

North Atlantic Smaller Companies Investment Trust plc

# Half-Yearly Report

for the six months ended 31 July 2014



The cover depicts a painting by the artist George Philip Reinagle entitled 'The Battle of Navarino', 20 October 1827.

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The Company is a member of the Association of Investment Companies.

Registered in England and Wales number 1091347

## 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 July 2014 (unaudited)	restated* 31 January 2014 (audited)	% Change
Net asset value per 5p Ordinary Share**:			
Basic	2,097p	2,006p	4.5
Diluted	2,078p	1,991p	4.4
Basic adjusted <sup>#‡</sup>	2,158p	2,054p	5.1
Diluted adjusted <sup>#‡</sup>	2,137p	2,037p	4.9
Mid-market price of the 5p Ordinary Shares	1,750.0p	1,600.0p	9.4
Discount to diluted net asset value <sup>**#</sup>	15.8%	19.6%	
Discount to diluted adjusted net asset value <sup>**‡</sup>	18.1%	21.5%	
Standard & Poor's 500 Composite Index <sup>†</sup>	1,143.4	1,084.4	5.4
Russell 2000 Index <sup>†</sup>	663.3	688.0	(3.6)
FTSE All-Share Index	3,585.6	3,496.5	2.5
US Dollar/Sterling exchange rate	1.6883	1.6435	2.7

<sup>#</sup> Under IFRS 10, adopted for the first time in this half-yearly report, the Company accounts for its investment in Oryx International Growth Fund plc at the value of its listed shares. Previously, the Company equity accounted for its share of Oryx's net assets. This change has a material effect on the net assets of the Group as explained in notes 1c and 5.

<sup>\*</sup> Restated due to adoption of IFRS 10 resulting in the Company no longer requiring to consolidate investment entities as explained in note 1c on page 16.

<sup>\*\*</sup> Including retained revenue for the period.

<sup>‡</sup> Calculated using the adjusted Net Assets per note 5.

<sup>†</sup> Sterling adjusted.

**chief executive's review**

During the six month period under review, the diluted net asset value rose by 4.4% and the diluted adjusted net asset value rose by 4.9% as compared to a rise in the sterling adjusted Standard & Poor's Composite Index of 5.4%. Performance suffered from the high level of cash in the portfolio, most of which is held in US Dollars.

Income for the period amounted to a loss of £1,220,000 (31 July 2013: loss of £443,000). Consistent with past policy, the Directors do not propose to pay a dividend (31 July 2013: nil).

The Company acquired 1,063,701 ordinary shares for cancellation during the period, at a discount to the net asset value which the Directors believe benefits all long-term shareholders.

**quoted portfolio**

The market for smaller companies in the UK peaked in March and has subsequently fallen significantly. Opportunity was taken of the buoyant market conditions to sell CVS Group and part of the holding in Guinness Peat Group and BBA at valuations in excess of January levels. Mecom also rose substantially following a recommended bid.

AssetCo rose modestly following confirmation of the renewal of a major Middle Eastern contract as did Goals Soccer Centres following better than anticipated results. Essenden was, however, the stand-out performer during the period, rising approximately 100%, following exceptionally good results and a financial restructuring. Oryx International Growth Fund rose 1% (4% adjusted) and, once again, outperformed its index.

Against these positive results, Bioquell fell following a profit warning and MJ Gleeson gave up some of last year's impressive performance despite announcing better than expected profits for both 2013 and the first half of 2014.

The only major new investment, Telecity has performed satisfactorily since purchase.

**unquoted portfolio**

There was considerable activity in the unquoted portfolio with the sale of Sinav and, just after the period end, Forefront, both at significant uplifts to the January valuations.

On the property side, Merchant Properties and Crendon were both sold at the January valuation.

In the Bank's portfolio, one holding which was valued at zero has received an offer which is expected to complete later in the year at approximately £500,000. No new investments were made during the period.

**outlook**

Markets are facing the combined headwinds of sluggish economic growth, disappointing profits worldwide, political unrest and the widely anticipated increase in interest rates.

Fortunately, the Company has very substantial cash balances to both protect the current net asset value and to participate in opportunities as and when they arise.

The unquoted portfolio continues to show promise and should continue to generate substantial cash over the balance of the year as Hampton sells off its portfolio of properties. Celsis and Performance Chemicals in particular continue to have exceptional prospects for growth.

In conclusion, whilst it is unlikely that equity markets will make significant progress during the balance of the Company's fiscal year, I am hopeful that the unquoteds will deliver a modest increase in value from current levels.

C H B Mills  
*Chief Executive*

24 September 2014

chief executive's review (continued)

top ten investments

as at 31 July 2014

Company		Fair value £'000	% of equity attributable to equity holders of the Company	Adjusted value £'000	% of adjusted net assets
US Treasury Bills	USA Treasury Stock	53,011	17.1	53,011	16.6
Gleeson (MJ) Group PLC	UK Listed	37,600	12.1	37,600	11.8
Oryx International Growth Fund Limited*	UK Listed	28,603	9.2	37,592 <sup>†</sup>	11.8
Trident Private Equity Fund III LP	UK Unquoted	26,341	8.5	26,341	8.2
Hampton Investment Properties Limited	UK Unquoted	14,421	4.6	14,421	4.5
Celsis AG	USA Unquoted	12,519	4.0	12,519	3.9
Goals Soccer Centres	UK Listed	10,850	3.5	10,850	3.4
Guinness Peat Group**	UK Listed	10,180	3.3	10,180	3.2
Telecity Group	UK Listed	9,938	3.2	9,938	3.1
Essenden PLC	UK Listed	9,276	3.0	9,276	2.9
		212,739	68.5	221,728	69.4

\* Incorporated in Guernsey.

<sup>†</sup> Value based on adjusted value as per Note 5.

\*\* Incorporated in New Zealand.

**interim management report**

**investment objective** The objective of North Atlantic Smaller Companies Investment Trust PLC (“the Company”) is to provide capital appreciation through investment in a portfolio of smaller companies principally based in countries bordering the North Atlantic Ocean.

**material events** The Board do not consider that there were any material events during the period ended 31 July 2014.

**material transactions** As referred to in the Chief Executive’s review on page 2, the Company’s investment in Sinav was sold during the period under review.

**risk profile** The principal risks and uncertainties for the remaining six months of the year continue to be as described in the Annual Report for the year ended 31 January 2014 on pages 18 and 19 and pages 69 to 78. The principal risks arising from the Company’s financial instruments are market price risk, including currency risk, liquidity risk and credit/counterparty risk. The Directors review and agree policies with the Joint Manager, Harwood Capital LLP, for managing these risks. The policies have remained substantially unchanged in the six months since the year end.

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 companies, each having an immaterial effect on the Group’s cash flows, should a default occur. The Group assesses the credit worthiness of its debtors from time to time to ensure that they are neither past due or impaired.

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 Group’s exposure to market 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. 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.

**interim management report** (continued)

The functional and presentational currency of the Group is Sterling, and therefore, the Group's principal exposure to foreign currency risk comprises investments priced in other currencies, principally US Dollars.

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

**related party  
transactions**

These are listed in note 10 to the half yearly condensed financial statements on page 24.

By Order of the Board

The Hon. Peregrine Moncreiffe  
*Chairman*

24 September 2014



**responsibility statement**

The Directors confirm to the best of their knowledge that:

- The condensed set of financial statements contained within this half yearly financial report have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union and gives a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- The half yearly financial report includes a fair review of the information required by the FCA's Disclosure and Transparency Rule 4.2.7R being disclosure of important events that have occurred during the first six months of the financial year, their impact on the condensed set of financial statements and a description of the principal risks and uncertainties for the remaining six months of the year; and
- The half yearly financial report includes a fair review of the information required by the FCA's Disclosure and Transparency Rule 4.2.8R being disclosure of related party transactions during the first six months of the financial year, how they have materially affected the financial position of the Company during the period and any changes therein.

The half yearly financial report was approved by the Board on 24 September 2014 and the above responsibility statement was signed on its behalf by:

The Hon. Peregrine Moncreiffe  
*Chairman*

24 September 2014

**condensed consolidated statement of comprehensive income**

	Six months ended			restated*		
	31 July 2014 (unaudited)			31 July 2013 (unaudited)		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income	860	–	860	1,601	–	1,601
Net gains on investments at fair value	–	11,427	11,427	–	24,443	24,443
Currency exchange (losses)/gains	–	(119)	(119)	–	415	415
<b>total income</b>	<b>860</b>	<b>11,308</b>	<b>12,168</b>	<b>1,601</b>	<b>24,858</b>	<b>26,459</b>
Expenses						
Investment management fee (note 10)	(1,632)	26	(1,606)	(1,337)	–	(1,337)
Other expenses	(261)	–	(261)	(527)	–	(527)
Share based remuneration	(180)	–	(180)	(180)	–	(180)
<b>return before finance costs and taxation</b>	<b>(1,213)</b>	<b>11,334</b>	<b>10,121</b>	<b>(443)</b>	<b>24,858</b>	<b>24,415</b>
Finance costs	–	–	–	–	–	–
<b>return before taxation</b>	<b>(1,213)</b>	<b>11,334</b>	<b>10,121</b>	<b>(443)</b>	<b>24,858</b>	<b>24,415</b>
Taxation	(7)	–	(7)	–	–	–
<b>return for the period</b>	<b>(1,220)</b>	<b>11,334</b>	<b>10,114</b>	<b>(443)</b>	<b>24,858</b>	<b>24,415</b>
<b>earnings per ordinary share (note 4)</b>						
Basic			65.6p			161.2p
Diluted			65.3p			153.4p

\* Restated due to adoption of IFRS 10 resulting in the Company no longer requiring to consolidate investment entities as explained in note 1c on page 16.

The total column of the statement is the Statement of Comprehensive Income of the Group prepared in accordance with IFRS. 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 discontinued in the period.

condensed consolidated statement of comprehensive income (continued)

	restated*		
	Year ended		
	31 January		
	2014		
	(audited)		
Revenue	Capital	Total	
£'000	£'000	£'000	
3,344	–	3,344	Income
–	59,121	59,121	Net gains on investments at fair value
–	2	2	Currency exchange (losses)/gains
<u>3,344</u>	<u>59,123</u>	<u>62,467</u>	<b>total income</b>
			Expenses
(2,675)	(1,761)	(4,436)	Investment management fee (note 10)
(649)	–	(649)	Other expenses
(363)	–	(363)	Share based remuneration
<u>(343)</u>	<u>57,362</u>	<u>57,019</u>	<b>return before finance costs and taxation</b>
–	–	–	Finance costs
<u>(343)</u>	<u>57,362</u>	<u>57,019</u>	<b>return before taxation</b>
(12)	–	(12)	Taxation
<u>(355)</u>	<u>57,362</u>	<u>57,007</u>	<b>return for the period</b>
			<b>earnings per ordinary share (note 4)</b>
		367.1p	Basic
		358.3p	Diluted

\* Restated due to adoption of IFRS 10 resulting in the Company no longer requiring to consolidate investment entities as explained in note 1c on page 16.

The total column of the statement is the Statement of Comprehensive Income of the Group prepared in accordance with IFRS. 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 discontinued in the period.

**condensed consolidated statement of changes in equity**

	Share capital £'000	CULS reserve £'000	Share options reserve £'000	Share premium account £'000	Capital reserve £'000
<b>six months ended 31 July 2014</b>					
<b>(unaudited)</b>					
31 January 2014	794	–	1,138	1,301	319,888
Total comprehensive income for the period	–	–	–	–	11,334
Shares purchased for cancellation	(53)	–	–	–	(18,080)
Share options expenses	–	–	180	–	–
31 July 2014	<u>741</u>	<u>–</u>	<u>1,318</u>	<u>1,301</u>	<u>313,142</u>

**restated\***

**six months ended 31 July 2013**

**(unaudited)**

31 January 2013	718	12	775	1,301	263,037
Total comprehensive income for the period	–	–	–	–	24,858
Arising on conversion of CULS	78	(12)	–	–	–
Shares purchased for cancellation	–	–	–	–	(22)
Share options expenses	–	–	180	–	–
31 July 2013	<u>796</u>	<u>–</u>	<u>955</u>	<u>1,301</u>	<u>287,873</u>

**restated\***

**year ended 31 January 2014**

**(audited)**

31 January 2013	718	12	775	1,301	263,037
Total comprehensive income for the year	–	–	–	–	57,362
Arising on conversion of CULS	78	(12)	–	–	–
Shares purchased for cancellation	(2)	–	–	–	(511)
Share option expenses	–	–	363	–	–
31 January 2014	<u>794</u>	<u>–</u>	<u>1,138</u>	<u>1,301</u>	<u>319,888</u>

\* Restated due to adoption of IFRS 10 resulting in the Company no longer requiring to consolidate investment entities as explained in note 1c on page 16.

condensed consolidated statement of changes in equity (continued)

Capital redemption reserve £'000	Revenue reserve £'000	Total £'000
76	(4,640)	318,557
–	(1,220)	10,114
53	–	(18,080)
–	–	180
<u>129</u>	<u>(5,860)</u>	<u>310,771</u>

**six months ended 31 July 2014  
(unaudited)**

31 January 2014
Total comprehensive income for the period
Shares purchased for cancellation
Share options expenses
31 July 2014

**restated\*  
six months ended 31 July 2013  
(unaudited)**

74	(4,285)	261,632	31 January 2013
–	(443)	24,415	Total comprehensive income for the period
–	–	66	Arising on conversion of CULS
–	–	(22)	Shares purchased for cancellation
–	–	180	Share options expenses
<u>74</u>	<u>(4,728)</u>	<u>286,271</u>	31 July 2013

**restated\*  
year ended 31 January 2014  
(audited)**

74	(4,285)	261,632	31 January 2013
–	(355)	57,007	Total comprehensive income for the year
–	–	66	Arising on conversion of CULS
2	–	(511)	Shares purchased for cancellation
–	–	363	Share option expenses
<u>76</u>	<u>(4,640)</u>	<u>318,557</u>	31 January 2014

\* Restated due to adoption of IFRS 10 resulting in the Company no longer requiring to consolidate investment entities as explained in note 1c on page 16.

**condensed consolidated balance sheet**

	31 July 2014 (unaudited) £'000	restated* 31 July 2013 (unaudited) £'000	restated* 31 January 2014 (audited) £'000
<b>non current assets</b>			
Investments at fair value through profit or loss	283,929	276,998	292,622
	<u>283,929</u>	<u>276,998</u>	<u>292,622</u>
<b>current assets</b>			
Investments held by Subsidiary Companies for trading	–	–	–
Trade and other receivables	732	1,349	670
Cash and cash equivalents	26,398	8,706	27,511
	<u>27,130</u>	<u>10,055</u>	<u>28,181</u>
<b>total assets</b>	<u>311,059</u>	<u>287,053</u>	<u>320,803</u>
<b>current liabilities</b>			
Trade and other payables	(288)	(782)	(2,246)
<b>total liabilities</b>	<u>(288)</u>	<u>(782)</u>	<u>(2,246)</u>
<b>total assets less current liabilities</b>	<u>310,771</u>	<u>286,271</u>	<u>318,557</u>
<b>net assets</b>	<u><u>310,771</u></u>	<u><u>286,271</u></u>	<u><u>318,557</u></u>

\* Restated due to adoption of IFRS 10 resulting in the Company no longer requiring to consolidate investment entities as explained in note 1c on page 16.

**condensed consolidated balance sheet** (continued)

	31 July 2014 (unaudited) £'000	restated* 31 July 2013 (unaudited) £'000	restated* 31 January 2014 (audited) £'000
<b>represented by:</b>			
Share capital	741	796	794
Share options reserve	1,318	955	1,138
Share premium account	1,301	1,301	1,301
Capital reserve	313,142	287,873	319,888
Capital redemption reserve	129	74	76
Revenue reserve	(5,860)	(4,728)	(4,640)
	<u>310,771</u>	<u>286,271</u>	<u>318,557</u>
<b>total equity attributable to equity holders of the Company</b>			
	<u>310,771</u>	<u>286,271</u>	<u>318,557</u>
<b>net asset value per ordinary share (note 5):</b>			
Basic	2,097p	1,799p	2,006p
Diluted	2,078p	1,790p	1,991p

\* Restated due to adoption of IFRS 10 resulting in the Company no longer requiring to consolidate investment entities as explained in note 1c on page 16.

**condensed consolidated cash flow statement**

		Six months ended 31 July 2014 (unaudited) £'000	restated* Six months ended 31 July 2013 (unaudited) £'000	restated* Year ended 31 January 2014 (audited) £'000
<b>cash flows from operating activities</b>				
Investment income received		880	1,207	1,710
Bank deposit interest received		28	–	9
Other income		34	125	1,351
Sale of investments by dealing Subsidiary		–	742	742
Investment Manager's fees paid		(3,364)	(1,975)	(4,166)
Other cash payments		(559)	(111)	(218)
<b>cash expended from operations</b>	7	<u>(2,981)</u>	<u>(12)</u>	<u>(572)</u>
Taxation paid		(7)	–	(12)
<b>net cash outflow from operating activities</b>		<u>(2,988)</u>	<u>(12)</u>	<u>(584)</u>
<b>cash flows from investing activities</b>				
Purchases of investments		(109,537)	(98,625)	(217,127)
Sales of investments		129,588	98,602	237,286
<b>net cash inflow/(outflow) from investing activities</b>		<u>20,051</u>	<u>(23)</u>	<u>20,159</u>
<b>cash flows from financing activities</b>				
Repurchase of ordinary shares for cancellation		(18,068)	(22)	(509)
<b>net cash outflow from financing activities</b>		<u>(18,068)</u>	<u>(22)</u>	<u>(509)</u>
<b>(decrease)/increase in cash and cash equivalents for the period</b>		(1,005)	(57)	19,066
<b>cash and cash equivalents at the start of the period</b>		27,511	8,343	8,343
Revaluation of foreign currency balances		(108)	420	102
<b>cash and cash equivalents at the end of the period</b>		<u>26,398</u>	<u>8,706</u>	<u>27,511</u>

\* Restated due to adoption of IFRS 10 resulting in the Company no longer requiring to consolidate investment entities as explained in note 1c on page 16.



**notes**

**1. a) general information**

North Atlantic Smaller Companies Investment Trust plc (“NASCIT”) is a Company incorporated and registered in England and Wales under the Companies Acts 1948 to 1967.

The Company operates as an investment trust company within the meaning of Section 833 of the Companies Act 2006 and 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. The Company is managed in such a way to ensure that it continues 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.

**1. b) basis of preparation**

The condensed consolidated interim financial statements for the six months ended 31 July 2014 have been prepared in accordance with IAS 34 “Interim Financial Reporting”. They do not include all financial information required for full annual financial statements and have been prepared using the accounting policies adopted in the audited financial statements for the year ended 31 January 2014. Those financial statements were prepared in accordance with International Financial Reporting Standards and with the Statement of Recommended Practice (‘SORP’) for Investment Companies and Venture Capital Trusts issued by the Association of Investment Companies in January 2009.

The condensed consolidated interim financial information includes the financial statements of the Company and its wholly owned Subsidiary, Consolidated Venture Finance Limited, for the six months ended 31 July 2014.

**1. c) significant accounting policies**

With the exception of the newly adopted standards, accounting policies applied are consistent with those of the Annual Financial Report for the year ended 31 January 2014. Since the year end the following standards have been adopted:

- IFRS 12 Disclosures of interests in other entities includes the disclosure requirements for all forms of interests in other entities including joint arrangements, associates, structured entities and other off balance sheet vehicles (effective for annual periods beginning on or after 1 January 2013).
- IFRS 10 Consolidated financial statements (effective for annual periods beginning on or after 1 January 2014).

This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the Consolidated Financial Statements. The standard provides additional guidance to assist in determining control where this is difficult to assess.

**notes** (continued)

**1. c) significant accounting policies** (continued)

The Board has concluded that the Company meets the additional characteristics of an investment entity, in that it has more than one investment; it has ownership interests in the form of equity and similar interests; it has more than one investor and its investors are not related parties. Therefore, all investments are recognised at fair value through profit or loss. The adoption of this standard has changed the treatment for the Company's investment in Hampton Investment Properties Limited, which was previously consolidated and Oryx which was previously held as an associate using the equity method of accounting.

Hampton is now included at the fair value of the Company's stake, which is materially the same as the value using the consolidation method. Oryx is now valued using fair value derived from the share price which is materially different to the value derived from equity accounting (see note 5 for details).

Under the transitional provisions of IFRS 10 this change in accounting policy is required to be accounted for retrospectively and therefore the relevant comparative figures have been restated.

**1. d) 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.

**1. e) going concern**

The Company has adequate financial resources and no significant investment commitments and as a consequence, the Directors believe that the Company is well placed to manage its business risks successfully. After making appropriate enquiries, the Directors have a reasonable expectation that the Company has adequate available financial resources to continue in operational existence for the foreseeable future and accordingly have concluded that it is appropriate to continue to adopt the going concern basis in preparing this half yearly financial report.

**notes** (continued)

**2. investment management and performance fees**

A Performance Fee is only payable if the investment portfolio, including Oryx at the adjusted price, outperforms the Sterling adjusted Standard & Poor's 500 Composite Index at the end of each financial year and is limited to a maximum payment of 0.5% of Shareholders' Funds.

In accordance with the Statement of Recommended Practice ("SORP") for investment trust companies, an amount is included in these financial statements for the Performance Fee that could be payable based on investment performance to 31 July 2014.

At that date, no Performance Fee has been accrued for in the accounts (31 July 2013: £nil; 31 January 2014: £1,641,000 plus VAT) and is allocated 100% to capital.

**3. taxation**

The Company has an effective tax rate of 0%. The estimated effective tax rate is 0% as investment gains are exempt from tax owing to the Company's status as an Investment Trust and there is expected to be an excess of management expenses over taxable income and thus there is no charge for corporation tax.

notes (continued)

**4. earnings per ordinary share**

	*Net return £'000	Revenue Ordinary Shares	Per Share pence	*Net return £'000	Capital Ordinary Shares	Per Share pence
<b>six months ended 31 July 2014</b>						
<b>(unaudited)</b>						
Basic return	(1,220)	15,409,406	(7.9)	11,334	15,409,406	73.5
Share options**	–	66,957		–	66,957	
Diluted return	<u>(1,220)</u>	<u>15,476,363</u>	(7.9)	<u>11,334</u>	<u>15,476,363</u>	73.2
<b>six months ended 31 July 2013</b>						
<b>(unaudited)</b>						
Basic return	(443)	15,143,692	(2.9)	24,858	15,143,692	164.1
CULS***	–	769,963		–	769,963	
Diluted return	<u>(443)</u>	<u>15,913,655</u>	(2.8)	<u>24,858</u>	<u>15,913,655</u>	156.2
<b>year ended 31 January 2014</b>						
<b>(audited)</b>						
Basic return	(355)	15,526,665	(2.3)	57,362	15,526,665	369.4
Share options**	–	1,416		–	1,416	
CULS***	–	381,817		–	381,817	
Diluted return	<u>(355)</u>	<u>15,909,898</u>	(2.2)	<u>57,362</u>	<u>15,909,898</u>	360.5

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

\* Net return on ordinary activities attributable to Ordinary Shareholders.

\*\* 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 have been issued at the average market price from the conversion proceeds, as calculated in accordance with IAS 33: Earnings per share.

**notes** (continued)

*Net return £'000	Total Ordinary Shares	Per Share pence	
<b>six months ended 31 July 2014</b>			
<b>(unaudited)</b>			
10,114	15,409,406	65.6	Basic return
–	66,957		Share options**
<u>10,114</u>	<u>15,476,363</u>	65.3	Diluted return
<b>six months ended 31 July 2013</b>			
<b>(unaudited)</b>			
24,415	15,143,692	161.2	Basic return
–	769,963		CULS***
<u>24,415</u>	<u>15,913,655</u>	153.4	Diluted return
<b>year ended 31 January 2014</b>			
<b>(audited)</b>			
57,007	15,526,665	367.1	Basic return
–	1,416		Share options**
–	381,817		CULS***
<u>57,007</u>	<u>15,909,898</u>	358.3	Diluted return

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

\* Net return on ordinary activities attributable to Ordinary Shareholders.

\*\* 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 have been issued at the average market price from the conversion proceeds, as calculated in accordance with IAS 33: Earnings per share.

notes (continued)

**5. net asset value per ordinary share**

The basic net asset value per Ordinary Share is based on net assets of £310,771,000 (31 July 2013: £286,271,000; 31 January 2014: £318,557,000) and on 14,817,035 Ordinary Shares (31 July 2013: 15,912,434; 31 January 2014: 15,880,736) being the number of Ordinary Shares in issue at the period end.

The diluted net asset value per Ordinary Share is calculated on the assumption that all 460,000 (31 July 2013: 460,000; 31 January 2014: 460,000) Share Options in-the-money were exercised at the prevailing exercise prices, giving a total of 15,277,035 issued Ordinary Shares (31 July 2013: 16,372,434; 31 January 2014: 16,340,736). For 31 July 2013 the dilution would also have included the fact that any 2013 CULS had been fully converted at par.

During the period, 1,063,701 Ordinary Shares were bought back for cancellation at a cost of £18,080,000.

**adjustment for Oryx International Growth Fund**

On adoption of IFRS 10, the Company has changed its method of accounting for its investment in Oryx International Growth Fund (see note 1c for more details). If Oryx International Growth Fund was priced using equity accounting it would have the below effect on the net assets. Oryx is now valued using fair value, derived from the share price which is materially different to the value derived from equity accounting.

	Six months ended 31 July 2014 (unaudited) £'000	restated Six months ended 31 July 2013 (unaudited) £'000	restated Year ended 31 January 2014 (audited) £'000
Total equity attributable to equity holders of the Company	310,771	286,271	318,557
Increase in net assets if equity accounted	8,989	5,685	7,604
<b>Adjusted net assets</b>	<b>319,760</b>	<b>291,956</b>	<b>326,161</b>
Basic	2,158p	1,835p	2,054p
Diluted	2,137p	1,824p	2,037p

**6. share based remuneration**

As at 31 July 2014 and as at the date of this report, there were a total of 460,000 options in issue with an estimated fair value of £1.1m. (31 July 2013: 460,000; 31 January 2014: 460,000). 430,000 options are under the 2011 options scheme and 30,000 options are under the 2012 option scheme.

**7. reconciliation of total return from ordinary activities before finance costs and taxation to cash expended from operations**

	Six months ended 31 July 2014 (unaudited) £'000	Six months ended 31 July 2013 (unaudited) £'000	Year ended 31 January 2014 (audited) £'000
Total gains from ordinary activities before finance costs and taxation	10,121	24,415	57,019
Gains on investments	(11,308)	(24,858)	(59,123)
Share based remuneration	180	180	363
Dividends and interest reinvested	–	–	(58)
(Increase)/decrease in debtors and accrued income	(65)	820	326
Changes relating to investments of dealing			
Subsidiary	3	493	501
(Decrease)/increase in creditors and accruals	(1,989)	(1,062)	400
Non cash movement relating to investment gains	77	–	–
<b>cash expended from operations</b>	<u>(2,981)</u>	<u>(12)</u>	<u>(572)</u>

**8. investments**

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** (continued)

**8. investments** (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).

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**

**six months ended 31 July 2014 (unaudited)**

	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Equity investments	224,963	127,212	1,580	96,171
Fixed interest investments	58,966	53,010	–	5,956
<b>Total</b>	<b>283,929</b>	<b>180,222</b>	<b>1,580</b>	<b>102,127</b>



**six months ended 31 July 2013 (unaudited)**

	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Equity investments	224,818	112,355	1,420	111,043
Fixed interest investments	52,180	48,471	–	3,709
<b>Total</b>	<u><u>276,998</u></u>	<u><u>160,826</u></u>	<u><u>1,420</u></u>	<u><u>114,752</u></u>

**year ended 31 January 2014 (audited)**

	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Equity investments	234,687	132,645	1,650	100,392
Fixed interest investments	57,935	54,454	–	3,481
<b>Total</b>	<u><u>292,622</u></u>	<u><u>187,099</u></u>	<u><u>1,650</u></u>	<u><u>103,873</u></u>

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 July 2014**

	Equity investments £'000	Fixed interest investments £'000	Total £'000
Opening Balance	100,392	3,481	103,873
Purchases	7,923	5,494	13,417
Sales	(24,953)	(4,187)	(29,140)
Total gains or losses included in Gains on investments in the statement of comprehensive income:			
– on assets sold	8,074	–	8,074
– on assets held at the end of the year	4,735	1,168	5,903
<b>Closing balance</b>	<u><u>96,171</u></u>	<u><u>5,956</u></u>	<u><u>102,127</u></u>

## notes (continued)

**9. principal risk profile**

The principal risks which the Company faces include exposure to:

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

Further details of the Company's management of these risks and exposure to them is set out in Note 17 of the Company's Annual Report for the year ended 31 January 2014, as issued on 20 May 2014. There have been no changes to the management of or exposure to these risks since that date.

**10. related party transactions**

There have been no changes to the related party arrangements or transactions as reported in the Statutory Annual Financial Report for the year ended 31 January 2014.

The Joint Manager, Harwood Capital LLP, is regarded as a related party of the Company. The amounts payable to the Joint Manager and Growth Financial Services Limited ("GFS") in respect of investment management for the six months to 31 July 2014 are as follows:

	Six months ended 31 July 2014 (unaudited) £'000	Six months ended 31 July 2013 (unaudited) £'000	Year ended 31 January 2014 (audited) £'000
Annual fee	1,632	1,337	2,675
Performance fee	–	–	1,641
Irrecoverable VAT thereon	(26)	–	120
	<u>1,606</u>	<u>1,337</u>	<u>4,436</u>

In addition to the management fees disclosed above, Harwood Capital LLP is also paid an investment management related fee of £125,000 per annum.

Shareholders should also note the payments made under share based remuneration as disclosed in note 6 to these financial statements.

**11. financial information**

The annual financial information contained in this half yearly report does not constitute full Statutory accounts as defined in Section 434 of the Companies Act 2006. The financial information for the periods ended 31 July 2014 and 31 July 2013 is not a financial year and has not been audited. The statutory accounts for the financial year ended 31 January 2014 have been delivered to the Registrar of Companies.

**shareholder information**

<b>financial calendar</b>	Preliminary results	May
	Annual Report	May
	Annual General Meeting	June
	Half yearly figures announced	September
	Half yearly Report posted	September

**share price** The Company's mid-market share price is quoted daily in the Financial Times appearing under "Investment Companies".

It also appears on:

SEAQ Ordinary Shares: NAS  
Trustnet: [www.trustnet.ltd.uk](http://www.trustnet.ltd.uk)

**net asset value** The latest net asset value of the Company can be found on the Harwood Capital LLP website:  
[www.harwoodcapital.co.uk](http://www.harwoodcapital.co.uk)

**share dealing** 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 [shareholderenquiries@capita.co.uk](mailto:shareholderenquiries@capita.co.uk)

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

**shareholder information** (continued)

**Directors**

The Hon. P D E M Moncreiffe (Chairman)

C H B Mills (Chief Executive)

K Siem

C L A Irby

E F Gittes

**Joint Manager**

Harwood Capital LLP

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**Financial Adviser and Stockbroker**

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**Company Secretary and Registered Office**

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**Registrars**

Capita Asset Services

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**Auditors**

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London E14 5GL







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