The El Oro Group’s operating loss before taxation for the year ended 30 June 2018 was £1,618,854 (operating profit before taxation for the year ended 30 June 2017: £7,426,687). The Group’s net assets at 30 June 2018 were £53,668,935 or 85.0p per share (net assets at 30 June 2017: £55,680,730 or 88.1p per share).

Shareholders will naturally look askance at a loss occurring in a year of generally favourable returns, albeit skewed towards holders of the FAANGS, whose funds have appreciated around 48% in the past 18 months, as against 11% for value oriented funds. We have, however, taken a particularly conservative look at our unlisted investments, some entered into many years ago, which explains some of the size of the write-downs precipitating the loss.

Whilst your Company approaches the denouement of the vote passed in November 2016, it faces its future (whatever that may be) in much finer fettle than for several years. The remainder of the borrowings from Lloyds Bank were paid off in May 2018, although to achieve that we have sacrificed some of our better stocks, including part of our Young and Co. holding.

The only bugbear on the horizon is the pernicious issue of swaps: these were regrettably purchased to protect the Company from a rise in interest rates: in fact the opposite occurred and a 9 year experiment in ‘quantitive easing’ ensued: achieving an increase in asset prices, the solvency of banks and income levels of the already wealthy, but seemingly little for the working man. Although we bought a Swap expiring in 2029, and the recent rise in rates by the Bank of England has reduced its liability, Lloyds has now peremptorily decided to ask for repayment in November 2018. Although already accounted for in our figures, this cash will need to be found through the realisation of investments.

Of share losses, there have been the occasional disappointments, not least PZ Cussons, where currency tribulations and a fall in sales have affected its main market in Nigeria despite improvements elsewhere. We take a somewhat sanguine view that such a large and growing population will occasionally need to wash, and hence are holding for the time being, despite its disappointing performance in comparison to its peers such as Unilever and Procter and Gamble. Even Reckitt Benckiser, with its range of household products, continues to thrive.

Amongst other fallers, Pantheon Resources has given back all its gains of earlier years, due to a combination of dry wells and equipment failures, whilst Amerisur struggles in Colombia despite the improving price of oil. Central Asian Metals retains its generous dividend yield, but the price has retreated recently as copper falls in the face of the Trump tariffs upon China. Bacanora withdrew its proposed funding round for its Sonora lithium project, despite support from its main Japanese shareholder; given traditional Japanese patience and loyalty, we would expect a recovery in due course, unless the appeal of lithium were to prove illusory. We also retain our holding in Critical Elements in Canada, with its Lithium deposit, and continue to believe that we will in due course be rewarded.

The Gold market has been described as ‘moribund’ and the inertia induced by the hot summer and strength of the US Dollar will for some time do little to dispel this state of affairs. Despite this disappointment, Hummingbird has succeeded in bringing its mine in Mali into production, and at some point we may yet be rewarded for our patience.

Many investors in Canada and the United States, have been seduced by Bitcoin, cryto-currencies and cannabis stocks. Vanguard is renaming its precious metals fund the Global Capital Cycle Fund after a 24% loss over the past year. We are obstinate or foolish enough to believe that the darkest hour is just before dawn.

Amongst sideways movers, James Halstead continues to perform admirably, although its share price less so: M.P.Evans has met most of the market’s expectations, with increasing production and dividend flow, whilst KLK bides its time having recently increased its holding in M.P. Evans to 15%. REA Holdings may yet surprise on the upside, even if for now it remains a laggard. Whilst Hurricane Energy has regained some of its composure, we remain hopeful that with the rig ordered and under construction, we will see production in 2019. We are encouraged to hear that Hurricane is now in alliance with Spirit Energy, a subsidiary of Centrica, which will be separately funding exploration of one of its areas. This has sent the share price higher, and underpins the value spotted by Crystal Amber two years ago. We believe, given reasonable production once it commences next year, and a stable oil price, that higher levels should be achievable. Crystal Amber retains the bulk of its stake, and together we rely on the flow of ‘Stranded Oil’.

Those with longer memories before the onset of the Mining malaise, will recall our holding in Reservoir Minerals, which was taken over by Nevsun Resources a few years ago, the prize being its copper deposit at Timok in Serbia, adjoining Freeport McMoRan’s existing mine. Lundin bid C$4.75 earlier in the year, an offer that was rejected by Nevsun. Lundin’s offer has now been topped by Zjjin Mining, at $6. We are encouraged to see value emerging on this scale: more visible, it would seem to Asians with the Belt and Road glint in their eyes, than the more cautious West. This illustrates once again the need for patience and vision in Mining, or any natural resource for that matter, where there is sometimes an extended period between the first concept and its realisation. Momentum and FAANG investors will naturally prefer the promise of more dramatic returns such as recently experienced.

Amongst our other holdings, pride of place as so often before belongs to Young and Co, who now threaten to breach the £18 mark, scant comfort to Sir Ron Brierley whose holding period until thwarted by his Antipodean Board was apparently ‘forever’. We hesitate to add more praise to Patrick Dardis, Stephen Goodyear and their team, but can at least add our thanks for such superb stewardship and the enhancement of our NAV and dividend flow.

Abraham Lincoln is quoted as saying “I am a firm believer in the people. If given the truth they can be depended upon to meet any national crisis. The great point is to bring them the real facts, and beer.” A quotation perhaps even more relevant for our own fraught times.

Along with the superlative Young’s, Goodwin has soared after confounding the sceptics and producing excellent results and a significantly improved dividend. Victrex continues to thrive, and North Atlantic Smaller Companies under its idiosyncratic leadership, not necessarily to everyone’s taste, flourishes. Hansa Trust has begun to benefit from its new format and the improved results from Ocean Wilsons, and AJ Mucklow grows consistently with its Midlands property portfolio. RWS reaps the reward from its patent portfolio and its recent acquisition, whilst Chesnara and Phoenix produce copious quantities of cash from zombie Pension portfolios. Amongst the Bs, Berkshire Hathaway has seen the Wisdom of Age rewarded for its investment in Apple, after a false start with IBM, and Burford Capital continues to defy gravity with its litigation fund seemingly going from strength to strength. Some compensation for failing to hold onto FeverTree after 2016’s Brexit vote.

Whilst we believe our portfolio offers breadth and strength, we are concerned that the political scene in Britain lacks those characteristics, as recently described by Peter Hargreaves. Two able proponents of the people’s will in the recent Referendum have now departed from the Cabinet; the composer of the epithet ‘the Nasty Party’ for now rules the roost, having handled negotiations with her European colleagues with a finesse that would shame a Rhinoceros. We are supposed to support an agreement that ties us to European suzerainty and jurisdiction without participation. Even contemplating such an offer is abhorrent, and we can only hope that true visionaries and free marketeers will emerge to lead Britain once more to the broad, sunlit uplands. Businesses have already suffered enough, including your own company, from intrusive European regulations, of which PRIIPS, MIFID2 and GDPR, are 3 egregious examples; all stemming from a culture that enhances the role of the State, and its all-knowing power, rather than that of the entrepreneur and single trader. Not to mention KIDs which is supposedly endorsed by the Association of Investment Trust Managers with the caption ‘burn before reading’. So many of our great inventors and business builders, such as Steve Jobs, Bill Gates, Tim Martin and others have failed to finish University courses, and yet in Britain half the country is now expected to complete a degree of some sort. The Dead Hand of Bureaucracy prevails, and the most elementary tasks, such as driving or sitting on a local council, now require one or a sequence of training courses.

Sadly the former home secretary’s obsession with immigration numbers is hampering the growth of our education exports, and we have been superseded by the US, which has educated more leaders than the United Kingdom for the first time. Our education establishments were at the forefront of teaching in the world, and need to be restored to their pre-eminence with opportunities for work in the United Kingdom for their alumni. This will strengthen the position of the UK in an increasingly competitive world.

An individual is no longer considered capable of selecting a bond suitable for their own needs, but must buy a Prudential Reserve Bond: once interest rates resume their rise or original levels, these will invariably fall by a substantial margin. Moreover, it now appears that the issuance of BBB grade bonds has risen from 30% to 50% in recent years: not an encouraging scenario if pressure once again is applied to bond yields.

In China, it is now said that there will be bankruptcies amongst many Chinese companies if the trade war over tariffs is exacerbated whilst the Chinese eased their lending terms to accommodate those struggling in the pre-election Trump tourniquet.

Britain’s determination to persist with the hyper-expensive HS2 despite various accounting bodies warning of its cost-over-runs likely to exceed 60%, alongside the funds already committed to Hinkley Point, and the commitment to phase out energy produced from coal by 2025, ensures an ingrained cost disadvantage to all our manufacturing sector: the Greens whose economic illiteracy was once mocked are truly running the asylum.

Our politicians would be well advised to dwell on the dismissal of Malcolm Turnbull as Prime Minister of Australia whose obsession with a ‘green’ energy agenda is now being replaced by a new energy minister keen to utilise Australia’s vast resources of coal. The essential goal being to supply cheap and consistent energy to the people as a whole. Nothing undertaken in Britain in recent years by green zealots will meet that objective.

The Home Secretary recently overruled his own Inspector’s recommendation to allow mining at Druridge Bay as a ‘not sustainable development’ despite it meeting those time constraints and providing hundreds of jobs.

As a result of Health and Safety provisions, the Fire Service waited 2 hours to attend the Manchester Arena attack, in case there was a terrorist lurking. Whilst Japan and China increase their building of coal fired power stations, Lloyds Bank has said it will no longer lend to suppliers of coal companies, leaving begging the question of where our energy will emerge from during the sunless days of winter or windless days of summer such as recently.

Cambridge University may well live to regret losing its investment team as the student body calls for disinvestment from carbon fuels. We have increased our exposure and hope all shareholders will benefit in the near term.

Meanwhile, in the United States, the economy grows, strengthened by the long-overdue tax cuts initiated by President Trump, and Jerome Powell raises interest rates, much to the irritation of the President. His main reward for a booming economy would appear to be impeachment if Russian collusion in ensuring his election is proved. Whatever his achievements in Syria and the World Cup, we suspect such an achievement and bamboozling the US Electorate beyond even Putin’s fabled powers.

Jeopardising our trade with Russia over a deplorable but unsuccessful assassination plot would appear to us an inadequate approach to a once great country craving respect and a return to its ancient glories. We would encourage genuine diplomacy and a mutual respect for our shared culture and beliefs aligned with clear boundaries.

The knife inserted into the entrails of El Oro in November 2016 has been remorselessly turned; Theresa May’s abnegation of the free market is blurring the distinction for the young between Corbyn and Macdonnell’s Venezuelan Marxist model for the British economy, and that of a richly productive low tax/ low regulation Capitalist alternative. Concurrent with these potential calamities, a Hard or No-deal Brexit threatens, according to the soothsayers, untold misery and hardship for the British economy and people.

How lucky we have been at Cheval Place to be supported by the inestimable Abbie, ably assisted by Nick and Nancy, whilst Una performs her wizardry with the accounts. A more loyal and capable crew it would be hard to replicate.

The Board continues to review the opportunities available to the company in light of the vote taken in November 2016 to liquidate following the 2018 AGM. We hope to make an announcement soon.

Robin Woodbine Parish

2 October 2018

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

for the year ended 30 June

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
|  | **30 June 2018** |  | 30 June 2017 |
|  | **£**  |  | £  |
| Revenue | **1,356,339** |  | 1,483,710 |
| Net (losses) / gains on investments | **(671,812)** |  | 7,946,532 |
| **Total investment income** | **684,527** |  | 9,430,242 |
| Expenses | **(1,841,092)** |  | (1,263,440) |
| **(Loss) / profit before finance costs and taxation** | **(1,156,565)** |  | 8,166,802 |
| **Finance costs** | **(462,289)** |  | (740,115) |
| **(Loss) / profit before taxation** | **(1,618,854)** |  | 7,426,687 |
| Taxation credit / (charge) | **19,251** |  | (634,608) |
| **(Loss) / profit for the financial year** | **(1,599,603)** |  | 6,792,079 |
| **Earnings per share**  | **(2.5p)** |  | 10.8p |
| **Other comprehensive income - Items that will not be reclassified to profit and loss** |  |  |  |
| **Revaluation of property** | **1,405,604** |  | **-** |
| **Income tax on items that will not be reclassified to profit and loss** | **(297,574)** |  | **-** |
| **Other comprehensive income net of tax** | **1,108,030** |  | **-** |
| **Total Comprehensive (loss) / income** | **(491,573)** |  | 6,792,079 |

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

for the year ended 30 June

|  |  |  |  |
| --- | --- | --- | --- |
|  | **30 June 2018** |  | 30 June 2017 |
|  | **£**  |  | £  |
| **Opening capital and reserves attributable to equity holders** | **55,680,730** |  | 50,598,883 |
| Total comprehensive income and (loss) / profit for the financial year | **(491,573)** |  | 6,792,079 |
| Decrease of share capital on cancellation of shares | **-** |  | (2,826) |
| Increase of capital redemption reserve on cancellation of shares | **-** |  | 2,826 |
| Decrease of retained earnings on cancellation of shares | **-** |  | (194,306) |
| Dividends paid (net) | **(1,520,222)** |  | (1,515,926) |
| **Closing capital and reserves attributable to equity holders** | **53,668,935** |  | 55,680,730 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

at 30 June

|  |  |  |  |
| --- | --- | --- | --- |
|  | **30 June 2018****£** |  | 30 June 2017£ |
| **Non-current assets** |  |  |  |
| Property | **1,950,000** |  | 551,899 |
| Plant and equipment | **55,207** |  | 59,348 |
| Investment in artwork | **-** |  | 500,000 |
| Intangible asset | **-** |  | 18,400 |
|  | **2,005,207** |  | 1,129,647 |
| **Current assets** |  |  |  |
| Investment in artwork held for resale | **250,000** |  | **-** |
| Trade and other receivables | **562,335** |  | 818,216 |
| Investments held at fair value through profit or loss | **55,551,575** |  | 63,599,004 |
| Cash and cash equivalents | **765,187** |  | 913,260 |
| **Total current assets** | **57,129.097** |  | 65,330,480 |
| **Current liabilities** |  |  |  |
| Trade and other payables | **914,583** |  | 567,320 |
| Financial liabilities at fair value through profit or loss | **2,719,192** |  | 3,094,600 |
| Current tax liability | **240,190** |  | 716,280 |
| **Total current liabilities** | **3,873,965** |  | 4,378,200 |
| **Net current assets** | **53,255,132** |  | 60,952,280 |
|  |  |  |  |
| **Non-current liabilities** |  |  |  |
| Borrowings | **-** |  | 4,600,000 |
| Deferred tax liabilities | **1,591,404** |  | 1,801,197 |
| **Total non-current liabilities** | **1,591,404** |  | 6,401,197 |
| **Net assets** | **53,668,935** |  | 55,680,730 |
|  |  |  |  |
| **Capital and reserves attributable to equity holders** |  |  |  |
| Share capital | **434,906** |  | 434,906 |
| **Reserves** |  |  |  |
| Share premium | **6,017** |  | 6,017 |
| Capital redemption reserve | **359,641** |  | 359,641 |
| Merger reserve | **3,564** |  | 3,564 |
| Revaluation reserve | **1,108,030** |  | - |
| Retained earnings | **51,756,778** |  | 54,876,602 |
| **Total equity** | **53,668,935** |  | 55,680,730 |

|  |  |  |  |
| --- | --- | --- | --- |
| Net asset value per share | 85.0 p |  | 88.1 p |

The Board of Directors approved and authorised the Group’s financial statements for issue on 2 October 2018.

Signed on behalf of the Board by: CRW Parish (Director) and RAR Evans (Director).

**CONSOLIDATED STATEMENT OF CASH FLOW**

For the year ended 30 June

|  |  |  |  |
| --- | --- | --- | --- |
|  | **30 June 2018** |  | 30 June 2017 |
|  | **£**  |  | £  |
| **Operating activities** |  |  |  |
| (Loss) / profit before tax | **(1,618,854)** |  | 7,426,687 |
| **Adjustments for:** |  |  |  |
| Depreciation | **14,954** |  | 14,715 |
| Net unrealised losses / (gains) on fair value investments through the profit or loss | **608,527** |  | (8,000,879) |
| Finance costs (includes amortisation of capitalised loan note fee) | **462,289** |  | 740,115 |
| **Cash flow from operations before changes in working capital** | **(533,084)** |  | 180,638 |
|  |  |  |  |
| Decrease in financial assets at fair value through the profit or loss | **7,313,494** |  | 10,317,093 |
| (Decrease) / increase in trade and other receivables | **255,881** |  | (451,973) |
| Increase / (decrease) in trade and other payables | **372,250** |  | (347,255) |
| **Cash flow from operations** | **7,408,541** |  | 9,698,503 |
|  |  |  |  |
| Income taxes paid | **(964,207)** |  | (650,684) |
| **Net cash generated from operating activities** | **6,444,334** |  | 9,047,819 |
| **Investing activities** |  |  |  |
| Purchase of property, plant and equipment | **(3,310)** |  | (16,746) |
| **Net cash used in investing activities** | **(3,310)** |  | (16,746) |
| **Financing activities** |  |  |  |
| Interest paid | **(468.875)** |  | (699,991) |
| Net dividends paid to Shareholders | **(1,520,222)** |  | (1,517,459) |
| Repayment of borrowing | **(4,600,000)** |  | (6,400,000) |
| Purchase of own shares subsequently cancelled | **-** |  | (194,306) |
| **Net cash used in financing activities** | **(6,589,097)** |  | (8,811,756) |
| **Net (decrease) / increase in cash and cash equivalents** | **(148.073)** |  | 219,317 |
|  |  |  |  |
| **Cash and cash equivalents at the beginning of the year** | **913,260** |  | 693,943 |
| **Cash and cash equivalents at the end of the year** | **765,187** |  | 913,260 |

The Annual Report is available at [www.eloro.com](http://www.eloro.com)