El Oro Ltd

Preliminary Announcement

**Chairman’s statement**

The El Oro Group’s loss before tax for the year-ended 30 June 2016 was £615,636 (loss before tax for the year-ended 30 June 2015 was £11,338,951). The Group’s net assets at 30 June 2016 were £50,598,883 or 79.7 pence per share (30 June 2015: £51,827,562 or 80.5 pence per share).

The Board has resolved to propose a final dividend of 2.405 pence per share for the year-ended   
30 June 2016 (year ended 30 June 2015: 2.405 pence per share) on 28 November 2016 to Members registered on the books of the Company at the close of business on 28 October 2016.

The ascent from the slough of despond seen around the start of 2016 has been especially dramatic in the mining sector, with the FTSE 350 Mining Index appreciating 52% since 1 January and the AIM Basic Resources Index up 48% since the January lows. Although this puts us back more or less where we started in June 2015, the expectation that the mining market, and gold, were yesterday’s ideas has been rebuffed, even if temporarily.

It is heartening to hear in recent weeks some of the sagest investment minds saying that we are moving into uncharted waters, and therefore increasing their exposure to gold. Whilst marking time is not a seductive investment philosophy, we do believe that the reduction in debt achieved over the last year, and a fall in our exposure to Swaps, whilst increasing our exposure to larger-capitalisation stocks, has provided a much more secure base from which to approach the challenges ahead.

The fact that the entire political landscape has altered so dramatically over the past few months emphasizes yet again that assets providing security in a challenging and ‘disruptive’ world are essential for a secure portfolio: we believe the mix of old-economy stocks, in continuing demand, such as Young’s and Halstead, backed up by the gold exposure from our miners, does answer some of those challenges, despite the shortcomings of the metals during the mining-slump of the past few years.

Looking at a few of our individual stocks, Hurricane hit a low around the 9p level in the spring, but has since bounced above the 30p mark, as two funds took advantage of its depressed level, sensing the opportunity in its stranded oil West Shetlands deposit. Its drilling result announced on the 9 September has validated the optimism of its chief Geologist and seen a huge rise in its share price, as good as the Pantheon Resources results were disappointing. As always, fortune favours the brave, and we would expect the oil reserve to grow in size in the months to come.

We were pleased to welcome Dominic Scriven OBE and his team’s Vietnam Enterprise Investment Fund to a London listing in early July, and are grateful for his dedicated stewardship of a significant holding for us, opening doors successfully to one of the more populous and promising Asian markets.

Shanta Gold has also recently revealed greater reserves than previously assessed, and continues its recovery, at its various projects in Tanzania. Troy has recovered from its mid-winter lows, but the volume of rain in Guyana has restricted its ability to meet its production targets, and it has once again made recourse to capital raising in recent weeks. Whilst the prospect of losing the services of the ever-green Ken Nilsson, well into his seventh decade, does not fill us with delight, we acknowledge his seminal contribution to Troy’s prosperity over the past 20 years and are convinced that his legacy at Karouni, given a favourable gold price, will eventually reward patient shareholders, despite further fund raising.

The ride at Pantheon Resources has certainly been anything but dull in recent months even if hopes for a further extension to its Texan oil deposits were recently dashed, along with the share price, by drilling complications. Whilst the shorts might have the upper hand for now, we will wait for a recovery to emerge. That has thus far been the case at Cadiz, the water project in the Mojave Desert in California that has been the subject of a sustained shorting attack. It now appears to have been exacerbated by collusion with Government authorities, and the project, able to bring water to upwards of 100,000 people in Southern California, might at last see the light of day and save water that is at present evaporating into the desert.

Whilst such projects, if finally greeted by fortune’s smile, may well enrich shareholders, we are mindful of the request by some shareholders for larger cap stocks: we have been rewarded in this respect by our investment in Newmont Mining one of the world’s major gold mining companies, and also Freeport McMoRan, one of the foremost copper Miners in the world, producing a considerable quantity of gold from its Grasberg concession in Indonesia, even if a question mark does hang over its ability to renew it. Barring another calamitous slump in the Chinese or American economy, the world demand for copper should enhance the share prices of such companies well beyond the low levels reached earlier in the year.

Along with Shell and British American Tobacco, there is considerable comfort to be had from bolstering the portfolio with these larger companies, even if growth will tend to come from the successful selection of smaller companies.

Investors are increasingly seeking higher-yielding stocks, often via the medium of ETFs and as a consequence their valuations are rising to perhaps unsustainable levels, whilst those beneath the radar of many brokers’ lists continue to present compelling value. Our positions in Young and Co and James Halstead, are examples of small companies grown large by astute management in a favourable area, and continue to impress with the consistency of their performances and growth in dividends, even as we now welcome Patrick Dardis at Young and Co., in succession to the admirable Steven Goodyear, and unflappable Peter Whitehead.

PZ Cussons continues its recovery from what was deemed the morass of Nigeria’s economic and political woes, abetted by its dominant position in distribution in that extensive market; Ocean Wilsons is also thriving despite the vagaries of the Brazilian economy.

MP Evans, having paid a special dividend with the proceeds of the sale of its Australian cattle station, stands to benefit from an increase in the palm oil price, as does REA, after enduring a period of impairment from low yields and low prices. Select Harvests is also beginning to see a recovery in the almond price, and tiny Fulcrum, providing electricity services to several major entities, has risen dramatically in the past year.

As some shareholders had expressed concern at the investment performance of the Company, the widening discount to net asset value and the lack of liquidity in the shares, the Board consulted with some of the larger shareholders who reemphasised these concerns. In the light of this the Board is proposing and will support a special resolution at the forthcoming AGM to alter the Articles of Incorporation to provide that the Company will be put into voluntary liquidation at the AGM in November 2018 unless a Special Resolution is passed to prevent such liquidation. The Board considers that this action would give shareholders who wish to exit the Company at closer to the net asset value the opportunity to do so and will enable the Company to further reduce or eliminate its debt and improve its investment performance in the intervening period. Further details are given in the circular accompanying the notice for the AGM.

Amidst tremendous global uncertainty, of the triumvirate that ran the Britain’s Economy, only one now survives, hopefully for not much longer; the former Chancellor’s predictions of penury bordered on the treasonable, not to mention with hindsight, laughable. This must be added to his deplorable record in making the tax system fiendishly complex, primarily for political reasons, and putting paid to the London property market, Buy to let and imposing the egregious Living Wage.

His fellow conspirators included the execrable Geldof, pouring obscene scorn on Britain’s benighted fishermen, and joyless Juncker, along with the effortlessly disloyal Obama and highly questionable Lagarde: All these luminaries replete with their diatribes of doom have been shown to be persistently and fundamentally wrong: There is simply no sound reason why Janet Yellen and the whole approach to quantitative easing, so unsuccessful in Japan and Europe, will have any lasting beneficial effect on any economy, other than the price of certain assets, and the job security of various bankers, if carried on to Eternity.

What we do know is that the pension and savings systems of most of the Western world have over the last 10 years been brought to the borders of insolvency by the imposition of microscopic rates of return. More of the same seems currently the only solution on offer.

The recent collapse of the Hanjin Shipping Line, whilst presaging a rise in freight rates, has highlighted the grotesque overcapacity in the container market, and also that of port capacity. The precipitous fall in the share price of Deutsche Bank, once perceived as the giant of the German banking fraternity, can but send a shiver down the spine of anyone insouciant enough to believe in the supremacy of the German banking system: so soon after imposing impossibly onerous terms on that of Greece. It is ironic to see the magnanimous American regulators imposing a $14bn fine on Deutsche Bank for infractions in the sale of mortgage securities, a genre almost entirely the creation of the US investment banks. These are not encouraging portents for world trade, especially given a harsher political climate towards treaties that seem to favour a tiny section of the electorate.

What a marvelous change to see Mrs. May confounding the perceived wisdom of 50 years by allowing the creation of new Grammar Schools. Sadly she has not scrapped the deeply dubious Hinkley Point but perhaps may bite the bullet and dispose of HS2 and reverse the closure of our remaining Coal-fired Power stations whilst accelerating the building of several more runways. Boris’s Cycle routes within London will remain an obstruction to the free flow of traffic, and hardly enhances the well- being of the cyclist. The apparent abandonment of their Vocational calling amongst some junior doctors poses an existential threat to health care and the NHS.

Faced with the prospect of a Fool or a Knave, as some have described the choice facing the United States electorate, having some protection against possible rises in interest rates, along with gold, does seem to make a degree of sense. We could well be entering another era of favourable prices for Precious metals, where even the despised Platinum shares are making a comeback.

We are therefore continuing our search for well-financed projects with substantial gold reserves, along with other metals such as lithium as we move further into the era of electric vehicles and the storage of electricity. We will back these up with value positions where there is a significant discount to assets, along with companies possessing an especial edge in technology or licences, such as Renishaw. We have achieved a significant reduction in debt since last November, even if with hindsight more might have been made of the compelling prices on offer early in January and again immediately after the 23 June - Independence Day. We have also reduced management costs, albeit partly with the departure to the Antipodes of Steven McKeane, doyen of Finance chiefs, and a huge asset to the Company and support to myself for the previous 9 years. He has left an impressive legacy for Una Ni Dhonaill to follow, and we wish her well in that challenge. Irrepressible Abbie celebrated her half-Century in style and remains the beating heart of El Oro, along with recently arrived Nancy and Nick continuing his scrutiny of the settlements. Chris Copperwaite, unflustered by several changes of nomenclature, controls the Guernsey side with huge competence and good grace.

The celebrations of Her Majesty’s 90th Birthday, followed by the warm glow of Rio, and the dominance of the British Eights, Four and Women’s Pair will take time to fade. Along with so many other sporting successes this summer they are tributes to outstanding individuals and dedicated and hugely competent management and coaching teams. We are enormously reassured to see Britain achieve such success, and believe that given goodwill and equivalent perseverance, the new leadership of Britain under Mrs. May can accomplish something similar. We are reminded of one recent gold Medalist who after a previously undefeated career only won bronze in London, yet overturned that a month ago in Rio.

We believe that despite the initial antagonism of many of the young and bright of today, Britain’s future as an independent Nation, free of the shackles of a Socialist, dictatorial and undemocratic union will be bright.

As we emerge from the slump in both mining and oil shares and the tremendous pressures placed upon those trying to sustain their business we are reminded of Psalm CXXIV v 7,8:

*Blessed be the Lord, who hath not given us as a prey to their teeth.*

*Our soul is escaped as a bird out of the snare of the fowlers; the snare is broken and we are escaped.*

*Our help is in the name of the Lord, who made heaven and earth.*

It would be remiss not to acknowledge and mark the passing of several friends and luminaries who have enriched my life and that of others over many years: Geordie Kidston, who did do much to emulate Teddy Butler-Henderson with his own observations and eclectic search for information from hither and thither; Peter Bennett, whose trenchant and nearly always correct views were presented without malice or respect for convention, but always made you stop and think (most recently in December recommending gold shares); Hugh Mansel who was discrete and knowledgeable; and most recently Colin Orr-Ewing, the brains behind Bacanora, the Lithium project in Mexico which he planned to provide for his Pension. His humour and infectious enthusiasm will be missed by many, so soon after saying farewell to his wife Fleur. He enhanced the lives of so many, and represented the very best of the English Gentleman wherever he went.

It remains for me to thank my fellow directors for their calmness and counsel in the face of conflicting opinions and challenging conditions, and look forward to working together to meet the opportunities at hand in a rapidly changing world.

Robin Woodbine Parish

30 September 2016

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

for the year ended 30 June

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | |  |  | | |
|  | **30 June 2016** | |  | 30 June 2015 | | |
|  | **£** | |  | £ | | |
| Revenue | **1,536,987** | |  | 1,594,264 | | |
| Net gains / (losses) on investments | **467,584** | |  | (10,106,417) | | |
| **Total investment income /(loss)** | **2,004,571** | |  | (8,512,153) | | |
| Expenses | **(1,436,220)** | |  | (1,558,728) | | |
| **Profit / (loss) before finance costs and taxation** | **568,351** | |  | (10,070,881) | | |
| **Finance costs** | **(1,183,987)** | |  | (1,268,070) | | |
| **Loss before taxation** | **(615,636)** | |  | (11,338,951) | | |
| Taxation | **886,813** | |  | 537,826 | | |
| **Profit / (loss) for the financial year and total comprehensive income** | **271,177** | |  | (10,801,125) | | |
| **Earnings / (losses) per share (basic)** | **0.4p** | |  | (16.8p) | | |
|  | |  | | |  |  | |  |  |

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

for the year ended 30 June

|  |  |  |  |
| --- | --- | --- | --- |
|  | **30 June 2016** |  | 30 June 2015 |
|  | **£** |  | £ |
| **Opening capital and reserves attributable to equity holders** | **51,827,562** |  | 65,017,817 |
| Total comprehensive income and profit / (loss) for the financial year | **271,177** |  | (10,801,125) |
| Decrease of share capital on cancellation of shares | **(9,413)** |  | - |
| Increase of capital redemption reserves on cancellation of shares | **9,413** |  | - |
| Decrease of retained earnings on cancellation of shares | **(151,342)** |  | - |
| Decrease of share capital to Treasury account | **-** |  | (41,141) |
| Dividends paid (net) | **(1,348,514)** |  | (2,347,989) |
| **Closing capital and reserves attributable to equity holders** | **50,598,883** |  | 51,827,562 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

at 30 June

|  |  |  |  |
| --- | --- | --- | --- |
|  | **30 June 2016**  **£** |  | 30 June 2015  £ |
| **Non-current assets** |  |  |  |
| Property, plant and equipment | **609,216** |  | 1,110,747 |
| Investment in artwork | **500,000** |  | - |
| Intangible asset | **91,666** |  | - |
|  | **1,200,882** |  | 1,110,747 |
| **Current assets** |  |  |  |
| Trade and other receivables | **364,710** |  | 1,806,755 |
| Investments held at fair value through profit or loss | **66,612,318** |  | 70,453,855 |
| Cash and cash equivalents | **693,943** |  | 6,350,739 |
| **Total current assets** | **67,670,971** |  | 78,611,349 |
| **Current liabilities** |  |  |  |
| Borrowings | **-** |  | 5,107,691 |
| Trade and other payables | **496,886** |  | 559,872 |
| Financial liabilities at fair value through profit or loss | **4,242,531** |  | 3,409,627 |
| Current tax liability | **148,603** |  | 305,642 |
| **Total current liabilities** | **4,888,020** |  | 9,382,832 |
| **Net current assets** | **62,782,951** |  | 69,228,517 |
|  |  |  |  |
| **Non-current liabilities** |  |  |  |
| Borrowings | **11,000,000** |  | 15,000,000 |
| Deferred tax liabilities | **2,384,950** |  | 3,511,702 |
| **Total non-current liabilities** | **13,384,950** |  | 18,511,702 |
| **Net assets** | **50,598,883** |  | 51,827,562 |
|  |  |  |  |
| **Capital and reserves attributable to equity holders** |  |  |  |
| Share capital | **437,732** |  | 447,145 |
| **Reserves** |  |  |  |
| Share premium | **6,017** |  | 6,017 |
| Capital redemption reserve | **356,815** |  | 347,402 |
| Merger reserve | **3,564** |  | 3,564 |
| Retained earnings | **49,794,755** |  | 51,023,434 |
| **Total equity** | **50,598,883** |  | 51,827,562 |

|  |  |  |  |
| --- | --- | --- | --- |
| Net asset value per share | 79.7 p |  | 80.5 p |

The Board of Directors approved and authorised the Group’s financial statements for issue on 30 September 2016.

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

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

**CONSOLIDATED STATEMENT OF CASH FLOW**

For the year ended 30 June

|  |  |  |  |
| --- | --- | --- | --- |
|  | **30 June 2016** |  | 30 June 2015 |
|  | **£** |  | £ |
| **Operating activities** |  |  |  |
| Net loss before tax | **(615,636)** |  | (11,338,951) |
| **Adjustments for:** |  |  |  |
| Depreciation | **1,531** |  | 35,437 |
| Foreign exchange losses | **175,981** |  | 1,081,690 |
| Net unrealised losses on fair value investments through the profit or loss | **794,922** |  | 5,225,469 |
| Finance costs | **1,183,987** |  | 1,268,070 |
| **Cash flow from operations before changes in working capital** | **1,540,785** |  | (3,728,285) |
|  |  |  |  |
| Movement in financial assets at fair value through the profit or loss | **4,870,655** |  | 16,087,375 |
| Decrease / (increase) in trade and other receivables | **1,442,045** |  | (460,166) |
| Decrease in trade and other payables | **(7,673)** |  | (487,825) |
| **Cash flow from operations** | **7,845,812** |  | 11,411,099 |
|  |  |  |  |
| Income taxes paid | **(386,106)** |  | (251,674) |
| **Cash flow from operating activities** | **7,459,706** |  | 11,159,425 |
| **Investing activities** |  |  |  |
| Purchase of property, plant and equipment | **-** |  | (9,049) |
| **Cash flow used in investing activities** | **-** |  | (9,049) |
| **Financing activities** |  |  |  |
| Interest paid | **(1,239,300)** |  | (1,278,843) |
| Net dividends paid to Shareholders | **(1,348,514)** |  | (2,347,989) |
| Repayment of borrowing | **(9,000,000)** |  | - |
| Repayment of interest rate swap | **(1,170,000)** |  | - |
| Purchase of own shares subsequently cancelled | **(151,341)** |  | - |
| Loan note fee paid | **(150,000)** |  | - |
| **Cash flow used in financing activities** | **(13,059,155)** |  | (3,626,832) |
| **Net increase in cash and cash equivalents** | **(5,599,449)** |  | 7,523,544 |
|  |  |  |  |
| **Cash and cash equivalents - opening** | **6,243,048** |  | (1,205,408) |
| Effect of foreign exchange rate changes | **50,344** |  | (75,088) |
| **Cash and cash equivalents at 30 June** | **693,943** |  | 6,243,048 |