

# North Atlantic Smaller Companies Investment Trust plc



**Annual Report  
for the year ended 31 January 2014**

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Company Registered Number:

1091347

Cover Image: The Battle of Navarino, 20 October 1827 by George Philip Reinagle  
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The Company is a member of the Association of Investment Companies.

## objective of the company and financial highlights

*The objective of the Company is to provide capital appreciation through investment in a portfolio of smaller companies principally based in countries bordering the North Atlantic Ocean.*

	31 January 2014	% change	31 January 2013	31 January 2012	31 January 2011	31 January 2010
<b>revenue</b>						
Gross income (£'000)	5,753	5.1	5,474	6,432	2,341	3,525
Net return after tax attributable to Shareholders of the Parent (£'000)	45	109.1	(494)	14	(849)	443
Basic return per Ordinary Share – revenue	0.29p	108.4	(3.46)p	0.10p	(5.86)p	2.99p
– capital	376.48p	16.0	324.45p	(79.00)p	284.70p	289.45p
<b>assets</b>						
Total assets less current liabilities (£'000)	349,762	18.4	295,417	250,490	259,916	219,613
Net asset value per 5p Ordinary Share:						
Basic	2,054p	10.1	1,865p	1,570p	1,664p	1,480p
Diluted*	2,037p	21.5	1,677p	1,395p	1,459p	1,169p
Mid-market price of the 5p Ordinary Shares at 31 January	1,600.0p	21.6	1,316.0p	1,035.0p	1,146.0p	814.0p
<b>discount to diluted net asset value</b>	21.5%		21.5%	25.8%	21.5%	30.4%
<b>indices and exchange rates</b>						
Standard & Poor's 500 Composite Index	1,782.6	19.0	1,498.1	1,312.4	1,286.1	1,073.9
Russell 2000 Index	1,130.9	25.4	902.1	792.8	781.3	602.0
US Dollar/Sterling exchange rate	1.6435	3.7	1.5855	1.5781	1.6018	1.6024
Standard & Poor's 500 Composite – Sterling adjusted	1,084.4	14.8	944.8	832.8	803.1	671.8
Russell 2000 – Sterling adjusted	688.0	20.9	568.9	503.1	487.9	376.6
FTSE All-Share Index	3496.5	6.4	3,287.4	2,932.9	3,044.3	2660.5

\* Includes current period revenue.

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**corporate summary**

<b>introduction</b>	North Atlantic Smaller Companies Investment Trust plc (“NASCIT”) is an investment trust whose shares are listed on the London Stock Exchange.
<b>objective and investment strategy</b>	The objective of the Company is to provide capital appreciation through investment in a portfolio of smaller companies principally based in countries bordering the North Atlantic Ocean. The Company invests in both listed and unlisted companies.
<b>company’s business</b>	The Company is an investment company within the meaning of Section 833 of the Companies Act 2006 and its business is that of an investment trust. The business of the Company’s wholly owned subsidiary, Consolidated Venture Finance Limited, is an investment dealing and holding company and its other subsidiary, Hampton Investment Properties Limited, is a property investment company.
<b>risk</b>	<p>Investment in small companies is generally perceived to carry a greater risk than investment in large companies. This is reasonable when comparing individual companies, but is much less so when comparing the volatility of returns from a diversified portfolio of companies. The Board believe that the Company’s portfolio is diversified although considerably less liquid than a portfolio of large-cap listed equities.</p> <p>The Company has the ability to utilise gearing in the form of term loan facilities, although no facility currently exists. Gearing has the effect of accentuating market falls and gains.</p> <p>The Company outsources all of its main operational activities to recognised third party providers.</p>
<b>AIC</b>	The Company is a member of the Association of Investment Companies (“AIC”).
<b>joint managers</b>	The Joint Managers are Christopher Mills through Growth Financial Services Limited (“GFS”) and Harwood Capital LLP. GFS is wholly owned by Harwood Capital Management Limited which is wholly owned by Christopher Mills.
<b>company secretary</b>	The Company Secretary is Bonita Guntrip ACIS, 6 Stratton Street, Mayfair, London W1J 8LD.
<b>website</b>	<a href="http://www.harwoodcapital.co.uk">www.harwoodcapital.co.uk</a>

## directors

**Peregrine D E M Moncreiffe** <sup>123</sup> Non-Executive Chairman. Appointed on 17 November 2008 (having previously been a Director of the Company from 1993 – 2006). He has over the years worked in London, New York and the Far East, with Credit Suisse First Boston, Lehman Brothers and Buchanan Partners. He is a non-executive director of EnergyO Solutions Russia AB and Aurora Russia Limited. He was a director of Noventa Limited until 9 July 2009 and a director of NR Nordic and Russia Property Limited, which was listed on Euronext until it was wound up in November 2012.

**Christopher H B Mills** Chief Executive and Investment Manager. Appointed August 1984. He is currently a member and Chief Investment Officer of Harwood Capital LLP, the Company's Joint Manager. In addition, he is a non-executive director of numerous UK companies which are either now or have in the past five years been publicly quoted, further details of which are included in note 18 of the financial statements.

**Kristian Siem (Norwegian)** <sup>123</sup> Non-Executive Director. Appointed April 2001. He is chairman of Siem Industries Inc., an industrial company which includes offshore oil and gas sub-sea construction and services vessels, and marine transportation worldwide. He is also a director of various companies in Norway, Sweden, Denmark, Portugal and the Cayman Islands, including NKT Holdings A/S and Subsea 7 SA.

**Charles L A Irby FCA** <sup>123</sup> Non-Executive Director and Chairman of the Audit Committee. Appointed December 2002. He is a non-executive director of Great Portland Estates PLC, and was chairman of Aberdeen Asset Management PLC from 1999 to January 2009 and was a director of QBE Insurance Group Limited from 2001 to 2013. He was head of corporate finance of ING Barings from 1992 to 1999 and a managing director from 1995 to 1999. He was also a member of the Panel on Takeovers and Mergers from 1997 to 1998.

**Enrique Foster Gittes (USA)** <sup>123</sup> Non-Executive Director. Appointed July 1992 and served as the Company's Chairman from July 1998 to June 2009. He is an American lawyer who was president of Hambro America in New York until 1983, responsible for venture capital investment and subsequently chairman of European Home Products PLC until 1988 and a director of Scholl PLC until 1994. He was a founder and a director of Denison International PLC until 1999 and is currently President of Bodega Foster SA, Mendoza, Argentina.

<sup>1</sup> Independent

<sup>2</sup> Member of the Audit Committee

<sup>3</sup> Member of the Remuneration Committee

## chairman's statement

It is particularly pleasing to note thirty years after the appointment of the current manager that the Company has had another very good year with the net asset value reaching a new all-time high. Adjusting for the Convertible Unsecured Loan Stock over the years, the net asset value now represents a gain of approximately 50x over the 30 years. This constitutes an IRR of almost 14%.

Over the last year the fully diluted net asset value rose by 21.5% outperforming the sterling-adjusted Standard and Poors Composite Index which rose 14.8%. The revenue account showed a profit after tax attributable to Shareholders of £45,000 (2013: loss of £494,000). In accordance with the Company's long standing policy, the Directors are not recommending the payment of a dividend (2013: £nil).

During the year, the Company purchased 33,298 ordinary shares for cancellation. Given the Company's strong cash resources, this policy is likely to continue in the current year. Also during the year, all of the remaining units of Convertible Unsecured Loan Stock 2013 were converted, either by the holders themselves who elected to convert their stock on the final conversion date, 30 April 2013, or by the Trustee of the Stock, the Law Debenture Trust Corporation plc, using its discretionary conversion powers. There are no longer any units of Convertible Unsecured Loan Stock 2013 in issue.

A commentary on the performance of the different parts of the portfolio can be found in the Investment Manager's report.

The rise in the stock markets over the past year can principally be attributed to the continuing easy monetary conditions and the search by investors for yield in a low interest rate environment.

Despite relatively modest profits growth (the S&P saw earnings rise by about 7%), large companies' share prices have risen considerably, while in the technology sector it is hard to rationalise some valuation levels.

Smaller company shares have also performed well as they benefit from the steady recovery in the US and British economies. This, however, makes it increasingly difficult for the Trust to find new investments at attractive valuations.

Nevertheless the current year has started well and I am hopeful that we shall see a further advance in the net asset value, although it is unlikely to be of the same magnitude as the last two years' outstanding performance.

**The Hon. P D E M Moncreiffe** *Chairman*

20 May 2014

## investment managers' report

## quoted portfolio

## United Kingdom

The outstanding feature in the United Kingdom portfolio was the rise of over 100% in the price of MJ Gleeson which added approximately £21 million to the net asset value over the twelve month period on the back of dramatically improved profitability and encouraging prospects for the future.

Oryx International growth Fund also had a good year with the net asset value rising by approximately 40%.

The UK portfolio as a whole performed well with good rises in BBA, Mecom, CVS Group, Essenden and Goals Soccer which was purchased over the course of the year.

## United States

The US quoted portfolio is now relatively modest with a small holding in Sunlink which had no impact on the fund during the year.

## unquoted portfolio

## United Kingdom

One new investment was made during the year, being Team Rock, a magazine and radio business which intends to expand its business into social media.

Orthoproducts was sold at a good profit as was Merchant Properties whilst Crendon, which had been valued at nil, was also sold for in excess of £1 million albeit at a loss to original cost. Hampton had a satisfactory year and we are optimistic that progress will be made in the current year as a number of recent transactions appear to be nicely profitable. Against this, it was deemed prudent to write off the investment in Martley.

TPE II was for the most part liquidated during the period and the remaining two investments are likely to be sold during the next twelve months,

TPE III completed four new investments and benefitted from the restructuring of Celsis which enabled 100% of the fund's investment to be repaid.

## United States

A small new investment was made in B&G, a leading pest control products business based in Atlanta, Georgia.

The Company's largest unquoted investment, Bionostics, was successfully sold during the period, realising a profit of £16.8 million for the Company. Celsis was revalued upwards reflecting continuing excellent operational performance and the successful sale of a non-core subsidiary. Glass America has been merged with a competitor resulting in significant operating synergies and is likely to be sold over the next eighteen months, Performance Chemicals and Sinav Limited were written up during the year, reflecting excellent operating performance.

Finally the Company's holdings in five small banks are performing well with good increases in profitability across the portfolio.

**Christopher H B Mills** *Chief Executive & Investment Manager*

20 May 2014

## sector analysis of investments at fair value

as at 31 January

	United States 31 January 2014 %	United Kingdom 31 January 2014 %	Europe 31 January 2014 %	Total 31 January 2014 %	Total 31 January 2013 %
<b>equities, convertible securities &amp; loan stocks as a % of total portfolio valuation</b>					
Investment Companies	–	21.1	–	21.1	19.7
Manufacturing	1.3	–	–	1.3	9.0
Real Estate	–	6.8	–	6.8	8.1
General Industrials	1.2	–	–	1.2	4.1
Health Care, Equipment & Services	4.6	4.3	–	8.9	15.4
Support Services	1.1	2.5	–	3.6	3.8
Transport	–	1.8	–	1.8	3.4
General Financials	3.7	–	–	3.7	4.4
Media	1.0	2.1	–	3.1	1.8
Industrial Engineering	0.2	3.0	–	3.2	3.5
Construction & Materials	–	13.5	–	13.5	8.2
Technology Hardware & Equipment	1.2	–	–	1.2	1.6
Travel & Leisure	–	4.4	–	4.4	1.3
Oil & Gas Producers	1.6	0.8	–	2.4	2.0
General Retailers	–	1.4	–	1.4	3.3
Financial Services	–	4.3	–	4.3	4.9
	<b>15.9</b>	<b>66.0</b>	–	<b>81.9</b>	94.5
<b>treasury bills</b>	<b>18.1</b>	–	–	<b>18.1</b>	5.5
<b>total at 31 January 2014</b>	<b>34.0</b>	<b>66.0</b>	–	<b>100.0</b>	
total at 31 January 2013	<b>33.0</b>	<b>66.6</b>	<b>0.4</b>		100.0

The sector analysis excludes investments held by the subsidiary undertakings, Hampton Investment Properties Limited and Consolidated Venture Finance Limited.



**twenty largest investments***as at 31 January*

<b>equities (including convertibles, loan stocks and related financing)</b>		At fair value £'000
Gleeson (MJ) Group	UK Listed	40,700
Oryx International Growth Fund Limited*†	UK Listed	36,029
Trident Private Equity Fund III LP	UK Unquoted	25,512
Hampton Investment Properties Limited††	UK Unquoted	14,421
Celsis AG	USA Unquoted	12,861
Guinness Peat Group**	UK Listed	12,795
Bioquell	UK Listed	11,842
Goals Soccer Centres plc	UK Quoted on AIM	8,621
Nationwide Accident Repair Services PLC	UK Quoted on AIM	7,600
AssetCo PLC	UK Quoted on AIM	7,420
<b>ten largest investments</b>		<u>177,801</u>
Merchant Properties Unit Trust	UK Unquoted	6,013
BBA Aviation Group	UK Listed	5,375
Sinav Limited	UK Unquoted	4,869
Mecom Group	UK Listed	4,700
CVS Group PLC	UK Quoted on AIM	4,162
Telos Corporation	USA Unquoted	4,024
Bionostics Holdings Limited	UK Unquoted	3,783
Performance Chemical	USA Unquoted	3,505
GAJV Holdings Inc.	USA Unquoted	3,247
Team Rock Limited	UK Unquoted	2,878
<b>twenty largest investments</b>		<u>220,357</u>
Aggregate of other investments at fair value		<u>25,547</u>
		<u>245,904</u>
USA Treasury Bills		<u>54,454</u>
<b>total value of investments and associates of the company</b>		<u><u>300,358</u></u>

\* incorporated in Guernsey.

\*\* incorporated in New Zealand.

† Oryx is accounted for in the Group accounts as an Associate under the equity method of accounting. The valuation shown above is the Group's share of Oryx's net assets.

†† Hampton Investment Properties Limited is accounted for in the Group accounts as a Subsidiary.

All other investments are valued at fair value.

## unlisted investments profile

as at 31 January

		2014	
		At fair value	Total assets
		£'000	%
<b>Trident Private Equity Fund III LP (UK) Cost: £18,016,000</b>		<b>25,512</b>	<b>7.8</b>
<p>The Company has made a £25 million commitment to TPE III with just over £20.7 million drawn down. TPE III will continue the successful policy achieved by TPE II, investing primarily in small UK-based buyouts. To date, eight investments have been made.</p>			
Equity held	32.7%		
Income recognised in the period	£nil		
Financial results per latest audited accounts			
– Turnover	n/a		
– EBIT	n/a		
 <b>Hampton Investment Properties Limited (UK) Cost: £9,968,000</b>		 <b>14,421</b>	 <b>4.4</b>
<p>Hampton has disposed of 5 of its assets in line with its strategy to dispose of its non-core assets to special purchasers. It is now on a determined path to liquidation hopefully within the course of this financial year.</p>			
Equity held	68.1%		
Income recognised in the period	£nil		
Financial results per latest audited accounts			
– Turnover	£3.6m		
– EBIT	£1.8m		
 <b>Celsis (US) Cost: £623,000</b>		 <b>12,861</b>	 <b>3.9</b>
<p>The company is the world leader in the rapid detection of pathogens in liquid. Since acquisition, the company has sold two non-core divisions and returned 100% of the Company's investment.</p> <p>The core division is highly profitable and results for the year ending March 2014 are expected to be substantially ahead of budget as the company continues to win new customers, particularly in the pharmaceutical sector.</p>			
Carried forward		52,794	

## unlisted investments profile

as at 31 January

	2014	
	At fair value	Total assets
	£'000	%
Brought Forward	52,794	
<b>US Bank Portfolio</b> <i>Cost: £2,698,000</i>	<b>8,044</b>	<b>2.4</b>
<p>The company owns a portfolio of 5 banks all in the southern part of the United States. All of the banks are now profitable and have limited exposure to non-performing assets. Taken as a whole, the portfolio is valued at just over book value. It should however be noted that investor liquidity is still some way off as the businesses need to build size in order to become attractive to third parties.</p>		
<b>Merchant Properties (UK)</b> <i>Cost: £4,570,000</i>	<b>6,013</b>	<b>1.8</b>
<p>The holding was sold at the valuation shortly after the year end.</p>		
<b>SINAV Limited/GTL Resources (US)</b> <i>Cost: £2,775,000</i>	<b>4,869</b>	<b>1.5</b>
<p>SINAV Limited was the vehicle which acquired GTL Resources Plc which produces corn-based ethanol at a 130 million gallon per annum plant in Rochelle, Illinois. Trading conditions are currently exceptionally good and as a consequence, the business has repaid all of its debt. The Board has put the business up for sale and offers received to date have been above the current valuation. Should the sale process be successful, we would expect closure to be before the end of June.</p>		
<b>Telos Corporation (USA)</b> <i>Cost: £1,161,000</i>	<b>4,024</b>	<b>1.2</b>
<p>Telos is a provider of IT solutions to the US Federal government, the military, the intelligence community and commercial enterprises. The company has continued to perform strongly and has virtually no debt. The company intends to achieve investor liquidity when concerns over sequestration in the US alleviate.</p>		
Carried forward	75,744	

## unlisted investments profile

as at 31 January

	2014	
	At fair value	Total assets
	£'000	%
Brought Forward	75,744	
<b>Performance Chemical Company (US) Cost: £3,688,000</b>	<b>3,505</b>	<b>1.1</b>
Performance Chemicals provides speciality chemicals which enhance oil and gas production or assist in the development of shale oil and gas reserves. Results last year continue to show a significant improvement on the prior year and the outlook for the current year is also good as the business continues to win more business for existing large customers and shed small unprofitable accounts. Furthermore, a major capex spend to modernise the company's plant and machinery is now coming to an end so that the business will generate substantial free cash going forward.		
<b>GAJV Holdings Inc. (formerly Glass America LLC) (USA) Cost: £2,953,000</b>	<b>3,247</b>	<b>1.0</b>
GAJV is a provider of automotive glass replacement and repair services in North America. It merged its operating assets with those of the Gerber Glass Division of Boyd Group Income Fund in June 2013. Substantial progress has been made in eliminating headcount and service location redundancies. Glass America has put and call arrangements with the merged operating entity.		
Carried forward	<hr/> 82,496	

## unlisted investments profile

as at 31 January

	2014	
	At fair value	Total assets
	£'000	%
Brought Forward	82,496	
<b>Team Rock (UK) Cost: £2,878,000</b>	2,878	0.9
Team Rock is a leading multi-media rock music business offering print, radio and digital content to fans globally. It acquired the leading magazine titles, "Classic Rock" and "Metal Hammer" from Future PLC in April 2013 and has since established a UK nationwide digital radio station for syndication to an international market. It is currently rolling out an ambitious online and digital strategy. Revenues from "traditional media" (magazines and radio) have performed worse than expected since the investment was made, however the business has had success in developing relationships and winning business from major music industry players.		
* The company entered into a Facility Agreement on 27 January 2014 under which it undertook to make available up to £1,250,000 to Team Rock Limited. This included an advance of £250,000 made on 18 December 2013. Since the year-end further drawdowns under the Facility Agreement totalling £500,000 have been made via drawdowns of £250,000 on 6 February 2014 and £250,000 on 26 February 2014. Loans made under the Facility Agreement accrue interest day to day at a rate of 10% per annum and the loans are repayable on demand.		
<b>Forefront Group Limited (UK) Cost: £1,544,000</b>	2,510	0.8
Forefront is a specialist civil engineering business focusing primarily on the gas supply industry. The company successfully renewed most of its major contracts last year for a further three year term. A process has now started to achieve investor liquidity.		
Carried forward	87,884	

## unlisted investments profile

as at 31 January

	2014	
	At fair value	Total assets
	£'000	%
Brought Forward	87,884	
<b>Global Options (USA) Cost: £1,964,000</b>	<b>1,838</b>	<b>0.6</b>
Global Options provides services to large insurance companies or their agents to minimise fraud. Although the company's EBITDA fell in 2013, this was entirely due to substantial investment made in setting up a new European business, which has been most encouraging and should result in significant growth both in sales and earnings over the next two years.		
<b>Trident Private Equity Fund II LP (Cayman Islands) Cost: £nil*</b>	<b>1,732</b>	<b>0.5</b>
Trident Private Equity Fund II LP ("TPE II") is a £64 million offshore private equity limited partnership. The fund's investment objective is to generate high absolute returns by investing in a portfolio of unquoted investments in small to medium sized companies in the UK. The fund concentrates primarily on leveraged buyouts and similar transactions, including public-to-private and pre-IPO investments. At 31 January 2014, 100% of the Company's commitment had been drawn down and invested in fifteen private equity transactions, of which thirteen have been realised. As at 31 January 2014, the Company had received 178% of committed capital back in distributions from TPE II. The entire portfolio is now up for sale and we would expect the process to be completed at or above the current valuation during the course of the year.		
Equity held	16.3%	
Income recognised in the period	£nil	
Financial results per latest audited accounts		
– Turnover	n/a	
– EBIT	n/a	
* £15m received in distributions since holding this investment has been allocated against the original cost. Amounts received above original cost are treated as realised gains.		
Carried forward	<hr style="width: 100px; margin-left: auto; margin-right: 0;"/> 91,454	

## unlisted investments profile

as at 31 January

	2014	
	At fair value	Total assets
	£'000	%
Brought Forward	91,454	
<b>Crendon (UK)</b> <i>Cost: £3,291,000</i>	1,400	0.4
The investment was sold shortly after the year end at a modest premium to the current valuation.		
<b>Progeny (US)</b> <i>Cost: £nil</i>	1,217	0.4
The company runs African-American funeral homes in Louisiana, USA. The business is profitable and has modest debt. Progeny is in discussions to be acquired and the holding is valued at the offered price.		
Carried forward	94,071	
Other unlisted investments at fair value	7,501	
Total value of unlisted investments at fair value*	<u>101,572</u>	

\* Includes unlisted loan notes in these companies with a total value of £3,481,000.

## unlisted investments profile (AIM Quoted)

as at 31 January

	2014	
	At fair value	Total assets
	£'000	%
<b>Goals Soccer Centres plc</b> <i>Cost: £5,895,000</i>	8,621	2.6
Goals is a successful and established operator of 5-a-side soccer centres across the UK. It now operates 43 centres across the United Kingdom, employs 800 staff and has established a well-progressed pipeline of sites to continue its rollout. It also has one centre in Los Angeles, United States which is also trading successfully and plans to open further US centres in the near future. The results for the year ended 31 December 2013 were in line with expectations and the company is confident that it will make further progress during 2014.		
<b>Nationwide Accident Repair Services Plc</b> <i>Cost: £2,582,000</i>	7,600	2.3
Nationwide provides automotive crash repair and accident administration services to the UK insurance industry. With a national network of accident repair centres located across England, Scotland and Wales employing over 2,200 people, it is the largest dedicated provider of accident repair services in the UK. Recent trading has been in line with expectations and the company is hopeful that there will be some growth in the current year.		
<b>AssetCo Plc</b> <i>Cost: £8,550,000</i>	7,420	2.3
AssetCo is an international Fire and Rescue business, the company's major contract is in Abu Dhabi which was extended last year and the company is in the process of negotiating a further longer extension to that contract. Contracts with other sovereign nations are also under discussion.		
The company has cash balances, no debt and very substantial claims against third parties which it is pursuing.		
<b>CVS Group PLC</b> <i>Cost: £1,609,000</i>	4,162	1.3
CVS Group Plc is one of the leading veterinary services providers in the UK. The Group has four main business areas: veterinary practices, diagnostic laboratories, pet crematoria and Animed Direct, an online business. The company has performed well over the past year beating analysts' forecasts and paying down debt. The company continues to expand through acquisitions and the long term prospects remain favourable.		



**unlisted investments profile (AIM Quoted)***as at 31 January*

Essenden Plc <i>Cost: £469,000</i>	2,433	0.7
<p>The company is the second largest tenpin bowling business in the United Kingdom. Nick Basing and his management team have been highly successful in restoring the health of the business so that all bank debt has been repaid and the company now has modest cash balances. Trading in 2013 was better than expected and the current year has started well.</p>		
<b>Total value of AIM quoted investments at bid value</b>	<u>30,236</u>	

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**strategic report**

	The Directors present the strategic report of the Company for the year ended 31 January 2014.
<b>principal activity</b>	The Company carries on business as an investment trust and its principal activity is portfolio investment.
<b>objective</b>	The Company's objective is to provide capital appreciation to its Shareholders through investing in a portfolio of smaller companies which are based primarily in countries bordering the North Atlantic Ocean.
<b>strategy</b>	In order to achieve the Company's investment objective, the Joint Managers use a stock specific approach in managing the Company's portfolio, selecting investments that they believe will increase in value over a period of time, whether that be due to issues in the management of the businesses which they believe can be improved by shareholder engagement and involvement or simply due to the fact that the stock is undervalued and they can see potential for improvement in value over the long term. The Company may invest in both listed and unquoted companies. At present, the investments in the portfolio are principally in companies which are located either in the United Kingdom or the United States of America. Typically the investment portfolio will comprise between 40 and 50 securities.
<b>investment policy</b>	<p>While pursuing the Company's objective, the Joint Managers must adhere to the following:</p> <ol style="list-style-type: none"> <li>1 The maximum investment limit is 15% of the Company's investments in any one company at the time of the investment;</li> <li>2 Gearing is limited to a maximum of 30% of net assets;</li> <li>3 The Company may invest on both sides of the Atlantic, with the weighting varying from time to time;</li> <li>4 The Company may invest in unquoted securities as and when opportunities arise and again the weighting will vary from time to time.</li> </ol>
<b>investment approach</b>	<p>The Company invests in a diversified range of companies, both quoted and unquoted, on both sides of the Atlantic in accordance with its objective and investment policy.</p> <p>Christopher Mills, the Company's Chief Executive and Investment Manager, is responsible for the construction of the portfolio and details of the principal investments are set out on pages 8 to 15. The top twenty largest investments by current valuation are listed on page 7.</p> <p>When analysing a potential investment, the Joint Managers will employ a number of valuation techniques depending on their relevance to the particular investment. A key consideration when deciding on a potential investment would be the sustainability and growth of long term cash flow. The Joint Managers will consider the balance of listed and unlisted securities in the portfolio when deciding whether to invest in an unquoted stock as they are aware that the level of risk in unquoted securities may be considered higher.</p> <p>In respect of the unquoted portfolio, regular contact is maintained with the management of prospective and existing investments and rigorous financial and business analysis of these companies is undertaken. It is recognised that different types of business perform better than others depending on economic cycles and market conditions and this is taken into consideration when the Joint Managers select investments and is therefore reflected within the range of investments in the portfolio. The Company attempts to minimise its risk by investing in a diversified spread of investments whether that spread be geographical, industry type or listed or unlisted companies.</p>

## strategic report

## financial instruments

The financial instruments employed by the Company primarily comprise equity and loan stock investments, although it does hold cash and liquid instruments. Further details of the Company's risk management objectives and policies relating to the use of financial instruments can be found in note 17 to the financial statements on pages 69 to 78.

## performance

At 31 January 2014, the diluted net asset value ("NAV") per share was 2,037p (31 January 2013: 1,677p), an increase of 21.5% during the year, compared to an increase of 14.8% during the year in the Standard & Poor's 500 Composite Index (Sterling adjusted). Net assets attributable to equity holders at 31 January 2014 amounted to £326,161,000 compared with £267,743,000 at 31 January 2013.

As reported in the Chairman's Statement on page 4, the Company has had a very good year significantly outperforming its benchmark. Several of the investments in the unquoted portfolio were sold during the year, including Bionostics, which had been the Company's largest unquoted investment and the sale of which generated a very substantial profit for the Company.

## results and dividends

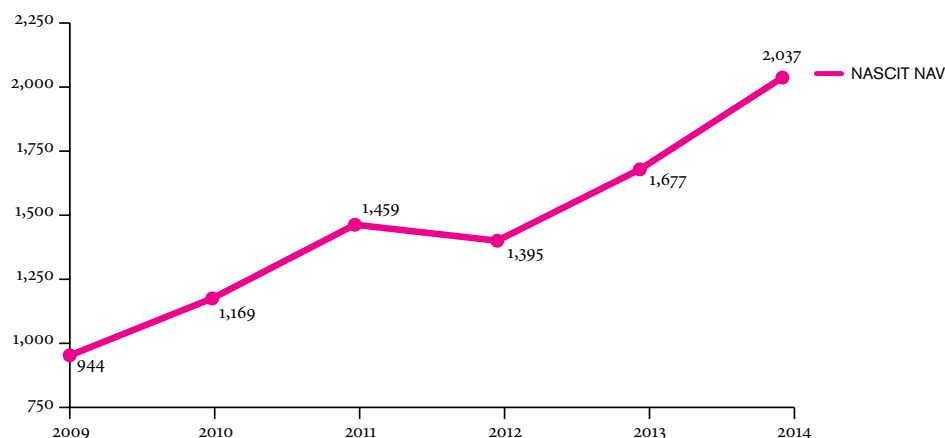
The total net return after taxation for the financial year ended 31 January 2014 amounted to £58,515,000 (2013: £45,512,000). The Board does not propose a final dividend (2013: nil).

## key performance indicators

The Directors regard the following as the main key indicators pertaining to the Company's performance:

- (i) Net asset value per ordinary share: the following chart illustrates the movement in the fully diluted net asset value per Ordinary Share over the past five years:

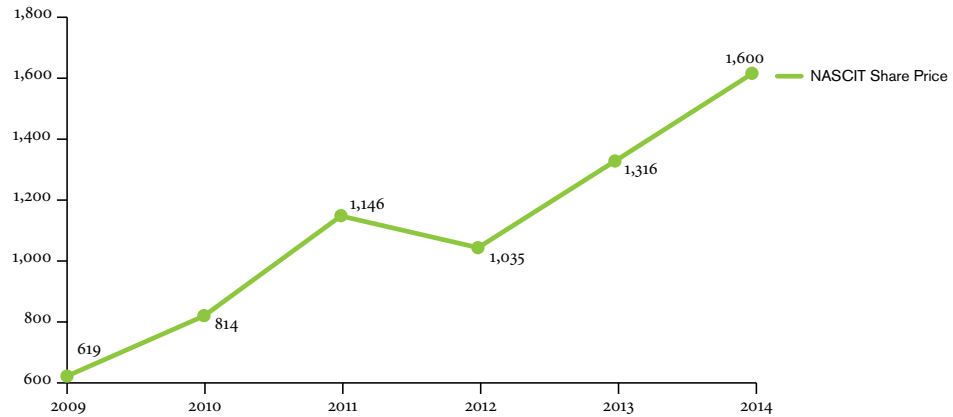
## net asset value in pence



## strategic report

(ii) **Share price return:** the following chart illustrates the movement in the share price per Ordinary Share over the past five years, assuming dividends reinvested:

## share price return



## (iii) Performance against benchmark

The performance of the Company's share price is measured against the Standard & Poor's 500 Composite Index and the Russell 2000 Index (Sterling adjusted), the Company's benchmarks. A graph comparing performance can be found in the Directors' Remuneration Report on page 38.

## principal risks and uncertainties

The key risks faced by the Company are set out below. The Board regularly reviews these and agrees policies for managing these risks.

- **Performance risk** – the Board is responsible for deciding the investment strategy in order to fulfil the Company's objectives and for monitoring the performance of the Joint Managers. An inappropriate investment strategy may result in under performance against the companies in the peer group or against the benchmark indices. The Board manages this risk by ensuring that the investments are appropriately diverse and by receiving reports from the Joint Managers at every board meeting explaining the investment decisions and the composition and performance of the portfolio.
- **Market risk** – this category of risk includes currency risk, market price risk and interest rate risk. The fair value or future cash flows of a financial investment held by the Company may fluctuate because of changes in market prices. Also, the valuations of the investments in the portfolio may be subject to fluctuation due to exchange rates or general market prices. The Joint Managers monitor these fluctuations and the markets on a daily basis; the performance of the investment portfolio against its benchmarks is also closely monitored by the Joint Managers. The aforementioned graph on page 38 of the Directors' Remuneration Report illustrates the Company's performance against its benchmarks over the last five years.

## strategic report

- Investments in unquoted stocks, by their nature, involve a higher degree of risk than investments in the listed market. The valuation of unlisted investments can include a significant element of estimation based on professional assumptions that is not always supported by prices from current market transactions. Recognised valuation techniques are used and recent arms' length transactions in the same or similar entities may be taken into account. Clearly the valuation of such investments is therefore a key uncertainty but the Board manages this risk by regularly reviewing the valuation principles applied by the Joint Managers to ensure that they comply with the Company's accounting policies and with fair value principles. The Joint Managers have also established a Valuations and Pricing Committee which meets regularly throughout the year to review and agree the valuations of the investments in the portfolio for onward submission to the Board. The Company's independent auditors also attend these Committee meetings.
- Discount volatility: the Company's shares historically trade at a discount to its underlying net asset value. The Company has a share buyback programme in place to try to narrow this discount as far as possible by cancelling shares that it repurchases. The Company repurchased a total of 33,298 ordinary shares for cancellation during the year.
- Regulatory risk: any breach of a number of regulations applicable to the Company, the UKLA's Listing Rules and the Companies Act could lead to a number of detrimental effects on the Company as well as reputational damage. The Audit Committee monitors compliance with these regulations in close alliance with the Joint Managers.
- Custodial and Banking risk: there is a risk that the custodians and banks used by the Company to hold assets and cash balances could fail and the Company's assets may not be returned. Associated with this is the additional risk of fraud or theft by employees of those third parties. The Board exercises monitoring through the Joint Managers over the financial position of its custodial banks.
- Credit risk/Counterparty risk: the Company holds preference shares in some investee companies and provides other forms of debt or loan guarantees where deemed necessary. There is a risk of those counterparties being unable to meet their obligations. The financial position and performance of those investee companies are continually monitored by the Joint Managers and actions are taken to protect the Company's investment if needed.

**future prospects**

The Directors are hopeful that the year ending January 2015 will see continued progress and further enhancement in the Company's net asset value although it is unlikely to be of the same magnitude as the performance over the last two years which benefited from the realisation of the Company's largest unlisted investment, Bionostics, at a very substantial profit. However, several of the investments in the portfolio are up for sale or have received offers from interested parties so it is possible that these may be realised during the coming year.

**social, community and human rights issues**

As an investment trust with no employees, property or activities outside investment, the Company has no direct social or community responsibilities and the Board do not believe that the Company's business has an impact on the environment so no policies regarding social and community issues are in place. The Board does not believe that this will change in the near future but, if it were to do so, they would immediately review these matters.

## strategic report

The Company has no employees. The Directors of the Company and their biographies are set out on page 3. There are currently five Directors of the Company, four of whom are non-executive and they are all male. The Board is wholly supportive of boardroom diversity and when a board vacancy arises, the Nominations Committee will ensure that appointments are made on merit, whilst taking into consideration a variety of factors including relevant skills and experience, knowledge, ethnicity and gender.

**greenhouse gas emissions**

The Company has external Joint Managers and has no physical assets, operations, premises or employees of its own. Consequently it has no greenhouse gas emissions to report. Hampton Investment Properties Limited, a property investment and development company, in which the company has a 68.1% holding, owns a portfolio of commercial properties which it leases out to third party tenants and the Company is required to report on this. It has not been practical to obtain this information as Hampton is not required to collate such information for its own reporting purposes thus the information is not readily available. However the Board has communicated its views on environmental matters to Hampton's management team and requested that they strive to minimise any impact on the environment.

**AIFMD**

The Alternative Investment Fund Managers Directive comes into effect later this year. The Company will shortly be appointing an AIFM and depository under the requirements of this legislation.

By Order of the Board

**Bonita Guntrip ACIS**

*Company Secretary*

W1J 8LD

20 May 2014

**group report of the directors***for the year ended 31 January*

The Directors present their report to Shareholders and the financial statements for the year ended 31 January 2014. Certain information that is required to be disclosed in this report has been provided in other sections of this Annual Report and accordingly, these are incorporated into this report by reference.

**taxation status**

In the opinion of the Directors, the Company has conducted its affairs during the period under review, and subsequently, so as to maintain its status as an investment trust for the purposes of Chapter 4 of Part 24 of the Corporation Tax Act 2010. The Company has made a successful application under Regulation 5 of the Investment Trust (Approved Company) (Tax) Regulations 2011 for investment trust status to apply to all accounting periods starting on or after 1 February 2012 subject to the Company continuing to meet the eligibility conditions contained in Section 1158 of the Corporation Tax Act 2010 and the ongoing requirements outlined in Chapter 3 of Part 2 of the Regulations.

**share capital**

The Company's issued share capital consisted of 15,880,736 ordinary shares of 5p nominal value each on 31 January 2014. Since the year end, 895,000 Ordinary shares have been repurchased for cancellation meaning that, at the date of this report, the Company had 14,985,736 Ordinary shares in issue. All shares hold equal rights with no restrictions and no shares carry special rights with regard to the control of the Company. There are no special rights attached to the shares in the event that the Company is wound up.

During the year, the Company purchased 33,298 ordinary shares for cancellation. Since the year end, the Company has purchased a further 895,000 Ordinary shares for cancellation. Also during the year, all of the remaining units of Convertible Unsecured Loan Stock 2013 were converted, either by the holders themselves who elected to convert their stock on the final conversion date, 30 April 2013, or by the Trustee of the Stock, the Law Debenture Trust Corporation plc, using its discretionary conversion powers.

There are no longer any units of Convertible Unsecured Loan Stock 2013 in issue.

**share valuations**

On 31 January 2014, the middle market quotation and the diluted net asset value per 5p Ordinary Share were 1600.0p and 2037.0p respectively. The comparable figures at 31 January 2013 were 1,316.0p and 1,677.0p respectively. It should be noted that since the conversion of the outstanding units of Convertible Unsecured Loan Stock 2013, the only dilution on the net asset value is those share options that have been issued to the Chief Investment Officer and certain employees of the Joint Manager.

**substantial shareholders**

As at 31 January 2014, the following interests in the Ordinary Shares of the Company which exceed 3% of the issued share capital had been notified to the Company:

	Number of Ordinary Shares	% of issued share capital
C H B Mills	3,506,849	22.08
CG Asset Management Limited	1,265,127	7.97
Findlay Park US Smaller Companies Fund Plc	895,000	5.64
Henderson Global Investors Limited	758,324	4.78
Butterfield Trust (Bermuda) Limited	565,707	3.56

Since 31 January 2014, Harwood Holdco Limited, a company owned by Mr C H B Mills has acquired a further 20,500 Ordinary shares of the Company as notified to the London Stock Exchange, taking his total holding to 3,527,349 Ordinary shares.

**group report of the directors***for the year ended 31 January***directors**

The biographical details for Directors currently in office are shown on page 3.

The Company's Articles of Association require that Directors should submit themselves for election at the first Annual General Meeting following their appointment and thereafter for re-election at least every three years. However, the Company is adopting the requirements of the UK Corporate Governance Code in relation to the annual re-election of directors. Therefore, in accordance with provision B.7.1 of the UK Corporate Governance Code all of the Directors will retire at the Annual General Meeting and being eligible, offer themselves up for re-election.

The Chairman and other members of the Board recommend that the Directors retiring be re-elected. The Chairman has confirmed that all Directors retiring have been subject to performance evaluation and as part of this evaluation the Chairman confirms that they continue to demonstrate commitment to their role and in his view continue to responsibly fulfil their functions. The rest of the Board have evaluated the performance of the Chairman and have confirmed that they are satisfied that his performance remains effective and that he has demonstrated commitment to his role and they therefore recommend his re-election at the forthcoming Annual General Meeting. The Chairman has confirmed that he has no other significant commitments that would impact on his role as Chairman of the Company.

**directors' interests**

The interests of the Directors as notified to the Company (beneficial unless otherwise stated) in the Ordinary Shares and Convertible Unsecured Loan Stock ("CULS") 2013 (in respect of the year ended 31 January 2013) of the Company as at 31 January 2014 and 31 January 2013 were as follows:

	31 January 2014		31 January 2013	
	5p Ordinary Shares	Units of CULS	5p Ordinary Shares	Units of CULS
P D E M Moncreiffe	393,130	n/a	303,130	90,000
P D E M Moncreiffe (non-beneficial)	11,500	n/a	–	–
C H B Mills*	3,506,849	n/a	3,427,349	–
C H B Mills (non-beneficial)	310,500	n/a	306,000	–
K Siem**	–	n/a	–	–
C L A Irby	25,000	n/a	25,000	–
E F Gittes	111,400	n/a	111,400	–

\* C H B Mills has acquired a further 20,500 Ordinary Shares since 31 January 2014 via his wholly-owned company, Harwood Holdco Limited, as notified to the London Stock Exchange during February 2014.

\*\* Siem Capital International Limited, a company which is indirectly controlled by a trust of which Mr Siem and his family are potential beneficiaries, is ultimately interested in 147,000 Ordinary Shares (2013: 145,000 Ordinary Shares and 2,000 units of CULS).

Save as disclosed, there have been no changes to the above interests between 31 January 2014 and the date of this report.

Details of Directors' remuneration and interests in Share Options are described in the Directors' Remuneration Report on pages 34 to 38.

Save as disclosed below or in notes 3 and 18 to the financial statements, no Director was party to or had any interest in any contract or arrangement with the Company at any time during the year.



**group report of the directors***for the year ended 31 January***significant agreements**

The Company is required to disclose details of any agreements that it considers to be essential to the business. Pursuant to the Management, Administration and Custody Agreement dated 7 January 1993, as amended by the Amendment and Restatement Agreement on 19 March 2002 novated in November 2003 to Harwood Capital LLP (previously North Atlantic Value LLP), the Joint Manager provides management and administration services to the Company. This is considered by the Board to be a significant agreement.

The Management, Administration and Custody Agreement continues unless thereafter terminated by either party on not less than four months' notice in writing or may be terminated forthwith as a result of a material breach of the agreement or the insolvency of either party. No compensation is payable on termination of the Agreement. The Board reviews the activities of both the Joint Manager and the Chief Executive. The Chief Executive carries out day-to-day investment decisions for and on behalf of the Company. As part of this review, the Board is satisfied that the continuing appointment of the Joint Manager, on the terms agreed, is in the best interests of Shareholders. Mr Mills has been Chief Executive of the Company since 1984 and the Board consider it is in the best interest of the Company for this arrangement to continue.

As part of this review, the Board has given consideration to the experience, skills and commitment of the Chief Executive in addition to the personnel, services and resources provided by the Joint Manager. The Company's performance over the last year is described in the Chairman's Statement on page 4. The Board considers that the arrangements between the Chief Executive and the Joint Manager continue to work well.

**related party transactions**

Mr Mills, the Chief Executive, is Chief Investment Officer and a member of Harwood Capital LLP, Joint Manager of the Company. Mr Mills makes day-to-day investment decisions for the Company in his capacity as its Chief Executive and this position is distinct from his position as Chief Investment Officer of the Joint Manager. Mr Mills is a director of Growth Financial Services Limited ("GFS"). GFS is a wholly-owned subsidiary of Harwood Capital Management Limited, which is the holding company of the Harwood group of companies and is, in turn, 100% owned by Mr Mills. Harwood Capital Management Limited is also a Designated Member of Harwood Capital LLP, Joint Manager of the company.

Pursuant to the Secondment Services Agreement between the Company, GFS and Mr Mills and the Management, Administration and Custody Agreement between the Company and Harwood Capital LLP, Mr Mills is responsible for the day-to-day investment decisions in conjunction with the Joint Manager, Harwood Capital LLP. The Secondment Services Agreement continues until terminated by the Company or GFS on not less than twelve months' notice. Details of the related party transactions and fees payable are disclosed in note 18 on pages 78 and 79 and in the Directors' Remuneration Report on pages 34 to 38. The Investment Management Fees are disclosed in note 3 on page 56. The Performance Fee payable to GFS is disclosed in the Directors' Remuneration Report on pages 34 to 38 and note 3 of the financial statements on page 56.

**group report of the directors***for the year ended 31 January*

Siem Kapital AS, an indirect wholly owned subsidiary of Siem Industries Inc, of which Mr Siem is Chairman, and Harwood Capital LLP have a joint venture agreement relating to SINAV Limited, the vehicle that acquired GTL Resources Plc last year. SINAV Limited continues to be jointly held by Harwood Capital LLP (on behalf of the Company and other funds managed by Harwood Capital LLP) and Siem Kapital AS.

With the exception of the matters referred to above, during the year no Director was materially interested in any contract of significance (as defined by the UK Listing Authority Listing Rules) entered into by the Company.

**institutional investors –  
use of voting rights**

The Chief Executive and the Joint Manager, in the absence of explicit instruction from the Board, are empowered to exercise discretion in the use of the Company's voting rights in respect of investments and to then report to the Board, where appropriate, regarding decisions taken. The Board have considered whether it was appropriate to adopt a voting policy and an investment policy with regard to social, ethical and environmental issues and concluded that it was not appropriate to change the existing arrangements.

**donations**

The Company does not make any political or charitable donations.

**post balance sheet events**

There have been no significant events since the balance sheet date other than those highlighted in this annual report.

**creditors' payment policy**

It is the Company's policy to settle investment transactions according to the settlement periods operating for the relevant markets. For other creditors, it is the Company's policy to pay amounts due to them as and when they become due. All supplier invoices received by 31 January 2014 had been paid (31 January 2013 – all supplier invoices paid).

**auditors**

Further to the fact that the Company's current auditor, KPMG Audit Plc, has notified the Board that it will not be seeking reappointment as auditor for the year ended 31 January 2015 due to an internal restructuring within KPMG, a resolution to appoint KPMG LLP as the Company's auditors and to authorise the Board to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

**going concern**

The Company's assets comprise readily realisable securities which can be sold to meet funding commitments if necessary and it also has sufficient cash reserves so the Directors have a reasonable expectation that the Company has adequate resources to continue in operation for the foreseeable future. They have, therefore, adopted the going concern basis in preparing these financial statements.

**additional disclosures**

The following further information is disclosed in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008:

- The Company's capital structure and voting rights are summarised on page 21 and note 14;
- Details of the substantial shareholders in the Company are listed on page 21;
- The rules concerning the appointment and replacement of directors are contained in the Company's Articles of Association and are discussed on page 22;
- Amendment of the Company's Articles of Association and powers to issue on a pre-emptive basis or buy back the Company's shares requires a special resolution to be passed by the Shareholders;

**group report of the directors**  
for the year ended 31 January

**explanatory notes for the  
special business at the  
annual general meeting**

- There are: no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; no agreements which the Company is party to that might affect its control following a takeover bid; no agreements between the Company and its Directors concerning compensation for loss of office; and no qualifying third party indemnities in place.

The following resolutions (if passed) would allow the Board to issue Shares without first offering them to existing Shareholders. Although the Directors have no current intention of exercising either of the authorities (if renewed) to allot Shares or disapply pre-emption rights, they reserve the right to allot Shares at any time.

*Resolution 10 – Ordinary Resolution – Renewal of Directors’ authority to allot shares*

The authority given to the Directors at the last Annual General Meeting to allot Shares expires at the conclusion of this year’s meeting. Resolution 10 will renew the authority to allot Shares of the Company on similar terms. If Resolution 10 is passed the Directors will have the authority to allot Shares up to the aggregate nominal amount of £249,762 representing one third of the current issued share capital. This authority will expire at the next Annual General Meeting of the Company or, if earlier, 15 months after the passing of this resolution.

*Resolution 11 – Special Resolution – Renewal of Directors’ authority for the disapplication of pre-emption rights*

The authority given to Directors to disapply pre-emption rights expires at the Annual General Meeting. Resolution 11 will renew the disapplication of pre-emption rights thereby authorising the Directors to allot equity securities for cash up to a maximum aggregate renewal amount of £37,464 representing 749,286 Ordinary Shares of 5p each, being equivalent to 5% of the current issued share capital, without first offering such securities to existing Shareholders.

*Resolution 12 – Special Resolution – Authority to purchase the Company’s own shares*

The authority given to Directors to purchase the Company’s Ordinary Shares in the market expires at the forthcoming Annual General Meeting. Resolution 12 seeks the authority of Shareholders to purchase a maximum of 1,498,573 Ordinary Shares representing 10% of the current issued share capital. The Directors intend to exercise this authority only when, in the light of market conditions prevailing at the time and taking into account investment opportunities, appropriate gearing levels and the overall financial position, they believe that the effect of such purchases will be to increase the underlying value per Ordinary Share having regard to the interests of Shareholders generally. Shares will not be bought at a price of less than 5 pence each being the nominal value of each share nor more than 5% above the average middle market quotation of the shares over the preceding five business days nor will they be purchased during periods when the Company would be prohibited from making such purchases. Purchases will be made within guidelines set by the Board and using available reserves. Ordinary Shares purchased will be cancelled and the number of shares in issue reduced accordingly.

**group report of the directors***for the year ended 31 January**Resolution 13 – Special Resolution – Notice of general meetings*

The authority given to Directors at last year's Annual General Meeting to call general meetings (other than an Annual General Meeting) on 14 days' notice will expire at the forthcoming Annual General Meeting. Resolution 13 seeks such approval. The approval will be effective until the Company's next annual general meeting, when it is intended that a similar resolution will be proposed. The Company will also need to meet the requirements for electronic voting under the Directive before it can call a general meeting on 14 days' notice.

The above resolutions are contained in the Notice of Annual General Meeting on pages 81 and 82.

**recommendation**

The Board considers that resolutions 10 to 13 are likely to promote the success of the Company and are in the best interests of the Company and its shareholders as a whole. The Directors therefore unanimously recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings which amount in aggregate to 4,056,879 shares representing 27.07% of the voting rights of the Company.

By Order of the Board

**Bonita Guntrip ACIS**

*Company Secretary*

Registered Office:

6 Stratton Street

Mayfair

London

W1J 8LD

Registered No: 1091347

20 May 2014

**statement of directors' responsibilities in respect of the annual report & financial statements***for the year ended 31 January*

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company 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 IFRSs as adopted by the European Union and applicable UK 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 will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and 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 and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the financial statements, Article 4 of the IAS Regulations. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors are responsible for ensuring that the Annual Financial Report, taken as a whole, is fair, balanced and understandable.

**disclosure of information to auditors**

With regard to the preparation of the Annual Report and Financial Statements for the year ended 31 January 2014, the Directors have confirmed to the Auditor that:

- so far as they are aware, there is no relevant audit information of which auditor is unaware; and
- they have taken the steps appropriate as Directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

A resolution to appoint KPMG LLP as auditor of the Company will be proposed at the Annual General Meeting.

**statement of directors' responsibilities in respect of the annual report & financial statements**

*for the year ended 31 January*

**statement under the  
UKLA disclosure and  
transparency rules**

Each of the Directors, whose names and biographies are listed on page 3 confirm that, to the best of his knowledge:

- the Group and the Company's Financial Statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit/loss of the Group and Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's performance, business model and strategy.

For and on behalf of the Board

**The Hon. P D E M Moncreiffe**

*Chairman*

20 May 2014

**corporate governance***Statement of Compliance with the UK Corporate Governance Code***statement of compliance  
with the uk corporate  
governance code**

The Company's policy is to achieve best practice in its standards of business integrity in all of its activities. This includes a commitment to follow the highest standards of corporate governance wherever possible. This section of the Annual Report describes how the Company has complied with the applicable provisions of the UK Corporate Governance Code published by the Financial Reporting Council ("FRC") in September 2012 (the "Code"). The Board considers that it has complied with the provisions of the Code throughout the year with the exception that non-executive Directors are not appointed for a specific term and all of the Directors have served on the Board for more than nine years. However all Directors have been subject to performance evaluation and review during the year and are now subject to annual election.

Additionally, the Company is a member of the Association of Investment Companies ("AIC") and seeks to comply with the recommendations of the AIC's Code of Corporate Governance (the "AIC Code") which was re-issued in February 2013. The AIC Code is available on the AIC's website: [www.theaic.co.uk](http://www.theaic.co.uk).

**directors**

Brief biographical details of the Directors in office are set out on page 3. The Board consists of five Directors, four of whom are non-executive (the Chairman – the Hon. P D E M Moncreiffe, Mr Siem, Mr Irby and Mr Gittes) and considered by the Board to be independent of the Company's Joint Managers for the purposes of the Code despite their length of service. They are all free of any relationship that could materially interfere with the exercise of their independent judgement on issues concerning strategy, performance and standards of conduct. The Board considers that it has the appropriate balance of skills, experience, ages and length of service in the circumstances and values highly the experience of those Directors who have served on the Board for a longer period. The majority of the Board is therefore considered to be independent. Mr Mills is the Company's Chief Executive and not independent.

The Board acts as the Nomination Committee and meets as and when necessary and to discharge its role in nominating a new Director to the Board and succession planning.

The Board is a small Board and individual members have a wide range of qualifications and expertise to bring to any debate. The Board normally meets four times a year and at other times as necessary. Each non-executive Director has a signed letter of appointment to formalise the terms of his engagement as a non-executive Director. Copies of these letters are available for inspection at the Registered Office of the Company during normal business hours and will also be available for at least fifteen minutes prior to and during the Annual General Meeting. The contract for Mr Mills' services as a Director is with Growth Financial Services Limited. The Articles of Association provide that newly appointed Directors are required to submit themselves for election by Shareholders at the General Meeting following their appointment and for all Directors to be re-elected at least once every three years. However, the Company has adopted the requirements of the UK Corporate Governance Code in relation to the annual re-election of directors and accordingly, all of the Directors will retire at the Annual General Meeting and being eligible, offer themselves up for re-election. The Board lays down guidelines within which the Chief Executive and the Joint Managers implement investment policy and has a Schedule of Matters reserved to it. The Chief Executive and the Joint Managers are responsible for managing the Company and its portfolio of assets on a discretionary basis, subject to the supervision of the Board.

**corporate governance***Statement of Compliance with the UK Corporate Governance Code*

The Chairman and other members of the Board recommend that all of the Directors be re-elected. The Chairman has confirmed that all Directors have been subject to performance evaluation and following that evaluation, the Chairman confirms that their performance continues to be effective and that they continue to demonstrate commitment to their role and in his view responsibly fulfil their functions. The performance evaluation programme took the form of a questionnaire circulated to and completed by all Directors. The Chairman then discussed the results with the Board and the individual directors as necessary and any requests for further training or action were complied with. The non-executive Directors evaluated the performance of the Chairman and can confirm that they are happy with his performance and with his leadership of the Board.

**board meetings**

The Board has a schedule of matters reserved to it and sets down matters which require prior approval of the Board. The Chief Executive and Joint Managers carry out day-to-day activities pursuant to the terms of the management arrangements in place. These day-to-day activities relate to the management of the Company's investment portfolio within guidelines that have been set by the Board. These guidelines include, amongst other things, maximum exposure to any one investment and total exposure to unquoted investments. The management of the investment portfolio also includes the monitoring of the performance and activities of the investee companies in the portfolio and detailed research into any prospective investment. In addition to scheduled Board Meetings, the Board may carry out certain urgent matters not requiring debate by way of delegation to a Committee of the Board or by resolution in writing of all Directors.

**attendance at board****meetings, audit and****remuneration committees**

	Total number in year 6 Board Meetings	Total number in year 2 Audit Committees	Total number in year 0 Remuneration Committee
The Hon. P D E M Moncreiffe	5	2	n/a
C H B Mills	6	n/a	n/a
K Siem	3	1	n/a
C L A Irby	6	2	n/a
E F Gittes	4	2	n/a

In addition, there has been a number of meetings of Committees of the Board during the year to deal with matters on an adhoc basis.

**remuneration committee**

All of the non-executive Directors comprise the Remuneration Committee. The Remuneration Committee reviews the remuneration paid to Harwood Capital LLP and GFS pursuant to the Management Agreements and the level of directors' remuneration. The remuneration of GFS is disclosed in the Directors' Remuneration Report on pages 34 to 38 and also in note 3 on page 56. The terms of reference of the Remuneration Committee are available from the Company Secretary.



**corporate governance***Statement of Compliance with the UK Corporate Governance Code***audit committee**

The Board is supported by an Audit Committee which is chaired by Mr C L A Irby and comprises all of the non-executive Directors. The Audit Committee meets representatives of the Joint Managers twice a year, who report on the proper conduct of business in accordance with the regulatory environment in which both the Company and the Joint Managers operate. The Company's Auditors also attend the Committee at its request, at least once a year, and comment on their work procedures, the quality and effectiveness of the Company's accounting procedures and their findings in relation to the Company's statutory audit. The responsibilities of the Audit Committee include a review of the risk analysis, effectiveness of the internal control environment, accounting policies and the terms of appointment of the Auditors. The Committee monitors the performance of the Auditors on a regular basis (at least annually) and if satisfied, recommends their re-appointment to the Board. The Audit Committee is authorised to take such independent professional advice (including legal advice) and to secure the attendance of any external advisers with relevant expertise as it considers necessary. The Audit Committee is also responsible for the review of the Annual and Half-Yearly Reports, the nature and scope of the external audit, their findings and the provision of any non-audit services. The Audit Committee is satisfied that KPMG plc, the Company's Auditor, is independent and that it has adequate policies and safeguards in place to ensure that its objectivity and independence is maintained. The Auditor does provide some non-audit services, primarily in the provision of taxation advice but the Committee is satisfied that its objectivity and independence is not impaired by the performance of these non audit services and believes that the appointment of a third party unfamiliar with the Company to carry out non audit services would be of no benefit to Shareholders since they would incur unnecessary additional expense. The Audit Committee receive each year a report from the Auditor as to any matters the Auditor considers bears on its independence and which requires disclosure to the Company.

The Committee's terms of reference are available from the Company Secretary. The Audit Committee met twice during the year to review the half-yearly and annual financial statements and to review reports and hold discussions with the Chief Executive and Joint Managers. In carrying out its duties during this review, the Audit Committee has considered inter alia the annual budget, internal control reports, the risk management framework, the effectiveness of the external audit process, the independence and objectivity of the External Auditor, the Audit Plan, Audit Reports and Corporate Governance Report including the Code. The Audit Committee has considered the need to take out separate insurance cover for Mr Mills. The Board is satisfied that all of the Committee's members have recent and relevant commercial and financial knowledge and experience to satisfy the Code, by virtue of their having held various executive and non-executive roles in investment management and business management. Additionally, Charles Irby (Chairman of the Committee) is a chartered accountant.

**corporate governance***Statement of Compliance with the UK Corporate Governance Code***financial report and significant issues**

The Audit Committee met with the Auditor during the year to discuss the audit plan and strategy for the year and identify the significant issues to be dealt with in the review of the year end results. The principal issues identified for the review and those identified as presenting the greatest risks, were:

- the valuation of the investments in the portfolio; and
- the liquidity of the portfolio, and how this affects the valuation.

Listed investments are valued using stock exchange prices provided by third party financial data vendors. Unlisted investments are recognised on a fair value basis as set out in the statement of accounting policies on page 51 and are reviewed by Harwood Capital LLP's Valuations and Pricing Committee before being approved by the Board and being made available to the Auditor.

The Board receive reports from the Managers on the liquidity of the portfolio and the Joint Managers' processes for monitoring the portfolio liquidity are also examined. The Board then assesses the impact of the liquidity on the valuation of the portfolio.

These and other matters, identified as posing less of a risk, were considered and discussed with the Joint Managers and the Auditor as part of the year end process.

The Company carries out its activities using the services of third party service providers; it has no staff of its own.

**shareholder relations**

The Company, through the Chief Executive and Joint Managers, has regular contact with its Institutional Shareholders. The Board supports the principle that the Annual General Meeting be used to communicate with private Shareholders and encourages them to participate. The Annual General Meeting is attended by the Directors and the Chief Executive.

The Notice of the Annual General Meeting sets out the business of the meeting and can be found on pages 81 and 82. The special business is also explained more fully in the Explanatory Notes on pages 25 and 26. Separate resolutions are proposed for each substantive issue.

**nominations committee**

The Board is a small Board and fulfils the function of the Nominations Committee as a whole. The Nominations Committee considers the leadership needs and succession of the Board when making decisions on new appointments. Compatibility with each and every Director is considered a priority. The Board has considered its size during the year and considers that it is still a suitable size for the size of the Company and does not consider that there are any vacancies. The terms of reference of the Nominations Committee are available from the Company Secretary.

**the company secretary**

The Board has direct access to the advice and services of the Company Secretary, Bonita Guntrip ACIS, who is responsible for ensuring that the Board and Committee procedures are followed and that the applicable regulations are complied with. The Company Secretary is also responsible to the Board for ensuring timely delivery of information and reports.

**accountability and audit**

The statement of going concern is given on page 24 and the Board's responsibilities with regard to the financial statements are set out on pages 27 and 28. The Independent Auditor's Report is on pages 39 to 41.

**share capital**

Shareholders' attention is drawn to the further information on page 24 which is disclosed in accordance with the Large and Medium-sized Companies and Groups (Account and Reports) Regulations 2008 and rule 7.2.6 of the Disclosure and Transparency Rules.

**corporate governance***Statement of Compliance with the UK Corporate Governance Code***internal control**

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. The Board has regularly reviewed the effectiveness of the system of internal control in place. The Board believes that the key risks identified and implementation of the system to monitor and manage those risks are appropriate to the Company's business as an investment trust. The ongoing risk assessment includes the monitoring of the financial, operational and compliance risks as well as an evaluation of the scope and quality of the system of internal control adopted by the third party service providers. The Board regularly reviews the delegated services to ensure their continued competitiveness and effectiveness. The system is designed to ensure regular communication of the results of monitoring by the third parties to the Board and the incidence of any significant control failings or weaknesses that have been identified and the extent to which they have resulted in unforeseen outcomes or contingences that may have a material impact on the Group's performance or operations. This review process was in place throughout the year under review and including the period to the date of the approval of the Annual Report. The Board believes that, although robust, the Company's system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives. Any system can provide only reasonable and not absolute assurance against material misstatement or loss. The Company does not have an internal audit function as it uses third party service providers and does not employ any staff, nor does the Board consider it appropriate to do so.

Throughout the year ended 31 January 2014, the Company has complied with the Code, except as follows:

B.2.3 – This provision states that non-executive directors should be appointed for specific terms. Non-executive Directors are not appointed for specific terms but in compliance with Code provision D.1.5 their appointment is terminable on one month's notice. Furthermore, all Directors are now subject to annual election.

E.1.1 – This provision states that the Chairman should meet regularly with major Shareholders to discuss governance and strategy. This is not strictly complied with insofar as it is the Chief Executive and Joint Managers who have regular contact with major Shareholders. However, any concerns raised by those substantial Shareholders are fed back to the Board and the Chairman is available to meet with major Shareholders at their request. Also, all Directors including the Chairman attend the Annual General Meeting and are available to communicate with Shareholders.

By Order of the Board

**Bonita Guntrip ACIS**

*Company Secretary*

Registered Office:

6 Stratton Street

Mayfair

London

W1J 8LD

Registered No: 1091347

20 May 2014

**directors' remuneration report***for the year ended 31 January*

This Report has been prepared in accordance with the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008, Schedule 8. An ordinary resolution for the approval of the Directors' Remuneration Policy will be put to a binding shareholder vote at the forthcoming annual general meeting and at every third annual general meeting thereafter. The Directors' Remuneration Implementation Report will be put to an advisory shareholder vote at this year's annual general meeting.

The law requires your Company's Auditor to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in their report on pages 39 to 41.

**role and composition**

The Remuneration Committee consists of the Chairman, The Hon. P D E M Moncreiffe, Mr C L A Irby, Mr E F Gittes and Mr K Siem, being the Independent non-executive Directors. Mr Mills, the Company's Chief Executive, is not a member of the Remuneration Committee and does not attend meetings of the Remuneration Committee.

The Remuneration Committee is responsible for determining all aspects of Directors' remuneration. No Director participates in discussions on his own remuneration. The Committee takes independent professional advice where it considers this is appropriate. No such advice has been received in the year.

The Remuneration Committee will normally meet at least once a year to consider its policy on Directors' Remuneration.

**directors' interests (audited)**

	31 January 2014		31 January 2013	
	5p Ordinary Shares	CULS no longer in issue	5p Ordinary Shares	Units of CULS
P D E M Moncreiffe	393,130	n/a	303,130	90,000
P D E M Moncreiffe (non-beneficial)	11,500	n/a	–	–
C H B Mills	3,506,849	n/a	3,427,349	–
C H B Mills (non-beneficial)	310,500	n/a	306,000	–
K Siem	–	n/a	–	–
C L A Irby	25,000	n/a	25,000	–
E F Gittes	111,400	n/a	111,400	–

**policy on directors' remuneration**

The Company's Articles of Association sets out the aggregate total of Directors' fees that can be paid during the year to £150,000. The Remuneration Committee's policy, subject to this overall limit, is to determine the level of Directors' fees having regard to the level of fees payable to non-executive directors in other investment trusts, the rate of inflation and the increasing amount of time that individual Directors must commit to the Company's affairs. The Committee is also concerned that the remuneration of the non-executive Directors should reflect the experience of those Directors and believes that the level of remuneration should be sufficient to attract and retain non-executive Directors to oversee the Company.

## directors' remuneration report

for the year ended 31 January

The Directors are entitled to be reimbursed for any reasonable expenses properly incurred by them in connection with the performance of their duties and attendance at meetings. Non-executive Directors are not eligible for bonuses, pension benefits, share options or any other incentives or benefits. There are no agreements between the Company and its Directors concerning compensation for loss of office.

These fees may be increased up to a total of no more than £150,000 per annum by resolution of the Board and this limit will apply until a new Directors' Remuneration Policy is approved by Shareholders.

The Directors' Remuneration Policy is the same in all material aspects as that implemented by the Board during the year under review and as summarised in last year's Directors' Remuneration Report. This policy is intended to take effect immediately upon its approval by Shareholders. The Board will consider, where raised, Shareholders' views on Directors' remuneration.

The Company has no employees and therefore has no policy on the remuneration of employees.

The performance graph on page 38 measures the Company's share price and net asset value performance against the Sterling adjusted Russell 2000, the Sterling adjusted Standard & Poor's 500 Composite Index and the FTSE All-Share Index. An explanation of the Company's performance is given in the Chairman's Statement and the Investment Manager's Report.

### implementation report

The policy is to review Directors' fees from time to time, but reviews will not necessarily result in the level of Directors' fees changing. In the year under review, the Directors were paid at a rate of £25,000 per annum. The Chairman has elected not to receive a fee for his services. The current fees have applied since 1 July 2011.

The fees did not change during the year ended 31 January 2014.

	2014				2013			
	Fees & Salary	Taxable Benefits	Annual Incentives	Total	Fees & Salary	Taxable Benefits	Annual Incentives	Total
<b>Executive</b>								
C H B Mills	25,000	–	2,710,000	2,735,000	25,000	–	2,231,000	2,256,000
<b>Non-Executive</b>								
The Hon. P D E M Moncreiffe*	–	–	–	–	–	–	–	–
C L A Irby	25,000	–	–	25,000	25,000	–	–	25,000
E F Gittes	25,000	–	–	25,000	25,000	–	–	25,000
K Siem	25,000	–	–	25,000	25,000	–	–	25,000

\* P D E M Moncreiffe is not receiving a fee in respect of his services as the Chairman of the Company

### chief executive

The Chief Executive is responsible for the day-to-day investment decisions. He has no service contract with the Company; his appointment is pursuant to the Secondment Services Agreement dated 7 January 1993 between the Company, the Chief Executive and Growth Financial Services Limited. The Remuneration Committee has no plans to alter the remuneration structure for the Chief Executive. As stated in note 18 on page 79, the Chief Executive is entitled to retain any fees received from investee companies in respect of his role as a non-executive director of these entities; such a role is considered to benefit Shareholders as it allows the Chief Executive to monitor the performance of the investee company more closely than would be possible under other circumstances.

## directors' remuneration report

for the year ended 31 January

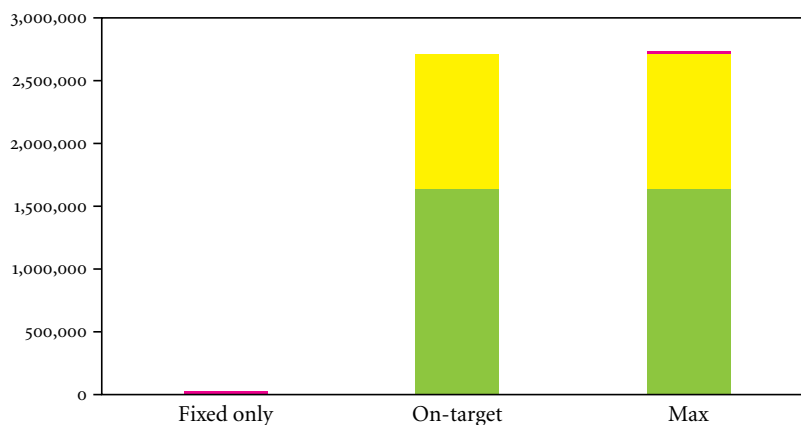
remuneration of chief executive (audited)	chief executive	Year ended	Year ended
		31 January 2014	31 January 2013
		£	£
Director's fees		25,000	25,000
Investment Management and related fees		1,070,000	887,000
Performance fee		1,640,000	1,344,000
<b>Total (excluding irrecoverable VAT)</b>		<b>2,735,000</b>	<b>2,256,000</b>

The total fees of £2,735,000, in respect of Mr Mills' services as a Director and Chief Executive are payable to Growth Financial Services Limited ("GFS"), as described on page 23. GFS receives, and is contractually entitled to receive, part of the Annual Fee payable to the Joint Managers (GFS and Harwood Capital LLP) in respect of the investment management activities of the Chief Executive pursuant to the Investment Management Agreements described on page 23 and note 3 on page 56 to the financial statements.

Mr Mills is a director of GFS. GFS is a wholly owned subsidiary of Harwood Capital Management Limited, which is in turn wholly owned by Mr Mills. Mr Mills is also a member and the Chief Investment Officer of Harwood Capital LLP.

The Performance Fee is a contractual entitlement pursuant to the Secondment Services Agreement dated 7 January 1993 as amended and is paid to GFS.

No pension or other benefits are paid to the Chief Executive.



The fixed element represents the Director's fee of £25,000 per annum. The on-target element represents the performance fee of £1,640,000 and the management fee £1,070,000.

Included within the 'On-target' and 'Maximum' bars are the investment management fee and performance fee that are payable to Growth Financial Services Limited (GFS) and Harwood Capital LLP for the year ended 31 January 2014. Christopher Mills is deemed to have received these fees due to the fact that he is a director of and the ultimate beneficial owner of GFS and a Member of Harwood Capital LLP. These amounts are included in the 'On Target' bar as the fees were only payable if performance related hurdles were met. There are no long term incentive plans in place so the maximum that Mr Mills could have earned during the year is the total amount of the investment management fee and the performance fee.

**directors' remuneration report***for the year ended 31 January***single total figure of remuneration for each director (audited)**

The Directors who served during the years ended 31 January 2014 and 31 January 2013 received the following emoluments:

<b>chief executive</b>	Total Fees £ 31 January 2014	Total Fees £ 31 January 2013
The Hon. P D E M Moncreiffe	nil	nil
K Siem	25,000	25,000
C L A Irby	25,000	25,000
E F Gittes	25,000	25,000
C H B Mills	2,735,000	2,256,000
<b>Total</b>	<b>2,810,000</b>	<b>2,331,000</b>

No directors receive any benefits in kind.

The Directors are aware that it is a statutory requirement that this report provides Shareholders and other interested parties with an analysis of Directors' Remuneration against the remuneration of employees or the amount of distributions to shareholders. However, the Company has no employees and has a long-standing policy of not paying dividends so it is not possible to provide any such analysis. The Directors also do not consider that such a comparison would be a meaningful measure of the Company's overall performance.

**service contracts**

No Director has a service contract. The contract for the Chief Executive's services and the carrying on day-to-day investment decisions is with GFS and contained in the Secondment Services Agreement between GFS and the Company as noted in the paragraph describing the Chief Executive's activities.

**interests in options (audited)**

Chief Executive	No. of options at 1 February 2013	Year of Grant 2011	Price	Exercised/ cancelled during the year	Grant of options during the year	Price	No. of options at 31 January 2014
C H B Mills	420,000	2011	1,467.71p	–	–	–	420,000

The above options were granted for nil consideration to Mr C H B Mills on 14 July 2011 under the 2011 Share Option Scheme which was approved by Shareholders at the Annual General Meeting held on 30 June 2011. The 2011 Executive Share Option Scheme ("the Scheme") is an unapproved scheme. Options will normally be exercisable between three and ten years from the date of grant. Options granted under the Scheme may only be exercisable if the fully diluted net asset value of the Company (ignoring dilution on the exercise of Share Options) has grown at a compound rate of 5% per annum over a period of at least three years following the grant of options and has grown by a percentage at least equal to 60% of the percentage increase in the sterling adjusted Standard & Poor's 500 Composite Index in the three year period between the date of grant and the third anniversary of the date of the grant of Options.

**directors' remuneration report***for the year ended 31 January*

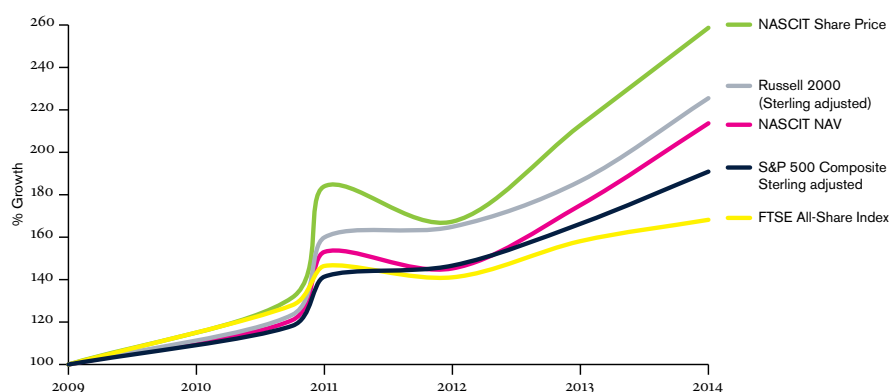
At the date of this report there was a further 40,000 options in issue, 10,000 of which were granted on 14 July 2011 and the remaining 30,000 options which were granted on 9 July 2012, all to employees of Harwood Capital LLP, one of the Joint Managers (i.e. not Mr Mills). The exercise price of the first 10,000 options is 1467.71p and the remaining 30,000 options in issue have an exercise price of 1,396.24p. The same performance criteria as explained above apply.

The highest and lowest mid-market price of the Company's Ordinary Shares during the year was 1,316.000p and 1,600.00p respectively. The mid-market price of the Company's Ordinary Shares at 31 January 2014 was 1,600.00p.

**company's performance**

The following graph compares over a five year period the total Shareholder return on the Company's Shares with a hypothetical holding of Shares of the same kinds and number as those by reference to which a broad equity market index is calculated.

*Graph showing total Shareholder return over 5 years as compared to total Shareholder return of a broad equity market index over the last 5 years. (Source: Financial Data/Datastream)*



The equity market indexes chosen are the Sterling adjusted Russell 2000 and the Sterling adjusted Standard & Poor's 500 Composite Index. After consultation with major Shareholders, 60% of this latter index was selected as the additional equity index-related benchmark to supplement the absolute 5% per annum growth rate hurdle for the 2002 Executive Option Scheme. The FTSE All-Share Index is also included for comparative purposes as the portfolio currently consists principally of UK incorporated companies as well as US companies.

This Report was approved by the Board on 20 May 2014 and signed by  
The Hon. P D E M Moncreiffe, Chairman.

On behalf of the Board  
**The Hon. P D E M Moncreiffe**  
*Chairman*  
20 May 2014



**independent auditor's report**

to the members of north atlantic smaller companies investment trust plc only

Opinions and conclusions arising from our audit

**our opinion on the financial statements is unmodified**

We have audited the financial statements of North Atlantic Smaller Companies Investment Trust plc for the year ended 31 January 2014 set out on pages 42 to 79. In our opinion:

- the financial statements give a true and fair view of the state of the group's and parent's affairs as at 31 January 2014 and of the group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards to the group financial statements, Article 4 of the IAS Regulation.

**our assessment of risks of material misstatement**

In arriving at our audit opinion above on the financial statements, the risk of material misstatement that had the greatest effect on our audit was as follows :

**Valuation of Unlisted Investments (equities and loan stock) (£87,151,000)**

Refer to page 31 (Audit Committee section of the Corporate Governance Report), page 51 (accounting policy) and pages 61 to 66 (financial disclosures).

- *The risk* – 26.2% of the Group's net assets (by value) is held in investments where no quoted market price is available. Unquoted investments are measured at fair value, which is established in accordance with the International Private Equity and Venture Capital Valuation Guidelines by using measurements of value such as price of recent orderly transactions, earnings multiples, and net assets. There is a significant risk over the valuation of these investments and this is one of the key judgemental areas that our audit focused on.
- *Our response* – Our procedures included, among others:
  - enquiry of the Investment Manager to document and assess the design and implementation of the investment valuation processes and controls in place;
  - assessment of investment realisations in the period, comparing actual sales proceeds to prior year end valuations to understand the reasons for significant variances and consideration of whether they are indicative of bias or error in the Group's approach to valuations;
  - challenging the Investment Manager on key judgements affecting investee company valuations in the context of observed industry best practice and the provisions of the International Private Equity and Venture Capital Valuation Guidelines. In particular, we focused on the appropriateness of the valuation basis selected as well as the underlying assumptions, such as discount factors, and the choice of benchmark for earnings multiples. We compared key underlying financial data inputs to external sources and investee company audited accounts and management information as applicable. We challenged the assumptions around sustainability of earnings based on the plans of the investee companies and whether these are achievable, and we obtained an understanding of existing and prospective investee company cashflows to understand whether borrowings can be serviced or refinancing may be required. Where a recent transaction is used to value any holding, we obtained an understanding of the circumstances surrounding those transactions and whether they were considered to be on an arms-length basis and suitable as an input into a valuation. Our work included consideration of events which occurred subsequent to the year end up until the date of this audit report;

**independent auditor's report***to the members of north atlantic smaller companies investment trust plc*

- attending the valuation committee meetings throughout the year where we assessed the effectiveness of the valuation committee's challenge and approval of unlisted investment valuations; and
- consideration of the appropriateness, in accordance with relevant accounting standards, of the disclosures in note 17 in respect of unlisted investments and the effect of changing one or more inputs to reasonably possible alternative valuation assumptions.

**our application of materiality and an overview of the scope of our audit**

The materiality for the financial statements as a whole was set at £5,030,000. This has been determined with reference to a benchmark of Total Assets (of which it represents 1.4%). Total Assets, which is primarily composed of the Group's investment portfolio, is considered the key driver of the Group's capital and revenue performance and, as such, we believe that it is one of the principal considerations for members of the Company in assessing financial performance of the Group.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £252,000, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Our audit of the Group was undertaken to the materiality level specified above and was all performed at the Investment Manager, Harwood Capital LLP in London and at the Administrator, Capita Sinclair Henderson Limited, in Exeter.

**our opinion on other matters prescribed by the companies act 2006 is unmodified**

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**we have nothing to report in respect of the matters on which we are required to report by exception**

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the Financial Statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Group's performance, business model and strategy; or
- the Statement of Compliance with the UK Corporate Governance Code does not appropriately address matters communicated by us to the audit committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

**independent auditor's report**

*to the members of north atlantic smaller companies investment trust plc*

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 24, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 29 relating to the company's compliance with the nine provisions of the (2010) UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

**scope of report and responsibilities**

As explained more fully in the Statement of Directors' Responsibilities set out on pages 27 and 28, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate). This report is made solely to the Group's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at [www.kpmg.com/uk/auditscopeukco2013a](http://www.kpmg.com/uk/auditscopeukco2013a), which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

**Peter Lomax** (Senior Statutory Auditor)

*for and on behalf of KPMG Audit Plc, Statutory Auditor*

*Chartered Accountants*

100 Temple Street

Bristol

BS1 6AG

20 May 2014

**consolidated statement of comprehensive income**

for the year ended 31 January

	Notes	2014			2013		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income	2	5,753	–	5,753	5,474	–	5,474
Net gains on investments at fair value	9	–	50,207	50,207	–	43,682	43,682
Net losses on investment property	9	–	(541)	(541)	–	(1,507)	(1,507)
Currency exchange gains/(losses)	9	–	2	2	–	(237)	(237)
<b>total income</b>		<b>5,753</b>	<b>49,668</b>	<b>55,421</b>	<b>5,474</b>	<b>41,938</b>	<b>47,412</b>
Expenses							
Investment management fee	3	(2,675)	(1,761)	(4,436)	(2,216)	(1,417)	(3,633)
Other expenses	4	(1,670)	–	(1,670)	(2,028)	–	(2,028)
Share based remuneration	5	(363)	–	(363)	(355)	–	(355)
Share of net return of associate	9	–	10,375	10,375	–	5,259	5,259
<b>return before finance costs and taxation</b>		<b>1,045</b>	<b>58,282</b>	<b>59,327</b>	<b>875</b>	<b>45,780</b>	<b>46,655</b>
Finance costs	6	(800)	–	(800)	(951)	–	(951)
<b>return before taxation</b>		<b>245</b>	<b>58,282</b>	<b>58,527</b>	<b>(76)</b>	<b>45,780</b>	<b>45,704</b>
Taxation	7	(12)	–	(12)	(192)	–	(192)
<b>return for the year</b>		<b>233</b>	<b>58,282</b>	<b>58,515</b>	<b>(268)</b>	<b>45,780</b>	<b>45,512</b>
<b>return attributable to:</b>							
Equity holders of the Company		45	58,455	58,500	(494)	46,261	45,767
Non-controlling interest		188	(173)	15	226	(481)	(255)
		<b>233</b>	<b>58,282</b>	<b>58,515</b>	<b>(268)</b>	<b>45,780</b>	<b>45,512</b>
<b>basic earnings per ordinary share</b>	8	<b>0.29p</b>	<b>376.48p</b>	<b>376.77p</b>	<b>(3.46)p</b>	<b>324.45p</b>	<b>320.99p</b>
<b>diluted earnings per ordinary share</b>	8	<b>0.28p</b>	<b>367.42p</b>	<b>367.70p</b>	<b>(3.02)p</b>	<b>287.46p</b>	<b>284.44p</b>

The Group does not have any income or expense that is not included in the return for the year, and therefore the “return for the year” is also the “Total comprehensive income for the year”, as defined in International Accounting Standard 1 (revised).

The total column of the statement is the Statement of Comprehensive Income of the Group. The supplementary revenue and capital columns are presented for information purposes as recommended by the Statement of Recommended Practice issued by the Association of Investment Companies.

All items in the above Statement derive from continuing operations. No operations were acquired or discounted in the year.

The financial statements have been prepared in accordance with the accounting policies on pages 49 to 55.

The notes on pages 49 to 79 form part of these financial statements.

**consolidated statement of changes in equity**  
for the year ended 31 January

group	Share	CULS	Share	Share	Capital	Revenue	Non	Total	
	capital	reserve	options	premium	reserve	reserve	controlling		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
<b>2014</b>									
31 January 2013	718	12	775	1,301	268,141	74	(3,278)	6,678	274,421
Total comprehensive income for the year	–	–	–	–	58,455	–	45	15	58,515
Arising on conversion of CULS	78	(12)	–	–	–	–	–	–	66
Shares purchased for cancellation	(2)	–	–	–	(511)	2	–	–	(511)
Share options expenses	–	–	363	–	–	–	–	–	363
<b>31 January 2014</b>	<b>794</b>	<b>–</b>	<b>1,138</b>	<b>1,301</b>	<b>326,085</b>	<b>76</b>	<b>(3,233)</b>	<b>6,693</b>	<b>332,854</b>
<b>2013</b>									
31 January 2012	706	14	420	1,301	221,880	74	(2,784)	6,933	228,544
Total comprehensive income for the year	–	–	–	–	46,261	–	(494)	(255)	45,512
Arising on conversion of CULS	12	(2)	–	–	–	–	–	–	10
Share options expenses	–	–	355	–	–	–	–	–	355
<b>31 January 2013</b>	<b>718</b>	<b>12</b>	<b>775</b>	<b>1,301</b>	<b>268,141</b>	<b>74</b>	<b>(3,278)</b>	<b>6,678</b>	<b>274,421</b>

The financial statements have been prepared in accordance with the accounting policies on pages 49 to 55.

The notes on pages 49 to 79 form part of these financial statements.

## company statement of changes in equity

for the year ended 31 January

company	Share capital £'000	CULS reserve £'000	Share options reserve £'000	Share premium account £'000	Capital reserve £'000	Capital redemption reserve £'000	Revenue reserve £'000	Total £'000
<b>2014</b>								
31 January 2013	718	12	775	1,301	268,426	74	(3,932)	267,374
Total comprehensive income for the year	–	–	–	–	59,356	–	(355)	59,001
Arising on conversion of CULS	78	(12)	–	–	–	–	–	66
Shares purchased for cancellation	(2)	–	–	–	(511)	2	–	(511)
Share options expenses	–	–	363	–	–	–	–	363
<b>31 January 2014</b>	<b>794</b>	<b>–</b>	<b>1,138</b>	<b>1,301</b>	<b>327,271</b>	<b>76</b>	<b>(4,287)</b>	<b>326,293</b>

	Share capital £'000	CULS reserve £'000	Share options reserve £'000	Share premium account £'000	Capital reserve £'000	Capital redemption reserve £'000	Revenue reserve £'000	Total £'000
<b>2013</b>								
31 January 2012	706	14	420	1,301	222,172	74	(3,128)	221,559
Total comprehensive income for the year	–	–	–	–	46,254	–	(804)	45,450
Arising on conversion of CULS	12	(2)	–	–	–	–	–	10
Share options expenses	–	–	355	–	–	–	–	355
<b>31 January 2013</b>	<b>718</b>	<b>12</b>	<b>775</b>	<b>1,301</b>	<b>268,426</b>	<b>74</b>	<b>(3,932)</b>	<b>267,374</b>

The financial statements have been prepared in accordance with the accounting policies on pages 49 to 55.

The notes on pages 49 to 79 form part of these financial statements.

## consolidated and company balance sheets

as at 31 January

		Group 31 January 2014 £'000	Group 31 January 2013 £'000	Company 31 January 2014 £'000	Company 31 January 2013 £'000
	Notes				
<b>non current assets</b>					
Investments at fair value through profit or loss	9	249,908	218,997	300,358	258,744
Investment property	9	33,731	40,111	–	–
Investments accounted for using the equity method	9	36,029	25,654	–	–
Motor vehicles and equipment		15	29	–	–
		<u>319,683</u>	<u>284,791</u>	<u>300,358</u>	<u>258,744</u>
<b>current assets</b>					
Investments held by subsidiary companies for trading		2,000	498	–	–
Trade and other receivables	10	1,921	2,362	21,530	3,576
Cash and cash equivalents		28,315	9,462	6,651	6,964
Property under construction		1,170	1,170	–	–
		<u>33,406</u>	<u>13,492</u>	<u>28,181</u>	<u>10,540</u>
<b>total assets</b>		<u>353,089</u>	<u>298,283</u>	<u>328,539</u>	<u>269,284</u>
<b>current liabilities</b>					
Bank loans and overdrafts	11	–	–	–	–
CULS	13	–	(66)	–	(66)
Trade and other payables	12	(3,327)	(2,800)	(2,246)	(1,844)
		<u>(3,327)</u>	<u>(2,866)</u>	<u>(2,246)</u>	<u>(1,910)</u>
<b>total assets less current liabilities</b>		<u>349,762</u>	<u>295,417</u>	<u>326,293</u>	<u>267,374</u>
<b>non current liabilities</b>					
Bank loans	11	(16,908)	(20,996)	–	–
		<u>(16,908)</u>	<u>(20,996)</u>	<u>–</u>	<u>–</u>
<b>total liabilities</b>		<u>(20,235)</u>	<u>(23,862)</u>	<u>(2,246)</u>	<u>(1,910)</u>
<b>net assets</b>		<u>332,854</u>	<u>274,421</u>	<u>326,293</u>	<u>267,374</u>

The financial statements have been prepared in accordance with the accounting policies on pages 49 to 55.

The notes on pages 49 to 79 form part of these financial statements.

## consolidated and company balance sheets

as at 31 January

		Group	Group	Company	Company
		31 January	31 January	31 January	31 January
		2014	2013	2014	2013
	Notes	£'000	£'000	£'000	£'000
<b>represented by:</b>					
Share capital	14	794	718	794	718
Equity component of CULS		–	12	–	12
Share options reserve		1,138	775	1,138	775
Share premium account		1,301	1,301	1,301	1,301
Capital reserve		326,085	268,141	327,271	268,426
Capital redemption reserve		76	74	76	74
Revenue reserve		(3,233)	(3,278)	(4,287)	(3,932)
<b>total equity attributable to equity holders of the company</b>		<b>326,161</b>	<b>267,743</b>	<b>326,293</b>	<b>267,374</b>
Non-controlling interest		6,693	6,678	–	–
<b>total equity attributable to group</b>		<b>332,854</b>	<b>274,421</b>	<b>326,293</b>	<b>267,374</b>
<b>net asset value per ordinary share:</b>					
Basic	8	2,054p	1,865p		
Diluted	8	2,037p	1,677p		

The financial statements have been prepared in accordance with the accounting policies on pages 49 to 55.

The notes on pages 49 to 79 form part of these financial statements.

These financial statements were approved by the Board of Directors on 20 May 2014 and signed on its behalf by:

**The Hon. P D E M Moncreiffe, *Chairman***

Company Registered Number:

1091347



**consolidated cash flow statement**  
for the year ended 31 January

<b>group</b>	Notes	2014 £'000	2013 £'000
<b>cash flows from operating activities</b>			
Investment income received		1,710	1,981
Rental income received		2,409	2,877
Bank deposit interest received		10	20
Other income		1,351	366
Sale of investments by dealing Subsidiary		742	126
Investment Manager's fees paid		(4,166)	(2,351)
Other cash payments		(1,893)	(2,482)
		<hr/>	<hr/>
<b>cash received on operations</b>	15	163	537
Taxation paid		(12)	–
Bank interest paid		(800)	(943)
CULS interest paid		–	(8)
		<hr/>	<hr/>
<b>net cash outflow from operating activities</b>		(649)	(414)
		<hr/>	<hr/>
<b>cash flows from investing activities</b>			
Purchases of investments		(218,980)	(75,317)
Sales of investments		242,977	64,070
		<hr/>	<hr/>
<b>net cash inflow/(outflow) from investing activities</b>		23,997	(11,247)
		<hr/>	<hr/>
<b>cash flows from financing activities</b>			
Repayment of fixed term borrowings		(4,088)	(874)
Repurchase of ordinary shares for cancellation		(509)	–
		<hr/>	<hr/>
<b>net cash outflow from financing activities</b>		(4,597)	(874)
		<hr/>	<hr/>
<b>increase/(decrease) in cash and cash equivalents for the year</b>		18,751	(12,535)
		<hr/>	<hr/>
<b>cash and cash equivalents at the start of the year</b>		9,462	22,200
Revaluation of foreign currency balances		102	(203)
		<hr/>	<hr/>
<b>cash and cash equivalents at the end of the year</b>	16	<u>28,315</u>	<u>9,462</u>

The financial statements have been prepared in accordance with the accounting policies on pages 49 to 55.

The notes on pages 49 to 79 form part of these financial statements.

**company cash flow statement***for the year ended 31 January*

<b>company</b>	Notes	2014 £'000	2013 £'000
<b>cash flows from operating activities</b>			
Investment income received		1,695	1,981
Bank deposit interest received		9	19
Other income		1,351	154
Investment Manager's fees paid		(4,166)	(2,351)
Other cash payments		(218)	(730)
		<u>          </u>	<u>          </u>
<b>cash expended from operations</b>	15	(1,329)	(927)
Taxation paid		(12)	–
Bank interest paid		–	(1)
CULS interest paid		–	(8)
		<u>          </u>	<u>          </u>
<b>net cash outflow from operating activities</b>		<u>(1,341)</u>	<u>(936)</u>
<b>cash flows from investing activities</b>			
Purchases of investments		(217,127)	(75,086)
Sales of investments		237,286	63,051
		<u>          </u>	<u>          </u>
<b>net cash inflow/(outflow) from investing activities</b>		<u>20,159</u>	<u>(12,035)</u>
<b>cash flows from financing activities</b>			
Repurchase of ordinary shares for cancellation		(509)	–
Short-term loans net advanced to subsidiary		(18,727)	(785)
		<u>          </u>	<u>          </u>
<b>net cash outflow from financing activities</b>		<u>(19,236)</u>	<u>(785)</u>
<b>decrease in cash and cash equivalents for the year</b>		<u>(418)</u>	<u>(13,756)</u>
<b>cash and cash equivalents at the start of the year</b>		6,964	20,924
Revaluation of foreign currency balances		105	(204)
		<u>          </u>	<u>          </u>
<b>cash and cash equivalents at the end of the year</b>	16	<u>6,651</u>	<u>6,964</u>

The financial statements have been prepared in accordance with the accounting policies on pages 49 to 55.

The notes on pages 49 to 79 form part of these financial statements.

## notes to the financial statements

## 1 accounting policies

North Atlantic Smaller Companies Investment Trust plc (“NASCIT”) is a Company incorporated in Great Britain and registered in England and Wales. The consolidated Annual Report for the Group for the year ended 31 January 2014 comprises the results of the Company and its subsidiaries – Consolidated Venture Finance Limited and Hampton Investment Properties Limited (together referred to as the “Group”).

**new standards and interpretations not yet applied**

IASB and IFRIC have issued and endorsed the following standards and interpretations, applicable to the Group, which are not yet effective for the year ended 31 January 2014 and have therefore not been applied in preparing these financial statements.

New/Revised International Financial Reporting Standards	Issued	Effective date for annual periods beginning on or after
IFRS 7    Financial Instruments: Disclosures — Amendments requiring disclosures about the initial application of IFRS 9	December 2011	1 January 2015 (or otherwise when IFRS 9 is first applied)
IFRS 9    Financial Instruments — Classification and measurement of financial assets	Original issue November 2009	1 January 2017 (mandatory application date amended November 2013)
IFRS 9    Financial Instruments — Accounting for financial liabilities and derecognition	Original issue October 2010	1 January 2017 (mandatory application date amended November 2013)
IAS 32    Financial Instruments: Presentation — Amendments to application guidance on the offsetting of financial assets and financial liabilities	December 2011	1 January 2014

The Directors do not anticipate that the initial adoption of the above standards, amendments and interpretations will have a material impact in future periods.

During the year ended 31 January 2014, the Group has adopted IFRS 13. These changes have not resulted in any material changes to the Group's financial statements as previously reported.

Upon adoption of IFRS 10, which is effective from periods beginning on or after 1 January 2014, the Group is considered an investment entity. As such subsidiaries which are held for investment purposes will not need to be consolidated within the Group financial statements and will be held as an investment through the statement of Comprehensive income. Associates which are Equity accounted under IAS 28 will be priced at Fair Value. Hampton Investment Properties Limited would, therefore no longer be a subsidiary. The Company is assessing the impact of adopting IFRS 10 on the portfolio valuation.

## notes to the financial statements

## 1 accounting policies continued

The Company will only adopt standards at the beginning of its financial year, therefore any standards or interpretations with an effective date after 1 February 2013 will not have been adopted.

**(a) basis of preparation/statement of compliance**

The consolidated annual financial statements of the Group and the annual financial statements of the Company have been prepared in conformity with International Financial Reporting Standards (“IFRS”), which comprise standards and interpretations approved by the International Accounting Standards Board and International Financial Accounting Standards and Standing Interpretation

Committee, interpretations approved by the International Accounting Standards Committee that remain in effect and to the extent they have been adopted by the European Union. They have also been prepared in accordance with applicable requirements of England and Wales company law and reflect the following policies which have been adopted and applied consistently. The financial statements have also been prepared in accordance with the Statement of Recommended Practice (“SORP”) for investment trust companies, except to any extent where it conflicts with IFRS.

**(b) convention**

The financial statements are presented in Sterling rounded to the nearest thousand. The financial statements have been prepared on a going concern basis under the historical cost convention, except for the measurement at fair value of investments and derivatives designated at fair value through profit or loss.

**(c) basis of consolidation**

Under IAS 27 a subsidiary is defined as an entity which is controlled by another entity. Therefore, the Group financial statements consolidate the financial statements of the Company, its wholly owned Subsidiary undertaking, Consolidated Venture Finance Limited and its 68.1% ownership of Hampton Investment Properties Limited, drawn up to 30 January 2014. The Company’s 65.4% holding in Performance Chemical Company has not been consolidated on the grounds of immateriality.

Except as shown in (d) below, in accordance with IAS 28 (Investments in Associates), investments where the Company holds, directly or indirectly, more than 20% or more of the voting power of the investee, or otherwise has significant influence, are not accounted for as associates. Instead they are accounted for in the same way as other investments designated as at fair value through profit or loss.

In accordance with the exemptions given by s408 of the Companies Act 2006, the Company has not presented its own Statement of Comprehensive Income. The amount of the Company’s profit for the financial year dealt with in the accounts of the Group is £59,001,000 (2013: £45,450,000).

**(d) Oryx**

NASCIT is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of Oryx. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies. Oryx has been accounted for as an associate as it is considered to be a long term holding of the Company.

The results and assets and liabilities of Oryx are incorporated in the consolidated accounts using the equity method of accounting. Oryx is carried in the Consolidated Balance Sheet at cost as adjusted by post-acquisition changes in the Group’s share of the net assets of Oryx.

## notes to the financial statements

## 1 accounting policies continued

**(e) segmental reporting**

The Directors are of the opinion that the Group is engaged in a single segment of business, being investment business. The Group invests in smaller companies principally based in countries bordering the North Atlantic Ocean. A geographical analysis of the portfolio is shown on page 6.

**(f) investments**

All non current investments held by the Group, other than the investment in Oryx, are designated at 'fair value through profit or loss' on initial acquisition. Investments are initially recognised at fair value, being the value of the consideration given.

The Group's business is investing in financial assets and investment properties with a view to profiting from their total return in the form of income and capital growth. The portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy and information about the portfolio is provided internally on that basis to the Company's Board of Directors and other key management personnel.

After initial recognition, investments are measured at fair value, with investment holding gains and losses on investments recognised in the Statement of Comprehensive Income and (apart from those on current asset investments) allocated to capital. Gains and losses on disposal are calculated as the difference between sales proceeds and cost.

Investments are included in the Balance Sheet on the following basis:

**(i) quoted at market value on a recognised stock exchange**

Securities and Treasury Bills quoted on recognised stock exchanges are valued at the market bid price and exchange rates ruling at the Balance Sheet date. With the exception of AIM quoted SETS stocks, which are valued using latest trade price, which is equivalent to the fair value.

**(ii) unquoted at directors' estimate of fair value**

Unquoted investments are valued in accordance with the International Private Equity and Venture Capital Association ("IPEVCA") guidelines. Their valuation incorporates all factors that market participants would consider in setting a price. The primary valuation techniques employed to value the unquoted investments are earnings multiples, recent transactions and the net asset basis. Valuations in local currency are translated into Sterling at the exchange rate ruling on the Balance Sheet date.

Included within the Statement of Comprehensive Income as at 31 January 2014, is a loss of £8,514,000 relative to the movement in the fair value of the unlisted investments valued using valuation techniques.

**(iii) investment property**

Investments in property are initially recognised at cost and then valued at fair value based on an independent professional valuation at the reporting date, with changes in fair value recognised in the Consolidated Statement of Comprehensive Income. Disposals of investment property are recognised when contracts for sale have been exchanged and sales have been completed.

## notes to the financial statements

## 1 accounting policies continued

**(iv) current asset investments**

Investments held by the Subsidiary undertakings are classified as 'held for trading' and are valued at fair value in accordance with the policies set out in 1(f)(i) and 1(f)(iii) above for quoted and unquoted holdings respectively.

Profits or losses on investments in the Subsidiary undertakings are taken to revenue.

**(g) foreign currency**

The currency of the primary economic environment in which the Company operates (the "functional currency") is pounds Sterling (Sterling), which is also the presentational currency of the Group. Transactions involving currencies other than Sterling are recorded at the exchange rate ruling on the transaction date. At each Balance Sheet date, monetary items and non-monetary assets and liabilities that are fair valued, which are denominated in foreign currencies, are retranslated at the closing rates of exchange.

Exchange differences arise on settlement of monetary items and from retranslating at the Balance Sheet date:

- investments and other financial instruments measured at fair value through profit or loss; and
- other monetary items are included in the Statement of Comprehensive Income and allocated as capital if they are of a capital nature, or as revenue if they are of a revenue nature.

Exchange differences allocated as capital are included in the transfer to Capital Reserve.

**(h) trade date accounting**

All "regular way" purchases and sales of financial assets are recognised on the "trade date" i.e. the day that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of the asset within a time frame generally established by regulation or convention in the market place.

**(i) income**

Dividends receivable on quoted equity shares are taken into account on the ex-dividend date. Where no ex-dividend date is quoted, they are brought into account when the Group's right to receive payment is established. Other investment income and interest receivable are included in the financial statements on an accruals basis. Dividends received from UK registered companies are accounted for net of imputed tax credits.

**(j) expenses**

All expenses are accounted for on an accruals basis and are allocated wholly to revenue with the exception of Performance Fees which are allocated wholly to capital, as the fee is payable by reference to the capital performance of the Group and transaction costs which are also allocated to capital.

Finance costs: 100% of basic loans, borrowing cost and CULS are charged to revenue.

## notes to the financial statements

## 1 accounting policies continued

**(k) share based payments**

In accordance with IFRS 2: Share Based Payments, an expense is recognised in the financial statements relating to the value of share options awarded under the 2011 Executive Share Option Scheme to the Chief Executive and employees of Harwood Capital LLP.

The accounting charge is based on the fair value of each grant, measured at the grant date and is spread over the vesting period. The deemed expense over the vesting period is transferred to the Share Options Reserve.

**(l) cash and cash equivalents**

Cash in hand and at banks and short-term deposits which are held to maturity are carried at cost. Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Bank overdrafts that are repayable on demand, which form an integral part of the Group's cash management, are included as a component of cash and cash equivalents for the purpose of the Cash Flow Statement.

**(m) bank loans and borrowings**

All bank loans and borrowings are initially recognised at cost, being the fair value of the consideration received, less issue costs where applicable. After initial recognition, all interest bearing loans and borrowings are subsequently measured at amortised cost. Any difference between cost and redemption value has been recognised in the Statement of Comprehensive Income over the period of the borrowings on an effective interest rate basis.

**(n) convertible unsecured loan stock (CULS) 2013**

The CULS comprise of an equity element and a debt element, rather than just being treated as debt. The equity element was identified when the CULS were issued and reduces when the CULS are bought back or exercised. A CULS Reserve has been created to recognise the equity component. The debt element also reduces when the CULS are bought back or exercised. If the CULS are exercised, Ordinary shares of 5p are issued as detailed in the notes to these financial statements.

## notes to the financial statements

## 1 accounting policies continued

**(o) taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Corporation tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in Equity, in which case it is recognised in Equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the Balance Sheet date and any adjustment to tax payable in respect of previous years. The tax effect of different items of expenditure is allocated between revenue and capital on the same basis as the particular item to which it relates, using the Company's marginal method of tax, as applied to those items allocated to revenue, for the accounting period.

Deferred tax is provided, using the liability method, on all temporary differences at the Balance Sheet date between the tax basis of assets and liabilities and their carrying amount for financial reporting purposes. Deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the Balance Sheet date.

**(p) share capital and reserves**

Share Capital represents the nominal value of equity shares.

Equity component of CULS represents the equity component of convertible unsecured loan stock issued.

Share Options Reserve represents the expense of share based payments. The fair value of Share Options is measured at grant date and spread over the vesting period. The deemed expense is transferred to the Share Options Reserve.

Share Premium Account represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.

Capital Reserve represents realised and unrealised capital and exchange gains and losses on the disposal and revaluation of investments and of foreign currency items. In addition, performance fee costs are allocated to the Capital Reserve.

Revenue Reserve represents retained profits from the income derived from holding investment assets less the costs associated with running the Company.



## notes to the financial statements

## 2 income

	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
<b>income from investments</b>				
UK dividend income	1,620	1,828	1,605	1,828
Unfranked investment income				
– interest	63	157	63	157
– interest reinvested	58	117	58	117
	<u>1,741</u>	<u>2,102</u>	<u>1,726</u>	<u>2,102</u>
<b>other income</b>				
Interest receivable	1,362	174	1,360	173
Net dealing gains from Subsidiary trading	241	109	–	–
Net return from Subsidiary	–	–	257	316
Rental income	2,409	2,877	–	–
Sundry income	–	212	–	–
	<u>4,012</u>	<u>3,372</u>	<u>1,617</u>	<u>489</u>
Total income	<u>5,753</u>	<u>5,474</u>	<u>3,343</u>	<u>2,591</u>
<b>total income comprises</b>				
Dividends	1,620	1,828	1,605	1,828
Interest	1,483	448	1,481	447
Rental income	2,409	2,877	–	–
Other income*	241	321	257	316
	<u>5,753</u>	<u>5,474</u>	<u>3,343</u>	<u>2,591</u>
<b>income from investments</b>				
Listed UK	1,620	1,828	1,605	1,828
Unlisted UK	–	29	–	29
Other listed	20	–	20	9
Other unlisted	101	245	101	236
	<u>1,741</u>	<u>2,102</u>	<u>1,726</u>	<u>2,102</u>

\* Includes net dealing gains/(losses) from Subsidiary trading.

## notes to the financial statements

## 3 investment management fee

- (i) Pursuant to the Secondment Services Agreement, described in the Group Report of the Directors on page 23 and the Directors' Remuneration Report on page 36, Growth Financial Services Limited ("GFS") provides the services of Mr Mills as Chief Executive of the Company, who is responsible for day-to-day investment decisions. Mr Mills is a director of GFS. GFS is entitled to receive part of the investment management and related fees payable to GFS and Harwood Capital LLP as may be agreed between them from time to time.
- (ii) Pursuant to the terms of the Management, Administration and Custody Agreement, described on page 23 of the Group Report of the Directors, Harwood Capital LLP is entitled to receive a fee (the Annual Fee) in respect of each financial period equal to the difference between (a) 1% of Shareholders' Funds (as defined) on 31 January each year and (b) the amount payable to GFS referred to in note 3(i) above. This fee is payable quarterly in advance.
- As set out in note 18, no formal arrangements exist to avoid double charging on investments managed or advised by Harwood Capital LLP.
- (iii) The Performance Fee, calculated annually to 31 January, is only payable if the investment portfolio outperforms the Sterling adjusted Standard & Poors' 500 Composite Index. It is calculated as 10% of the outperformance and paid as a percentage of Shareholders' Funds. It is limited to a maximum payment of 0.5% of Shareholders' Funds. The Performance Fee arrangements payable to GFS have been in place since 1984 when they were approved by Shareholders.
- (iv) In addition to the management fees disclosed in note 3(ii) above, Harwood Capital LLP is also paid an investment management related fee of £125,000 per annum (see note 4).

The amounts payable in the year in respect of investment management are as follows:

	Group and Company			Group and Company		
	2014			2013		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Annual fee	2,675	–	2,675	2,216	–	2,216
Performance Fee	–	1,641	1,641	–	1,344	1,344
Irrecoverable VAT thereon	–	120	120	–	73	73
	<u>2,675</u>	<u>1,761</u>	<u>4,436</u>	<u>2,216</u>	<u>1,417</u>	<u>3,633</u>

At 31 January 2014, £134,000 was payable to the Joint Manager in respect of outstanding management fees (2013: £111,000). At 31 January 2014, £1,641,000 plus VAT was payable to GFS in respect of outstanding performance fees (2013: £1,344,000).

## notes to the financial statements

## 4 other expenses

	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
Auditor's remuneration (see below)	45	44	45	44
Directors' fees (see pages 36 and 37)	100	100	100	100
Investment management related fee (see note 3)	125	125	125	125
Other expenses	1,400	1,759	379	546
	<u>1,670</u>	<u>2,028</u>	<u>649</u>	<u>815</u>

## auditors' remuneration

	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
Fees payable to the Company's Auditor for the audit of the financial statements:	42	41	42	41
Other services relating to taxation:	3	3	3	3
	<u>45</u>	<u>44</u>	<u>45</u>	<u>44</u>

## 5 share based remuneration

	2014			2013		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Accounting charge for the year	363	–	363	355	–	355
	<u>363</u>	<u>–</u>	<u>363</u>	<u>355</u>	<u>–</u>	<u>355</u>

A list of the Options in issue are shown below;

No. of options at 1 February 2013	Year of grant	Cancelled during the year	Grant of options during the year	Price	No. of Options at 31 January 2014
430,000	2011	–	–	1,467.71	430,000
30,000	2012	–	–	1,396.24	30,000

Further details of Options are disclosed on pages 37 and 38 and in note 14 on page 68.

On 14 July 2011, C H B Mills (Mr Mills) was granted 420,000 share options under the NASCIT 2011 Executive Share Option Scheme at an exercise price of 1,467.71p per share. A further 10,000 options were granted to an eligible employee of Harwood Capital LLP. These options are exercisable providing the necessary performance requirements are met between 14 July 2014 and 14 July 2021.

## notes to the financial statements

## 5 share based remuneration continued

On 9 July 2012, a further 30,000 options were granted to other eligible employees of Harwood Capital LLP at an exercise price of 1,396.24p. These options are exercisable (providing the necessary performance requirements are met between 9 July 2015 and 9 July 2022).

The fair value of the share options is estimated at the respective grant date using a binominal lattice. The Board commissioned an independent third party to calculate the fair value of the share options under IFRS 2. The assumptions used in calculating the fair value are included in the table below:

	2011 options	2012 options
Award date	14 July 2011	9 July 2012
Exercise price	1,467.71p	1,396.24p
Assumptions:	per annum	per annum
Future share price volatility	25.0%	20.0%
Future dividend yield	0.0%	0.0%
Future risk-free interest rate	1.2%	0.3%
Minimum gain threshold	33.0%	33.0%
Proportion of options exercised given minimum gain achieved	50.0%	50.0%
Share price <sup>^</sup>	1,097.00p	1,045.00p

<sup>^</sup> Share price is the closing mid-market price on the day before the date of grant.

Based on the above assumptions:

- the fair value of the 2011 options has been calculated as 22.1% of the face value of the awards (based on the share price of 1,097.00p) giving a total fair value of £1,042,000.
- the fair value of the 2012 options has been calculated as 15.0% of the face value of the awards (based on the share price of 1,045.00p) giving a total fair value of £47,000.

The accounting charge is based on the fair value of each grant, at the grant date and is spread over the vesting period, being 3 years from the date of grant assuming all necessary performance criteria are met. The deemed expense is transferred to the Share options reserve.

At the date of this report there were a total of 460,000 options in issue with an estimated fair value at the date of grant of £1.09m.

## 6 interest payable and similar charges

	Group	Group	Company	Company
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
On bank loans and overdrafts	800	943	–	1
Interest on CULS	–	8	–	8
	<u>800</u>	<u>951</u>	<u>–</u>	<u>9</u>

## notes to the financial statements

## 7 taxation on ordinary activities

	Group 2014 Total £'000	Group 2013 Total £'000	Company 2014 Total £'000	Company 2013 Total £'000
Withholding tax	12	–	12	–
UK Corporation tax at 24%	–	192	–	–
	<u>12</u>	<u>192</u>	<u>12</u>	<u>–</u>

The current taxation charge for the year is different from the standard rate of corporation tax in the UK of 24% to 31 March 2013 and 23% from 1 April 2013. The differences are explained below.

	Group 2014 Total £'000	Group 2013 Total £'000	Company 2014 Total £'000	Company 2013 Total £'000
Total return on ordinary activities before taxation	58,527	45,704	59,013	45,450
Theoretical tax at UK Corporation tax rate of 23.167% (2013: 24.333%)	13,559	11,121	13,672	11,059
Effects of:				
Non taxable capital return	(13,502)	(11,140)	(13,750)	(11,254)
UK dividends which are not taxable	(357)	(445)	(354)	(445)
Withholding tax	12	–	12	–
Increase in tax losses, disallowable expenses and offshore income gains	300	656	432	640
Actual current tax charge	<u>12</u>	<u>192</u>	<u>12</u>	<u>–</u>

## Factors that may affect future tax charges:

As at 31 January 2014, the Group has tax losses of £45,863,000 (31 January 2013: £42,923,000) that are available to offset future taxable revenue, comprising excess management expenses of £35,347,000, a non-trade loan relationship deficit of £8,646,000 and a trade loss of £1,870,000 (31 January 2013: excess management expenses of £31,106,000, a non-trade loan relationship deficit of £9,689,000 and a trade loss of £2,128,000). A deferred tax asset has not been recognised in respect of those losses as the Group is not expected to generate taxable income in the future in excess of the deductible expenses of future periods and, accordingly, it is unlikely that the Group will be able to reduce future tax liabilities through the use of those losses.

Of the Group tax losses, the Company has tax losses of £43,993,000 (31 January 2013: £40,795,000) that are available to offset future taxable revenue, comprising excess management expenses of £35,347,000, a non-trade loan relationship deficit of £8,646,000 and a trade loss of £nil (31 January 2013: excess management expenses of £31,106,000, a non-trade loan relationship deficit of £9,689,000 and a trade loss of £nil). A deferred tax asset has not been recognised in respect of those losses as

## notes to the financial statements

## 7 taxation on ordinary activities continued

the Company is not expected to generate taxable income in the future in excess of the deductible expenses of future periods and, accordingly, it is unlikely that the Company will be able to reduce future tax liabilities through the use of those losses.

The Company is exempt from corporation tax on capital gains provided it maintains its status as an investment trust under Chapter 4 of Part 24 of the Corporation Tax Act 2010. Due to the Company's intention to continue to meet the conditions required to maintain its investment trust status, it has not provided for deferred tax on any capital gains or losses arising on the revaluation or disposal of investments.

## 8 return per ordinary share and net asset value per ordinary share

## a) Consolidated return per Ordinary Share:

	Revenue			Capital			Total		
	*Net return £'000	Ordinary Shares	Per Share pence	*Net return £'000	Ordinary Shares	Per Share pence	*Net return £'000	Ordinary Shares	Per Share pence
<b>2014</b>									
Basic return per Share	45	15,526,665	0.29	58,455	15,526,665	376.48	58,500	15,526,665	376.77
Share options**	–	1,416		–	1,416		–	1,416	
CULS***	–	381,817		–	381,817		–	381,817	
<hr/>									
Diluted return per Share	45	15,909,898	0.28	58,455	15,909,898	367.42	58,500	15,909,898	367.70
<hr/>									
	*Net return £'000	Revenue Ordinary Shares	Per Share pence	*Net return £'000	Capital Ordinary Shares	Per Share pence	*Net return £'000	Total Ordinary Shares	Per Share pence
<b>2013</b>									
Basic return per Share	(494)	14,258,470	(3.46)	46,261	14,258,470	324.45	45,767	14,258,470	320.99
CULS***	8	1,834,771		–	1,834,771		8	1,834,771	
<hr/>									
Diluted return per Share	(486)	16,093,241	(3.02)	46,261	16,093,241	287.46	45,775	16,093,241	284.44
<hr/>									

Basic return per Ordinary Share has been calculated using the weighted average number of Ordinary Shares in issue during the year.

\* Profit for the year.

\*\* Excess of total number of potential shares on Option Conversion over the number that could be issued at the average market price, as calculated in accordance with IAS 33: Earnings per share.

\*\*\* CULS interest cost and excess of the total number of potential shares on CULS conversion over the number that could be issued at the average market price from the conversion proceeds, as calculated in accordance with IAS 33: Earnings per share.

## notes to the financial statements

**8 return per ordinary share and net asset value per ordinary share** continued

## b) Consolidated net asset value per Ordinary Share:

The consolidated net asset value per Ordinary Share calculated in accordance with the Articles of Association is as follows:

		Net assets	Number of	Net asset
		£'000	ordinary shares	value per Share
2014				
Ordinary Shares	– Basic	326,161	15,880,736	2,054p
	– Diluted	332,891	16,340,736	2,037p
		Net assets	Number of	Net asset
		£'000	ordinary shares	value per Share
2013				
Ordinary Shares	– Basic	267,743	14,359,107	1,865p
	– Diluted	274,551	16,374,034	1,677p

The diluted net asset value per Ordinary Share is calculated on the assumption that the outstanding 2014 CULS are fully converted at par and that all 460,000 (2013: 460,000) Share Options were exercised at the prevailing exercise prices, giving a total of 16,340,736 issued Ordinary Shares (2013: 16,374,034).

**9 investments****a. Investments at fair value through profit or loss**

	Group	Group	Company	Company
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Quoted at fair value:				
United Kingdom	94,503	78,653	130,532	104,307
Overseas	13,800	13,701	13,800	13,701
Total quoted investments	108,303	92,354	144,332	118,008
Treasury bills at fair value	54,454	14,190	54,454	14,190
Unlisted and loan stock at fair value	87,151	112,453	101,572	126,546
Investments at fair value through profit or loss	249,908	218,997	300,358	258,744
Investment property*	33,731	40,111	–	–
Total	283,639	259,108	300,358	258,744

\* The Company holds the investment property through a subsidiary, Hampton Investment Properties Limited.

## notes to the financial statements

## 9 investments continued

	Listed equities £'000	AIM quoted £'000	Unlisted equities £'000	Loan stocks £'000	Treasury Bills £'000	Investment Property £'000	Total £'000
<b>group – 2014</b>							
<b>analysis of investment portfolio movements</b>							
Opening bookcost as at 1 February 2013	69,491	11,550	61,733	11,091	14,041	35,428	203,334
Opening appreciation/(depreciation) on assets held	5,834	5,479	41,015	(1,386)	149	4,683	55,774
<b>opening valuation as at 1 February 2013</b>	<b>75,325</b>	<b>17,029</b>	<b>102,748</b>	<b>9,705</b>	<b>14,190</b>	<b>40,111</b>	<b>259,108</b>
Movements in year:							
Transfer	(5,008)	5,008	–	–	–	–	–
Purchases at cost	7,678	7,279	10,121	4,952	186,978	58	217,066
Sales – proceeds	(23,214)	(8,846)	(49,554)	(11,150)	(143,462)	(5,897)	(242,123)
– realised gains/(losses) on sales	7,348	4,113	29,197	(162)	(3,193)	(322)	36,981
Increase/(decrease) in appreciation on assets held	15,938	5,653	(8,842)	136	(59)	(219)	12,607
<b>closing valuation as at 31 January 2014</b>	<b>78,067</b>	<b>30,236</b>	<b>83,670</b>	<b>3,481</b>	<b>54,454</b>	<b>33,731</b>	<b>283,639</b>
Closing bookcost as at 31 January 2014	56,295	19,104	51,497	4,731	54,364	29,267	215,258
Closing appreciation/(depreciation) on assets held	21,772	11,132	32,173	(1,250)	90	4,464	68,381
	<b>78,067</b>	<b>30,236</b>	<b>83,670</b>	<b>3,481</b>	<b>54,454</b>	<b>33,731</b>	<b>283,639</b>
<b>company – 2014</b>							
<b>analysis of investment portfolio movements</b>							
Opening bookcost as at 1 February 2013	79,972	11,550	71,743	11,091	14,041	–	188,397
Opening appreciation/(depreciation) on assets held	21,007	5,479	45,098	(1,386)	149	–	70,347
<b>opening valuation as at 1 February 2013</b>	<b>100,979</b>	<b>17,029</b>	<b>116,841</b>	<b>9,705</b>	<b>14,190</b>	<b>–</b>	<b>258,744</b>
Movements in year:							
Transfer	(5,008)	5,008	–	–	–	–	–
Purchases at cost	7,678	7,279	10,121	4,952	186,978	–	217,008
Sales – proceeds	(23,214)	(8,846)	(49,761)	(11,150)	(143,462)	–	(236,433)
– realised gains/(losses) on sales	7,348	4,113	29,404	(162)	(3,193)	–	37,510
Increase/(decrease) in appreciation on assets held	26,313	5,653	(8,514)	136	(59)	–	23,529
<b>closing valuation as at 31 January 2014</b>	<b>114,096</b>	<b>30,236</b>	<b>98,091</b>	<b>3,481</b>	<b>54,454</b>	<b>–</b>	<b>300,358</b>
Closing bookcost as at 31 January 2014	66,776	19,104	61,507	4,731	54,364	–	206,482
Closing appreciation/(depreciation) on assets held	47,320	11,132	36,584	(1,250)	90	–	93,876
	<b>114,096</b>	<b>30,236</b>	<b>98,091</b>	<b>3,481</b>	<b>54,454</b>	<b>–</b>	<b>300,358</b>



## notes to the financial statements

## 9 investments continued

	Listed equities £'000	AIM quoted £'000	Unlisted equities £'000	Loan stocks £'000	Treasury Bills £'000	Investment Property £'000	Total £'000
<b>group – 2013</b>							
<b>analysis of investment portfolio movements</b>							
Opening bookcost as at 1 February 2012	71,212	11,550	61,072	4,705	–	35,429	183,968
Opening (depreciation)/appreciation on assets held	(7,432)	(125)	24,146	(1,954)	–	6,225	20,860
<b>opening valuation as at 1 February 2012</b>	<b>63,780</b>	<b>11,425</b>	<b>85,218</b>	<b>2,751</b>	<b>–</b>	<b>41,654</b>	<b>204,828</b>
Movements in year:							
Purchases at cost	18,368	–	5,518	9,112	42,106	198	75,302
Sales – proceeds	(25,116)	–	(7,215)	(2,416)	(28,216)	(234)	(63,197)
– realised gains/(losses) on sales	5,027	–	2,358	(310)	151	35	7,261
Increase/(decrease) in appreciation on assets held	13,266	5,604	16,869	568	149	(1,542)	34,914
<b>closing valuation as at 31 January 2013</b>	<b>75,325</b>	<b>17,029</b>	<b>102,748</b>	<b>9,705</b>	<b>14,190</b>	<b>40,111</b>	<b>259,108</b>
Closing bookcost as at 31 January 2013	69,491	11,550	61,733	11,091	14,041	35,428	203,334
Closing appreciation/(depreciation) on assets held	5,834	5,479	41,015	(1,386)	149	4,683	55,774
	<b>75,325</b>	<b>17,029</b>	<b>102,748</b>	<b>9,705</b>	<b>14,190</b>	<b>40,111</b>	<b>259,108</b>
<b>company – 2013</b>							
<b>analysis of investment portfolio movements</b>							
Opening bookcost as at 1 February 2012	81,693	11,550	70,909	4,705	–	–	168,857
Opening appreciation/(depreciation) on assets held	2,482	(125)	29,057	(1,954)	–	–	29,460
<b>opening valuation as at 1 February 2012</b>	<b>84,175</b>	<b>11,425</b>	<b>99,966</b>	<b>2,751</b>	<b>–</b>	<b>–</b>	<b>198,317</b>
Movements in year:							
Purchases at cost	18,368	–	5,896	9,112	42,106	–	75,482
Sales – proceeds	(25,116)	–	(7,215)	(2,416)	(28,216)	–	(62,963)
– realised gains/(losses) on sales	5,027	–	2,153	(310)	151	–	7,021
Increase in appreciation on assets held	18,525	5,604	16,041	568	149	–	40,887
<b>closing valuation as at 31 January 2013</b>	<b>100,979</b>	<b>17,029</b>	<b>116,841</b>	<b>9,705</b>	<b>14,190</b>	<b>–</b>	<b>258,744</b>
Closing bookcost as at 31 January 2013	79,972	11,550	71,743	11,091	14,041	–	188,397
Closing appreciation/(depreciation) on assets held	21,007	5,479	45,098	(1,386)	149	–	70,347
	<b>100,979</b>	<b>17,029</b>	<b>116,841</b>	<b>9,705</b>	<b>14,190</b>	<b>–</b>	<b>258,744</b>

## notes to the financial statements

## 9 investments continued

	Group 2014 £'000	Group 2013 £'000
<b>analysis of capital gains and losses</b>		
Gains on sales	37,303	7,226
Unrealised gains	12,826	36,456
	<u>50,129</u>	<u>43,682</u>
Movement in valuation of escrow	78	–
	<u>50,207</u>	<u>43,682</u>
<b>gains/(losses) on investments at fair value</b>		
Realised (losses)/gains on sales of investment property	(322)	35
Unrealised losses on investment property held	(219)	(1,542)
	<u>(541)</u>	<u>(1,507)</u>
<b>(losses)/gains on investment property</b>		
	<u>(541)</u>	<u>(1,507)</u>
	Group 2014 £'000	Group 2013 £'000
Unrealised gains	10,375	5,259
	<u>10,375</u>	<u>5,259</u>
<b>gains on equity accounted investments</b>		
	2014 £'000	2013 £'000
Exchange losses on capital items	(20)	(31)
Exchange losses on escrow	(84)	(2)
Exchange gains/(losses) on capital items and currency	106	(204)
	<u>2</u>	<u>(237)</u>
<b>exchange gains/(losses)</b>		
	<u>2</u>	<u>(237)</u>
	2014 £'000	2013 £'000
<b>portfolio analysis</b>		
Equity shares	184,869	177,952
Convertible preference securities	7,104	17,150
Fixed interest securities	3,481	9,705
Treasury Bills	54,454	14,190
Investment properties	33,731	40,111
	<u>283,639</u>	<u>259,108</u>

## notes to the financial statements

## 9 investments continued

## b. subsidiary undertakings

At 31 January 2014 the Company has the following Subsidiaries:

Subsidiary	Principal activity	% equity held	Country of registration
Consolidated Venture Finance Limited*	Security trading	100.00%	England and Wales
Hampton Investment Properties Limited**	Property investment	68.10%	England and Wales

The Subsidiaries were active during the year.

\* Directly held by the Company at a cost of less than £1,000.

\*\* Directly held by the Company at a cost of £9,968,000. The subsidiary has been consolidated in the Group financial statements using financial information from its accounts at 31 January 2014.

## c. associates

In the Group accounts Oryx is recognised as an Associate and the results of that Company have been accounted for in the Group accounts as an Associate under the equity method of accounting and valued using the Net Asset Value at 31 January 2014 of that Company. Oryx is a separately quoted company and has a financial year end date of 31 March, therefore the statutory accounts are not available to consolidate.

At the date of this report, the Company held 7,106,284 Ordinary shares representing 37.82% of the total voting rights in Oryx.

The value of the investment in associate in the Consolidated Balance Sheet using the equity method is as follows:

	2014	2013
	£'000	£'000
Opening share of net assets at 1 February	25,654	20,395
Share of profit for the year	10,375	5,259
Closing share of net assets at 31 January	36,029	25,654

The figures used to value the Group's holding in Oryx have been extracted from the company's 31 January 2014 management accounts.

The following financial information for Oryx has been extracted from its unaudited interim results for the six months ended 30 September 2013, being the latest available results and therefore do not have any bearing on the figures used to value Oryx as at 31 January 2014 and are presented for informational purposes only.

	£'000
Total assets	77,724
Liabilities	(673)
Net assets	77,051
Total revenue	9,258
Net profit for the period	9,505

Oryx is traded on the London Stock Exchange. The value at bid price at 31 January 2014 was £27,715,000, based on the holding of 7,106,284 Ordinary shares priced at 3.90p per share.

## notes to the financial statements

## 9 investments continued

## d. significant holdings

At the year-end, the Group and Company held 20% or over of the aggregate nominal value of voting equity of the following companies, all of which are incorporated and registered in England and Wales, unless stated:

		31 January 2014 %	31 January 2013 %
AssetCo PLC	– Ordinary Shares	21.7	23.9
Essenden PLC	– Ordinary Shares	21.4	21.4
Forefront Group Limited	– Ordinary Shares	21.9	23.1
Martley Limited (Jersey)	– Ordinary Shares	29.6	29.6
Nationwide Accident Repair Services PLC	– Ordinary Shares	23.2	23.2
Bionostics Holdings Limited	– Ordinary Shares	N/A	47.1
Bioquell	– Ordinary Shares	20.5	15.9
Orthoproducts Limited	– Ordinary Shares	N/A	40.0
Oryx International Growth Fund Limited (incorporated in Guernsey)	– Ordinary Shares	42.7	37.6
Performance Chemical Company*	– Ordinary Shares	65.4	65.4
Trident Private Equity Fund III LP	– Ordinary Shares	32.7	32.7

\* The Board has chosen not to consolidate this holding. See note 1(c) for further details.

## e. investments in US treasury bills

At 31 January 2014, the Group held US Treasury Bills with a market value of £54,454,000 (2013: £14,190,000).

## f. transaction costs

During the year, the Group incurred total transaction costs of £145,000 (2013: £163,000) comprising £99,000 (2013: £120,000) and £46,000 (2013: £43,000) on purchases and sales of investments respectively. These amounts are included in gains on investments as disclosed in the Consolidated Statement of Comprehensive Income.

## g. material disposals of unlisted investments in the year:

Security Name	Proceeds £'000	Bookcost £'000	Gain £'000	Carrying value at 31 January 2013 £'000
Bionostics Holdings Limited	25,185	8,361	16,824	23,150
Orthoproducts Limited	10,355	2,848	7,507	8,250
Trident Private Equity Fund III LP	2,738	2,738	–	18,576
Trident Private Equity Fund II LP	4,812	–	4,812	6,513
Nastor Investments Limited	2,570	2,454	116	5,125

## notes to the financial statements

**10 trade and other receivables**

	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
Amounts owed by Subsidiary	–	–	20,861	1,876
Amounts due from brokers	–	329	–	329
Accrued income	3	28	1	28
Other debtors	1,918	2,005	668	1,343
	<u>1,921</u>	<u>2,362</u>	<u>21,530</u>	<u>3,576</u>

**11 bank loans**

	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
<b>amounts falling due in more than one year</b>				
Hampton Investment Property Limited bank loans*	16,908	20,996	–	–
	<u>16,908</u>	<u>20,996</u>	<u>–</u>	<u>–</u>

\* The bank loan is a five year facility with RBS which commenced on 2 February 2011 and is secured over the investment property. The loan bears interest at the rate of LIBOR plus 2.76%.

**12 trade and other payables**

	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
Other creditors and accruals	3,327	2,800	2,246	1,844
	<u>3,327</u>	<u>2,800</u>	<u>2,246</u>	<u>1,844</u>

**13 debenture loan – convertible unsecured loan stock (CULS) 2014**

	2014 No. of units	2014 £'000	2013 No. of units	2013 £'000
<b>group and company</b>				
Balance at beginning of year	1,554,927	66	1,800,481	77
Converted during the year	(1,554,927)	(66)	(245,554)	(11)
Balance at end of year	<u>–</u>	<u>–</u>	<u>1,554,927</u>	<u>66</u>

The CULS include an equity component as well as debt. As explained in note 1.(p), the equity component is shown in the CULS Reserve.

The CULS were issued in units of 5p. The CULS units were redeemable at par until 31 May 2013.

During the year ended 31 January 2014, 1,554,927 (2013: 245,554) CULS units were converted into Ordinary Shares of 5p each at the rate of one 5p Ordinary Share for every unit of 5p. This was the final conversion of the CULS.

No CULS units were purchased for cancellation during the year (2013: nil).

## notes to the financial statements

## 14 share capital

	2014 Number	2014 £'000	2013 Number	2013 £'000
<b>- issued and fully paid:</b>				
Ordinary Shares of 5p:				
Balance at beginning of year	14,359,107	718	14,113,553	706
Conversion of CULS	1,554,927	78	245,554	12
Cancellation of shares	(33,298)	(2)	–	–
Balance at end of year	<u>15,880,736</u>	<u>794</u>	<u>14,359,107</u>	<u>718</u>

During the year, 1,554,927 (2013: 245,554) CULS units were converted into Ordinary Shares of 5p as detailed in note 13.

Since 31 January 2014, a total of 895,000 Ordinary Shares have been purchased by the Company for cancellation. As at the date of this report, the Company's issued share capital consists of 14,985,736 Ordinary shares of 5p nominal value each.

There are contingent rights to subscribe for Ordinary Shares of 5p each pursuant to:

There are Options totalling 460,000 (2013: 460,000) remaining, details of which are given on pages 37 and 38 in the Directors' Remuneration Report.

## 15 reconciliation of total return from ordinary activities before finance costs and taxation to cash expended from operations

	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
Total gains from ordinary activities before finance costs and taxation	59,327	46,655	59,013	40,200
(Gains) on investments	(49,668)	(41,938)	(61,117)	(42,412)
Share of net return of associate	(10,375)	(5,259)	–	–
Share based remuneration	363	355	363	355
Provision for Subsidiary	–	–	(258)	(316)
Depreciation	14	12	–	–
Dividends and interest reinvested	(58)	(117)	(58)	(117)
(Increase)/decrease in debtors and accrued income	(467)	(723)	326	(246)
Increase in creditors and accruals	526	1,536	402	1,609
Change relating to investments of dealing Subsidiary	501	16	–	–
Cash received/(expended) from operations	<u>163</u>	<u>537</u>	<u>(1,329)</u>	<u>(927)</u>

## notes to the financial statements

## 16 analysis of net cash and net debt

	At 1 February 2013 £'000	Cash flow £'000	Exchange movement £'000	At 31 January 2014 £'000
<b>net cash</b>				
Group				
Cash and cash equivalents	<u>9,462</u>	<u>18,751</u>	<u>102</u>	<u>28,315</u>
Company				
Cash and cash equivalents	<u>6,964</u>	<u>(418)</u>	<u>105</u>	<u>6,651</u>
<b>net debt</b>				
Group				
Loans falling due in more than one year	<u>20,996</u>	<u>(4,088)</u>	<u>–</u>	<u>16,908</u>
Company				
Loans falling due in less than one year	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

## 17 financial instruments and risk profile

During the year, the Board has undertaken a review of the risks facing the Company. An explanation of the Group's financial risk management objectives, policies and strategy can be found in the Strategic Report on pages 16 to 20.

The Group's financial instruments comprise its investment portfolio, cash balances, derivatives contracts, borrowing facilities, loan stock and trade receivables and trade payables that arise directly from its operations. Note 1 (on pages 49 to 54) sets out the accounting policies, including criteria for recognition and the basis for measurement, applied to significant financial instruments (excluding cash at bank and bank loans) which are carried at fair value. Note 1 also includes the basis on which income and expenses arising from financial assets and liabilities are recognised.

To support its investment in unquoted companies, the Group may periodically agree to guarantee all or part of the borrowings of investee companies. Provision is made for any costs that may be incurred when the Directors consider it likely that the guarantee will crystallise.

The main risks arising from the Group's financial instruments are:

- (i) market price risk, including currency risk, interest rate risk and other price risk;
- (ii) liquidity risk; and
- (iii) credit risk

The Company Secretary in close co-operation with the Board of Directors and the Joint Managers, co-ordinates the Group's risk management. The policies for managing each of these risks are summarised below and have been applied throughout the year.

## notes to the financial statements

## 17 financial instruments and risk profile continued

**(i) market price risk**

The fair value or future cash flows of a financial instrument held by the Group may fluctuate because of changes in market prices. This market risk comprises currency risk, interest rate risk and other price risk. The Board of Directors reviews and agrees policies for managing these risks, which policies have remained substantially unchanged from those applying in the year ended 31 January 2013. The Joint Managers assess the exposure to market risk when making each investment decision and monitor the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

**currency risk**

The Group's total return and net assets can be materially affected by currency translation movements as a significant proportion of the Group's assets are denominated in currencies other than Sterling, which is the Group's functional currency. It is not the Group's policy to hedge this risk on a continuing basis but the Group may, from time to time, match specific overseas investment with foreign currency borrowings. The Joint Managers seek, when deemed appropriate, to manage exposure to currency movements on borrowings by using forward foreign currency contracts as a hedge against potential foreign currency movements. At 31 January 2014, the Group had no open forward currency contracts (2013: none).

The revenue account is subject to currency fluctuation arising on overseas income. The Group does not hedge this currency risk.

Foreign currency exposure by currency of denomination:

**group and company**

	31 January 2014			31 January 2013		
	Overseas investments	Net monetary assets	Total currency exposure	Overseas investments	Net monetary assets	Total currency exposure
	£'000	£'000	£'000	£'000	£'000	£'000
US Dollar	99,488	1,199	100,687	82,427	6,713	89,140
New Zealand Dollar	12,795	–	12,795	12,721	468	13,189
Euro	–	1	1	1,027	–	1,027
	112,283	1,200	113,483	96,175	7,181	103,356

Sensitivity analysis is based on the Group's monetary foreign currency financial instruments held at each balance sheet date. If Sterling had moved by 10% against all currencies, with all other variables constant, net assets would have moved by the amounts shown below. The analysis is shown on the same basis for 2013.



## notes to the financial statements

## 17 financial instruments and risk profile continued

	31 January 2014		31 January 2013	
	10%	10%	10%	10%
	weakening	strengthening	weakening	strengthening
	£'000	£'000	£'000	£'000
US Dollar	11,054	(9,044)	9,904	(8,104)
NZ Dollar	1,422	(1,163)	1,465	(1,199)
Euro	1	(1)	114	(93)
	<u>12,477</u>	<u>(10,208)</u>	<u>11,483</u>	<u>(9,396)</u>

In the opinion of the Directors, the above sensitivity analyses are not representative of the year as a whole, since the level of exposure changes frequently as part of the currency risk management process used to meet the Group's objectives.

**interest rate risk**

Interest rate movements may affect;

- the fair value of the investments in fixed interest rate securities (including unquoted loans);
- the level of income receivable on cash deposits;
- the loan guarantee, and any amounts payable should the guarantee be called upon.

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions and borrowing under the multi-currency loan facility.

The Board reviews on a regular basis the values of the fixed interest rate securities and the unquoted loans to companies in which private equity investment is made.

The Group finances part of its activities through borrowings at levels approved and monitored by the Board.

Movements in interest rates would not significantly affect net assets attributable to the Group's Shareholders and total profit.

**term bank loans**

The subsidiary undertaking, Hampton Investment Properties Limited, has a five year term loan with RBS which is secured over its investment property. The loan bears interest at the rate of LIBOR plus 2.76% and is repayable on 2 February 2016.

**other price risk**

Other price risks (i.e. changes in market prices other than those arising from currency risk or interest rate risk) may affect the value of the quoted and unquoted investments.

The Group's exposure to price risk comprises mainly movements in the value of the Group's investments. It should be noted that the prices of options tend to be more volatile than the prices of the underlying securities. As at the year-end, the spread of the Group's investment portfolio analysed by sector was as set out on page 6.

## notes to the financial statements

## 17 financial instruments and risk profile continued

**other price risk** continued

The Board of Directors manages the market price risks inherent in the investment portfolios by ensuring full and timely access to relevant investment information from the Joint Manager. The Board meets regularly and at each meeting reviews investment performance. The Board monitors the Joint Managers compliance with the Company's objectives and is directly responsible for investment strategy and asset allocation.

When appropriate, derivative contracts are used to hedge against the exposure to price risk.

The Group's exposure to other changes in market prices at 31 January 2013 on its quoted and unquoted investments and options on investments was as follows:

	2014	2013	2014	2013
	Group	Group	Company	Company
	£'000	£'000	£'000	£'000
Financial assets at fair value through profit or loss				
– Non current investments at fair value through profit or loss	249,908	218,997	300,358	258,744
– Non current investment property	33,731	40,111	–	–
Financial assets at fair value through profit or loss and held for trading				
– Current asset investments	<u>2,000</u>	<u>498</u>	<u>–</u>	<u>–</u>

The following table illustrates the sensitivity of the profit after taxation and net assets to an increase or decrease of 10% in the fair values of the Group's equities. This level of change is considered to be reasonably possible based on observation of current market conditions. The sensitivity analysis is based on the Group's equities and equity exposure through options at each Balance Sheet date, with all other variables held constant.

	2014		2013	
	Increase in fair value £'000	Decrease in fair value £'000	Increase in fair value £'000	Decrease in fair value £'000
Increase/(decrease) in net assets	<u>28,364</u>	<u>(28,364)</u>	<u>25,911</u>	<u>(25,911)</u>

**(ii) liquidity risk**

This is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities.

The Group invests in equities and other investments that are readily realisable.

**(iii) credit risk**

The Group does not have any significant exposure to credit risk arising from any one individual party. Credit risk is spread across a number of counterparties, each having an immaterial effect on the Group's cash flows, should a default happen. The Company assesses the credit worthiness of its debtors from time to time to ensure they are neither past due or impaired.

The maximum exposure of the financial assets to credit risk at the Balance Sheet date was as follows:

## notes to the financial statements

## 17 financial instruments and risk profile continued

## credit risk continued

	2014	2013	2014	2013
	Group	Group	Company	Company
	£'000	£'000	£'000	£'000
<b>financial assets neither past due or impaired</b>				
Fixed income securities	3,481	9,705	3,481	9,705
Preference shares	7,104	17,150	7,104	17,150
Treasury Bills	54,454	14,190	54,454	14,190
Accrued income and other debtors	670	1,079	670	1,079
Cash and cash equivalents	28,315	9,462	6,651	6,964
	<u>94,024</u>	<u>51,586</u>	<u>72,360</u>	<u>49,088</u>

The maximum credit exposure of financial assets represents the carrying amount. There are no financial assets that are past due or impaired.

## commitments giving rise to credit risk

There are no commitments giving rise to credit risk as at 31 January 2014.

## fair value of financial assets and financial liabilities

The fair value for each class of financial assets and liabilities of the Group, compared with the corresponding amount in the Balance Sheet was as follows (trade receivables and trade payables, are excluded from the comparison, as their carrying amounts are a reasonable approximation of their fair value).

	31 January 2014		31 January 2013	
	Fair value	Balance	Fair value	Balance
	£'000	Sheet value	£'000	Sheet value
	£'000	£'000	£'000	£'000
<b>financial assets</b>				
Financial assets at fair value through profit or loss				
– Non current assets	249,908	249,908	218,997	218,997
Financial assets at fair value through profit or loss and held for trading				
– Current asset investments	2,000	2,000	498	498
Loans and receivables				
– Cash and cash equivalents	28,315	28,315	9,462	9,462
	<u>280,223</u>	<u>280,223</u>	<u>228,957</u>	<u>228,957</u>

## notes to the financial statements

## 17 financial instruments and risk profile continued

## fair value of financial assets and financial liabilities continued

	31 January 2014		31 January 2013	
	Balance		Balance	
	Fair value	Sheet value	Fair value	Sheet value
	£'000	£'000	£'000	£'000
<b>financial liabilities</b>				
Other financial liabilities				
– Hampton term loans	(16,908)	(16,908)	(20,996)	(20,996)
– CULS	–	–	(66)	(66)
	<u>(16,908)</u>	<u>(16,908)</u>	<u>(21,062)</u>	<u>(21,062)</u>

	31 January 2014		31 January 2013	
	Balance		Balance	
	Fair value	Sheet value	Fair value	Sheet value
	£'000	£'000	£'000	£'000
<b>maturing dates of financial liabilities</b>				
Maturity within one year	–	–	(66)	(66)
Maturity 2-3 years	(16,908)	(16,908)	–	–
Maturity 3-5 years	–	–	(20,996)	(20,996)
	<u>(16,908)</u>	<u>(16,908)</u>	<u>(21,062)</u>	<u>(21,062)</u>

fair values are derived as follows:

- Where assets and liabilities are denominated in a foreign currency, they are converted into Sterling using year-end rates of exchange.
- Financial assets (non current and held for trading) – as set out in the accounting policies on pages 49 to 54.
- Cash and cash equivalents, bank overdraft and bank loans – at face value of the account.
- The Company's CULS – at the face value of the financial liability element of remaining CULS in issue.

The Company adopted the amendment to IFRS 13, effective 1 January 2009. This requires the Company to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following three levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).

An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume on an ongoing basis such that quoted prices reflect prices at which an orderly transaction would take place between market participants at the measurement date. Quoted prices provided by external pricing services, brokers and vendors are included in Level 1, if they reflect actual and regularly occurring market transactions on an arms length basis.

## notes to the financial statements

## 17 financial instruments and risk profile continued

**fair value of financial assets and financial liabilities continued**

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). See Note 1(f) for details on how the value of level 3 investments are calculated.

The Company's main unobservable inputs are earnings multiples, recent transactions and net asset basis. The market value would be sensitive to movements in these unobservable inputs. Movements in these inputs, individually or in aggregate could have a significant effect on the market value. The effect of such a change or a reasonable possible alternative would be difficult to quantify as such data is not available.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Company. The Company considers observable data from investments actively traded in organised financial markets, fair value is generally determined by reference to Stock Exchange quoted market bid prices at the close of business on the Balance Sheet date, without adjustment for transaction costs necessary to realise the asset.

The table below sets out fair value measurements of financial assets in accordance with the IFRS 13 fair value hierarchy system:

**financial assets at fair value through profit or loss****group**

At 31 January 2014

	Total	Level 1	Level 2	Level 3
	£'000	£'000	£'000	£'000
Equity investments	191,973	104,220	1,650	86,103
Fixed interest investments	57,935	54,454	–	3,481
<b>Total</b>	<b>249,908</b>	<b>158,674</b>	<b>1,650</b>	<b>89,584</b>

At 31 January 2013

	Total	Level 1	Level 2	Level 3
	£'000	£'000	£'000	£'000
Equity investments	195,102	89,471	1,460	104,171
Fixed interest investments	23,895	14,190	–	9,705
<b>Total</b>	<b>218,997</b>	<b>103,661</b>	<b>1,460</b>	<b>113,876</b>

## notes to the financial statements

## 17 financial instruments and risk profile continued

financial assets at fair value through profit or loss  
company

At 31 January 2014

	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Equity investments	242,423	140,249	1,650	100,524
Fixed interest investments	57,935	54,454	–	3,481
<b>Total</b>	<b>300,358</b>	<b>194,703</b>	<b>1,650</b>	<b>104,005</b>

At 31 January 2013

	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Equity investments	234,849	115,125	1,460	118,264
Fixed interest investments	23,895	14,190	–	9,705
<b>Total</b>	<b>258,744</b>	<b>129,315</b>	<b>1,460</b>	<b>127,969</b>

A reconciliation of fair value measurements in Level 3 is set out below.

## level 3 financial assets at fair value through profit or loss

## group

At 31 January 2014

	Total £'000	Equity investments £'000	Fixed interest investments £'000
Opening Balance	113,876	104,171	9,705
Purchases	15,073	10,121	4,952
Sales	(60,704)	(49,554)	(11,150)
Total gains or (losses) included in gains on investments in the Statement of Comprehensive Income:			
– on assets sold	29,035	29,197	(162)
– on assets held at the end of the year	(7,696)	(7,832)	136
<b>Closing balance</b>	<b>89,584</b>	<b>86,103</b>	<b>3,481</b>

## notes to the financial statements

## 17 financial instruments and risk profile continued

## level 3 financial assets at fair value through profit or loss

## company

At 31 January 2014

	Total	Equity	Fixed
	£'000	investments	interest
	£'000	£'000	investments
			£'000
Opening Balance	127,969	118,264	9,705
Purchases	15,073	10,121	4,952
Sales	(60,911)	(49,761)	(11,150)
Total gains or (losses) included in gains on investments in the Statement of Comprehensive Income:			
– on assets sold	29,242	29,404	(162)
– on assets held at the end of the year	(7,368)	(7,504)	136
<b>Closing balance</b>	<b>104,005</b>	<b>100,524</b>	<b>3,481</b>

## capital management policies and procedures

The Company's capital management objectives are:

- to ensure that the Company will be able to continue as a going concern, and
- to maximise the income and capital return to its equity Shareholders through an appropriate balance of equity capital and debt. The policy is that gearing should not exceed 30% of net assets.

The Company's capital at 31 January comprises:

	2014	2013
	£'000	£'000
<b>Debt</b>		
CULS	–	66
<b>Equity</b>		
Equity share capital	794	718
Retained earnings and other reserves	325,499	266,656
	<u>326,293</u>	<u>267,440</u>
<b>Debt as a % of net assets</b>	<b>0.0%</b>	<b>0.0%</b>

## notes to the financial statements

**17 financial instruments and risk profile** continued

The Board, with the assistance of the Joint Managers monitor and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

- the planned level of gearing, which takes account of the Joint Managers' views on the market;
- the need to buy back equity Shares for cancellation, which takes account of the difference between the net asset value per share and the Share price (i.e. the level of share price discount or premium);
- the need for new issues of equity Shares; and
- the extent to which revenue in excess of that which is required to be distributed should be retained.

The Company's objectives, policies and processes for managing capital are unchanged from the preceding accounting period.

**18 related party transactions**

Harwood Capital LLP, one of the Joint Managers, is regarded as a related party of the Company and acts as Investment Manager or Investment Adviser of the following companies in which the Company has an investment and from which companies it receives fees or other incentives for its services:

	Services	Fees
Oryx International Growth Fund Limited	Investment Advisory	£792,000
Trident Private Equity II LP	Investment Advisory	£222,000

The General Partner's profit share in respect of Trident Private Equity III LP was £1.6 million.

The amounts payable to the Joint Managers are disclosed in note 3. The relationships between the Company, its Directors and the Joint Managers are disclosed in the Group Report of the Directors on pages 21 to 26.

Christopher Mills is Chief Executive Officer and a member of Harwood Capital LLP. He is also a director of Oryx International Growth Fund Limited. Growth Financial Services Limited is a wholly-owned subsidiary of Harwood Capital Management Limited, which is the holding company of the Harwood group of companies and is, in turn, 100% owned by Christopher Mills. Harwood Capital Management Limited is also a Designated Member of Harwood Capital LLP, one of the Joint Managers of the Company.

As discussed previously on page 24, Kristian Siem is chairman of Siem Industries Inc. One of Siem Industries Inc's indirect wholly owned subsidiaries, Siem Kapital AS, entered into a joint venture agreement with Harwood Capital LLP to establish SINAV Limited specifically for the purpose of acquiring GTL Resources Plc. The Company has an investment in SINAV Limited.



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**notes to the financial statements****18 related party transactions** continued**disclosure of interests**

Christopher Mills is also a director of the following companies in which the Company has an investment or may have had in the year and/or from which he may receive fees or hold options or shares: Sunlink Health Systems Inc, Bionostics Holdings Limited, Hampton Investment Properties, Izodia PLC, Second London American Trust PLC (in members' voluntary liquidation), Oryx, Glass America, Inc, Progeny, Inc, Global Options, Celsis International Limited and MJ Gleeson PLC. Employees of the Joint Manager may hold options over shares in investee companies. A total of £146,000 in directors fees from these companies was received by Christopher Mills during the year under review.

No formal arrangements exist to avoid double charging on investments held by the Company which are also managed or advised by Christopher Mills (Chief Executive) and/or the Joint Managers. Members and private clients of Harwood Capital LLP, the Joint Manager, and its associates (excluding Christopher Mills) hold 448,943 shares in the Company (2013: 414,993).

Members, employees, institutional clients and private clients of the Joint Manager, Harwood Capital LLP may co-invest in the same investments as the Company.

The Hon. Peregrine Moncreiffe is a director of Crendon Industrial, in which the Company had an interest during the year, and receives a fee of £5,000 per annum for his services.

From time to time Directors may co-invest in the same investments as the Company.

**transaction with other companies in the group.**

At 31 January 2014 amounts due from the Consolidated Venture Finance Limited (CVF) were £20,861,000 (2013: £1,876,000).

**19 commitments and contingent liabilities**

- (i) Pursuant to an agreement executed in December 2009, the Company pledged its shares held in Glass America Inc for the benefit of Deerpath Funding LP as security against a term loan and revolving credit facility amounting to a total of \$7,750,000 granted to Glass America. The pledgers in turn receive the benefit of the credit facilities.
- (ii) The Company has committed to invest £25 million in Trident Private Equity Fund III over the forthcoming months, of which £20.7 million has been drawn down to date.
- (iii) The Company has committed to invest £40m in Harwood Private Equity IV when it is launched later in the year.

directors and advisers

**Directors**

The Hon. Peregrine Moncreiffe (Chairman)

C H B Mills (Chief Executive)

K Siem

C L A Irby

E F Gittes

**Joint Manager**

Harwood Capital LLP

*(Authorised and regulated by the Financial Conduct Authority)*

6 Stratton Street,

Mayfair

London W1J 8LD

Telephone: 020 7640 3203

**Financial Adviser and Stockbroker**

Winterflood Investment Trusts

The Atrium Building

Cannon Bridge

25 Dowgate Hill

London EC4R 2GA

**Company Secretary & Registered Office**

Bonita Guntrip ACIS

6 Stratton Street,

Mayfair

London W1J 8LD

Telephone: 020 7640 3203

**Registrars**

Capita Asset Services

34 Beckenham Road

Beckenham

Kent

BR3 4TU

**Auditors**

KPMG Plc

15 Canada Square

London

E14 5GL

## notice of annual general meeting

NOTICE IS GIVEN that the ANNUAL GENERAL MEETING of North Atlantic Smaller Companies Investment Trust PLC will be held on Wednesday 25 June 2014, at midday at 6 Stratton Street, Mayfair, London W1J 8LD for the following purposes:

**ordinary business:**

1. To receive and approve the Group Report of the Directors and the audited financial statements for the year ended 31 January 2014;
2. To approve the Directors' Remuneration Policy;
3. To approve the Directors' Remuneration Report;
4. To re-elect Mr E F Gittes as a Director of the Company;
5. To re-elect Mr C L A Irby as a Director of the Company;
6. To re-elect Mr C H B Mills as a Director of the Company;
7. To re-elect The Hon. P D E M Moncreiffe as a Director of the Company;
8. To re-elect Mr K Siem as a Director of the Company;
9. To appoint KPMG LLP as Auditor and authorise the Directors to determine its remuneration;

**special business:**

To consider the following resolutions of which resolutions 11, 12 and 13 will be proposed as special resolutions:

**10. ordinary resolution – renewal of Directors' authority to allot Shares**

THAT the Directors be generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities for the purposes of Section 551 of the Companies Act 2006 ("the Act") up to an aggregate nominal amount of £249,762 provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the date of the passing of this resolution, except that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred by this resolution had not expired and that this authority shall be in substitution for all previous authorities conferred upon the Directors pursuant to Section 551 of the Act but without prejudice to the allotment of any relevant securities already made or to be made pursuant to such authorities.

**11. special resolution – renewal of Directors' authority for the disapplication of pre-emption rights**

THAT, subject to and conditional upon the passing of resolution number 10 above, the Directors be empowered, pursuant to Section 570 and 573 of the Act, to allot equity securities (as defined in Section 560 of the Act) for cash as if Section 561(1) of the Act did not apply to any such allotment provided that this power shall be limited to:

- (i) the allotment of equity securities in connection with a rights issue or other pro rata offer in favour of holders of Ordinary Shares where the equity securities respectively attributable to the interests of all the Ordinary Shareholders are proportionate (as nearly as may be) to the respective number of equity securities held by them subject in each case to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal difficulties under the laws of any territory or the requirements of a regulatory body; and

## notice of annual general meeting

- (ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal amount of £37,464; and shall expire at the conclusion of the Annual General Meeting of the Company after the date of the passing of this resolution except that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred by this resolution had not expired.

12. **special resolution – authority to make market purchases of ordinary shares**

THAT the Company be and is hereby generally and unconditionally authorised, in accordance with the Company's Articles of Association and section 701 of the Act, to make market purchases (within the meaning of section 693(4) of the Act) of Ordinary Shares of 5p each in the capital of the Company ("Ordinary Shares") on such terms and in such manner as the Directors may from time to time determine provided that:

- (a) the maximum number of Ordinary Shares authorised to be purchased is 1,498,573;
  - (b) the minimum price which may be paid for an Ordinary Share is 5p (the nominal value) (exclusive of expenses (if any) payable by the Company);
  - (c) the maximum price which may be paid for an Ordinary Share purchased under this authority is an amount equal to the higher of (i) 105% of the average of the middle market quotations for an Ordinary Share derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary Share is purchased and (ii) the amount stipulated by Article 5(i) of the Buy-back and Stabilisation Regulation 2003, (in each case exclusive of expenses (if any) payable by the Company); and
  - (d) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution except that the Company may before such expiry make a contract or contracts to purchase Ordinary Shares which will or may be completed or executed wholly or partly after such expiry.
13. **special resolution – notice required for general meetings**
- THAT a general meeting other than an Annual General Meeting may be called on no less than 14 clear days notice.

Dated this 20 day of May 2014

By order of the Board

**Bonita Guntrip ACIS**

*Company Secretary*

Registered Office:

6 Stratton Street

Mayfair

London

W1J 8LD

Registered No. 1091347

## notice of annual general meeting

## notes:

1. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A Shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different Share or Shares held by that Shareholder. A proxy need not be a Shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of Shares in relation to which they are authorised to act as your proxy (which in aggregate should not exceed the number of Shares held by you). Please indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
2. To be valid any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at the Company's registrars, Capita Asset Services, PXSI, 34 Beckenham Road, Beckenham, BR3 4ZF no later than forty eight hours before the time fixed for the meeting.
3. The return of a completed proxy form will not prevent a Shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so.
4. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the Shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the Shareholder as to the exercise of voting rights.
5. The statement of the rights of the Shareholders in relation to the appointment of proxies in paragraphs 1 and 2 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by Shareholders of the Company.
6. To be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), Shareholders must be registered in the Register of Members of the Company at 6 p.m. on 23 June 2014 (or, in the event of any adjournment, 6 p.m. on the date which is two days before the time of the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
7. As at 20 May 2014 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 14,985,736 Ordinary Shares, carrying one vote each. Therefore, the total voting rights in the Company as at 20 May 2014 are 14,985,736.

## notice of annual general meeting

8. Shareholders should note that it is possible that, pursuant to requests made by Shareholders of the Company under section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditors' report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the Shareholders who have requested any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditors not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.
9. Any member attending the AGM has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the AGM but no such answer need be given if to do so would interfere unduly with the formal business of the AGM or involve the disclosure of confidential information, or it is not desirable in the interest of the Company or the good order of the AGM that the question be answered.
10. Copies of the letters of appointment of the non-executive Directors are available for inspection at the Company's registered office during normal business hours from the date of this document to the date of the AGM, and at the place of the AGM from at least 15 minutes prior to the meeting and until its conclusion.

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**shareholder information**

<b>financial calendar</b>	Announcement of results and annual report	May
	Annual General Meeting	June
	Half-Yearly results and report	September
	Half-Yearly report posted	September
<b>share price</b>	The Company's share price can be found on:	
	SEAQ Ordinary Shares:	NAS
	Trustnet:	<a href="http://www.trustnet.ltd.uk">www.trustnet.ltd.uk</a>
<b>net asset value</b>	The latest net asset value of the Company can be found on the Harwood Capital LLP website : <a href="http://www.harwoodcapital.co.uk">www.harwoodcapital.co.uk</a>	
<b>share dealing</b>	Investors wishing to purchase more Ordinary Shares or dispose of all or part of their holding may do so through a stockbroker. Many banks also offer this service.	
	The Company's registrars are Capita Asset Services. In the event of any queries regarding your holding of shares, please contact the registrars on: 0871 664 0300, or by email on <a href="mailto:shareholderenquiries@capita.co.uk">shareholderenquiries@capita.co.uk</a>	
	Changes of name or address must be notified to the registrars in writing at:	
	Capita Asset Services The Registry 34 Beckenham Road Beckenham Kent BR3 4TU	











Cover Image: The Battle of Navarino, 20 October 1827 by George Philip Reinagle  
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**form of proxy**

I/We, the undersigned, being (a) members(s) of the above-named Company,

Name(s) in full.....

(BLOCK LETTERS PLEASE)

hereby appoint the Chairman of the Meeting or

..... (see note 3)

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 25 June 2014 and at any adjournment thereof, in the following manner:

1. the resolution to receive and approve the Group Report of the Directors and the financial statements for the year ended 31 January 2014;
2. the resolution to approve the Directors' Remuneration Policy;
3. the resolution to approve the Directors' Remuneration Report;
4. the resolution to re-elect Mr E F Gittes as a Director of the Company;
5. the resolution to re-elect Mr C L A Irby as a Director of the Company;
6. the resolution to re-elect Mr C H B Mills as a Director of the Company;
7. the resolution to re-elect The Hon. P D E M Moncreiffe as a Director of the Company;
8. the resolution to re-elect Mr K Siem as a Director of the Company;
9. the resolution to appoint KPMG LLP as Auditor and to authorise the Directors to determine its remuneration;
10. the ordinary resolution to renew the annual authority to allot Shares;
11. the special resolution to renew the disapplication of pre-emption rights;
12. the special resolution to seek authority to make market purchases of Ordinary Shares.
13. the special resolution to allow general meetings, other than Annual General Meetings, to be called on no less than 14 clear days notice.

For*	Against*	Vote Withheld

\*PLEASE INDICATE BY MARKING 'X' IN THE APPROPRIATE SPACE HOW YOU WISH YOUR VOTE TO BE CAST. UNLESS SO INDICATED THE PROXY WILL VOTE OR ABSTAIN AS HE/SHE THINKS FIT.

As WITNESS my/our hand(s) this ..... day of ..... 2014

Signature .....

Notes:

1. If this form is returned without any indication as to how the person appointed as proxy shall vote, he will exercise his discretion as to how he votes or whether he abstains from voting.
2. This form of proxy, duly signed, and any power of attorney under which it is executed must be deposited at the offices of the Company's Registrars not less than 48 hours before the time fixed for holding the meeting or an adjourned meeting.
3. A member may appoint one or more proxies of his own choice by deleting the reference to the Chairman and inserting the name of his proxy in the space provided. A proxy need not be a member of the Company but must attend the meeting in person to represent the member. To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of Shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of Shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
4. A corporation should complete this form under its common seal or under the hand of a duly authorised officer or attorney.
5. In the case of joint holders, this form may be signed by any one of the holders, but the names of all of them should be stated.