North Atlantic Smaller Companies Investment Trust plc

Annual Report for the year ended 31 January 2006

contents

The cover depicts a painting by the artist Nicholas Pocock entitled "The Battle of Trafalgar 21 October 1805: Beginning of the Action" painted c.1808.

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

	2006	% change	2005	2004	2003	2002
revenue						
Gross income (£'000)	**4,052**		3,671	2,736	3,275	5,039
Net revenue after tax attributable to Shareholders (£'000)	**876**		23	(685)	(4,897)	(519)
Basic return per Ordinary Share – revenue	**6.66p**		0.18p	(5.62)p	(41.09)p	(4.54)p
– capital	**339.44p**		224.16p	215.77p	(185.14)p	(192.64)p
assets						
Total assets less current liabilities (£'000)	**221,122**	24.6	177,457	144,612	132,651	171,394
Net asset value per 5p Ordinary Share:						
Basic	**1,597p**	19.7	1,334p	1,177p	982p	1,253p
Diluted	**1,063p**	23.6	860p	723p	598p	696p
Mid-market price of the 5p Ordinary Shares at 31 January	**1,022.5p**	28.7	794.5p	621.5p	462.5p	575.0p
discount to fully diluted net asset value	**3.8%**		7.6%	14.0%	22.7%	17.4%
indices and exchange rates at 31 January						
Standard & Poor's 500 Composite Index	**1,280.1**	8.4	1,181.3	1,131.1	855.7	1,130.2
Russell 2000	**733.2**	17.5	624.0	580.8	372.2	483.1
US Dollar/Sterling exchange rate	**1.7774**	5.8	1.8861	1.8203	1.6437	1.4133
Standard & Poor's 500 Composite – Sterling adjusted	**720.2**	15.0	626.3	621.4	520.6	799.7
Russell 2000 – Sterling adjusted	**412.5**	24.7	330.8	319.1	226.4	341.8
FTSE All-Share Index	**2,928.6**	20.0	2,441.2	2,187.1	1,722.3	2,496.0

directors

*†#• **Enrique Foster Gittes** (**USA**) (**Chairman**), aged 66, joined the Board in 1992 and was appointed Chairman on 20 July 1998. He is an American lawyer who was President of Hambro America in New York until 1983, responsible for venture capital investments, 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 a director of LESCO, Inc., formerly a non-executive director of J O Hambro Capital Management (Bermuda) Limited and formerly a director of North Atlantic Value (General Partner) Limited (part of the same group as the Joint Manager).

Christopher H B Mills, aged 53, is the Company's Chief Executive and Investment Manager and joined the Board in August 1984 (formerly Consolidated Venture Trust plc). He is also Chief Executive of American Opportunity Trust PLC. He is currently a member and Chief Investment Officer of North Atlantic Value LLP. Prior to joining the J O Hambro Capital Management Group in 1993, Mr Mills was a director of INVESCO MIM Limited and Samuel Montagu International Limited and operated as its Head of North American Investments and its head of North American Venture Capital. 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 21 of the financial statements.

*†#• **Kristian Siem** (**Norwegian**), aged 57, joined the Board in April 2001. He is Chairman of Siem Industries Inc., an industrial company which includes offshore oil and gas drilling, sub-sea construction services and marine transportation worldwide. He is also a director of various companies in Norway, USA, Sweden, Portugal and the Cayman Islands.

*†#• **Charles L A Irby**, aged 60, joined the Board in December 2002. He is Chairman of Aberdeen Asset Management PLC and a non-executive director of Great Portland Estates PLC and QBE Insurance Group Limited. 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.

*†#• **Oliver R Grace Jr.** (**USA**), aged 52, joined the Board on 16 May 2006. He has been Co-Chairman of Associated Asset Management, Inc. since 1987, a company incorporated in Delaware. He is currently a director of Moscow Cablecom Corp, a Russian cable company operating in the City of Moscow, director of Take Two Interactive Software, Inc and President of Grace Developments, Inc. He is also a director of Second London American Trust PLC, Redbus Interhouse Limited and Telecity Group PLC.

* Non-executive
† Independent
\# Member of the Audit Committee
• Member of the Remuneration Committee

chairman's statement

I am glad to report that during the year ended 31 January 2006 the fully diluted net asset value of the Trust rose by 23.6% thereby outperforming the rise in the Standard and Poor's Composite Index (Sterling adjusted) which rose by 15.0%. The Trust's share price also rose sharply, increasing from 794.5p to 1,022.5p over the same period. It is pleasing to note that since Christopher Mills became our Chief Executive in 1984, the share price has risen by over twenty times in Sterling and by rather more in United States Dollars.

The revenue account showed a profit of £876,000 after taxation (2005: restated profit £23,000). Consistent with the Trust's long term policy the Directors are not recommending a dividend for the current year.

During the year the Trust redeemed for cancellation 225,000 Convertible Loan Notes. The price paid was at a discount to net asset value and therefore benefited all Shareholders.

quoted investments

The United States quoted portfolio benefited from the strength of the United States Dollar which rose from $1.8861 to $1.7774 at the year-end, although this gain has subsequently been reversed. The portfolio performed exceptionally well and in particular, Sterling Construction Inc. nearly trebled during the year whilst W-H Energy Services Inc. more than doubled. It is interesting to note that both these investments originated out of the Private Equity Portfolio and, based on cost, have in aggregate now appreciated approximately ten times in value.

The United Kingdom portfolio also performed well assisted by the takeover of East Surrey Holdings PLC, the sale of the holding in Simon Group PLC to a strategic buyer and a takeover approach for Parkdean Holidays PLC shortly after purchase. Highway Insurance Holdings PLC and Wichford PLC made substantial contributions to the performance and the holdings were reduced into strength in the share price. Communisis PLC was the only major disappointment. Recent purchases of Gleeson (MJ) Group PLC, Georgica PLC and SSL International PLC have performed satisfactorily.

unquoted portfolio

It was a relatively eventful year for the unquoted portfolio. Waterbury Inc., Hi-Tech Holdings Inc. and Ramen Holdings Limited were all taken over at very considerable premiums to cost. During the year, the Board adopted 'Fair Value Accounting' which required a number of carrying values of the unquoteds to be reappraised resulting in uplifts in valuation in Primesco Inc., Jaffer Holdings Corporation and Nationwide Accident Repair Services PLC.

The principal disappointment was United Industries PLC. The company, which has fundamentally good businesses, was overwhelmed by its pension liabilities and had to be written off during the year.

Two new major unquoted investments were made during the year: the management buyouts of Paramount Restaurants Limited and Dowding and Mills PLC. The Trust also considerably increased its investment in Mister Car Wash Inc. on favourable terms.

Further details of the unlisted portfolio can be found on pages 7 to 13.

Performance during the year was adversely impacted by a relatively high level of cash that was maintained within the portfolio. In my last Annual Report I noted that interest rates were likely to rise and this would inhibit equity markets. Whilst this was generally correct in the United States, the United Kingdom market on the other hand performed well.

outlook

It remains difficult to find attractive value situations although by no means impossible. I would also anticipate that the existing portfolio will benefit from corporate activity.

This should help to mitigate the negative impact of excessive consumer and government debt which must at some stage adversely impact consumer expenditure and, with it, economic growth. I also remain concerned that massive increases in commodity prices and rising wages in China and India may shatter the illusion of non-inflationary growth through cheap imports leading to job losses in the manufacturing sector offset by non-job creation (particularly in the UK) in the public sector.

Nevertheless I would hope that the Trust will continue to make progress in the year ending 31 January 2007. In the unquoted portfolio I expect that Santa Maria Foods Inc., Nationwide Accident Repair Services PLC and Jaffer Holdings Corporation will be sold or go public and this should help offset any downturn in the stock markets.

Peregrine Moncreiffe resigned as a Director on 27 March 2006. Peregrine has been a Director since 1993 and I will miss his wise counsel and contribution.

I am pleased to welcome Oliver Grace to the Board with effect from 16 May 2006.

Enrique Foster Gittes *Chairman*
24 May 2006

sector analysis of investments at fair value

equities, convertible securities & loan stocks as a % of total portfolio valuation	USA & Canada 31.01.06 %	United Kingdom 31.01.06 %	Total 31.01.06 %	Total 31.01.05 %
Consumer/Commercial Services	4.4	5.1	9.5	5.9
Food & Food Services	4.3	4.9	9.2	5.6
Business Services	–	7.9	7.9	4.4
Health	1.0	6.1	7.1	9.1
Construction & Materials	5.0	1.9	6.9	2.9
Investment Companies	0.5	6.0	6.5	13.8
Travel & Leisure	0.3	6.0	6.3	–
Financial Services	5.8	0.3	6.1	14.7
Industrial Services	–	4.4	4.4	–
Support Services	–	3.1	3.1	8.9
Banking	1.3	1.8	3.1	–
Wholesale Trade	2.8	–	2.8	3.6
Property	–	2.2	2.2	4.6
Personal Goods	–	1.7	1.7	–
Oil & Gas	1.7	–	1.7	–
Non Life Insurance	–	1.1	1.1	3.3
Chemicals	1.0	–	1.0	7.5
Automotive Parts	–	0.9	0.9	1.2
Industrial Manufacturing	0.4	0.4	0.8	2.5
Information Technology Hardware	0.8	–	0.8	–
Pharmaceuticals & Biotechnology	–	0.8	0.8	–
Defense	0.5	–	0.5	–
Cosmetics & Toiletries	0.4	–	0.4	–
Wire & Cable products	0.4	–	0.4	–
Mining	0.3	–	0.3	–
Telecommunications	0.3	–	0.3	–
Electronic & Electrical Equipment	0.2	–	0.2	1.5
Private Corrections	0.2	–	0.2	–
Media	–	0.2	0.2	1.1
Technology	–	0.2	0.2	0.8
Transport	0.1	–	0.1	–
Engineering	–	–	–	2.7
Water	–	–	–	2.7
	31.7	55.0	86.7	96.8
treasury bills	8.7	4.6	13.3	3.2
total at 31 January 2006	40.4	59.6	100.0	
Total at 31 January 2005	41.0	59.0		100.0

twenty largest investments

as at 31 January 2006

equities (including convertibles, loan stocks and related financing)		At fair value £'000
W-H Energy Services Inc.	USA Quoted	18,290
Whatman PLC	UK Listed	11,440
Nationwide Accident Repair Services PLC	UK Unquoted	10,835
Paramount Restaurants Limited	UK Unquoted	10,066
DM Technical Services Limited	UK Unquoted	9,490
Santa Maria Foods Inc. *	Canadian Unquoted	9,308
Sterling Construction Inc.	USA Listed	9,056
Oryx International Growth Fund Limited **	UK Listed	8,782
Georgica PLC	UK Quoted on AIM	8,400
Worldport Communications Inc.	USA Unquoted	7,610
ten largest investments		**103,277**
LESCO, Inc.	USA Listed	7,606
Mister Car Wash Inc.	USA Unquoted	6,733
Wichford PLC ***	UK Quoted on AIM	4,725
Communisis PLC	UK Listed	4,696
NetBank Inc.	USA Listed	4,460
Gleeson (MJ) Group PLC	UK Listed	3,884
SSL International PLC	UK Listed	3,759
Primesco Inc.	USA Unquoted	3,497
Parkdean Holidays PLC	UK Quoted on AIM	3,458
Trident Private Equity II LP	Cayman Islands Unquoted	2,500
twenty largest investments		**148,595**
Aggregate of other investments at fair value		37,380
		185,975
UK Treasury Bills		9,922
USA Treasury Bills		18,925
total value of investments of the group at fair value		**214,822**

* includes £6,360,000 invested in Ontario Inc., a subsidiary of Santa Maria Foods Inc.
** incorporated in Guernsey.
*** incorporated in the Isle of Man.

unlisted investments profile

	2006 Fair value £'000
Nationwide Accident Repair Services PLC (UK) *Cost: £2,980,000*	**10,835**

Nationwide is the largest independent accident repair operator in the UK with 69 sites handling more than 150,000 repairs per annum. It also operates Network Services – an accident repair claims and management agency. The equity value of Nationwide has been written up during the year to reflect continued good performance and strong cash position. Additionally the company distributed £5 million to shareholders in December 2005, this equated to 22p per share.

Information as at 31 December 2005:
Dividend cover or underlying earnings 1.30
Percentage of equity held (undiluted) 25.7%
Latest audited earnings per share 29.0p
Share of latest audited net assets £11,667,800
Income received in the year from this company £1,286,347

Paramount Restaurants Limited (UK) *Cost: £8,623,000*	**10,066**

Paramount is the holding company of Group Chez Gerard, comprising 5 separate branded chains of restaurants (Chez Gérard, Bertorelli, Livebait, Café Fish, Caffè Uno) with a total of 80 premises across London. After a successful public to private transaction in June 2005, the company have gone on to complete a further financing round at an increased valuation. Trading has been good and the company is achieving budget.

DM Technical Services Limited (UK) *Cost: £9,490,000*	**9,490**

DM Technical Services is the holding company of Dowding & Mills PLC., which is the UK market leader in engineering calibration and electronic services with subsidiaries in Australia and the USA that have specific emphasis on the coal mining industry. The successful public-to-private transaction was declared unconditional in late January 2006. Trading is in line with budget. Sale and lease back of properties underway to release cash to amortise pension fund deficit.

Carried forward	**30,391**

unlisted investments profile

	2006 Fair value £'000
Brought forward	30,391
Santa Maria Foods Inc. (Canada) *Cost: £4,500,000*	9,308

Santa Maria is the leading manufacturer and wholesaler of prosciutto and salami in Canada, with a small export business to the US. It also imports and distributes leading branded Italian foodstuffs, such as olive oil and dry pasta. It has a strong position in the specialty retail sector and has expanded into supermarkets, including manufacturing supermarkets' own-label products. The company's performance improved in 2005 due to improved pork prices and a strengthening Canadian dollar. NASCIT receives an annual scrip dividend from Santa Maria.

Information as at 31 December 2005:
Dividend cover or underlying earnings –
Percentage of equity held (undiluted) 27.3%
Latest audited earnings per share C$2.30
Share of latest audited net assets C$8,190,000
Income received in the year from this company £300,000

Worldport Communications Inc. (USA) *Cost: £6,851,000*	7,610

Worldport is a clean cash shell. As a consequence of settling historical contingent liabilities the valuation has increased during the year. Worldport is now considering how best to utilise the company's substantial cash balances and carried forward tax loss. The numbers shown below are unaudited due to the non trading status of the company.

Information as at 31 December 2005:
Dividend cover or underlying earnings –
Percentage of equity held (undiluted) 45.9%
Latest audited earnings per share –
Share of latest audited net assets $13,526,000
Income received in the year from this company –

Carried forward	47,309

unlisted investments profile

	2006 Fair value £'000
Brought forward	**47,309**
Mister Car Wash Inc. (USA) *Cost: £7,081,000* Car Wash is a consolidator of the car-wash industry in the US, operating in four regions: The Northwest, the Upper Midwest, Texas and Southern California. It operates predominantly full service outlets (i.e. cleaning vehicles both inside and out), which, on average, command a 50% premium to exterior only washes. Extensive restructuring of the company in the second quarter of 2005 has led to revaluation upwards. The operational performance of the company has been much stronger in 2005 due to favourable weather conditions.	**6,733**
Primesco Inc. (USA) *Cost: £1,872,000* Primesco is the successful culmination of a hostile management buy-in and demutualisation of the long established Mutual Life Insurance Company of Alabama. Primesco has now restructured its product portfolio and is in the process of substantially reducing its cost base. Growth had been put on hold due to outstanding litigation proceedings but, with all litigation resolved this year, the equity has been written up to reflect its 'fair value'.	**3,497**
Trident Private Equity II LP (Cayman Islands) *Cost: £2,500,000* This is a £64 million offshore private equity limited partnership. The investment objective of the partnership is to generate high absolute returns by investing in a portfolio of unquoted investments in small to medium sized companies in the United Kingdom. The partnership will concentrate primarily on leveraged buyouts and similar transactions, including public-to-private and pre IPO investments. At 31 January 2006, 25% of NASCIT's commitment had been drawn down and fully invested in four private equity transactions. As disclosed on page 67, the Joint Manager is investment adviser to Trident Private Equity II LP.	**2,500**
Carried forward	**60,039**

unlisted investments profile

	2006 Fair value £'000
Brought forward	**60,039**
Glass America (USA) *Cost: £1,780,000* Glass America is a consolidator of automotive glass repair companies in the United States. To date the performance of the business has been encouraging. The company continues to meet budget and completed a second round of financing at an increased valuation. NASCIT took up its pro rata allocation at the increased valuation.	**1,841**
Telos Corporation (USA) *Cost: £1,365,000* Telos is a systems integration and services company addressing the information technology needs of federal government consumers worldwide. Telos continues to perform well and achieved its operating goals in the year ended December 2005. The share price of its publicly traded preferred shares increased due to market pressure and we have written down the equity valuation of the ordinaries in order to reflect the overall 'fair value' of the company.	**1,823**
Craegmoor Limited (UK) *Cost: £3,425,000* Craegmoor is one of the UK's leading providers of quality residential healthcare in two main divisions: elderly and special needs, with almost 200 facilities and 5,000 beds. The company's performance has been under budget due to system inefficiencies and reorganisation costs. A management and process review highlighted areas that require change and improvement. NASCIT has taken the prudent step of writing the equity down to zero and loan notes to 54% of their nominal value. In March 2006, a cash call from investors was requested and shareholders (including NASCIT) contributed £8.25 million in loan notes of 10% coupon and 100% redemption premium.	**1,718**
Jaffer Holdings Corporation (USA) *Cost: £923,000* Jaffer is a leading operator of drilling rigs for water in the South Eastern part of the United States. The sector is fragmented and will benefit from consolidation. The company has performed well; improved trading conditions and an impressive backlog have generated a write up to reflect overall 'fair value'.	**1,688**
Carried forward	**67,109**

unlisted investments profile

	2006 Fair value £'000
Brought forward	**67,109**
AllianceOne Inc. (USA) *Cost: £2,992,000* AllianceOne is a leading provider of outsourced business services to public and private entities throughout the United States. These services include management of accounts receivable, including the recovery of traditional delinquent accounts from both consumer and commercial debtors; the management of early stage delinquencies; and the management of speciality healthcare services including medical billing services. Trading has improved in 2005 and a total recapitalisation of the company has been completed.	**1,389**
Trident Private Equity LP (USA) *Cost: £nil* This is a $30 million offshore private equity partnership, which invests in private companies in Europe, the UK and US. Launched in September 1999, the Fund has made twenty investments to date of which fourteen have been successfully realised. The Fund has a seven year life, the commitment has been fully drawn down and over 120% of the capital has been repaid with more likely to be returned over the next year.	**1,112**
Wembley PLC (UK) *Cost: £506,000* Wembley PLC is in voluntary liquidation. It has been announced that there will be two liquidation payments to shareholders, an interim and final distribution. The interim liquidation payment has been received. The stock is currently held at the lowest suggested value of the final liquidation payment.	**990**
GEI Group Limited (UK) *Cost: £592,000* During the year GEI has sold off all its businesses and repaid debt. A cash shell for the majority of the year, GEI acquired Autotag in December. Autotag is a market leader in the UK in the supply of keytags, security cabinets and products to the retail motor trade. The newly appointed management team are focusing on a strategy to cut costs and improve margins, with the aim to secure a favourable exit for shareholders.	**816**
Carried forward	**71,416**

unlisted investments profile

	2006 Fair value £'000
Brought forward	71,416
Ramen Holdings Limited (UK) *Cost: £585,000* Ramen is the holding company for Wagamama restaurants, which continues to perform well. Despite continuous start up costs in provincial cities in the UK and target sites abroad, the company has performed in line with budget during 2005. The new restaurants have achieved sustained profitability and the benefits of the successful international franchising operations contribute to the group's results. Restructuring in June returned value to shareholders. NASCIT retained part of its position in the form of loan notes.	585
Universal Aerospace (USA) *Cost: £355,000* Universal Aerospace is a manufacturer of metal parts for commercial airline interiors in the United States. Performance is in line with budget and the investment is valued at cost.	349
Other unlisted investments	32
Total value of unlisted investments at fair value	72,382

unlisted investments profile (AIM quoted)

	2006 Bid value £'000
Georgica PLC *Cost: £7,585,000* Georgica PLC is the UK's largest operator of ten pin bowling alleys and snooker halls operating under the Rileys and Tenpin brand names. The Company owns 155 cue sports sites and 38 bowling centres throughout the UK and has been undertaking a refurbishment programme whilst strategically expanding its estate in regional towns and cities. Senior management own over 20% of the business and have exited unprofitable or loss-making sites whilst re-financing the company with long-term debt facilities to support an expansionary capex programme. Whilst trading was disappointing during the autumn of 2005, same outlet sales increased by 1% in 2005 and operating profits increased by 35%, reflecting the benefits of the opening programme as well as tight cost control. In an upbeat statement in late January the Company reported some improvement in recent trading and a 3.1% increase in like-for-like sales. Georgica has announced that it is likely that substantial shareholder value will be released in 2007 either by way of a re-financing or a disposal of part or all of the group.	8,400
Wichford PLC *Cost: £2,883,000* Wichford, which quoted on AIM in August 2004, focuses on buying properties outside Central London and letting them to UK Central Government organisations. The properties typically have a value of £3m-£30m and the company seeks to acquire them on yields in the region of 5.5 to 7 per cent. The company currently owns 57 properties with a gross value of £418m with the average length of unexpired leases being 10.3 years. Wichford deems around 20.7 per cent of its portfolio to be "active" (properties where rent reviews are imminent and which offer short term opportunities for NAV enhancement) and this percentage is likely to increase in the medium term. Wichford's property portfolio should benefit from the recommendations of the Lyons review, which suggested that 20,000 public sector jobs be re-located from London and the South-East to the provincial UK over the next seven years.	4,725
Parkdean Holidays PLC *Cost: £2,912,000* Parkdean operates self-catering holiday parks in England, Scotland and Wales owning 20 holiday parks, mainly in South-West England, offering a total 9,189 pitches. The company provides self-catering accommodation in caravan homes, lodges, chalets, pitches for touring caravans and tents and offers other facilities at their sites including, restaurants, swimming pools, retail facilities and entertainment and game rooms. The company is cash generative and a growing part of its business involves the sale of caravans and holiday chalets. The strong free cashflow yield and good asset backing of the business attracted a cash offer at 270.5p from a Private Equity vehicle backed by Alchemy in mid-March. The bid, which has received the Board's recommendation, values the company at £139.7m and the Trust will exit this investment at a good profit. This company was taken over in May 2006.	3,458
Other AIM quoted investments	3,172
Total value of AIM quoted investments at bid value	**19,755**

group report of the directors

for the year ended 31 January 2006

results and dividend

The net total return after taxation for the financial year ended 31 January 2006 amounted to £45,859,000 (2005: £28,057,000 return restated). The Board do not propose a final dividend (2005: nil).

company's business

The Company is an investment company within the meaning of Section 266 of the Companies Act 1985 and its business is that of an investment trust. The business of the Company's Subsidiary undertakings are as an investment trust and investment dealing and holding companies respectively.

The Chairman's Statement on pages 3 and 4 contains a review of the Company's activities during the year and an indication of future prospects. A list of the Company's largest investments is given on page 6 and details of unlisted investments on pages 7 to 13. The Group financial risk management objectives and polices, and the Group's exposure to the risks listed in the Companies Act 1985 are described in note 20, starting on page 60.

taxation status

In the opinion of the Directors, the Company has conducted its affairs so as to be able to seek approved investment trust status from Her Majesty's Revenue and Customs under Section 842 of the Income and Corporation Taxes Act 1988 for the accounting year ended 31 January 2006. Pursuant to arrangements between The Association of Investment Trust Companies and Her Majesty's Revenue and Customs, who have agreed that written approval of investment trust status can be granted within the Corporation Tax Self Assessment Regime, written approval for all accounting years to 31 January 2005 has been received.

share valuations

On 31 January 2006, the middle market quotation and the fully diluted net asset value per 5p Ordinary Share were 1,022.5p and 1,063p respectively. The comparable figures at 31 January 2005 were 794.5p and 860p.

donations

The Company does not make any political or charitable donations.

substantial shareholders

At the date of this report, the following interests in the Ordinary Shares of the Company which exceed 3% of the issued share capital have been notified to the Company pursuant to Section 198 of the Companies Act 1985:

	Number of Ordinary Shares	% of issued share capital
C H B Mills	2,670,899	20.06
HBOS plc	1,222,474	9.18
Findlay Park US Smaller Companies Fund Plc	795,000	5.97

Mr C H B Mills' holdings in the Subsidiary undertaking, American Opportunity Trust PLC, are currently 193,500 Ordinary Shares of 12.5p each and 450,000 management options.

directors

The biographical details for Directors currently in office are shown on page 2.

The Hon. P D E M Moncreiffe resigned as a Director on 27 March 2006. Mr O Grace was appointed to the Board on 16 May 2006 and in accordance with the Articles of Association, being a Director appointed to fill a casual vacancy during the year, is required to stand for re-election at the Annual General Meeting.

In accordance with Article 87 of the Company's Articles of Association, Mr C L A Irby retires by rotation at the forthcoming Annual General Meeting of the Company and, being eligible, offers himself for re-election.

group report of the directors
for the year ended 31 January 2006

In accordance with Listing Rule 15.2.7(3), which requires Directors or members of the Manager to be subject to annual election, Mr C H B Mills is subject to annual election as he is both Chief Executive and a member of the Joint Manager and accordingly a resolution to re-elect him as a Director is included in the notice of Annual General Meeting of the Company on pages 73 and 74.

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.

directors' interests

The interests of the Directors as notified to the Company, beneficial unless otherwise stated, in the securities and Convertible Unsecured Loan Stock ("CULS") 2013 of the Company as at 31 January 2006 and 31 January 2005 were as follows:

	31 January 2006		31 January 2005	
	5p Ordinary Shares	**Units of CULS**	5p Ordinary Shares	Units of CULS
E F Gittes	**200,000**	–	200,000	–
C H B Mills	**2,670,899**	–	2,610,899	–
The Hon. P D E M Moncreiffe (resigned 27 March 2006)	**123,000**	**102,000**	123,000	52,000
K Siem*	–	**2,000**	–	2,000
C L A Irby	**22,500**	–	22,500	–

*Siem Industries Inc. a company in which Mr Siem is Chairman and a shareholder is ultimately interested in 95,000 Ordinary Shares and 50,000 units of CULS (2005: 95,000 Ordinary Shares and 50,000 units of CULS). On appointment on 16 May 2006, Mr O R Grace has declared that he is interested in, through a trust he is a possible beneficiary, 321,135 units of CULS, 56,429 Ordinary Shares of 5p each, and through his role as a founder of Drake Asset Management 24,000 units of CULS.

Details of Directors' remuneration and interests in Share Options are described in the Directors' Remuneration Report on pages 23 to 26.

With the exception of Mr Mills disclosed above under Substantial Shareholders, no Director has any interest in the shares of American Opportunity Trust PLC.

Save as disclosed, there have been no changes to the above interest between 31 January 2006 and the date of this report.

Save as disclosed above or in note 21 to the Annual Report, no Director was party to or had any interest in any contract or arrangement with the Company at any time during the year.

investment management agreements

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 North Atlantic Value LLP, the Joint Manager provides management and administration services to the Company.

group report of the directors

for the year ended 31 January 2006

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. 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 and Unlisted Investments Profile. 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 North Atlantic Value LLP, Joint Manager to 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 American Opportunity Trust PLC, a Subsidiary, and North Atlantic Value LLP is its Investment Manager. Mr Mills is a Director and holds 38.73% of the issued share capital of J O Hambro Capital Management Group Limited, the holding company of the Corporate Company Secretary, J O Hambro Capital Management Limited and Designated Members of the Joint Manager. Mr Mills is a Director and sole Shareholder in Growth Financial Services Limited ("GFS").

Pursuant to the Secondment Services Agreement between the Company, GFS and Mr Mills and the Management, Administration and Custody Agreement between the Company and North Atlantic Value LLP, Mr Mills is responsible for the day-to-day investment decisions in conjunction with the Joint Manager, North Atlantic Value 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 21 on pages 67 and 68 and in the Directors' Remuneration Report on pages 23 to 26. The Investment Management Fees are disclosed in note 3 on page 45. The Performance Fee payable to GFS is disclosed in the Directors' Remuneration Report on pages 23 to 26 and note 3 of the financial statements on page 45.

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.

group report of the directors
for the year ended 31 January 2006

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 2006 had been paid (31 January 2005 – all supplier invoices paid).

soft commission

The Joint Manager receives indirect benefits for certain investment services in the form of soft commission as a result of an agreement with a broker. The value of services supplied may depend upon a minimum threshold of commissions or a percentage of such commissions arising on dealings in securities for all clients including the Company. The practice of best execution is not compromised by this arrangement.

auditors

A resolution to reappoint RSM Robson Rhodes LLP as the Company's Auditors will be proposed at the forthcoming Annual General Meeting.

explanatory notes for special business at the annual general meeting

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 7 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 7 will renew the authority to allot shares of the Company on similar terms. If Resolution 7 is passed the Directors will have the authority to allot shares up to the aggregate nominal amount of £221,890, 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 8 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 8 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 £33,284 representing 665,671 Ordinary Shares of 5p each, being equivalent to 5% of the current issued share capital, without first offering such securities to existing Shareholders.

The resolutions referred to above are contained in the Notice of Annual General Meeting on pages 73 and 74.

By Order of the Board

J O Hambro Capital Management Limited
Company Secretary
Registered Office:
Ground Floor
Ryder Court
14 Ryder Street
London SW1Y 6QB

Registered No: 1091347

24 May 2006

corporate governance

directors' statement of compliance with the combined code

background

The UK Listing Authority requires all listed companies to disclose how they have applied the principles and complied with the provisions of the Combined Code (the "Code") applicable for reference periods commencing on or after 1 November 2003. As a member of the Association of Investment Trusts, the Company has adopted the AITC Code of Governance.

application of the principles of the code

The Board considers the matters set out in the Code to be very important and is committed to maintaining its principles. The Board is accountable to the Company's Shareholders for the governance of the Company's affairs and this statement describes how the relevant principles have been applied by the Company.

compliance with the combined code

The Board considers that the Company has complied with the provisions of Section 1 of the Code throughout the year ended 31 January 2006 and thereafter as required by Listing Rule 9.8.6(6) issued by the UK Listing Authority save as disclosed below.

directors

Brief biographical details of the Directors in office are set out on page 2. The Board consists of five Directors, four of whom are Non-executive and considered by the Board to be independent of the Company's Joint Manager for the purposes of the Code. The Board considers that it has the appropriate balance of skills, experience, ages and length of service in the circumstances. The majority of the Board is considered to be 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 Nomination Committee formally nominated Mr O R Grace to the Board and Mr O R Grace was appointed as a Director on 16 May 2006 following the resignation of The Hon. P D E M Moncreiffe on 27 March 2006.

The Board is a small Board and individual members have a wide range of qualities and expertise to bring to any debate. The Board normally meets four times a year and at other times as necessary. The Directors have no service contracts. 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. Your Board has considered the need to appoint a senior independent Director but believes that this is not necessary as the majority of the Directors are independent. The Board lays down guidelines within which the Chief Executive and the Joint Manager implement investment policy and has a Schedule of Matters reserved to it. The Chief Executive and the Joint Manager are responsible for managing the Company and its portfolio of assets on a discretionary basis, subject to the supervision of the Board.

board evaluations

During the year the Board has carried out an effectiveness evaluation exercise. This was an informal exercise carried out by the Chairman in relation to the key arrangements in place and included the performance of individual Directors. The Chairman's performance was considered by the Non-executive Directors. The results of these evaluations were considered by the Board in preparation for the disclosure reporting in respect of the Code. The informal exercise was considered by the Board to be more appropriate in the circumstances due to its size and activities rather than a more formal rigorous annual evaluation.

corporate governance
directors' statement of compliance with the combined code

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.

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 Manager pursuant to the management arrangements in place carry out day-to-day activities pursuant to the terms of these contracts. 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 4 Board Meetings	Total number in year 2 Audit Committees	Total number in year 1 Remuneration Committee
E F Gittes	4	2	1
C H B Mills	4	N/A	N/A
The Hon. P D E M Moncreiffe	3	1	1
K Siem	3	2	–
C L A Irby	3	2	1

remuneration committee

All of the Non-executive Directors comprise the Remuneration Committee. The Remuneration Committee reviews the remuneration paid to North Atlantic Value LLP and GFS pursuant to the Management Agreements. The remuneration of GFS is disclosed in the Directors' Remuneration Report on pages 23 to 26 and also in note 3 on page 45. The remuneration of North Atlantic Value LLP is disclosed in note 3 on page 45.

audit committee

The Board is supported by an Audit Committee which comprises all of the Non-executive Directors. The Committee meets representatives of the Joint Manager twice a year, who report on the proper conduct of business in accordance with the regulatory environment in which both the Company and the Manager 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 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 Interim 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 the Auditors are independent.

corporate governance

directors' statement of compliance with the combined code

The Committee's terms of reference are available from the Company Secretary. The Audit Committee met twice during the year to review the Interim and Annual financial statements and to review reports and hold discussions with the Chief Executive and Joint Manager. 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 Auditors, 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 Audit Committee considers that the Committee as a whole has the relevant and recent financial experience required to carry out its duties and does not consider it appropriate to rely on any one member with financial expertise. The Audit Committee is satisfied that the Auditors are independent not withstanding the proportion of non audit fees in the year to 31 January 2006. The Audit Committee considers that the Auditors' objectivity and independence is not impaired by the performance by the Auditors of non audit services. The Audit Committee does not consider that the appointment of a third party unfamiliar with the Company to carry out non audit services would benefit Shareholders since they would incur unnecessary additional expense.

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 Manager, 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 Chairman and the Chief Executive.

The Notice of the Annual General Meeting sets out the business of the meeting and can be found on pages 73 and 74. The special business is also explained more fully in the Explanatory Notes on page 17. Separate resolutions are proposed for each substantive issue.

nominations committee

The Board is a small Board and fulfills 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 considers that the current size of the Board is the optimum size and does not consider that there are any vacancies. The Nominations Committee met following the resignation of The Hon. P D E Moncreiffe and nominated Mr O R Grace to the Board.

the company secretary

The Board has direct access to the advice and services of the Corporate Company Secretary, J O Hambro Capital Management Limited, responsible for ensuring that the Board and Committee procedures are followed and that the applicable regulations are complied with. The Corporate Company Secretary is also responsible to the Board for ensuring timely delivery of information and reports.

independent professional advice

There is an agreed procedure for the Directors, in the furtherance of their duties, to take independent professional advice at the Company's expense, having first notified the Chairman.

accountability and audit

The Board's responsibilities with regard to the financial statements are set out on page 22 and a Statement of Going Concern is given below. The Report of the Auditors is on pages 27 and 28.

corporate governance

directors' statement of compliance with the combined 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 the 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 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 contingencies 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. This accords with the guidance in "Internal Control – Guidance for Directors on the Combined Code"(the Turnbull 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.

going concern

After making enquiries, 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.

statement of directors' responsibilities

Company law in the United Kingdom requires the Directors to prepare financial statements for each financial year which give a fair presentation of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- followed applicable International Financial Reporting Standards (IFRS); and
- prepared the financial statements on a going concern basis.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. 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 ensuring that the Group Report of the Directors and other information included in the Annual Report is prepared in accordance with company law in the United Kingdom.

The financial statements are currently published in the Manager's section on www.navalue.co.uk which is a website maintained by the Joint Manager. The work carried out by the Auditors does not involve consideration of the maintenance and integrity of this website and accordingly, the Auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

directors' remuneration report

The Board has prepared this report in accordance with the requirements of Schedule 7A to the Companies Act 1985. An Ordinary Resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting. This is an advisory vote only.

The law requires your Company's Auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditors' opinion is included in their report on pages 27 and 28.

role and composition

The Remuneration Committee consists of the Chairman and the independent Non-Executive Directors.

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.

non-executive directors

The fees payable to Non-Executive Directors are agreed by the Board, following the recommendation of the Chairman of the Board and with the assistance of independent external advice on comparable organisations and appointments. Non-Executive Directors' fees are determined by the Board, or by a committee authorised by the Board, subject to the limits set out in the Company's Articles of Association. These fees are currently £16,000 p.a. for Directors and £20,000 p.a. for the Chairman (2005: same). The Remuneration Committee has no plans to alter the remuneration structure currently in place for Non-Executive Directors. Non-Executive Directors do not have service contracts nor do they have the benefit of notice periods, termination payments, benefits in kind or option schemes.

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 3 on page 45 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 since it allows the Chief Executive to monitor the performance of the investee company more closely than would be possible under other circumstances.

remuneration of directors (audited)

Chief Executive	**2006**	2005
	£	£
Fees	**16,000**	16,000
Investment Management and related fees	**750,000**	695,000
Performance fee	**1,069,000**	858,000
Total (excluding irrecoverable VAT)	**1,835,000**	1,569,000

The total fees of £1,835,000, in respect of Mr Mills' services as a Director and Chief Executive are payable to Growth Financial Services Limited ("GFS"), as described on page 45. GFS receives, and is contractually entitled to receive, part of the Annual Fee payable to the Joint Managers, GFS and North Atlantic Value LLP in respect of the investment management activities of the Chief Executive pursuant to the investment management agreements described on pages 15 and 16 and note 3 on page 45 to the financial statements.

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.

Non-executive directors	**2006**	2005
	£	£
E F Gittes (Chairman)	**20,000**	20,000
The Hon. P D E M Moncreiffe (resigned 27 March 2006)	**16,000**	16,000
K Siem	**16,000**	16,000
C L A Irby	**16,000**	16,000
	68,000	68,000

No Directors receive any benefits in kind.

In addition, Directors of the Subsidiary, American Opportunity Trust PLC ("AOT") were paid £8,000 in the period from 16 September 2005 (the date the Company acquired a majority interest in AOT) to 31 January 2006.

service contracts

No Director has a service contract. The contract for the Chief Executive's services and the carrying on of 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)

	No. of options at 1 February 2005	Year of grant	Price	Exercised/ cancelled during the year	Grant of options during the year	Price	No. of options at 31 January 2006
C H B Mills	100,000	2000	677.57p	–	–	–	**100,000***
	300,000	2002	645.54p	–	–	–	**300,000**
	200,000	2003	663.80p	–	–	–	**200,000**
	–	2005	–	–	300,000	875.60p	**300,000**

* These Options were granted for nil consideration under the 1994 Executive Share Option Scheme and are exercisable at any time between 30 October 2003 and 30 October 2010.

The Options granted in 2002, 2003 and 2005 were granted for nil consideration under the 2002 Executive Share Option Scheme which replaced the 1994 Scheme.

The Options granted in 2002 are exercisable at any time between 6 December 2005 and 6 December 2012.

The Options granted in 2003 are exercisable at any time between 25 September 2006 and 25 September 2013, subject to the criteria below being met.

The Options granted in 2005 are exercisable any time between 9 June 2008 and 9 June 2015, subject to the criteria below being met.

The 2002 Executive Share Option Scheme is designed to incentivise the Chief Executive and provide the Remuneration Committee with the flexibility to incentivise those individuals contributing to the performance of the Company to achieving exceptional results through stretching performance targets and to deliver success for Shareholders.

The 2002 Executive Share Option Scheme permits options to be granted to a maximum of 5% of the current issued share capital.

The Share Option Scheme is an unapproved scheme. Options will normally be exercisable between three and ten years from the date of grant. Options granted under the 2002 Share Executive Option 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 five per cent. 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 sixty per cent. of the percentage increase in the sterling adjusted Standard & Poor's Composite Index in the three year period between the date of grant and the third anniversary of the date of the grant of options. The criteria for the 300,000 Options issued in 2002 has been met and they are therefore now exercisable at any time.

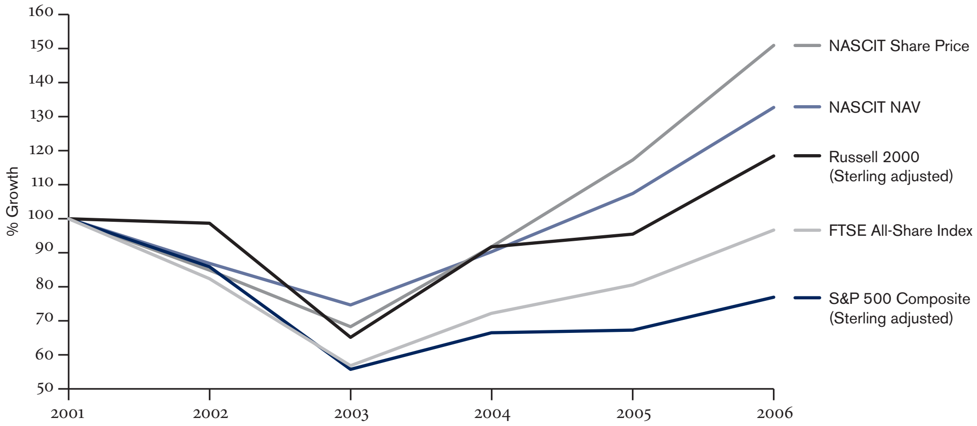
The highest and lowest mid-market price of the Company's Ordinary Shares during the year was 1,022.5p and 771.0p respectively. The mid-market price of the Company's Ordinary Shares at 31 January 2006 was 1,022.5p.

directors' remuneration report

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 five per cent 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 of UK incorporated companies as well as US companies.

This report was approved by the Board on 24 May 2006 and signed by Enrique Foster Gittes, Chairman.

independent auditors' report

to the shareholders of north atlantic smaller companies investment trust plc

We have audited the Group and Parent Company financial statements ("the financial statements") on pages 29 to 72. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's Shareholders, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's Shareholders those matters we are required to state to them in an Auditors' Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's Shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Group Report of the Directors is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Group Report of the Directors, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Corporate Governance Statement and the Five Year Summary. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

independent auditors' report

to the shareholders of north atlantic smaller companies investment trust plc

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of affairs of the Group as at 31 January 2006 and of its profit for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of affairs of the Parent Company as at 31 January 2006; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

RSM Robson Rhodes LLP
Chartered Accountants and Registered Auditors
London England

24 May 2006

consolidated income statement

for the year ended 31 January

		2006			2005 (restated)*		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
investments							
Gains on investments	9	–	46,593	46,593	–	28,303	28,303
Exchange differences	9	–	(422)	(422)	–	661	661
net investment results		–	46,171	46,171	–	28,964	28,964
income	2	4,052	–	4,052	3,671	–	3,671
expenses							
Investment management fee	3	(1,981)	(1,155)	(3,136)	(1,777)	(930)	(2,707)
Interest payable and similar charges	5	(253)	–	(253)	(979)	–	(979)
Share based remuneration	4	(368)	–	(368)	(222)	–	(222)
Other expenses	4	(594)	–	(594)	(650)	–	(650)
total expenses		(3,196)	(1,155)	(4,351)	(3,628)	(930)	(4,558)
profit before taxation		856	45,016	45,872	43	28,034	28,077
taxation	6	(13)	–	(13)	(20)	–	(20)
transfer to reserves		843	45,016	45,859	23	28,034	28,057
attributable to:							
Equity holders of the parent		876	44,674	45,550	23	28,034	28,057
Minority interest	7	(33)	342	309	–	–	–
		843	45,016	45,859	23	28,034	28,057
return per ordinary share:							
Basic	8			346.10p			224.34p
Diluted	8			227.13p			140.68p

* Details of the restatement are shown in notes 1 and 23.

The total column of this statement represents the Group's income statement, prepared in accordance with IFRS. The supplementary revenue return and capital return columns are both prepared under guidance published by the Association of Investment Trust Companies.

The financial statements have been prepared in accordance with the accounting policies on pages 38 to 43.

All items in the above statement derive from continuing operations.

The notes on pages 38 to 72 form part of these financial statements.

consolidated statement of changes in equity

for the year ended 31 January

group	Share capital £'000	CULS reserve £'000	Share options reserve £'000	Share premium account £'000	Capital reserve – realised £'000
2006					
31 January 2005	647	–	–	629	141,956
Opening reserves adjusted for IFRS 2 (see note 23c)	–	–	396	–	–
Restated as at 31 January 2005*	647	–	396	629	141,956
Restatement of opening reserves for IAS 32 and 39 (see note 1(a))	–	52	–	–	–
	647	52	396	629	141,956
Total recognised income and expenses for the year	–	–	368	–	22,738
Arising on conversion of CULS	19	(3)	–	–	–
Premium paid on repurchase of CULS	–	(1)	–	–	(2,129)
Arising on acquisition of majority interest in AOT	–	–	–	–	6,381
31 January 2006	666	48	764	629	168,946

	Share capital £'000	CULS reserve £'000	Share options reserve £'000	Share premium account £'000	Capital reserve – realised £'000
2005					
31 January 2004	613	–	–	629	118,383
Opening reserves adjusted for IFRS 2 (see note 23b)	–	–	174	–	–
Restated as at 31 January 2004*	613	–	174	629	118,383
Total recognised income and expenses for the year	–	–	222	–	23,573
Arising on conversion of CULS	34	–	–	–	–
31 January 2005	647	–	396	629	141,956

* Restated – see transition statements on pages 70 to 72.

The financial statements have been prepared in accordance with the accounting policies on pages 38 to 43.

The notes on pages 38 to 72 form part of these financial statements.

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

Capital reserve – unrealised £'000	Revenue reserve £'000	Total £'000	Minority interest £'000	Total £'000	group
					2006
34,550	(5,241)	172,541	–	172,541	31 January 2005
–	(396)	–	–	–	Opening reserves adjusted for IFRS 2 (see note 23c)
34,550	(5,637)	172,541	–	172,541	Restated as at 31 January 2005*
(3,555)	(3)	(3,506)	–	(3,506)	Restatement of opening reserves for IAS 32 and 39 (see note 1(a))
30,995	(5,640)	169,035	–	169,035	
21,936	876	45,918	309	46,227	Total recognised income and expenses for the year
–	–	16	–	16	Arising on conversion of CULS
–	–	(2,130)	–	(2,130)	Premium paid on repurchase of CULS
(6,207)	(368)	(194)	7,896	7,702	Arising on acquisition of majority interest in AOT
46,724	(5,132)	212,645	8,205	220,850	31 January 2006

Capital reserve – unrealised £'000	Reserve revenue £'000	Total £'000	Minority interest £'000	Total £'000	
					2005
30,089	(5,486)	144,228	–	144,228	31 January 2004
–	(174)	–	–	–	Opening reserves adjusted for IFRS 2 (note 23b)
30,089	(5,660)	144,228	–	144,228	Restated as at 31 January 2004*
4,461	23	28,279	–	28,279	Total recognised income and expenses for the year
–	–	34	–	34	Arising on conversion of CULS
34,550	(5,637)	172,541	–	172,541	31 January 2005

* Restated – see transition statements on pages 70 to 72.

The financial statements have been prepared in accordance with the accounting policies on pages 38 to 43.

The notes on pages 38 to 72 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
2006				
31 January 2005	**647**	**–**	**–**	**629**
Opening reserves adjusted for IFRS 2 (see note 23c)	**–**	**–**	**396**	**–**
Restated as at 31 January 2005*	**647**	**–**	**396**	**629**
Restatement of opening reserves for IAS 32 and 39 (see note 1(a))	**–**	**52**	**–**	**–**
	647	**52**	**396**	**629**
Total recognised income and expenses for the year	**–**	**–**	**368**	**–**
Arising on conversion of CULS	**19**	**(3)**	**–**	**–**
Premium paid on repurchase of CULS	**–**	**(1)**	**–**	**–**
31 January 2006	**666**	**48**	**764**	**629**

	Share capital £'000	CULS reserve £'000	Share options reserve £'000	Share premium account £'000
2005				
31 January 2004	613	–	–	629
Opening reserves adjustment for IFRS 2 (see note 23b)	–	–	174	–
Restated as at 31 January 2004*	613	–	174	629
Total recognised income and expenses for the year	–	–	222	–
Arising on conversion of CULS	34	–	–	–
31 January 2005	647	–	396	629

* Restated – see transition statements on pages 70 to 72.

The financial statements have been prepared in accordance with the accounting policies on pages 38 to 43.

The notes on pages 38 to 72 form part of these financial statements.

company statement of changes in equity

for the year ended 31 January

Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000	Total £'000	company
				2006
141,532	**34,621**	**(5,127)**	**172,302**	31 January 2005
–	**–**	**(396)**	**–**	Opening reserves adjusted for IFRS 2 (see note 23c)
141,532	**34,621**	**(5,523)**	**172,302**	Restated as at 31 January 2005*
–	**(3,555)**	**–**	**(3,503)**	Restatement of opening reserves for IAS 32 and 39 (see note 1(a))
141,532	**31,066**	**(5,523)**	**168,799**	
21,002	**23,147**	**1,122**	**45,639**	Total recognised income and expenses for the year
–	**–**	**–**	**16**	Arising on conversion of CULS
(2,129)	**–**	**–**	**(2,130)**	Premium paid on repurchase of CULS
160,405	**54,213**	**(4,401)**	**212,324**	31 January 2006

Capital reserve – realised £'000	Capital reserve – unrealised £'000	Reserve revenue £'000	Total £'000	
				2005
118,187	30,046	(5,247)	144,228	31 January 2004
–	–	(174)	–	Opening reserves adjusted for IFRS 2 (see note 23b)
118,187	30,046	(5,421)	144,228	Restated as at 31 January 2004*
23,345	4,575	(102)	28,040	Total recognised income and expenses for the year
–	–	–	34	Arising on conversion of CULS
141,532	34,621	(5,523)	172,302	31 January 2005

* Restated – see transition statements on pages 70 to 72.

The financial statements have been prepared in accordance with the accounting policies on pages 38 to 43.

The notes on pages 38 to 72 form part of these financial statements.

consolidated and company balance sheets

	Notes	Group 2006 £'000	Group 2005 (restated)* £'000	Company 2006 £'000	Company 2005 (restated)* £'000
non current assets					
Investments at fair value through profit or loss	9	214,822	–	194,433	–
Investments at valuation	9	–	149,282	–	149,282
Investment in Subsidiary (AOT)		–	–	12,281	–
		214,822	149,282	206,714	149,282
current assets					
Investments held for trading in Subsidiary Companies		382	–	–	–
Investments held in Subsidiary Company		–	137	–	–
Investments held for trading	9d	(239)	(369)	(184)	(369)
Trade and other receivables	10	7,039	858	7,072	20,828
Cash and cash equivalents		6,429	28,862	5,581	8,790
		13,611	29,488	12,469	29,249
total assets		228,433	178,770	219,183	178,531
current liabilities					
Bank loans and overdrafts	11	(4,975)	–	(4,975)	–
Trade and other payables	12	(2,336)	(1,313)	(1,612)	(1,313)
		(7,311)	(1,313)	(6,587)	(1,313)
total assets less current liabilities		221,122	177,457	212,596	177,218
non current liabilities					
Bank loans	13	–	(4,566)	–	(4,566)
CULS	14	(272)	(350)	(272)	(350)
		(272)	(4,916)	(272)	(4,916)
total liabilities		(7,583)	(6,229)	(6,859)	(6,229)
net assets		220,850	172,541	212,324	172,302

* Details of the restatement are shown in notes 1 and 23.

The financial statements have been prepared in accordance with the accounting policies on pages 38 to 43.

The notes on pages 38 to 72 form part of these financial statements.

consolidated and company balance sheets

	Notes	Group 2006 £000	Group 2005 (restated)* £000	Company 2006 £000	Company 2005 (restated)* £000
represented by:					
Share capital	15	**666**	647	**666**	647
Equity component of CULS		**48**	–	**48**	–
Share options reserve		**764**	396	**764**	396
Share premium account		**629**	629	**629**	629
Capital reserve – realised		**168,946**	141,956	**160,405**	141,532
Capital reserve – unrealised		**46,724**	34,550	**54,213**	34,621
Revenue reserve		**(5,132)**	(5,637)	**(4,401)**	(5,523)
equity attributable to equity holders of the parent		**212,645**	172,541	**212,324**	172,302
Minority interest	7	**8,205**	–	–	–
total equity		**220,850**	172,541	**212,324**	172,302
net asset value per ordinary share:					
Basic	8	**1,597p**	1,334p		
Diluted	8	**1,063p**	860p		

* Details of the restatement are shown in notes 1 and 23.

The financial statements have been prepared in accordance with the accounting policies on pages 38 to 43.

These financial statements were approved by the Board of Directors on 24 May 2006 and signed on its behalf by:

Enrique Foster Gittes, *Chairman*

The notes on pages 38 to 72 form part of these financial statements.

consolidated cash flow statement
for the year ended 31 January

group	Notes	2006 £'000	2005 (restated)* £'000
cash flows from operating activities			
Investment income received		2,391	1,859
Bank deposit interest received		428	511
Underwriting commission received		14	–
Other income		3	24
Sale of investments by Subsidiary undertaking		36	34
Investment manager's fees paid		(2,894)	(2,361)
Other cash payments		(713)	(916)
Cash expended from operations	17	(735)	(849)
Bank interest paid		(205)	(1,204)
CULS interest paid		(32)	(35)
Loan renewal expenses		(9)	–
net cash outflow from operating activities		(981)	(2,088)
cash flows from investing activities			
Purchases of investments		(182,869)	(71,210)
Sales of investments		162,596	102,557
Realised gain on forward currency contracts		764	–
net cash (outflow)/inflow from investing activities		(19,509)	31,347
cash flows from acquisition			
Cost of additional shares purchased in AOT		(1,945)	–
net cash outflow from acquisitions		(1,945)	–
cash flows from financing activities			
Repayment of fixed term borrowings		–	(14,321)
Repurchase of CULS for cancellation		(2,140)	–
net cash outflow from financing activities		(2,140)	(14,321)
(decrease)/increase in cash and cash equivalents for the year	18	(24,575)	14,938
cash and cash equivalents at the start of the year		28,862	13,776
Cash and equivalents acquired on acquisition		2,040	–
Revaluation of foreign currency balances		102	148
cash and cash equivalents at the end of the year	19	6,429	28,862

* These values have been adjusted for the adoption of IFRS from those presented in the statutory financial statements for the year ended 31 January 2005.

The notes on pages 38 to 72 form part of these financial statements.

company cash flow statement
for the year ended 31 January

company	Note	2006 £'000	2005 £'000
cash flows from operating activities			
Investment income received		2,321	1,859
Bank deposit interest received		337	511
Underwriting commission received		14	–
Other income		3	24
Investment manager's fees paid		(2,739)	(2,471)
Other cash payments		(590)	(1,196)
Cash expended from operations	17	(654)	(1,273)
Bank interest paid		(205)	(1,204)
CULS interest paid		(32)	(35)
Loan renewal expenses		(9)	–
net cash outflow from operating activities		(900)	(2,512)
cash flows from investing activities			
Purchases of investments		(167,921)	(71,210)
Sales of investments		147,571	102,675
net cash (outflow)/inflow from investing activities		(20,350)	31,465
cash flows from financing activities			
Repayment of fixed term borrowings		–	(14,321)
Repurchase of CULS for cancellation		(2,140)	–
Transfers to Subsidiary		(5,565)	(19,175)
Transfers from Subsidiary		25,697	10,536
net cash inflow/(outflow) from financing activities		17,992	(22,960)
(decrease)/increase in cash and cash equivalents for the year		(3,258)	5,993
cash and cash equivalents at the start of the year		8,790	2,649
Revaluation of foreign currency balances		49	148
cash and cash equivalents at the end of the year		5,581	8,790

The notes on pages 38 to 72 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 and registered in England and Wales under the Companies Acts 1948 to 1967. The consolidated Annual Report for the Group for the year ended 31 January 2006 comprises the results of the Company and its Subsidiaries – Consolidated Venture Finance Limited, American Opportunity Trust PLC and LOT Limited (together referred to as the "Group").

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 Reporting Interpretations 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. These are the Group's first audited results prepared in conformity with IFRS and IFRS 1: First Time Adoption has been applied. All accounting policies are consistent with the policies used in the previous UK Generally Accepted Accounting Principles ("GAAP") financial statements, with the exception of those referred to in the transition statements (note 23). 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.

Explanations of how the transition to IFRS has affected the reported financial position and financial performance of the Group are provided in note 23.

The Group has taken advantage of the exemption under IFRS 1 to only adopt IAS 39: 'Financial Instruments: Recognition and Measurement' ("IAS 39") and IAS 32: 'Financial Instruments: Disclosure and Presentation' ("IAS 32") from 1 February 2005, rather than the date of transition of 1 February 2004. Therefore the comparative financial statements have not been restated for these standards. Instead, the opening reserves at 1 February 2005 have been restated to take account of IAS 39 and IAS 32 (see pages 30 to 33).

The net effect is to reduce net assets at that date by £3,506,000. This is comprised as follows:

	£000
Use of bid prices for quoted* holdings rather than previous methods	
– in Parent Company	(3,555)
– in Subsidiary	(3)
Creation of CULS reserve to recognise the equity component of the Convertible Unsecured Loan Stock	52
reduction in net assets on implementation of IAS 39	(3,506)

* The valuations of unquoted investments have not been restated to fair value prior to the current reporting period therefore no adjustment has been made to the opening reserves as at 1 February 2005 in this respect.

notes to the financial statements

1 accounting policies continued

a basis of preparation/statement of compliance continued

Applying this reduction to the net assets at 31 January 2005 as currently shown in the balance sheet results in revised figures as follows:

Net assets	£169,035,000
Net asset value per Ordinary Share:	
Basic	1,307p
Diluted	843p

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 classified as fair value through profit or loss.

c basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its wholly owned Subsidiary undertaking, Consolidated Venture Finance Limited, drawn up to 31 January 2006. In addition, the consolidated income statement and consolidated cashflow statement include the financial results of American Opportunity Trust PLC ("AOT") and its wholly owned Subsidiary undertaking, LOT Limited since 16 September 2005, the date that the Company purchased an additional holding in AOT, taking its total holding to 60.49% on an undiluted basis and greater than 50% on a diluted basis. The consolidated balance sheet at 31 January 2006 includes the AOT balance sheet at that date.

As permitted by Section 230 of the Companies Act 1985, the Company has not presented its own income statement. The amount of the Company's profit for the financial year dealt with in the accounts of the Group is £45,271,000 (2005: £27,818,000).

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.

e investments

From 1 February 2004 to 31 January 2005

Investments are included in the balance sheet on the following basis:

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

With the exception of the investments in AOT and Oryx (see (ii) below), securities quoted on recognised stock exchanges are valued at the mid-market prices and exchange rates ruling at the balance sheet date. Where securities are hedged by unexpired traded call options written by the Group, the market value is reduced by the prevailing market value of such options at the year-end date. Unexpired traded put options are held in other creditors and accruals. Unexpired traded put and call options written by the Group are revalued to the prevailing market value at the year-end date.

1 accounting policies continued

(ii) listed at directors' valuation

The Directors value the Group's investments in AOT and Oryx, both being investment companies, based on its share of the fully diluted net assets of each at the year-end. This valuation method is not in accordance with the requirements of the 2003 Statement of Recommended Practice: Financial Statements of Investment Trust Companies ("SORP") but has been adopted as the Company is a significant shareholder in AOT and Oryx. In the Directors' opinion, such investments are more properly valued at fully diluted net asset value as to apply significant discounts is misleading.

(iii) unlisted at market value

US Treasury Bills are valued at market value having been adjusted for movements in exchange rates between the dates of purchase and the year-end. Accrued income arising from them is included in debtors.

(iv) unquoted at directors' estimate of fair value

Unquoted investments included at Directors' estimate of fair value are valued at original cost in local currency translated into Sterling at the exchange rate ruling on the balance sheet date unless, in the opinion of the Directors, a change is warranted. Revaluations above cost are normally only made when independently validated. This will be as a result of a material third party transaction in the securities of the company under consideration although, in certain circumstances, a valuation produced by an independent source may be adopted. Revaluations downwards will be made in circumstances where a material third party transaction in the securities of the company under consideration has taken place at a lower price or where underlying trading or market conditions are such that a significant diminution in value is judged to have occurred.

(v) current asset investments

Investments held as current assets are valued individually at the lower of cost and market value at the balance sheet date.

From 1 February 2005 to 31 January 2006

All investments held by the Group are designated as 'fair value through profit or loss'. Investments are initially recognised at cost, being the fair value of the consideration given.

After initial recognition, investments are measured at fair value, with unrealised gains and losses on investments recognised in the income statement and (apart from those on current asset investments) allocated to capital. Realised gains and losses on investments sold are calculated as the difference between sales proceeds and cost.

Investments are included in the balance sheet on the following basis:

(vi) quoted at market value on a recognised stock exchange

Securities quoted on recognised stock exchanges are valued at the market bid price and exchange rates ruling at the balance sheet date.

notes to the financial statements

1 accounting policies continued

As the Group acquired a majority shareholding in AOT during the year, the portfolio valuation of the Group includes the shareholdings owned directly by AOT rather than the shareholding in AOT owned by the Group.

Where securities are hedged by unexpired traded call options written by the Group, the market value is reduced by the prevailing market value of such options at the year-end date. Unexpired traded put options are held in current assets as investments held for trading. Unexpired traded put and call options written by the Group are revalued to the prevailing market value at the year-end date.

(vii) unlisted at market value

Treasury Bills are valued at market value having been adjusted for movements in exchange rates between the dates of purchase and the year-end. Accrued income arising from them is included in debtors.

(viii) unquoted at directors' estimate of fair value

Unquoted investments included at Directors' estimate of fair value are valued at what the Directors consider to be their fair value and follow the European Private Equity and Venture Capital Association ("EVCA") guidelines. This valuation incorporates all factors that market participants would consider in setting a price. Valuations in local currency are translated into Sterling at the exchange rate ruling on the balance sheet date.

(ix) 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.e(vi) and 1.e(viii) above for quoted and unlisted holdings respectively.

Profits or losses on investments 'held for trading' are taken to revenue.

f investments held as current assets

Investments held as current assets have been included in the accounts at fair value.

g options

Where option transactions are entered into, either for hedging or investment purposes, the premiums received are taken to the income statement and included as capital, and the gains or losses arising on their revaluations are recognised in the income statement and included as capital likewise.

Premiums received are transferred to the Capital reserve – realised, gains or losses on revaluation are taken to the Capital reserve – unrealised. Where an option transaction is in profit at the year-end, the premium received on any open option is spread over the life of that option.

1 accounting policies continued

h foreign currency

The currency of the primary economic environment in which the Group Companies operate (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 income statement 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 – realised or Capital reserve – unrealised as appropriate.

i 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.

j 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.

k 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 allocated to capital.

1 accounting policies continued

l share based payments

In accordance with IFRS 2: Share Based Payments, an expense is now recognised in the financial statements relating to the value of share options awarded under the 2002 Executive Share Option Scheme to the Chief Executive and employees of North Atlantic Value 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 is transferred to the Share options reserve.

m 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 statement of cash flows.

n 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 income statement over the period of the borrowings on an effective interest basis.

o convertible unsecured loan stock "CULS" 2013

Under IFRS, the CULS are deemed to comprise of an equity element and a debt element, rather than just being treated as debt under previous UK GAAP. The equity element is identified when the CULS were issued and reduces as the CULS are either converted or bought back. A CULS reserve has been created to recognise the equity component (see note 1(a)).

p taxation

Tax on the profit or loss for the year comprises current and deferred tax. Corporation tax is recognised in the income statement 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 effective rate 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.

notes to the financial statements

2 income

	2006 £'000	2005 £'000
income from investments		
UK dividend income	1,386	1,388
Unfranked investment income		
– dividends	93	135
– dividends reinvested	234	284
– interest	1,333	323
– interest reinvested	835	1,094
	3,881	3,224

	2006 £'000	2005 £'000
other income		
Interest receivable	434	511
Dealing losses of Subsidiary undertaking	(281)	(91)
Underwriting commission	14	–
Overdraft guarantee fee of investee company	–	20
Sundry income	4	7
	171	447
Total income	4,052	3,671

	2006 £'000	2005 £'000
total income comprises:		
Dividends	1,713	1,807
Interest	2,602	1,928
Other income	(263)	(64)
	4,052	3,671

income from investments

	2006 £'000	2005 £'000
Listed UK	1,386	1,388
Listed overseas	91	1
Unlisted	2,404	1,835
	3,881	3,224

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 16 and the Directors' Remuneration Report on page 23, 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 the sole Shareholder and a Director of GFS. GFS is entitled to receive part of the investment management and related fees payable to GFS and North Atlantic Value 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 pages 15 and 16 of the Group Report of the Directors, North Atlantic Value LLP is entitled to receive a fee (the "Annual Fee") in respect of each financial period equal to the difference between (a) 1% per annum plus VAT based on 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 21, no formal arrangements exist to avoid double charging on investments managed or advised by North Atlantic Value LLP.

(iii) The Performance Fee, calculated annually to 31 January is only payable if the investment portfolio outperforms the Sterling adjusted Standard & Poors' Composite Index and 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, North Atlantic Value LLP is also paid the following:

– an activity fee of £225 per transaction as reimbursement of custodian and related transaction costs incurred on the Company's behalf (see note 4).

– an investment management related fee of £100,000 per annum (see note 4).

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

	2006			2005		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Annual fee	**1,838**	**–**	**1,838**	1,639	–	1,639
Performance fee	**–**	**1,069**	**1,069**	–	858	858
Irrecoverable VAT thereon	**143**	**86**	**229**	138	72	210
	1,981	**1,155**	**3,136**	1,777	930	2,707

At 31 January 2006, £89,000 plus VAT was payable to the Joint Manager in respect of outstanding management fees (2005: £82,000 plus VAT) and £1,069,000 plus VAT was payable to GFS in respect of the outstanding performance fee (2005: £858,000 plus VAT).

The annual fee of £1,838,000 above includes £63,000 in relation to AOT from 16 September 2005 to 31 January 2006.

notes to the financial statements

4 other expenses

	2006 £'000	2005 £'000
Directors' remuneration (see pages 23 to 26)	**92**	84
Investment management related fee (see note 3)	**100**	100
Auditors' remuneration (see below)	**40**	29
Activity fees (see note 3)	**91**	36
Other expenses	**271**	401
	594	650

	2006 £'000	2005 £'000
Audit services – current year statutory audit	**28**	21
– prior year statutory audit	**1**	–
Tax compliance fees	**5**	7
Review of Interim Report	**6**	1
	40	29

The Directors do not consider that the provision of non-audit work to the Company affects the independence of the Auditor.

Also included in expenses (see page 29) is share based remuneration of £368,000 (2005: restated £222,000).

Further details are provided in note 1(l) on page 43.

5 interest payable and similar charges

	2006 £'000	2005 £'000
On bank loans and overdrafts	**210**	906
Interest on CULS	**32**	35
Amortisation of loan issue expenses	**3**	38
Loan amendment fee	**8**	–
	253	979

notes to the financial statements

6 taxation on ordinary activities

	2006 £'000	2005 £'000
Overseas taxation	13	20
	13	20

The current taxation charge for the year is different from the standard rate of corporation tax in the UK (30%). The differences are explained below.

	2006 Revenue and Total £'000	2005 Revenue and Total £'000
Revenue on ordinary activities before taxation	856	43
Theoretical tax at UK Corporation tax rate of 30% (2005: 30%)	257	13
Effects of:		
UK dividends which are not taxable	(463)	(416)
Increase in tax losses carried forward	550	553
Expenditure which is not tax deductible	7	105
Relief for irrecoverable overseas tax suffered	(4)	(6)
Profit on intra-group sale of assets	–	34
Overseas tax which is not recoverable	13	20
Relief for expenses charged to capital	(347)	(281)
Benefits of starting rate of tax	–	(2)
Actual current tax charge	13	20

Factors that may affect future tax charges:

The Group has tax losses of £14,628,000 (2005: £12,435,000) that are available to offset future taxable revenue. A deferred tax asset has not been recognised in respect of those losses which will be recoverable only to the extent that the Group has sufficient future taxable revenue.

Of the Group tax losses shown above, the parent Company has tax losses of £13,305,000 (2005: £11,735,000) that are available to offset future taxable revenue. A deferred tax asset has not been recognised in respect of those losses, which will be recoverable only to the extent that the Company has sufficient future taxable revenue.

The Company carries out its activities as an investment trust and the intention is to continue meeting the conditions required to obtain approval in the foreseeable future. Therefore, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

7 minority interest

As the Company has owned 60.49% of the issued share capital of American Opportunity Trust PLC ("AOT") since September 2005 (see notes 1 and 9), a minority interest exists which represents the 39.51% of the issued share capital of AOT not owned by the Company.

The movements in the minority interest during the year are as follows:

	2006 £'000
Arising on acquisition of 60.49% shareholding in AOT	7,896
Share of AOT's revenue return to 31 January 2006	(33)
Share of AOT's capital return to 31 January 2006	342
	8,205

8 return per share and net asset value

Consolidated return per Ordinary Share:

	Revenue			Capital			
	*Net return £'000	Ordinary Shares	Per Share (pence)	*Net return £'000	Ordinary Shares	Per Share (pence)	Total (pence)
2006							
Basic return per Share	876	13,161,125	6.66	44,674	13,161,125	339.44	346.10
Option conversion**	–	188,069		–	188,069		
CULS***	34	6,719,899		–	6,719,899		
	910	20,069,093	4.53	44,674	20,069,093	222.60	227.13

	Revenue			Capital			
	*Net return £'000	Ordinary Shares	Per Share (pence)	*Net return £'000	Ordinary Shares	Per Share (pence)	Total (pence)
2005 (restated)							
Basic return per Share	23	12,506,381	0.18	28,034	12,506,381	224.16	224.34
Option conversion**	–	37,346		–	37,346		
CULS***	37	7,425,672		–	7,425,672		
	60	19,969,399	0.30	28,034	19,969,399	140.38	140.68

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

*Net return on ordinary activities attributable to Ordinary Shareholders.
**Excess of the total number of potential Shares on option conversion over the number that could be issued at fair value as calculated in accordance with IAS 33: Earnings per Share.
***CULS assumed converted as average share price during the year was greater than the conversion price.

8 return per share and net asset value continued

Consolidated net asset value per Share:

The consolidated net asset values per Share calculated in accordance with the Articles of Association are as follows:

		Net asset value per Share 2006	2005
Ordinary Shares	– Basic	**1,597p**	1,334p
	– Diluted	**1,063p**	860p

The basic net asset value per Ordinary Share is based on net assets of £212,645,000 (2005: £172,541,000) and on 13,313,427 Ordinary Shares (2005: 12,932,672) being the number of Ordinary Shares in issue at the year-end.

The diluted net asset value per Ordinary Share is calculated on the assumption that the outstanding 2013 CULS are fully converted at par and that all 1,030,000 (2005: 692,500) Share Options were exercised at the prevailing exercise prices, giving a total of 20,737,052 issued Ordinary Shares (2005: 20,624,552).

9 investments

	Group 2006 £'000	Group 2005 £'000	**Company 2006 £'000**	Company 2005 £'000
Listed at fair value:				
United Kingdom	**60,008**	–	**71,939**	–
Overseas	**53,585**	–	**35,784**	–
Listed at market value:				
United Kingdom	–	58,457	–	58,457
Overseas	–	15,352	–	15,352
Listed at Directors' valuation	–	16,618	–	16,618
Total listed investments	**113,593**	90,427	**107,723**	90,427
Unlisted at fair value	**101,229**	–	**98,991**	–
Unlisted at market value	–	4,754	–	4,754
Unlisted at Directors' valuation	–	54,101	–	54,101
Total investments at fair value	**214,822**	149,282	**206,714**	149,282

notes to the financial statements

9 investments continued

group	Listed equities £'000	AIM Quoted £'000	Unlisted equities £'000	Loan stocks £'000	Treasury Bills £'000	Total £'000
analysis of investment portfolio movements						
Opening bookcost as at 1 February 2005	42,613	25,776	33,117	9,385	4,715	115,606
Adjustment to opening bookcost arising on acquisition of Subsidiary (AOT)	(3,126)	–	–	–	–	(3,126)
Opening unrealised appreciation/(depreciation)	23,747	(2,454)	13,170	(826)	39	33,676
Adjustment to opening appreciation/(depreciation) (see note 1(a))	(2,899)	(648)	(8)	–	–	(3,555)
Adjustment to opening appreciation arising on acquisition of Subsidiary (AOT)	(4,562)	–	–	–	–	(4,562)
opening valuation as at 1 February 2005	55,773	22,674	46,279	8,559	4,754	138,039
Acquisition of Subsidiary (AOT)						
Fair value of assets at date of acquisition	15,613	300	–	–	–	15,913
Opening unrealised appreciation	806	39	–	–	–	845
	16,419	339	–	–	–	16,758
Movements in year:						
Transfers	(2,359)	2,359	–	–	–	–
Purchases at cost	28,473	11,293	21,333	10,200	114,006	185,305
Sales – proceeds	(29,032)	(21,376)	(24,645)	(3,230)	(90,623)	(168,906)
– realised gains/(losses) on sales	7,320	(706)	15,217	(432)	930	22,329
Increase/(decrease) in unrealised appreciation/(depreciation)	17,244	5,172	(68)	(831)	(220)	21,297
closing valuation as at 31 January 2006	93,838	19,755	58,116	14,266	28,847	214,822
Closing bookcost as at 31 January 2006	59,502	17,646	45,022	15,923	29,028	167,121
Closing unrealised appreciation/(depreciation)	34,336	2,109	13,094	(1,657)	(181)	47,701
	93,838	19,755	58,116	14,266	28,847	214,822

notes to the financial statements

9 investments continued

company	Listed equities £'000	AIM Quoted £'000	Unlisted equities £'000	Loan stocks £'000	Treasury Bills £'000	Total £'000
analysis of investment portfolio movements						
Opening bookcost as at 1 February 2005	42,613	25,776	33,160	9,385	4,715	115,649
Opening unrealised appreciation/(depreciation)	23,747	(2,454)	13,127	(826)	39	33,633
Adjustment to opening appreciation/(depreciation) (see note 1(a))	(2,899)	(648)	(8)	–	–	(3,555)
opening valuation as at 1 February 2005	63,461	22,674	46,279	8,559	4,754	145,727
Movement in year:						
Transfers	(2,359)	2,359	–	–	–	–
Purchases at cost	21,636	11,162	21,333	10,200	105,612	169,943
Sales – proceeds	(20,440)	(21,376)	(24,645)	(3,230)	(84,436)	(154,127)
– realised gains/(losses) on sales	6,878	(706)	15,217	(432)	912	21,869
Increase/(decrease) in unrealised appreciation/(depreciation)	19,142	5,292	(68)	(831)	(233)	23,302
closing valuation as at 31 January 2006	**88,318**	**19,405**	**58,116**	**14,266**	**26,609**	**206,714**
Closing bookcost as at 31 January 2006	**48,328**	**17,215**	**45,065**	**15,923**	**26,803**	**153,334**
Closing unrealised appreciation/(depreciation)	**39,990**	**2,190**	**13,051**	**(1,657)**	**(194)**	**53,380**
	88,318	**19,405**	**58,116**	**14,266**	**26,609**	**206,714**

9 investments continued

	2006 £'000	2005 £'000
analysis of capital gains and losses		
Realised gains on sales	**22,329**	21,357
Add back loss on sale to Subsidiary (included above)	**1,493**	114
Appreciation dealt with last year	**(7,618)**	(11,510)
	16,204	9,961
Additional unrealised appreciation	**30,038**	18,338
	46,242	28,299
Net premiums on sale of options	**227**	373
Movement in valuation of unexpired put options	**212**	(369)
Movement in valuation of escrow	**(88)**	–
gains on investments	**46,593**	28,303
Realised exchange gains on capital items	**2**	2,659
Unrealised exchange losses on capital items and currency	**(424)**	(1,998)
exchange differences	**(422)**	661

	2006 £'000	2005 £'000
portfolio analysis		
Equity shares	**160,001**	130,549
Convertible preference securities	**11,708**	5,420
Fixed interest securities	**14,266**	8,559
Treasury bills	**28,847**	4,754
	214,822	149,282

9 investments continued

b. Subsidiary undertaking

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
American Opportunity Trust PLC	Investment trust	60.49	England and Wales
LOT Limited	Security trading	100.00	England and Wales

The Subsidiaries were active during the year.

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

c. Significant holdings

On 16 September 2005, the Company purchased a further holding of shares in American Opportunity Trust PLC ("AOT") to take its total holding to over 50% (allowing for the exercise of outstanding management options). Accordingly, the investment in AOT has been treated as a Subsidiary undertaking since that date. The fair value of the net assets acquired, consideration and goodwill arising at that date are as follows:

	Fair value £'000	Consideration £'000	Goodwill £'000
Investments at fair value through profit or loss	10,137	10,137	–
Investments held for trading	(29)	(29)	–
Trade and other receivables	1,023	1,023	–
Cash and cash equivalents	1,233	1,233	–
Trade and other payables	(277)	(277)	–
	12,087	12,087	–

9 investments continued

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 2006 %	31 January 2005 %
United Industries PLC	– Ordinary Shares	**46.8**	49.4
Oryx International Growth Fund Limited (incorporated in Guernsey)	– Ordinary Shares	**38.0**	32.2
Nationwide Accident Repair Services PLC	– Ordinary Shares	**25.7**	21.9
Mid-States PLC	– Ordinary Shares	**22.7**	22.9
Santa Maria Foods Inc. (Canada)	– Common Stock	**27.3**	37.0
Worldport Communications Inc. (USA)	– Common Stock	**45.9**	46.0
DM Technical Services Limited	– Ordinary Shares	**22.9**	–

d. Investments held for trading

	Group 2006 £'000	Group 2005 £'000	**Company 2006 £'000**	Company 2005 £'000
Valuation of unexpired put options	**(239)**	(369)	**(184)**	(369)
	(239)	(369)	**(184)**	(369)

e. Investments deposited as collateral

Where US Treasury Bills or investments are required in accordance with United States SEC regulations to be deposited with brokers as cover for option transactions, these may be held to the order of these brokers until the relevant option positions are closed. At 31 January 2006, US Treasury Bills with a market value of £3,783,000 were deposited with brokers (2005: £1,451,000).

f. Transaction costs

During the year, the Group incurred transaction costs of £210,000 (2005: £142,000) and £47,000 (2005: £76,000) on purchases and sales of investments respectively. These amounts are included in gains on investments as disclosed in the income statement.

10 trade and other receivables

	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Amounts due from brokers	3,552	1	3,269	–
Amounts owed by Subsidiary undertakings	–	–	365	20,009
Accrued income	856	437	840	437
Other debtors	2,631	407	2,598	369
Prepayments	–	13	–	13
	7,039	858	7,072	20,828

11 bank loans and overdrafts: due in less than one year

	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
US $6 million term bank loan 31/03/06	3,376	–	3,376	–
Canadian $3.25 million term bank loan 31/03/06	1,599	–	1,599	–
	4,975	–	4,975	–

On 31 March 2006, the US $6 million loan was repaid in full. The repayment date of the Canadian $3.25 million loan has been extended to 31 July 2006.

12 trade and other payables

	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Amounts due to brokers	616	–	–	–
Unrealised profit on unexpired put options (see note 1(g))	–	16	–	16
Other creditors and accruals	1,720	1,297	1,612	1,297
	2,336	1,313	1,612	1,313

13 bank loans: falling due after more than one year

	Group 2006 £'000	Group 2005 £'000	**Company 2006 £'000**	Company 2005 £'000
US $6 million term bank loan 31/03/06	–	3,177	–	3,177
Canadian $3.25 million term loan 31/03/06	–	1,389	–	1,389
	–	4,566	–	4,566

At 31 January 2006, these loans were repayable within one year (see note 11).

14 debenture loan – convertible unsecured loan stock "CULS" 2013

	2006 No units	**2006 £'000**	2005 No units	2005 £'000
group and company				
Balance at beginning of year	**6,999,380**	**350**	7,677,739	384
Restatement for IFRS (see below)	–	**(52)**	–	–
As restated	**6,999,380**	**298**	7,677,739	384
Converted during the year	**(380,755)**	**(16)**	(678,359)	(34)
Bought back in year	**(225,000)**	**(10)**	–	–
Balance at end of year	**6,393,625**	**272**	6,999,380	350

Following the introduction of IFRS, the CULS are deemed to include an equity component as well as debt. As explained in note 1(o), an adjustment is made to the book value of these CULS accordingly, and this is transferred to a CULS reserve.

The CULS were issued in units of 5p. The CULS units are redeemable at par on 31 May 2013, unless previously redeemed, purchased by the Company or converted at the option of the holder.

During the year ended 31 January 2006, 380,755 (2005: 678,359) CULS units were converted into Ordinary Shares of 5p each at the rate of one 5p Ordinary Share for every unit of 5p.

Also during the year ended 31 January 2006, 225,000 (2005: nil) CULS units were purchased for cancellation at an average rate of 951p per unit.

The remaining CULS units are convertible into Ordinary Shares of 5p each at the rate of one 5p Ordinary Share for every unit of 5p one month after despatch of the audited accounts in each of the years 2006 to 2013 inclusive. Interest at the rate of 0.5p gross per 5p unit per annum is payable on 31 January each year.

notes to the financial statements

15 called-up share capital

	2006 Number	2006 £'000	2005 Number	2005 £'000
– authorised:				
As at 31 January:				
Ordinary Shares of 5p	**27,000,000**	**1,350**	27,000,000	1,350
– issued and fully paid:				
Ordinary Shares of 5p:				
As at 1 February	**12,932,672**	**647**	12,254,313	613
Conversion of CULS	**380,755**	**19**	678,359	34
As at 31 January	**13,313,427**	**666**	12,932,672	647

During the year, 380,755 (2005: 678,359) CULS units were converted into Ordinary Shares of 5p as detailed in note 14.

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

(i) 1994 Executive Share Option Scheme: 100,000 Ordinary Shares at 677.57p per share exercisable at any time between 30 October 2003 and 30 October 2010 and

(ii) 2002 Executive Share Option Scheme: (a) 355,000 Ordinary Shares at 645.54p per share exercisable at any time between 6 December 2005 and 6 December 2012; (b) 237,500 options were granted at 663.80p exercisable at any time between 25 September 2006 and 25 September 2013; (c) 337,500 Ordinary Shares at 875.60p per share exercisable at any time between 9 June 2008 and 9 June 2015.

The exercise of options under the 2002 Executive Share Option Scheme is subject to certain performance criteria as detailed in the Director's Remuneration Committee Report on page 25. At the date of this report, the criteria for the 355,000 options exercisable at 645.54p per share had been met.

These options totalling 1,030,000, (2005: 692,500) include those granted to the Chief Executive, details of which are given on page 25 in the Directors' Remuneration Report. The balance of the options have been granted to investment management employees of the Joint Manager.

notes to the financial statements

16 reconciliation of movements in equity shareholders' funds

	2006 £'000	2005* £'000
group		
revenue reserve		
Net revenue for the year (after minority interest)	876	23
Movements in capital reserves (after minority interest)	44,674	28,034
Share options reserve arising from share based remuneration charge	368	222
Reduction in net assets on implementation of IAS 39	(3,506)	–
Arising on acquisition of majority interest in AOT	(194)	–
Conversion of CULS	16	34
Premium paid on repurchase of CULS	(2,130)	–
net increase in shareholders' funds	40,104	28,313
Opening Shareholders' funds	172,541	144,228
Closing Shareholders' funds	212,645	172,541

* Restated

17 reconciliation of net revenue from ordinary activities before finance costs, taxation and minority interest to net cash outflow from operating activities

	Group 2006 £'000	Group 2005* £'000	Company 2006 £'000	Company 2005* £'000
Net revenue from ordinary activities before finance costs, taxation and minority interest	1,076	1,022	1,379	897
Expense paid on behalf of Subsidiary	–	–	–	(38)
Expenses charged to capital	(1,155)	(930)	(1,155)	(930)
Share based remuneration	368	222	368	222
Reverse provision for Subsidiary	–	–	–	(175)
Minority interest	33	–	–	–
Dividends and interest reinvested	(1,069)	(1,339)	(1,069)	(1,339)
Increase in debtors and accrued income	(478)	(309)	(492)	(270)
Changes relating to investments of dealing Subsidiary	280	125	–	–
Increase in creditors and accruals	223	380	319	380
Tax on investment income	(13)	(20)	(4)	(20)
Net cash outflow from operating activities	(735)	(849)	(654)	(1,273)

* Restated

notes to the financial statements

18 reconciliation of net cash flow to movement in net debt

	2006 £'000	2005 £'000
(Decrease)/increase in cash and cash equivalents for the year	**(24,575)**	14,938
Restatement of opening reserves (see note 1(a))	**52**	–
Repayment of bank loan	**–**	14,321
Conversion of CULS	**16**	34
Acquired on acquisition of AOT	**2,040**	–
Repurchase of CULS	**10**	–
Amortisation of loan issue expenses	**–**	(38)
Revaluation of currency balances	**(307)**	547
Movement in net debt	**(22,764)**	29,802

19 analysis of net cash

	At 1 February 2005 £'000	Restatement of opening reserves £'000	Cash flow £'000	Acquired on acquisition of subsidiary £'000	Non cash flow movements £'000	Exchange movement £'000	At 31 January 2006 £'000
Cash at bank	28,862	–	(24,575)	2,040	–	102	**6,429**
Due within one year	–	–	–	–	(4,566)	(409)	**(4,975)**
Due after one year	(4,916)	52	10	–	4,582	–	**(272)**
	(4,916)	52	10	–	16	(409)	**(5,247)**
Net cash	23,946	52	(24,565)	2,040	16	(307)	**1,182**

20 financial instruments and risk profile

The investment objective of the Group is to provide investors with capital appreciation through investment in a portfolio of smaller companies principally based in countries bordering the North Atlantic Ocean. The Group's financial instruments comprise quoted and unquoted investments. In addition, the Group holds cash and liquid resources and various items such as debtors and creditors that arise directly from its operations.

The Group may also invest by writing put options on shares of companies that are of fundamental interest as an investment and would otherwise be considered for acquisition. The Group thereby gains exposure to these companies, whilst at the same time following the rationale that writing options can be an efficient and cheaper way of buying the stock. The Group may also occasionally enter into derivative and swap contracts including short sales in order to manage the risks arising from its investment activities. On occasions, the Group may also write call options on shares of companies that are already owned.

The Company, as stated in the Group Report of the Directors on page 14, conducts its affairs so as to enable it to qualify as an investment trust. As part of the rules governing this status, no investment at the time of purchase can represent more than 15% by value of the Group's portfolio of investments.

The two main risks arising from the Group's financial instruments are market price risk and foreign currency risk. The Directors review and agree policies with the Joint Manager, North Atlantic Value LLP, for managing these risks. The policies have remained substantially unchanged since 31 January 2005.

There is no detailed disclosure of credit risk as this is not considered material in the context of the Group's overall activities.

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.

market price risk

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. As at the year-end, the spread of the Group's investment portfolio analysed by sector was as set out on page 5.

foreign currency risk

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. At 31 January 2006, the Group had no open forward currency contracts (2005: none).

liquidity risk

The Group invests in equities and other investments that are readily realisable. The Group had a multi-currency loan facility of £9 million and and overdraft facility of US$12 million as at 31 January 2006.

20 financial instruments and risk profile continued

interest rate risk

As at 31 January 2006, the carrying amount, by the earlier of contractual re-pricing or maturity date, of the Group's financial instruments was as follows:

	In 1 year or less £'000	In more than 1 year but less than 2 years £'000	In more than 2 years but less than 3 years £'000	In more than 4 years £'000	Total £'000
fair value interest rate risk					
Financial assets at fair value through profit or loss					
– Non current investments	12,240*	–	10,940	2,770	25,950**
Financial liabilities					
– Multi-currency loan facility	(4,975)	–	–	–	(4,975)
– CULS	–	–	–	(272)	(272)
cashflow interest rate risk					
Financial assets at fair value through profit or loss					
– Non current investments at fair value through profit and loss	28,847	–	–	–	28,847
Loans and receivables					
– Cash at bank	6,429	–	–	–	6,429
no interest rate risk					
Financial assets at fair value through profit or loss					
– Non current investments at fair value through profit or loss	160,037	–	–	–	160,037
Financial assets at fair value through profit or loss and held for trading					
– Current asset investments	382	–	–	–	382
– Put options on investments	(239)	–	–	–	(239)
– Call options on investments	(12)	–	–	–	(12)
Loans and receivables					
– Trade and other receivables	7,039	–	–	–	7,039
Other financial liabilities					
– Trade and other payables	(2,336)	–	–	–	(2,336)
	207,412	–	10,940	2,498	220,850

* This amount includes £11,000,000 relating to stocks with no fixed maturity date.

** The weighted average interest rate for loan stocks is 13.5% and preference shares is 9.2%.

20 financial instruments and risk profile continued

Further information on the financial liabilities is given in note 11 (multi-currency loan facility and bank overdraft) and note 14 (CULS).

Cash balances are held on call deposit and earn interest at the bank's daily rate.

As at 31 January 2005, the carrying amount, by the earlier of contractual re-pricing or maturity date, of the Group's financial instruments was as follows:

	In 1 year or less £'000	In more than 1 year but less than 2 years £'000	In more than 2 years but less than 3 years £'000	In more than 4 years £'000	Total £'000
fair value interest rate risk					
Financial assets at fair value through profit or loss					
– Non current investments	7,646*	–	–	6,335	13,981**
Financial liabilities					
– Multi-currency loan facility	(4,566)	–	–	–	(4,566)
– CULS	–	–	–	(350)	(350)
cashflow interest rate risk					
Financial assets at fair value through profit or loss					
– Non current investments at fair value through profit and loss	4,754	–	–	–	4,754
Loans and receivables					
– Cash at bank	28,862	–	–	–	28,862
no interest rate risk					
Financial assets at fair value through profit or loss					
– Non current investments at fair value through profit or loss	130,547	–	–	–	130,547
Financial assets at fair value through profit or loss and held for trading					
– Current asset investments	137	–	–	–	137
– Put options on investments	(369)	–	–	–	(369)
Loans and receivables					
– Trade and other receivables	858	–	–	–	858
Other financial liabilities					
– Trade and other payables	(1,313)	–	–	–	(1,313)
	166,556	–	–	5,985	172,541

* This amount includes £5,000,000 relating to stocks with no fixed maturity date.

** The weighted average interest rate for loan stocks is 10.3% and preference shares is 2.6%.

20 financial instruments and risk profile continued

financial assets

The Group's financial assets comprise equity investments, fixed interest securities, derivatives, trade receivables and cash balances.

At 31 January 2006, the currency cashflow profile of those financial assets was:

	Sterling £'000	US Dollar £'000	Euro £'000	Canadian Dollar £'000	Total £'000
Non current investments at fair value through profit or loss	106,938	95,453	23	12,420	214,834
Investments held for trading in Subsidiary Company	357	25	–	–	382
Trade and other receivables	6,287	152	–	600	7,039
Cash at bank	5,051	1,247	–	131	6,429
Put options on investments	–	(239)	–	–	(239)
Call options on investments	–	(12)	–	–	(12)
	118,633	96,626	23	13,151	228,433

At 31 January 2005, the currency cashflow profile of those financial assets was:

	Sterling £'000	US Dollar £'000	Euro £'000	Canadian Dollar £'000	Total £'000
Non current investments at fair value through profit or loss	88,168	53,645	–	7,469	149,282
Investments held for trading in Subsidiary Company	108	29	–	–	137
Trade and other receivables	490	110	–	258	858
Cash at bank	28,297	138	–	427	28,862
Put options on investments	–	(369)	–	–	(369)
	117,063	53,553	–	8,154	178,770

20 financial instruments and risk profile continued

financial liabilities

The Group finances its investment activities through the Group's ordinary share capital, reserves and borrowing. The Group's financial liabilities comprise its multi-currency loan facility, bank overdraft, CULS and trade payables.

At 31 January 2006, the currency cashflow profile of those financial liabilities was:

	Sterling £'000	US Dollar £'000	Canadian Dollar £'000	Total £'000
Multi-currency loan facility	–	3,376	1,599	4,975
CULS	272	–	–	272
Trade and other payables	1,701	15	620	2,336
	1,973	3,391	2,219	7,583

At 31 January 2005, the currency cashflow profile of those financial liabilities was:

	Sterling £'000	US Dollar £'000	Canadian Dollar £'000	Total £'000
Multi-currency loan facility	–	3,177	1,389	4,566
CULS	350	–	–	350
Trade and other payables	1,283	16	14	1,313
	1,633	3,193	1,403	6,229

20 financial instruments and risk profile continued

fair value of financial assets and financial liabilities

The fair value for each class of financial assets, compared with the corresponding amount in the balance sheet were 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 2006		31 January 2005	
	Fair value £'000	**Balance sheet value £'000**	Fair value £'000	Balance sheet value £'000
financial assets				
Financial assets at fair value through profit or loss				
– Non current assets	**214,822**	**214,822**	149,282	149,282
Financial assets at fair value through profit or loss and held for trading				
– Current asset investments	**382**	**382**	137	137
– Held for trading	**(239)**	**(239)**	(369)	(369)
Loans and receivables				
– Cash at bank	**6,429**	**6,429**	28,862	28,862
	221,394	**221,394**	177,912	177,912

	31 January 2006		31 January 2005	
	Fair value £'000	**Balance sheet value £'000**	Fair value £'000	Balance sheet value £'000
financial liabilities				
Other financial liabilities				
– Multi-currency loan	**4,975**	**4,975**	4,566	4,566
– CULS	**64,751**	**272**	55,628	350
	69,726	**5,247**	60,194	4,916

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 38 to 43.

– Cash at bank, bank overdraft and multi-currency loan – at face value of the account.

– The Company's CULS – at the offer price at which they are quoted on the London Stock Exchange.

20 financial instruments and risk profile continued

loans and borrowings

	Effective interest rate	Maturity	31 January 2006 £'000	31 January 2005 £'000
group and company				
current				
Bank overdraft	6.50%	On demand	–	–
Term loan – US $6 million	4.36%	31 March 2006	3,376	–
Term loan – Canadian $3.25 million	3.86%	31 March 2006	1,599	–
non current				
Term loan – US $6 million	4.36%	31 March 2006	–	3,177
Term loan – Canadian $3.25 million	3.86%	31 March 2006	–	1,389
CULS	5.00%	31 May 2013	272	350
			5,247	4,916

bank overdraft

The Company has a facility of up to US$12 million with the Bank of New York, which is repayable on demand. At the year-end, the bank overdraft was £nil (2005: £nil).

Interest is payable on a monthly basis.

culs

The Convertible Loan Stock 2013 ("CULS") were issued in units of 5p each. The units are redeemable at par on 31 May 2013, unless previously redeemed, purchased by the Company, or converted at the option of the holder.

During the year ended 31 January 2006, 380,755 (2005: 678,359) units of CULS were converted into Ordinary Shares of 5p each at the rate of one 5p Ordinary Share for every unit of 5p CULS. Also during the year ended 31 January 2006, the Company purchased 225,000 units of CULS for cancellation at a total cost of £2,140,000 (2005: no units purchased).

The CULS units are convertible into Ordinary Shares of 5p each at a rate of one Ordinary Share for every 5p unit, one month after despatch of the audited accounts in each of the years 2006 to 2013 inclusive.

Interest is payable to holders of the CULS at a rate of 5p gross per 5p unit per annum on 31 January each year.

The amount included above is the fair value of the financial liability element of the CULS as of its date of issue, as adjusted for the effective rate of interest, less interest paid to the unit holders, and less the amount of CULS that has been purchased for cancellation or converted into Ordinary Shares.

20 financial instruments and risk profile continued

term bank loans

As at 31 January 2006, the Company has a multi-currency loan Revolving Credit Facility of up to £9 million. All loan drawdowns were repayable in full on maturity, unless rolled over for a further agreed period.

Interest is payable on the loans on a quarterly basis and the rate is fixed for the duration of the drawdown.

Both the interest due and the principal are payable in the relevant currency of the drawdown.

21 related party transactions

The Joint Manager, North Atlantic Value LLP, 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 the Joint Manager receives fees or other incentives for its services. The amounts payable to the Joint Manager 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.

The relevant companies and the annual fees receivable as derived from the last audited accounts are:

	Services	Fees
American Opportunity Trust PLC	Administration and Investment Management	£329,000
Oryx International Growth Fund Limited	Investment Advisory	£371,000
Trident Private Equity LP	Investment Advisory	£210,000
Worldport Inc.	Investment Management	£nil
Tndent Private Equity II LP	Investment Advisory	£1,210,000

J O Hambro Capital Management Limited (the Corporate Company Secretary) is a Designated Member of North Atlantic Value LLP and receives fees from the following entities in which the Company has an investment:

	Services	Fees
Second London American Trust PLC	Administration	£100,000
Wichford PLC	Joint Management and Administration	£752,000

J O Hambro Capital Management Limited has a 50% interest in Wichford Property Management Limited which provides property management services to Wichford PLC in which the Company invests. Wichford Property Management Limited receives an annual management fee of 0.6% of assets under management for the services it provides to Wichford PLC.

Christopher Mills is Chief Investment Officer and a member of North Atlantic Value LLP. He holds 38.73% of the issued share capital of J O Hambro Capital Management Group Limited (one of the two Designated Members of North Atlantic Value LLP) and the holding company of the Corporate Company Secretary.

21 related party transactions continued

disclosure of interests

Christopher Mills, the Chief Executive and Investment Manager is also Chief Executive of American Opportunity Trust PLC ("AOT") and a Director of Oryx International Growth Fund Limited ("ORYX").

North Atlantic Value LLP is investment manager to AOT and ORYX and investment adviser to Trident Private Equity LP and Trident Private Equity II LP and receives fees from them.

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: American Opportunity Trust PLC, GEI Group Limited, Izodia PLC, Jarvis Porter Group PLC, Mid-States PLC, Nationwide Accident Repair Services PLC, Paramount Limited, DM Technical Services Limited, Second London American Trust PLC, VTR PLC, LESCO, Inc, AllianceOne, Inc, Santa Maria Foods, Inc, Trident North Atlantic Fund, Oryx International Growth Fund Limited, Primesco, Inc, W-H Energy Services, Inc, Mister Car Wash, Inc, Worldport, Inc, Glass America, Inc, Sterling Construction, Inc, Progeny, Inc, and Jaffer Holding Inc. Employees of the Joint Manager may hold options over shares in investee companies.

Siem Industries Inc. chaired by Kristian Siem, is ultimately interested in 156,098 ordinary shares in the issued share capital of Wichford PLC (0.4%).

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 Manager. Members and private clients of the Joint Manager (excluding Christopher Mills and the Chairman) hold 63,550 shares in the Company (2005: 116,550).

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

Enrique Foster Gittes is a director of LESCO, Inc. in which the Company has an interest.

DM Technical Services Limited is a company incorporated to acquire the issued share capital of Dowding & Mills PLC not already owned by the Company. The Company owns 22.9% of its issued share capital.

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

Oliver Grace is a director of Second London American Trust PLC and Oliver Grace and his associates hold 21,238,447 shares in Second London American Trust PLC.

22 commitments and contingent liabilities

(i) At the year-end, there was one unexpired call option relating to fixed asset investments (2005: none) giving the holder, at any time prior to expiry, the right to purchase investments from the Group. As set out in note 1(g), the market value of those investments, subject to such call options, has been reduced by the market values of those options, totalling £12,000 (2005: £nil). As stated in note 1(g), the premiums received for writing such options have been recognised in the Capital reserve. This option expires within one year.

(ii) At the year-end, there were four unexpired put options (2005: two), giving the holders at any time prior to expiry, the right to require the Group to purchase investments at the stated exercise price. As set out in note 1(g), the premiums received for writing such options and the movements in valuation of put options unexpired at the balance sheet date are recognised in the capital reserve. At 31 January 2006, changes in the put option valuations showed a net gain of £212,000 (2005: £369,000 loss). The maximum potential liability to which the Company was exposed at the balance sheet date, in respect of put options, totalled £3,663,000 (2005: £4,507,000).

23 transition statements

These financial statements for the year ended 31 January 2006 are the first prepared under IFRS. Notes 23a to 23c below show the effects of IFRS on the results previously reported and these IFRS figures have been used as comparatives for the current year.

23a reconciliation of consolidated income

for the year ended 31 January 2005 (the last period presented under previous GAAP)

	Notes	Previous GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
investments				
Gains on investments		28,303	–	28,303
Exchange differences		661	–	661
net investment results		28,964	–	28,964
income		3,671	–	3,671
expenses				
Investment manager's fee		(2,707)	–	(2,707)
Interest payable and similar charges		(979)	–	(979)
Share based remuneration	1	–	(222)	(222)
Other expenses		(650)	–	(650)
total expenses		(4,336)	(222)	(4,558)
profit before taxation		28,299	(222)	28,077
taxation		(20)	–	(20)
profit after taxation		28,279	(222)	28,057
return per ordinary share:				
Basic		226.12p	(1.78)p	224.34p
Diluted		141.79p	(1.11)p	140.68p

Note to the reconciliation of consolidated income at 31 January 2005:

1. In accordance with IFRS 2, the fair value of share options awarded under the Company's 2002 Executive Share Option Scheme is spread over the vesting period of the options and a Share options reserve has been created accordingly.

23b reconciliation of consolidated equity

as at 1 February 2004 (date of transition)

	Notes	Previous GAAP £'000	Effect of transition to IFRS £'000	IFRS at 1 February 2004 £'000
non current assets				
Investments at valuation		151,189	–	151,189
current assets				
Investments held in Subsidiary Company		48	–	48
Trade and other receivables		549	–	549
Cash and cash equivalents		13,776	–	13,776
		14,373	–	14,373
total assets		165,562	–	165,562
current liabilities				
Bank loans and overdrafts		(19,248)	–	(19,248)
Trade and other payables		(1,702)	–	(1,702)
		(20,950)	–	(20,950)
total assets less current liabilities		144,612	–	144,612
non current liabilities				
CULS		(384)	–	(384)
		(384)	–	(384)
total liabilities		(21,334)	–	(21,334)
net assets		144,228	–	144,228
represented by:				
Share capital		613	–	613
Share options reserve	1	–	174	174
Share premium account		629	–	629
Capital reserve – realised		118,383	–	118,383
Capital reserve – unrealised		30,089	–	30,089
Revenue reserve	1	(5,486)	(174)	(5,660)
issued capital and reserves		144,228	–	144,228
net asset value per ordinary share:				
Basic		1,177p	–p	1,177p
Diluted		723p	–p	723p

Note to the reconciliation of consolidated equity at 1 February 2004:

1. In accordance with IFRS 2, the fair value of share options awarded under the Company's 2002 Executive Share Option Scheme is spread over the vesting period of the options and a Share options reserve has been created accordingly.

notes to the financial statements

23c reconciliation of consolidated equity

as at 31 January 2005 (end of last period presented under previous GAAP)

	Notes	Previous GAAP £'000	Effect of transition to IFRS £'000	IFRS at 31 January 2005 £'000
non current assets				
Investments at valuation		149,282	–	149,282
current assets				
Investments held in Subsidiary Company		137	–	137
Investments held for trading		(369)	–	(369)
Trade and other receivables		858	–	858
Cash and cash equivalents		28,862	–	28,862
		29,488	–	29,488
total assets		178,770	–	178,770
current liabilities				
Trade and other payables		(1,313)	–	(1,313)
		(1,313)	–	(1,313)
total assets less current liabilities		177,457	–	177,457
non current liabilities				
Bank loans		(4,566)	–	(4,566)
CULS		(350)	–	(350)
		(4,916)	–	(4,916)
total liabilities		(6,229)	–	(6,229)
net assets		172,541	–	172,541
represented by:				
Share capital		647	–	647
Share options reserve	1	–	396	396
Share premium account		629	–	629
Capital reserve – realised		141,956	–	141,956
Capital reserve – unrealised		34,550	–	34,550
Revenue reserve	1	(5,241)	(396)	(5,637)
issued capital and reserves		172,541	–	172,541
net asset value per ordinary share:				
Basic		1,334p	–p	1,334p
Diluted		860p	–p	860p

Note to the reconciliation of consolidated equity at 31 January 2005:

1. In accordance with IFRS 2, the fair value of share options awarded under the Company's 2002 Executive Share Option Scheme is spread over the vesting period of the options and a Share options reserve has been created accordingly.

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 7 July 2006, at 12 noon in the Board Room, Ground Floor, Ryder Court, 14 Ryder Street, London SW1Y 6QB 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 2006.
2. To approve the Directors' Remuneration Report.
3. To re-elect Mr O R Grace as a Director of the Company.
4. To re-elect Mr C H B Mills as a Director of the Company.
5. To re-elect Mr C L A Irby as a Director of the Company.
6. To re-appoint RSM Robson Rhodes LLP as Auditors and authorise the Directors to determine their remuneration.

special business:

To consider the following resolutions of which resolution 8 will be proposed as a special resolution:

7. 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 (as defined in Section 80 of the Companies Act 1985 ("the Act")) up to an aggregate nominal amount of £221,890 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 80 of the Act but without prejudice to the allotment of any relevant securities already made or to be made pursuant to such authorities.

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

THAT, subject to and conditional upon the passing of resolution number 6 above, the Directors be empowered, pursuant to Section 95 of the Act, to allot equity securities (as defined in Section 94 of the Act) for cash as if Section 89 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

(ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal amount of £33,284;

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.

Dated this 24th day of May 2006

By order of the Board

J O Hambro Capital Management Limited
Company Secretary

Registered Office:
Ground Floor, Ryder Court
14 Ryder Street
London
SW1Y 6QB
Registered No. 1091347

notes:

1. Any member entitled to attend and vote at this Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his or her place. A proxy need not be a member of the Company. A form of proxy is enclosed.

2. To be valid, completed forms must be received at the offices of the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not less than 48 hours before the time fixed for the meeting. Deposit of the form of proxy will not prevent a member from attending the meeting and voting in person.

3. The following documents are available for inspection at the registered office of the Company during normal business hours on each weekday (public holidays excluded) and at the place of the Annual General Meeting for 15 minutes prior to and during the meeting:

   a) the register of Directors' interests in shares of the Company;

   b) there are no service contracts.

4. The Company specifies, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, that only those Shareholders registered in the register of members of the Company as at 6pm on 5 July 2006 shall be entitled to attend or vote at the Annual General Meeting in respect of the number of shares registered in their respective names at that time. Changes to entries on the register after that time will be disregarded in determining the right of any person to attend or vote at the meeting.

shareholder information

financial calendar

Preliminary results	May
Annual report	June
Annual General Meeting	July
Interim figures announced	October
Interim report posted	November

share price

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

It also appears on:

Reuters:	convertible Loan Stock NASp.L
Bloomberg:	NAS. LN
SEAQ Ordinary Shares:	NAS
Trustnet:	www.trustnet.ltd.uk

net asset value

The latest net asset value of the Company can be found on the North Atlantic Value LLP website :

www.navalue.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 Registrars. In the event of any queries regarding your holding of shares, please contact the registrars on: 020 8639 2000,
email address: ssd@capitaregistrars.com

Changes of name or address must be notified to the registrars in writing at:

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

notes

directors and advisers

Directors
E F Gittes
C H B Mills (Chief Executive)
K Siem
C L A Irby
O R Grace

Joint Manager
North Atlantic Value LLP
(Authorised and regulated by the Financial Services Authority.)
Ground Floor
Ryder Court
14 Ryder Street
London SW1Y 6QB
Telephone: 020 7747 5678

Company Secretary & Registered Office
J O Hambro Capital Management Limited
Ground Floor
Ryder Court
14 Ryder Street
London SW1Y 6QB
Telephone: 020 7747 5682

Registrars
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Auditors
RSM Robson Rhodes LLP
30 Finsbury Square
London EC2P 2YU

Bankers
Allied Irish Bank, p.l.c.
St Helen's
1 Undershaft
London EC3A 8AB