investment activities and include market risk (other price risk, interest rate risk and currency risk), liquidity risk and credit risk. The other principal risks to the company are loss of investment trust status and operational risk. These will be explained in more detail in the notes to the 2017 Annual Report and Accounts, but remain unchanged from those published in the 2016 Annual Report and Accounts.

Related party transactions

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

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

During the year the company had no investment transactions to sell stock (2016 - £163,497) to BritAm Investments Limited.

During the year the company entered into an investment transaction with Geminion Investments Limited, a company in which Mr J C Woolf has an interest and is a director. The purpose of this transaction, which was conducted through a London Stock Exchange broker, was for the company to purchase a cum dividend stock and sell the stock ex dividend so as to capture the associated dividend as disclosed in Note 2 of the financial statements to generate distributable reserves to achieve the company's objective to sustain a progressive dividend policy. The aggregate value of this transaction was purchases of £6,055,000 (31 December 2016 – £20,788,000), dividend received of £639,000 (31 December 2016 – £1,484,000) and sales of £5,377,000 (31 December 2016 – £19,017,000) giving a net loss of £39,000 (31 December 2016 – £287,000 loss). At the year end the amount of £45,000 (2016 - £82,829 due from) was due to Geminion investments Limited.

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

Capital Structure

The company's capital comprises £35,000,000 (2016 – £35,000,000) being 25,000,000 ordinary shares of £1 (2016 – 25,000,000) and 10,000,000 non-voting convertible preference shares of £1 each (2016 – 10,000,000). The rights attaching to the shares will be explained in more detail in the notes to the 2017 Annual Report and Accounts, but remain unchanged from those published in the 2016 Annual Report and Accounts.

Directors' responsibility statement

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations. The directors confirm that to the best of their knowledge the financial statements prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and the (loss)/profit of the company and that the Chairman's Statement, Managing Director's Report and the Directors' report include a fair review of the information required by rules 4.1.8R to 4.2.11R of the FSA's Disclosure and Transparency Rules, together with a description of the principal risks and uncertainties that the company faces.

Annual General Meeting

This year's Annual General Meeting has been convened for Wednesday 27 June 2018 at 12.15pm at Wessex House, 1 Chesham Street, London SW1X 8ND.