British & American Investment Trust PLC

Report and accounts

31 December 2003

British & American Investment Trust PLC

Annual Report and Accounts

for the year ended 31 December 2003

Registered number: 433137

Contents

Directors and officials

Directors
Jonathan C Woolf (Chairman and Managing Director)
J Anthony V Townsend (Senior Non-executive)
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

Solicitors
Eversheds LLP
Senator House
85 Queen Victoria Street
London EC4V 4JL

Biographical details of directors and investment policy

Chairman and Managing Director

Jonathan C Woolf

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

Senior Independent Non Executive

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, three Finsbury investment trusts and two other investment trust companies.

Non Executive

Dominic G Dreyfus

Formerly a director BCI Soditic Trade Finance Ltd, managing director 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 Legal Panel 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.

Notice of meeting

NOTICE IS HEREBY GIVEN THAT the fifty-sixth Annual General Meeting of the company will be held at Wessex House, 1 Chesham Street, London SW1X 8ND on Thursday 24 June 2004 at 12.15pm for the following purposes:

1 To receive and consider the directors' report and group accounts for the year ended 31 December 2003 and the report of the auditors thereon.

2 To re-elect Mr JC Woolf as a director.

3 To approve the directors' remuneration report.

4 To approve aggregate non-executive directors fees not exceeding £45,000 per annum with effect from 1 January 2003.

5 To declare a final dividend of 3p 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.

By order of the board

KJ Williams
Secretary
26 April 2004

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.

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

Chairman's statement

I report our results for the year ended 31 December 2003.

The return on the revenue account before tax amounted to £1.7 million (2002: £1.5 million). Gross income amounted to £2.0 million (2002: £1.8 million), of which £1.8 million (2002: £1.5 million) represented income from investments and £0.2 million (2002: £0.3 million) from film and other income.

Total return before tax, including realised and unrealised capital appreciation, amounted to £6.1 million (2002: £8.2 million, loss).

The return on the revenue account per ordinary share was 5.2p (2002: 3.5p) on an undiluted basis and 4.7p (2002: 3.5p) on a diluted basis.

Group net assets were £33.2 million (2002: £28.8 million), an increase of 15.3 percent. This compares to an increase over the same period of 13.6 percent in the FT-SE 100 share index and 16.6 percent in the All Share index. The net asset value per ordinary share increased to 95p (2002: 82p) on a diluted basis. Deducting prior charges at par, the net asset value per ordinary share increased to 93p (2002: 75p).

We are pleased to recommend a final dividend of 3.0p per ordinary share. Together with the interim dividend this makes a total payment for the year of 5.0p (2002: 4.9p) per Ordinary share, representing an increase of 2.0 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.

As reported at the interim stage, UK markets were flat in the first half of 2003, having declined sharply in the first quarter but having recovered in the second quarter. In the second half of 2003, UK and US markets strengthened considerably across all sectors as global political uncertainties receded, monetary policy remained loose and higher corporate earnings were posted, particularly in the USA. The US market advanced 16 percent in this period while the index of leading stocks in the UK advanced 11.6 percent. As a result, UK markets were able to finish the year with positive nominal advances for the first time in three years. This recovery in prices over the year was broadly based and this contributed to the out-performance over the year of the All Share index over the index of leading companies, as noted above.

Our portfolio kept track with the rise in the UK market over the year, being positioned mid-way between the outcome for leading and All Share stocks. 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. It is heartening to see that the cycle of decline in equity prices was broken in 2003 and that our net asset value has since regained par; however, considerable further recovery is required before capital values return to the levels achieved prior to the commencement of this cycle.

In the first quarter of 2004, sentiment has remained generally firm with earnings upgrades continuing to underpin the market, although the advances which had been seen in the second half of 2003 were not carried through into the new year. Renewed political uncertainties in the world and concerns over the growing imbalances in the US economy have served to dampen enthusiasm despite the continuing strength in the corporate sector and its outlook. Against this background, we will continue to pursue our generalist investment policy remaining invested in leading stocks with good yield.

As at 20 April 2004, group net assets had increased to £35.0 million (net of the recommended final ordinary dividend, equivalent to 3p per ordinary share, and preference dividend, payable in June), an increase of 5.1 percent since the beginning of the calendar year. This is equivalent to 100 pence per share (prior charges deducted at par) and 100 pence per share on a diluted basis. Over the same period the FTSE 100 increased 2.1 percent and the All Share Index increased 3.2 percent.

Jonathan C. Woolf

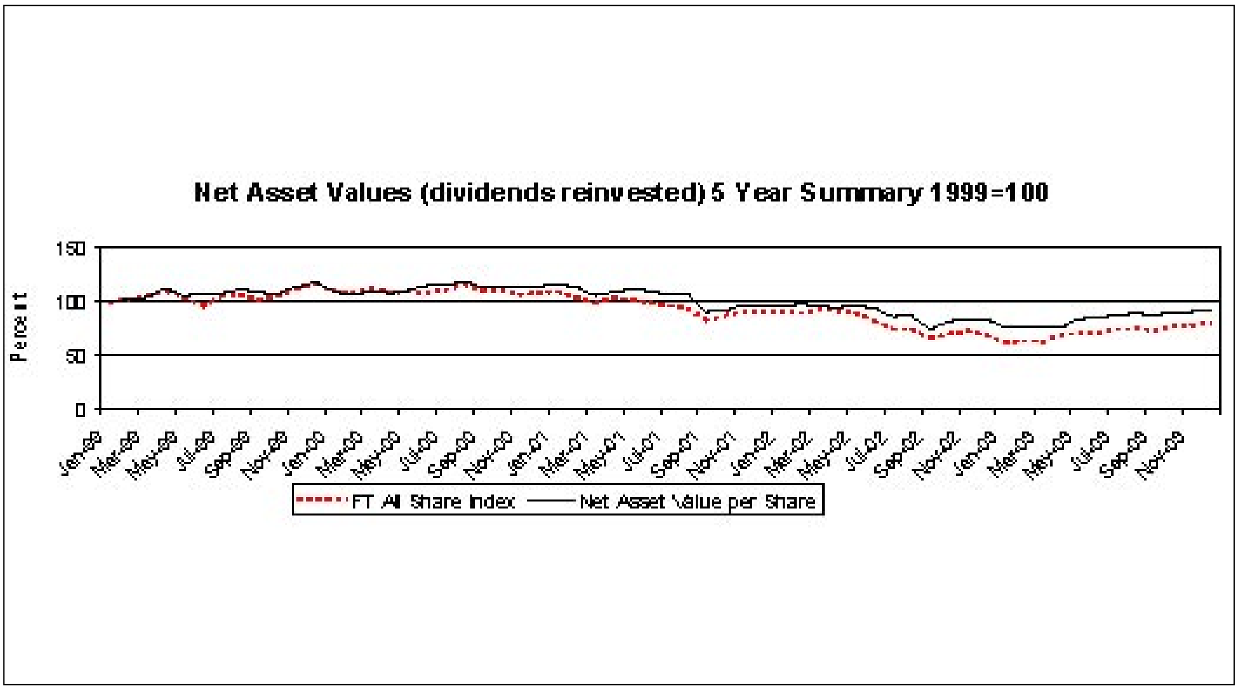
Financial highlights

For the year ended 31 December 2003

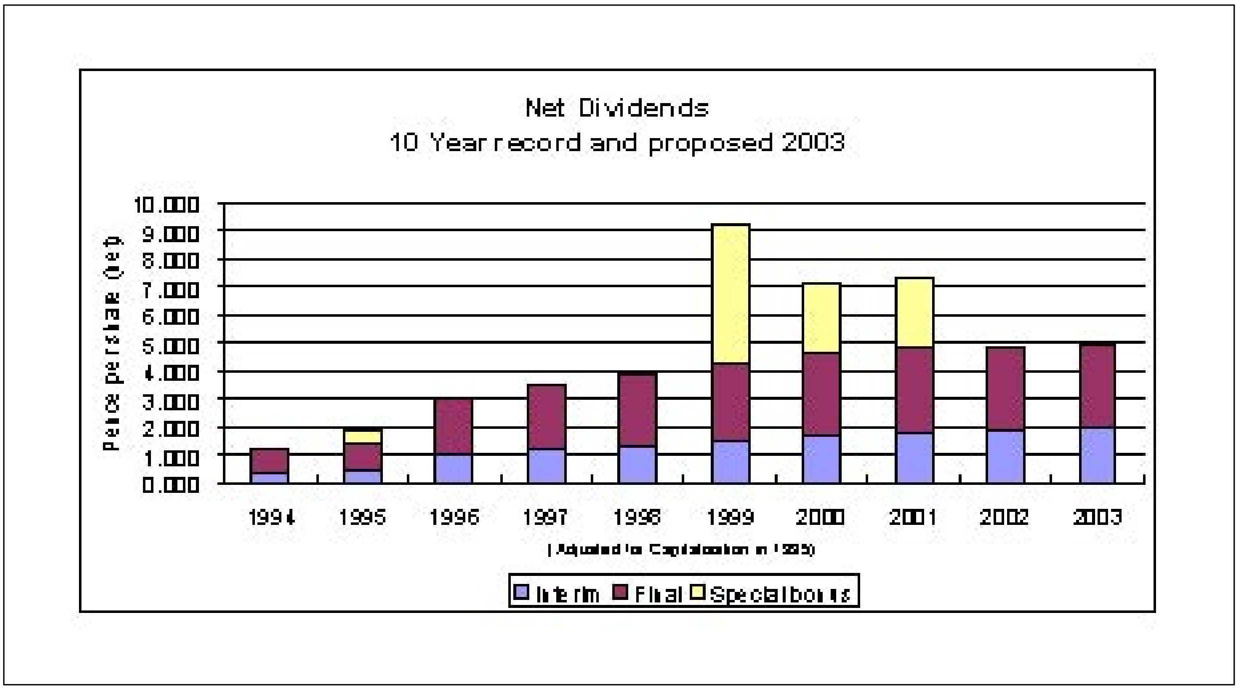
	2003			2002		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Return before taxation	1,653	4,458	6,111	1,476	(9,719)	(8,243)
Earnings per £1 ordinary share – basic	5.18p	17.83p	23.01p	3.54p	(38.88)p	(35.34)p
Earnings per £1 ordinary share – diluted	4.70p	12.74p	17.44p	3.52p	(27.76)p	(24.24)p
Net asset value			33,244			28,742
Net assets per ordinary share						
– deducting preference shares at par			93p			75p
– diluted			95p			82p
Diluted net asset value per ordinary share at 20 April 2004 – unaudited (net of recommended final ordinary dividend of 3p per share and preference dividend of 1.75p per share).			100p			

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		
	20 April 2004 unaudited £000	31 December 2003 £000	31 December 2002 £000
Investment Trusts (equities)	16,674	15,965	13,328
Life Assurance	3,818	3,859	3,578
Banks retail	725	672	156
Leisure and hotels	354	347	305
Property	4,571	4,398	4,093
Convertibles	34	34	–
Debentures and Loan Stocks	980	969	967
Unit trusts	1,111	1,077	865
Preference shares	750	747	971
Biotechnology	20	10	–
Insurance	–	–	633
Telecommunications	206	190	147
Media	907	792	287
Software and computer services	179	197	105
Breweries, pubs and restaurants	311	895	589
Transport	82	86	62
Other Financial	82	73	–
Retailers – general	–	–	286
Retailers – food	–	–	53
Overseas	580	350	66
Information technologies	139	94	9
Engineering	–	–	88
Support services	81	–	78
Pharmaceuticals and healthcare	15	21	23
Water	–	136	145
Listed investments	31,619	30,912	26,834
Unlisted investments	1,570	1,570	1,570
Total portfolio	33,189	32,482	28,404
Balances at banks and stockbrokers	2,390	1,581	1,444
	35,579	34,063	29,848

Group investment portfolio

At 31 December 2003

Company	Nature of business	Valuation £000	% of Portfolio
Liberty International Holdings	Property	4,163	12.81
Prudential Corporation	Life Assurance	3,780	11.64
Alliance Trust	Investment Trust	2,153	6.63
RIT Capital Partners – Ordinary	Investment Trust	2,005	6.17
Securities Trust of Scotland	Investment Trust	1,927	5.93
Dunedin Income Growth	Investment Trust	1,742	5.36
Electra Investment Trust	Investment Trust	1,688	5.20
British Assets Trust	Investment Trust	1,552	4.78
Matrix Chatham Maritime EZT	Enterprise Zone Trust	1,250	3.85
St James's Place International Unit Trust	Unit Trust	974	3.00
Murray International Trust	Investment Trust	776	2.39
Lloyds TSB	Bank Retail	672	2.07
Mitchells & Butler - Ordinary	Leisure, Entertainment and Hotels	631	1.94
Scottish & American Investment Co.	Investment Trust	597	1.84
Rothschild Continuation Finance – Loan Notes	Debentures and Loan Stocks	462	1.42
Shires Income	Investment Trust	461	1.42
Invesco Income Growth Trust	Investment Trust	458	1.41
The Throgmorton Trust	Investment Trust	444	1.37
Royal & Sun Alliance Insurance Group plc	Preference shares	392	1.21
United Business Media plc	Media	375	1.15
20 Largest investments		26,502	81.59
Other investments (number of holdings : 72)		5,980	18.41
Total investments		32,482	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 2003, 13.8% 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, Alliance Trust and RIT

Capital Partners fall into this category of investments as they have not specifically announced a policy to restrict their own investments to no more than 15% of gross assets.

Financial statements
The financial statements will be presented for approval at the fifty-sixth Annual General Meeting of the company to be held on Thursday 24 June 2004.

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 2003.

Future prospects
The future prospects of the company are explained in the Chairman's Statement on pages 4 and 5.

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	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 information on movements on investments since the year end is included on page 8.

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 2002. The company has since directed its affairs to enable it to continue to seek approval.

Results and dividends

The directors set out below the results and dividends for the year ended 31 December 2003.

	Revenue £000	Capital £000	Total £000
Return for the financial year before taxation	1,653	4,458	6,111
Tax	(9)	–	(9)
Return for the financial year after taxation	1,644	4,458	6,102

Dividends	Pence per share	£000	
Interim per £1 ordinary share (paid 13 November 2003)	2.00	500	
3.5% preference shares paid	1.75	175	
Final proposed per £1 ordinary share – proposed	3.00	750	
3.5% preference shares – proposed	1.75	175	
			(1,600)
Transfer from other reserves – other recognised losses			(4,458)
Transferred to revenue reserve			44

The dividends proposed above will be paid on 30 June 2004 to ordinary shareholders on the register at 28 May 2004 and to 3.5% preference shareholders on the register at 31 December 2003.

Directors and their interests

The present directors of the company are as set out on page 1. The director retiring by rotation is Mr JC Woolf who, being eligible, offers himself for re-election. 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 themselves for re-election.

The directors during the year ended 31 December 2003 had interests in the shares of the company as follows:

	2003		2002	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
Ordinary shares of £1				
JC Woolf	1,380,812	14,851,562	–	14,851,562
DG Dreyfus	5,000	–	5,000	–
JAV Townsend	–	–	–	–
RG Paterson	–	–	–	–
Non voting convertible preference shares of £1 each				
JC Woolf	–	10,000,000	–	10,000,000

Directors and their interests (continued)

Included in the non-beneficial interest in the ordinary shares of £1 each referred to above, are 6,902,812 (27.6%) (2002 – 6,902,812 (27.6%)) ordinary shares held by Romulus Films Ltd, 7,868,750 (31.5%) (2002 – 7,868,750 (31.5%)) ordinary shares held by Remus Films Ltd and 80,000 (0.32%) (2002 – 80,000 (0.32%)) ordinary shares held by PKL Pictures Limited. Romulus Films Ltd also holds 10,000,000 cumulative convertible preference shares (2002 – 10,000,000). Mediterranean Holdings Ltd has also notified an interest in all the holdings of Romulus Films Ltd and Remus Films Ltd.

During the year the beneficial interest formerly belonging to the estate of Sir John Woolf was transferred to JC Woolf.

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 chief executive director have been combined. In the opinion of the directors this is acceptable given the size of the company and the strong and independent non-executive element of the board. The senior independent director is JAV Townsend.

Other information

In addition to the directors' interests in shares detailed above, at 26 April 2004 the directors had been notified of the following interests in excess of 3% of either class.

	Number of shares held	%
Quilter & Co Managed Funds	2,144,000	8.6
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.

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.

The board confirms that, except where stated on page 35, throughout the period of this report the company has complied with the provisions of the Combined Code. The one area of non-compliance is that separate performance-related elements do not form a substantial part of the total remuneration package of executive directors (explained on page 38).

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.

On 1 August 2003, Deloitte & Touche, the company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of s26(5) of the Companies Act 1989.

Audit Committee

There is an audit committee, consisting of the whole board, which is chaired by DG Dreyfus.

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

Jonathan C Woolf
Managing Director

Wessex House
1 Chesham Street
London
SW1X 8ND

26 April 2004

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 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 2003 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 seven provisions of the 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.

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 2003 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

26 April 2004

Consolidated statement of total return (incorporating the revenue account)

For the year ended 31 December 2003

	Notes	2003 Revenue £000	2003 Capital £000	2003 Total £000	2002 Revenue £000	2002 Capital £000	2002 Total £000
Income	2	2,013	–	2,013	1,819	–	1,819
Realised gains on investments	10	–	508	508	–	726	726
Increase/(decrease) in unrealised appreciation	10	–	3,950	3,950	–	(10,445)	(10,445)
Administrative expenses	3	(330)	–	(330)	(331)	–	(331)
Net return before finance costs and taxation		1,683	4,458	6,141	1,488	(9,719)	(8,231)
Interest payable and similar charges	6	(30)	–	(30)	(12)	–	(12)
Return on ordinary activities before tax for the financial year		1,653	4,458	6,111	1,476	(9,719)	(8,243)
Tax on ordinary activities	7	(9)	–	(9)	(242)	–	(242)
Return on ordinary activities after tax for the financial year		1,644	4,458	6,102	1,234	(9,719)	(8,485)
Dividends and other appropriations in respect of preference shares	8	(350)	–	(350)	(350)	–	(350)
Return attributable to ordinary shareholders		1,294	4,458	5,752	884	(9,719)	(8,835)
Dividends in respect of ordinary shares	8	(1,250)	–	(1,250)	(1,225)	–	(1,225)
Transfer to/(from) reserves		44	4,458	4,502	(341)	(9,719)	(10,060)
Return per ordinary share							
Basic	9	5.18p	17.83p	23.01p	3.54p	(38.88)p	(35.34)p
Diluted	9	4.70p	12.74p	17.44p	3.52p	(27.76)p	(24.24)p

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 2003 and the year ended 31 December 2002 derive from continuing operations. No operations were acquired in the year.

Balance sheets

31 December 2003

	Notes	Group		Company	
		2003	2002	2003	2002
		£000	£000	£000	£000
Fixed assets					
Investments	10	32,482	28,404	34,826	30,440
Current assets					
Debtors	13	162	323	312	261
Cash at bank and in hand		1,581	1,794	1,138	1,242
		1,743	2,117	1,450	1,503
Creditors: amounts falling due within one year	14	(981)	(1,779)	(968)	(1,460)
Net current assets		762	338	482	43
Total assets less current liabilities		33,244	28,742	35,308	30,483
Provisions for liabilities and charges	15	–	–	(1,982)	(1,655)
Net assets		33,244	28,742	33,326	28,828
Capital and reserves					
Called-up share capital	16	35,000	35,000	35,000	35,000
Other reserves					
– Capital reserve – realised	17	14,824	14,309	2,612	2,528
– Capital reserve – unrealised	17	(18,396)	(22,339)	(4,329)	(8,713)
Revenue reserve	17	1,816	1,772	43	13
Total shareholders' funds	18	33,244	28,742	33,326	28,828
Total shareholders' funds attributable to:					
Equity shareholders		23,244	18,742	23,326	18,828
Preference shareholders		10,000	10,000	10,000	10,000
Net asset value per ordinary share:	19				
– Basic		93p	75p		
– Diluted		95p	82p		

The financial statements on pages 17 to 38 were approved by the board of directors on 26 April 2004.

Jonathan C Woolf
Managing Director

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

Consolidated cash flow statement

For the year ended 31 December 2003

	Notes	2003 £000	2003 £000	2002 £000	2002 £000
Net cash inflow from operating activities	21		1,726		1,444
Servicing of finance					
Interest paid		(30)		(13)	
Preference dividends paid		(350)		(350)	
Net cash outflow from servicing of finance			(380)		(363)
Taxation					
UK tax (paid)/recovered			(267)		21
Financial investment					
Purchases of investments		(4,605)		(2,438)	
Sales of investments		4,563		4,665	
Net cash (outflow)/inflow from capital expenditure and financial investment			(42)		2,227
Equity dividends paid			(1,250)		(1,850)
Cash (outflow)/inflow before management of liquid resources and financing			(213)		1,479
Financing			–		–
(Decrease)/increase in cash			(213)		1,479
Reconciliation of net cash flow to movement in net funds					
(Decrease)/increase in cash		(213)		1,479	
Change in net funds			(213)		1,479
Net funds at 1 January			1,794		315
Net funds at 31 December	20		1,581		1,794

The accompanying notes are an integral part of this statement.

Notes to the financial statements
31 December 2003

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 2003.

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 £1,630,042 (2002 – £1,576,831).

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 index 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 (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.

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

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.

2 Income

Income from investments	2003 £000	2002 £000
Franked investment income	1,593	1,243
Overseas dividends	51	100
Scrip dividends	3	3
Other	187	194
	1,834	1,540
Other income		
Film revenues	154	243
Deposit interest	37	38
Other	(12)	(2)
	179	279
Total income	2,013	1,819
Total income comprises:		
Dividends	1,648	1,345
Interest	121	128
Film revenues	154	243
Property unit trust income	102	103
Tax supplement	–	2
Loss on foreign exchange	(12)	(2)
	2,013	1,819
Income from investments:		
Listed UK	1,681	1,337
Listed overseas	51	100
Unlisted UK	102	103
	1,834	1,540

3 Administrative expenses

	2003 £000	2002 £000
Staff costs – including directors (Notes 4 and 5)	244	222
Auditors' remuneration for:		
– audit	33	29
– other services to the company and its subsidiaries	19	11
Other	19	57
Irrecoverable VAT	15	12
	330	331

4 Directors' remuneration

	2003 £000	2002 £000
Fees:		
D G Dreyfus	11	10
J A V Townsend	11	10
R G Paterson	11	10
Salaries:		
J C Woolf	35	33
	68	63

Included in the non - executives' £11,000 fee is £1,000 recharged to subsidiaries (2002 - nil). 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

	2003 £000	2002 £000
Wages and salaries	222	187
Social security costs	7	18
Pensions and post-retirement benefits	15	17
	244	222

5 Directors and staff costs (continued)

The average number of persons (including directors) employed during the year was 8 (2002 – 8).

	2003 Number	2002 Number
Investment	2	2
Administration	6	6
	8	8

6 Interest payable and similar charges

	2003 £000	2002 £000
On bank overdraft facility	–	12
On overdue corporation tax	30	–
	30	12

7 Tax on ordinary activities

Analysis of tax charge on ordinary activities	2003 £000	2002 £000
United Kingdom corporation tax at 30% (2002 – 30%) based on the profit for the period	–	(32)
Adjustment in respect of prior periods	(14)	(242)
Double taxation relief	3	9
	(11)	(265)
Foreign taxation for current period	(3)	(9)
	(14)	(274)
Deferred taxation		
Timing differences, origination and reversal	–	(195)
Adjustment to the estimated recoverable amounts of deferred taxation assets arising in previous periods	–	212
Adjustment in respect of prior periods	5	15
	(9)	(242)

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% (2002 – 30%). The differences are explained below:

Factors affecting tax charge for the current period	2003	2002
	£000	£000
Profit on ordinary activities before tax	1,653	1,476
Tax at 30% thereon	(496)	(443)
Effects of:		
Capital allowance in excess of depreciation	13	4
Utilisation of tax losses	(2)	195
Movement in short term timing differences	–	2
UK dividend income	479	373
Capital gains	6	(153)
Prior period adjustments	(14)	(252)
	(14)	(274)

8 Dividends

	2003	2002
	£000	£000
Dividends on ordinary shares:		
Interim paid of 2.0p per £1 share (2002 – 1.9p per share)	500	475
Final proposed of 3.0p per £1 share (2002 – 3.0p per share)	750	750
	1,250	1,225
Dividends on 3.5% cumulative convertible preference shares:		
1.75p paid	175	175
1.75p payable	175	175
	350	350

The dividends on ordinary shares are based on 25,000,000 (2002 – 25,000,000) ordinary £1 shares in the year to 31 December 2003. Dividends on preference shares are based on 10,000,000 (2002 – 10,000,000) non-voting 3.5% cumulative convertible preference shares of £1 in the year to 31 December 2003.

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.

9 Return per ordinary share

	2003			2002		
	Revenue	Capital	Total	Revenue	Capital	Total
Group:						
Basic	5.18p	17.83p	23.01p	3.54p	(38.88)p	(35.34)p
Diluted	4.70p	12.74p	17.44p	3.52p	(27.76)p	(24.24)p

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 £1,294,000 (2002 – £884,000) and on 25 million (2002 – 25 million) ordinary shares in issue.

The diluted revenue return is based on the net revenue on ordinary activities after taxation of £1,644,000 (2002 - £1,234,000) and on 35 million (2002 - 35 million) shares in issue.

Basic capital return per ordinary share is based on capital gains/(losses), both realised and unrealised, for the financial year of £ 4,458,000 (2002 – capital losses – £(9,719,000)) and on 25 million (2002 – 25 million) ordinary shares in issue.

The diluted capital return per share is based on the same aggregate return but on 35 million (2002 – 35 million) shares in issue.

10 Investments at valuation

	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Investments listed on a recognised investment exchange	30,912	26,834	30,095	26,143
Unlisted investments				
– Subsidiary undertakings (Note 11)	–	–	4,731	4,297
– Property units	1,570	1,570	–	–
– Unlisted shares	–	–	–	–
	32,482	28,404	34,826	30,440

The potential taxation liability in subsidiary undertakings in respect of unrealised capital appreciation on which deferred taxation has not been provided at 31 December 2003 is estimated at £27,000 (2002 - £nil).

10 Investments at valuation (continued)

Group:	Listed in UK £000	Listed overseas £000	Unlisted UK £000	Property Units £000	Total £000
Opening book cost	22,008	134	–	1,570	23,712
Opening unrealised appreciation	4,800	(108)	–	–	4,692
Opening valuation	26,808	26	–	1,570	28,404
Movements in the year:					
Purchases at cost	3,915	268	–	–	4,183
Transfers	(33)	–	33	–	–
Sales – proceeds	(4,563)	–	–	–	(4,563)
– realised gains on sales	508	–	–	–	508
Increase/(decrease) in unrealised appreciation	3,985	(2)	(33)	–	3,950
Closing valuation	30,620	292	–	1,570	32,482
Closing book cost	17,957	402	3,918	1,570	23,847
Closing unrealised appreciation	12,663	(110)	(3,918)	–	8,635
	30,620	292	–	1,570	32,482

Company:	Listed in UK £000	Listed overseas £000	Unlisted UK £000	Total £000
Opening book cost	32,087	134	6,948	39,169
Opening unrealised appreciation	(5,970)	(108)	(2,651)	(8,729)
Opening valuation	26,117	26	4,297	30,440
Movements in the year:				
Purchases at cost	3,794	268	–	4,062
Transfers	(32)	–	32	–
Sale – proceeds	(4,471)	–	–	(4,471)
– realised gains on sales	495	–	–	495
Increase/(decrease) in unrealised appreciation	3,900	(2)	402	4,300
Closing valuation	29,803	292	4,731	34,826
Closing book cost	28,228	402	10,540	39,170
Closing unrealised appreciation	1,575	(110)	(5,809)	(4,344)
	29,803	292	4,731	34,826

11 Subsidiary undertakings

The company has investments in the following subsidiary undertakings:

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

British and American Investments, 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 companies 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	0.17%	0.17%
Prudential Corporation plc	Great Britain	Ordinary	0.04%	0.04%

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	
	2003 £000	2002 £000	2003 £000	2002 £000
Amounts due from brokers	–	75	–	1
Amount owed by subsidiary undertakings	–	–	130	111
Income tax and ACT recoverable	14	95	9	2
Deferred taxation	31	35	–	–
Group relief receivable	–	–	68	38
Prepayments and accrued income	45	42	45	42
Other debtors	72	76	60	67
	162	323	312	261

14 Creditors

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Amounts due to brokers	–	426	–	426
Trade creditors	6	2	–	–
Amounts due to subsidiaries	–	–	–	32
Corporation tax payable	–	345	–	–
Group relief payable	–	–	–	2
Other taxes and social security	3	3	3	3
Other creditors	12	14	12	14
Accruals and deferred income	35	47	28	41
Amounts due to related parties	–	17	–	17
Dividends proposed and payable	925	925	925	925
	981	1,779	968	1,460

15 Provisions for liabilities and charges

	Company	
	2003	2002
	£000	£000
Guarantee of subsidiary liability	1,982	1,655
	1,982	1,655

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

	2003	2002
	£000	£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
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
	35,000	35,000

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			
Beginning of year	14,309	(22,339)	1,772
Revenue return after dividends for the year	–	–	44
Transfer between realised and unrealised capital reserves	7	(7)	–
Increase in unrealised appreciation	–	3,950	–
Gain on realisation of investments	508	–	–
End of year	14,824	(18,396)	1,816
Company			
Beginning of year	2,528	(8,713)	13
Revenue return after dividends for the year	–	–	30
Transfer between realised and unrealised capital reserves	(84)	84	–
Increase in unrealised appreciation	–	4,300	–
Realised loss on guarantee	(327)	–	–
Gain on realisation of investments	495	–	–
End of year	2,612	(4,329)	43

18 Reconciliation of movements in shareholders' funds

	Group	
	2003	2002
	£000	£000
Revenue return for the financial year	1,644	1,234
Dividends and other appropriations	(1,600)	(1,575)
	44	(341)
Recognised capital gains/(losses) relating to the year	4,458	(9,719)
Net increase/(reduction) in shareholders' funds	4,502	(10,060)
Opening shareholders' funds	28,742	38,802
Closing shareholders' funds	33,244	28,742

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	
	2003	2002	2003	2002
	Pence	Pence	£000	£000
Attributable to ordinary shareholders	93	75	23,244	18,742
Attributable to preference shareholders			10,000	10,000
Attributable to ordinary and preference shareholders	95	82	33,244	28,742

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	18,742	10,000	28,742
Total recognised gains	5,752	350	6,102
Ordinary dividends appropriated	(1,250)	–	(1,250)
Preference dividends appropriated	–	(350)	(350)
	23,244	10,000	33,244

20 Analysis of net funds

	Balance 1 January 2003 £000	Cash flow £000	Balance 31 December 2003 £000
Cash at bank	1,794	(955)	839
Liquid resources – cash at brokers	–	742	742
	1,794	(213)	1,581

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

	Group	
	2003 £000	2002 £000
Net revenue before finance costs and taxation	1,683	1,488
Scrip dividends	(3)	(3)
Decrease in other creditors	(25)	(13)
Decrease/(increase) in debtors	74	(19)
Tax on unfranked investment income	–	–
Tax on film revenue	(3)	(9)
Net cash inflow from operating activities	1,726	1,444

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 £9,042 (2002 – £8,794) 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 2003 were £206,307 (2002 – £186,809) in respect of salary costs and £14,730 (2002 – £16,839) in respect of pensions.

Romulus Films Limited and Remus Films Limited have significant shareholdings in the company – see page 12.

23 Deferred taxation

	Group	
	2003	2002
	£000	£000
Capital losses unrealised	(381)	(412)
Enterprise zone trusts	409	409
	28	(3)

There is no deferred taxation which needs to be provided for in 2003 (2002 – £nil).

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 agrees policies for managing each of these risks and they are summarised below. The policies have remained unchanged throughout the year.

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 (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	2 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 2003 was as follows:

	2003 £000	2002 £000
In one year or less, or on demand	–	–
In more than five years	10,000	10,000
	10,000	10,000

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 (99.6%) 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 2003

The company is committed to high standards of corporate governance. In July 2003 the Financial Reporting Council issued a new Combined Code which incorporated the recommendations made by the Higgs Review and the Smith Report. In August 2003 the AITC also issued a Code to recognise the special circumstances of investment trusts, and in particular, self-managed trusts. The new Combined Code is mandatory for accounting periods beginning on or after 1 November 2003, effective for the company's year ended 31 December 2004. The board began its review of the provisions of the new Code in 2003 and has already enhanced its corporate governance procedures.

The directors agree with the spirit and intentions of the Combined Code of Best Practice issued by the UK Listing Authority. However, because of the size and the nature of the group's operations and the number of directors, they are of the opinion that full compliance with the detailed provisions of the Combined Code would not be practical and would not serve to enhance the control and management of and financial reporting on the company and its subsidiaries.

The company has complied throughout the year with the Provisions of the Code of Best Practice set out in section 1 of the Combined Code except for the following matters:

Code Paragraphs B.1 to B.3

The remuneration of executive directors is decided by the board as a whole, rather than a remuneration committee, which comprises a majority of non-executive directors. In the directors' view, this provides adequate and effective scrutiny. There is no performance-related element of directors' remuneration.

Statement about applying the Principles of Good Governance

The company has applied the Principles of Good Governance set out in section 1 of the Combined Code by complying with the Code of Best Practice as reported above throughout the year. Further explanation of how the Principles have been applied is set out below and, in connection with directors' remuneration, in the directors' remuneration report.

Going concern

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Internal control

The board has applied Principle D.2 of the Combined Code by establishing a continuous process for identifying, evaluating and managing the risks the group faces. The board regularly reviews the process, which has been in place from the start of the year to the date of approval of this report and which is in accordance with Internal Control: Guidance for Directors on the Combined Code, published in September 1999. The board is responsible for the group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

In compliance with Provision D.2.1 of the Combined Code, the board continuously reviews the effectiveness of the group's system of internal control. The board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The board has also performed a specific assessment for the purpose of this annual report. This assessment considers all significant aspects of internal control arising during the period covered by the report.

The key features of the internal control system that operated throughout the year covered by the financial statements are described under the following headings.

- **Control environment.** The board has in place an organisational structure with clearly defined and understood lines of responsibility and delegation of authority from the board to operating management. There are established policies and procedures to foster a strong ethical climate.
- **Identification and evaluation of business risks and control objectives.** The board has the primary responsibility for identifying the major business risks facing the group and developing appropriate policies to manage those risks. The risk management approach is used to determine key control objectives.
- **Information systems.** There is a financial reporting system which compares actual results with the previous year on a monthly basis to identify any significant deviations. Monthly cash flow requirements are closely monitored to determine that the group has adequate funding for its future needs. Financial reviews of the operations are undertaken on a quarterly basis.
- **Main control procedures.** The board has adopted a formal schedule of matters which are required to be brought to it for decision and ensures that it maintains full and effective control over appropriate strategic, financial, organisational and compliance issues. The board has identified a number of key areas which are subject to regular reporting to the board including treasury operations, investment performance and cost control. The controls include defined procedures for seeking and obtaining approval for major transactions and organisational changes as well as organisational controls involving the segregation of incompatible duties and controls relating to the security of assets.
- **Monitoring.** The board has delegated to executive management implementation of the system of internal control. The operation of the system is monitored.

Internal Audit Function

Given the size of the business the company does not have a separate internal audit function, although, there is an audit committee chaired by an independent non-executive director. The executive director will continue to monitor the system of internal control in order to provide assurance that they operate as intended and will also review from time to time whether an internal audit function is required.

Directors' remuneration report

For the year ended 31 December 2003

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 2003. An ordinary resolution to approve this report will be put to members at the forthcoming Annual General Meeting.

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).

A review of the level of non-executive directors' fees was carried out and it was agreed to increase fees to £11,000 per annum effective 1 January 2003.

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. In accordance with the Articles of Association an ordinary resolution is to be proposed at the Annual General Meeting on 24 June 2004 providing for aggregate non-executive directors fees not to exceed £45,000 per annum with effect from 1 January 2003.

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.

Performance graph

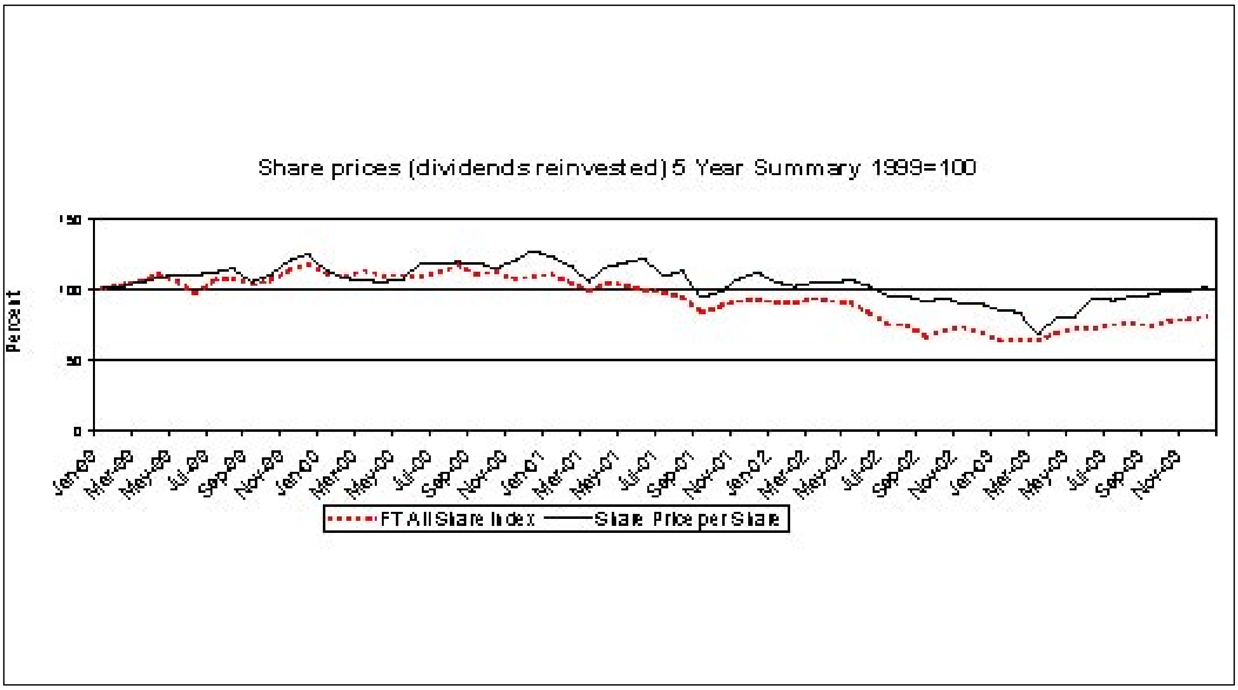
The graph on page 38 shows the performance of British & American Investment Trust PLC's share price against the FTSE All Share index, in both instances with dividends reinvested, for the five years since 1999. The FTSE All Share is selected because it is the single broad equity market index that most closely matches the company's benchmark.

There are no options, issued or exercisable, in the company.

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.

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 2003			Year ended 31 December 2002		
	Fees	Expenses	Total	Fees	Expenses	Total
	£000	£000	£000	£000	£000	£000
JC Woolf	35	–	35	33	–	33
JAV Townsend	11	–	11	10	–	10
DG Dreyfus	11	–	11	10	–	10
RG Paterson	11	–	11	10	–	10

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 provides directors' liability insurance.

By order of the board

KJ Williams
Secretary
26 April 2004

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 24 June 2004 and at any adjournment thereof.

Signed ....

Dated .... 2004.

RESOLUTIONS		FOR	AGAINST
1.	To adopt the report and accounts.	☐	☐
2.	To re-elect Mr JC Woolf.	☐	☐
3	To approve the directors' remuneration report.	☐	☐
4	To approve aggregate non-executive directors fees not exceeding £45,000 per annum effective from 1 January 2003.	☐	☐
5	To declare a final dividend of 3p per £1 ordinary share.	☐	☐
6	To re-appoint Deloitte & Touche LLP as auditors.	☐	☐
7	To authorise the directors to fix the remuneration of the auditors.	☐	☐

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, 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.

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BUSINESS REPLY SERVICE
Licence No. ANG 1468

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

First fold

Third fold