**Chairman’s statement**

The El Oro Group’s profit before taxation for the year ended 30 June 2017 was £7,426,687 (loss before taxation for the year ended 30 June 2016: £615,636). The Group’s net assets at 30 June 2017 were £55,680,730 or 88.1p per share (net assets at 30 June 2016: £50,598,883 or 79.7p per share).

August marks the 10th Anniversary of the 2007 crash; the centenary of Passchendaele and its horrendous slaughter of the manhood of Western Europe and the Commonwealth; and the Russian Revolution with its consequent murder of the Romanovs, along with millions of Russians and eventual enslavement of much of Eastern Europe.

Amidst such unpropitious auguries, and the thunder of invective echoing around the North Korean peninsular, it is comforting for shareholders to see their company back on track, and running if not on all cylinders, at least on more than experienced in recent years.

The completion of the Dee Valley takeover by Severn Trent, finally concluded in February, enabled a significant pay-down in debt, and that process has continued after the end of this accounting period: albeit requiring the disposal or reduction of some of our more cherished holdings.

The bug-bear of the swaps has been somewhat reduced, as rates have begun to rise in the United States, even if the Governor of the Bank of England is yet to reverse the reduction he made following the Brexit vote last year. Given the devastating effect low rates have had on many pension plans, forcing long-established companies to the brink of or into insolvency, it is to be hoped the Monetary Policy Committee will eventually force his hand. The risk of inaction remains that should a downturn materialise within the UK, as expected by some and predicted by former luminaries of the Conservative upper echelons, there will be nothing in reserve to bring relief. Reports from the recent conference at Jackson Hole are somewhat less encouraging, and the recent decline in the dollar is partly attributable to the belief that there will be few interest rises in the United States in months to come.

Among our individual holdings M.P.Evans, safe for at least another four months from a renewed approach by KLK, continues to show impressive growth, in palm oil production, prices received and dividend growth, all of which have sustained the share price near the level of the offer rejected by shareholders last year. We hope that in due course the various obstacles that have beset REA Holdings will be surmounted, and it will begin to match its more southerly neighbour in output and price performance.

On the oil front, Hurricane Energy enjoyed a stellar performance early in the year, with buying from 2 funds which propelled it to a multiple of its lows, only to cede much of that gain as it placed a large tranche of stock to enable production from its prospective wells. We are encouraged that it was able to raise money in a market otherwise hostile towards hydro-carbons, and believe that barring technical disappointments it should in due course reach higher levels.

Pantheon Resources suffered several technical problems in its drilling programme, and seen a slump in its share price, but its most recent pronouncements, prior to Hurricane Harvey, show greater potential.

The gadarene rush towards renewables has enhanced our lithium exposure, with Bacanora and Critical Elements vying for credibility in that sector. Our holding in Cadiz, the Californian aquifer project, has been enhanced by a more pragmatic approach by the Californian legislature, although its old adversary, Mrs Feinstein, still refuses to accept defeat and inserts yet more adversarial clauses to block its development, giving renewed heart to the shortsellers.

Amongst other favourable moves, Grande West has thrived with its production of buses for the United States and Canadian markets, and Shopify, has been a huge beneficiary of the growth of Amazon and other areas of the technology sector. Herald Investment Trust, with its holding in Apple and intimate knowledge of the technology sector has continued its remarkable growth and thrived under the unsung stewardship of Katie Potts; Burford Capital with its funding of large litigation cases has continued to win verdicts, although whether all get paid out remains to be seen.

The Vietnam Enterprise Investment Fund, a year on from its admittance to the London Stock Exchange, continues to grow, and holds out promise for the future; possibly also as a counter to what some see as excessive valuations within the United States. The Vietnamese Communist party lost its mandate from Heaven (in Confucian terms) in 2013, and as the State reduces its involvement in the economy, growth is showing levels of 12-12.5%, with PEs around 13. $1 invested in 1995 is now worth $5.

PZ Cussons more recently shows signs of sloughing off some of its Nigerian malaise, with a better set of figures, and improved share price. Given the huge appreciation in the price of Unilever and the interest expressed briefly by the Buffet consortium, it would appear a strong hold, despite the disruption inherent in its main market of Nigeria.

There are several more successes secreted within the portfolio, as it re-balances the predominance of resources: BAT has until recently been a stellar performer, as has Melrose in engineering, RWS in Patent protection, and Porvair in filters.

Victrex has been buoyed by that rarest of rare events where its patents have earned a reduced level of taxation from HMRC under the UK Patent Box legislation. A fine business adapting its engineering expertise to modern technology.

It is to be hoped that Goodwin, supplying the castings for the worldwide energy and defence sectors, as well as jewellery lost wax casting, has passed the nadir of its decline in profits amidst the reduction in demand in the carbon fuel sector. Its fine record of productivity exceeding that in Europe by 100% makes it a strong hold within the portfolio, despite the travails of recent years, and thankfully with a maintained dividend.

A & J Mucklow in industrial units within the Midlands, Phoenix Group in its absorption of closed pension funds, and Palace Capital with its astutely managed property portfolio, primarily outside the London and RSA Insurance have all helped reinforce the dividend income flow, which had faltered from the mining sector.

Happily the strength of the UK market, abetted by an up-lift in some of our unquoted brewers, such as McMullens and Wadworth, has risen above the political uncertainties of Brexit and the mistimed and woefully managed General Election, with its interventionist agenda and pernicious attack on free markets.

The dirty dog in the desert has been Troy, although in its case the desert was the tropical rainforest; the maxim of the late Nils Taube’ ‘never to invest in a market where you did not need an overcoat in winter’ would have been especially applicable to Guyana. Troy’s fall from grace has been precipitate, prolonged and unpalatable, partly a result of the pit-wall failure followed by an interested party selling during a close period. The bargain basement levels reached recently have attracted interest from turn-round teams, and the rise in the gold price past $1,300 should in due course come to its aid, along with more favourable production levels.

Sadly, Shanta seemingly so promising earlier in the year with increasing production and lower costs has succumbed to the maverick approach of Tanzania’s ‘Bulldozer’ President. His menace to mining influenced, for all we know by some concealed NGO, has brought Acacia to its knees with a tax demand of $165 billion, and increased the royalty payable by Shanta amongst other mines. He is perhaps sharing the same textbook for business destruction as that adopted in Venezuela by Nicholas Maduro; it would be tragic if through ignorance and political dogma a viable sector is brought to the edge of oblivion. Our holding in Maris Africa has also suffered due to the curtailment of its drilling contracts within Kenya by Acacia Mining, as has Capital Drilling.

The vicissitudes of business in Africa have in recent years become more oppressive, as witnessed in South Africa where a corrupt President has succeeded in resisting impeachment by a small margin, and the suggestion of additional shares for Black Empowerment participants is a continuing threat.

We have sadly disposed of our holding in Impala Platinum, long a stalwart of the dividend payers as platinum demand soared to supply exhaust catalysts. The fall in the platinum price, the prospect of demand continuing to reduce due to the ‘Dieselgate’ imbroglio and rise of hybrid cars along with Labour unrest has made its retention less appealing. Perhaps the hydrogen car will come to its rescue.

The deterrent to inward investment other than from China, appears only partially perceived. Anti-business rhetoric within Britain and Europe hardly enhances the cause of capitalism, such as the proposed cap on Energy prices put forward by the Conservatives prior to the Election; also the attempts by the EU to tax or fine Apple, Google and other titans of technology for perceived infringements against the predominance of the Old World order.

The latest lunacy within Britain is the announcement that the sale of new diesel and petrol cars will be prohibited by 2040. The presumption that our national power supplies will have miraculously emerged from a prolonged moratorium on the continuation or building of thermal-powered electricity, with Hinkley Point way over budget and behind schedule, and succeed in producing significantly more power to recharge a glistening array of electric vehicles is to our mind at least utterly fanciful.

Moreover the huge advances achieved in the development of internal combustion engines over recent years has brought them to a point of perfection, where only minor improvements are now needed to eliminate the worst excesses of particulates and other emissions. Once again a political diktat has been imposed on one of Britain’s most important employers, without it would seem any consultation with those manufacturers. It is instructive to consider Tony Seba’s use of the photograph of Wall Street at the beginning of the 20th Century, with the caption ‘Spot the car’ of which one is visible, and the same scene a few years later, saying ‘Spot the horse’, of which one remains. As far as we are aware, no government decided that change should occur, but it happened with huge rapidity, and formed the basis for America’s industrial supremacy.

The market should remain supreme, unleashing all its magnificent power of innovation and development, with only gentle nudges from government to uphold law, avoid perverse consequences and ensure the appropriate treatment of employees. The adage by Ronald Reagan oft quoted but seldom heeded, in 1986 as being the most terrifying words in the English language: ‘I am from the government and I am here to help’, have never been more appropriate with today’s ever-increasing urge by government to implement more QE, eternally low interest rates, and intrude into every nook and cranny of daily life. The increased tax on carbonated drinks is a case in point, forcing large producers of well-known drinks such as Irn-Bru, Vimto and Lucozade to alter the life-long recipes, and the National Trust its flapjacks, whereas studies by Czarnikow show no increase in per head consumption of sugar since 1905, only an increasingly inactive and over-fed populace.

Sadly the financial sector faces similar challenges, where MiFID II is the ogre on the horizon, and its implementation in January 2018 is likely to lead to a vast array of complications and unintended consequences, not least the devastation of the stockbroking research sector, as payment will have to be apportioned for research received, rather than bundled up with commission fees.

We sense the blunders of Brussels, aided by a British bureaucracy only too keen to usurp the market mechanisms that have successfully managed the monitoring for many years. It will be very hard to rebuild the structures and firms that have grown over the years, if this bulldozer approach flattens the whole sector, or at least its smaller participants. We even hear of some major players moving their traders overseas to avoid the new regulations, inflicting more damage on the City of London, already threatened by the fall-out from Brexit. The interference of the FCA in the running of hitherto successful companies has been demonstrated by its refusal to allow Hargreaves Lansdown to pay its customary special dividend, in order to safeguard its reserves. We would consider that capable and long-standing executives have a better grasp of their business than recently-appointed bureaucrats reading new guidelines. We read that J P Morgan spends an estimated $9 billion per annum complying with regulations, and feeding information to Alex in the Daily Telegraph; the number of regulators has risen from 1 in 11,000 to 1 in 300. The European Union, with 7.2% of the World’s population, 23.8% of the World’s GDP, has 58% of the World’s welfare spending, as described by the Mises Institute.

One wonders whether Britain will emerge any better once its departure from the EU is assured. Seeing occupants of some London tower blocks, one cannot but be impressed by the strength of a system that allows so many new-arrivals to be housed in proximity to one of the wealthiest areas in the world; whilst at the same time reflecting on the abolition in 1985 of the role of District Surveyor, who monitored Building regulations rigorously and impartially.

It is disturbing to see the only people being taken to court following the banking collapses of 2007 are those who kept their bank out of the grasp of the Government; a somewhat topsy-turvy version of justice to the uninitiated. The latest addition to the board of the Monetary Policy Committee is an Argentine opponent of Brexit and austerity, from the National University of Tucuman: one really does have to wonder what it is that Argentina has to teach Britain about financial rectitude and stability.

The new Editor of the Evening Standard, not content with piling abuse on Theresa May, has left a toxic legacy in the housing market, where grotesquely excessive stamp duty has brought London’s housing market to a shuddering halt, and greatly distorted that of the major part of southern England. It is sad that civil servants within the Treasury were unable to comprehend the scale of resentment and resistance that a change from an earlier level of 1% to 12%, over a relatively short period of time, would achieve. Some well-known and long-established estate agents have already gone bust, and the slow-down in housing activity and the rate of construction, has been exacerbated by the removal of tax allowances on buildings bought for buy-to-let, and increased stamp duty on purchases of second homes.

A well-ordered market has been brought to its knees by myopic revenue-raising to plug short–term spending targets. The failure of large housebuilders to build at a rate to satisfy the needs of the younger generation also threatens the social fabric of the country, and is grist to the Corbyn mill of State Socialism. Without the incentive to provide rented accommodation, a provision with which much of today’s generation are content, the shortage of housing will prove a poisonous potion for capitalism and this Conservative government. This is being exacerbated by a huge fall in mortgage lending, as demonstrated by Nationwide recently. Perhaps M.J. Gleeson, or H.Boot, supplying reasonably priced houses in the Midlands, are a sanctuary at this time.

On the wider front, the former Chairman of the Federal Reserve is now warning of a ‘Bond Bubble’, and the ability of the serial–defaulter Argentina to issue 100 year debt, and Iraq to borrow at 6.75% and be over-subscribed by 7 times, shows no shortage of money-lenders taking a different view. There are also many who fear complications with Personal Car Policies, or Auto-loans, which have underpinned a large increase in car sales, on the supposition the car sold in a few years’ time will retain a certain percentage of its value, and go towards the next purchase. This would seem a sector ripe for a reaction to excessively lenient lending, both in the UK and the United States.

The unpredictable character of Donald Trump, the revenge-seeking of his erstwhile opponents, and the continuing failure of any of his reforms to be enacted into law, mean that some of the uplift originally expected from infrastructure spending and tax reform may never occur. Even if Britain were to achieve a trade deal with the United States, and accept amongst other imports ‘chlorine-washed’ chicken, it is to be suspected that the United States with its tradition of protectionism would come out on top, and quite possibly the vast expansion of chicken production within the UK come to a grinding halt.

The glorious June enjoyed on a par with 1976 has proved a huge boost to our pub investments, and will have brought benefit to Fuller, Smith and Turner, along with Young’s amongst others; the counter-balance of a consistently wet August will have off-set some of this benefit, but despite the significant challenges of rate reviews, living wage, apprenticeship levies and increased alcohol duty, we would expect the sector to continue growing, even if at a reduced rate.

Demand for industrial metals such as copper and lithium, and even coal, seems set to recover and indeed rise, as long as the much-predicted slow-down in China is yet again deferred; gold may well flourish amongst angst and uncertainty in World affairs.

With debt reduced, and a good balance within the portfolio of stable and long-established companies, we see no reason that your company’s progress and recovery should not continue.

The outlook for the UK is clouded by the impasse confronting Britain’s negotiators over leaving the EU: it would appear that elements within the European Commission are determined to punish Britain for its temerity in voting to leave, and to fulfil the predictions of disaster made by all and sundry prior to June 23rd. At all costs the departure must not be seen to be a success, hence the suggestion of sky-high leaving bills, and other malignant manoeuvres.

Concomitant with this uncertainty, the good economic figures Britain has enjoyed up to now are beginning to fade, under the burden of rising import prices, and cost increases resulting from apprenticeship levies, living wage and a variety of extra regulations. Sadly also our important invisible export of student education has fallen prey to the attack on migration numbers, so much so that Britain now lags Australia as a location for further education, despite possessing more than twice the number of its universities. It seems perverse to stymy one of the glories of Britain imperilling long-established relations with the Commonwealth and other countries, whose brightest and best may well, in the future, pursue careers in other more welcoming countries. Meanwhile, Eton continues to draw its intake from around the World, at the expense of native-born sons.

We are therefore somewhat sanguine on the outlook for UK centred companies, although our overseas investments should benefit from any further weakness of the pound.

The Board are currently evaluating a number of proposals for the future of your company and hope to be able to advise shareholders accordingly in due course.

Proverbs XV v 22: *Without counsel, purposes are disappointed, but in the multitude of counsellors they are established.*

Our appreciation is due in spades to the dedication and effort displayed by the unflappable Una, ever-positive Abbie and consistency of Nancy and Nick in making the management of the company run so smoothly. We are indeed grateful for their support and achievements.

Robin Woodbine Parish

26 September 2017.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

for the year ended 30 June

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | |  |  | | |
|  | **30 June 2017** | |  | 30 June 2016 | | |
|  | **£** | |  | £ | | |
| Revenue | **1,483,710** | |  | 1,536,987 | | |
| Net gains / (losses) on investments | **7,946,532** | |  | 467,584 | | |
| **Total investment income /(loss)** | **9,430,242** | |  | 2,004,571 | | |
| Expenses | **(1,263,440)** | |  | (1,436,220) | | |
| **Profit / (loss) before finance costs and taxation** | **8,166,802** | |  | 568,351 | | |
| **Finance costs** | **(740,115)** | |  | (1,183,987) | | |
| **Loss before taxation** | **7,426,687** | |  | (615,636) | | |
| Taxation | **(634,608)** | |  | 886,813 | | |
| **Profit / (loss) for the financial year and total comprehensive income** | **6,792,079** | |  | 271,177 | | |
| **Earnings / (losses) per share (basic)** | **10.8p** | |  | 0.4p | | |
|  | |  | | |  |  | |  |  |

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

for the year ended 30 June

|  |  |  |  |
| --- | --- | --- | --- |
|  | **30 June 2017** |  | 30 June 2016 |
|  | **£** |  | £ |
| **Opening capital and reserves attributable to equity holders** | **50,598,883** |  | 51,827,562 |
| Total comprehensive income and profit / (loss) for the financial year | **6,792,079** |  | 271,177 |
| Decrease of share capital on cancellation of shares | **(2,826)** |  | (9,413) |
| Increase of capital redemption reserves on cancellation of shares | **2,826** |  | 9,413 |
| Decrease of retained earnings on cancellation of shares | **(194,306)** |  | (151,342) |
| Dividends paid (net) | **(1,515,926)** |  | (1,348,514) |
| **Closing capital and reserves attributable to equity holders** | **55,680,730** |  | 50,598,883 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

at 30 June

|  |  |  |  |
| --- | --- | --- | --- |
|  | **30 June 2016**  **£** |  | 30 June 2016  £ |
| **Non-current assets** |  |  |  |
| Property, plant and equipment | **611,247** |  | 609,216 |
| Investment in artwork | **500,000** |  | 500,000 |
| Intangible asset | **18,400** |  | 91,666 |
|  | **1,129,647** |  | 1,200,882 |
| **Current assets** |  |  |  |
| Trade and other receivables | **818,216** |  | 364,710 |
| Investments held at fair value through profit or loss | **63,599,004** |  | 66,612,318 |
| Cash and cash equivalents | **913,260** |  | 693,943 |
| **Total current assets** | **65,330,480** |  | 67,670,971 |
| **Current liabilities** |  |  |  |
| Trade and other payables | **567,320** |  | 496,886 |
| Financial liabilities at fair value through profit or loss | **3,094,600** |  | 4,242,531 |
| Current tax liability | **716,280** |  | 148,603 |
| **Total current liabilities** | **4,378,200** |  | 4,888,020 |
| **Net current assets** | **60,952,280** |  | 62,782,951 |
|  |  |  |  |
| **Non-current liabilities** |  |  |  |
| Borrowings | **4,600,000** |  | 11,000,000 |
| Deferred tax liabilities | **1,801,197** |  | 2,384,950 |
| **Total non-current liabilities** | **6,401,197** |  | 13,384,950 |
| **Net assets** | **55,680,730** |  | 50,598,883 |
|  |  |  |  |
| **Capital and reserves attributable to equity holders** |  |  |  |
| Share capital | **434,906** |  | 437,732 |
| **Reserves** |  |  |  |
| Share premium | **6,017** |  | 6,017 |
| Capital redemption reserve | **359,641** |  | 356,815 |
| Merger reserve | **3,564** |  | 3,564 |
| Retained earnings | **54,876,602** |  | 49,794,755 |
| **Total equity** | **55,680,730** |  | 50,598,883 |

|  |  |  |  |
| --- | --- | --- | --- |
| Net asset value per share | 88.1 p |  | 79.7 p |

The Board of Directors approved and authorised the Group’s financial statements for issue on 26 September 2017.

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 2017** |  | 30 June 2016 |
|  | **£** |  | £ |
| **Operating activities** |  |  |  |
| Net loss before tax | **7,426,687** |  | (615,636) |
| **Adjustments for:** |  |  |  |
| Depreciation | **14,715** |  | 1,531 |
| Net unrealised gains on fair value investments through the profit or loss | **(8,000,879)** |  | (500,804) |
| Finance costs | **740,115** |  | 1,183,987 |
| **Cash flow from operations before changes in working capital** | **180,638** |  | 69,078 |
|  |  |  |  |
| Decrease in financial assets at fair value through the profit or loss | **10,317,093** |  | 5,894,415 |
| (Increase)/decrease in trade and other receivables | **(451,973)** |  | 1,549,736 |
| (Decrease)/increase in trade and other payables | **(347,255)** |  | 335,467 |
| **Cash flow from operations** | **9,698,503** |  | 7,848,696 |
|  |  |  |  |
| Income taxes paid | **(650,684)** |  | (396,978) |
| **Cash flow from operating activities** | **9,047,819** |  | 7,451,718 |
| **Investing activities** |  |  |  |
| Purchase of property, plant and equipment | **(16,746)** |  | - |
| **Cash flow used in investing activities** | **(16,746)** |  | - |
| **Financing activities** |  |  |  |
| Interest paid | **(699,991)** |  | (1,180,967) |
| Net dividends paid to Shareholders | **(1,517,459)** |  | (1,348,514) |
| Repayment of borrowing | **(6,400,000)** |  | (9,000,000) |
| Repayment of interest rate swap | - |  | (1,170,000) |
| Purchase of own shares subsequently cancelled | **(194,306)** |  | (151,342) |
| Loan note fee paid | **-** |  | (150,000) |
| **Cash flow used in financing activities** | **(8,811,756)** |  | (13,000,823) |
| **Net increase in cash and cash equivalents** | **219,317** |  | (5,549,105) |
|  |  |  |  |
| **Cash and cash equivalents at 1 July** | **693,943** |  | 6,243,048 |
| **Cash and cash equivalents at 30 June** | **913,260** |  | 693,943 |