



**North Atlantic
Smaller Companies
Investment Trust plc**

Interim Report for the six months ended 31 July 2005

Registered in England and Wales number 1091347

The cover depicts a painting by the artist Thomas Luny entitled
"The ship Castor and other vessels in a choppy sea". Painted 1802.
© National Maritime Museum, London.

objective of the company and financial highlights (unaudited)

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

	31 July 2005	31 January 2005 (restated)*	%
			Change
Net asset value per Ordinary Share (debt at par):**			
Basic	1,506p	1,307p	15.2
Fully diluted	994p	843p	17.9
Middle market quotation per 5p Ordinary Share	913.5p	794.5p	15.0
Discount to fully diluted net asset value (debt at par)**	8.1%	5.8%	
Standard & Poor's Composite Index***	701.0	626.3	11.9
Russell 2000 Index***	386.1	330.8	16.7
Exchange rate (US\$/£)	1.7606	1.8861	6.7

* Net asset value figures and discount have been restated for IAS 39 adjustments as at 31 January 2005 (see note 1(a) on page 12).

** Including retained revenue for the period. As the Company's loans are repayable within one year, the net asset value with debt at market value is not significantly different to the net asset value with debt at par.

*** Sterling adjusted.

chief executive's review

During the six month period to 31 July 2005 under review the fully diluted net asset value of a share in the Trust rose by 17.9% as compared to a rise in the Sterling adjusted Standard and Poor's Composite Index of 11.9%. Net income for the period amounted to £248,000 (2004: £273,000 loss). Consistent with policy no dividend will be paid.

listed equities

The quoted portfolio performed particularly well in the United States with W-H Energy Services and Sterling Construction both rising by in excess of 35%. In the UK the portfolio benefited from corporate activity in East Surrey Holdings, Wembley and Lonrho Africa. Highway Insurance Holdings and Dowding & Mills also performed well as did a recently acquired position in Parkdean Holidays, which rose nearly 14% after purchase. Performance was however adversely impacted by relatively high levels of cash. Finally, Oryx International Growth Fund maintained its strong performance rising nearly 15% over the period.

unlisted equities

The unquoted portfolio benefited from the takeovers of Hi-Tech Holdings and Ramen Holdings, both at substantial premiums to book cost and recent valuations. Historically, NASCIT has always valued unlisted equities at original cost unless in the opinion of the Directors a change has been warranted. However, under International Financial Reporting Standards investment trusts must carry their portfolio at fair value. Accordingly, NASCIT has written Worldport Communications, Nationwide Accident Repair Services and Primesco up to their fair value and has written United Industries and AllianceOne down.

outlook

It remains my opinion that equities in general are not cheap, whilst the type of special situations in which we invest are increasingly hard to find. Notwithstanding this I am hopeful that the Trust will maintain the favourable momentum of the first six months.

C H B Mills
Chief Executive

27 October 2005

top ten investments

as at 31 July 2005

Company		Valuation £'000	% of net assets
Nationwide Accident Repair Services	UK Unquoted	12,121	6.0
US Treasury Bill 18/08/2005	US Treasury Stock	11,769	5.9
Whatman	UK Listed	11,120	5.6
W-H Energy Services	USA Listed	10,328	5.2
UK Treasury Bill 10/10/2005	UK Treasury Stock	9,895	4.9
American Opportunity Trust ("AOT")	UK Listed	9,067	4.5
Santa Maria Foods	Canadian Unquoted	8,593	4.3
Worldport Communications	USA Unquoted	7,683	3.8
Oryx International Growth Fund ("Oryx")	UK Listed	7,559	3.8
Paramount Restaurants	UK Unquoted	7,263	3.6
		95,398	47.6
		95,398	47.6

consolidated income statement (unaudited)

for the six months ended 31 July 2005

	Six months to 31 July 2005			Six months to 31 July 2004 (restated)*		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
investments						
Gains on investments	–	31,964	31,964	–	10,147	10,147
Exchange differences	–	(203)	(203)	–	237	237
net investment result	–	31,761	31,761	–	10,384	10,384
income	1,705	–	1,705	1,581	–	1,581
expenses						
Investment management fee	(962)	(552)	(1,514)	(897)	(412)	(1,309)
Costs of investment transactions	–	(156)	(156)	–	–	–
Bank interest payable	(126)	–	(126)	(497)	–	(497)
Share based remuneration	(184)	–	(184)	(111)	–	(111)
Other expenses	(184)	–	(184)	(329)	–	(329)
total expenses	(1,456)	(708)	(2,164)	(1,834)	(412)	(2,246)
profit/(loss) before taxation	249	31,053	31,302	(253)	9,972	9,719
taxation	(1)	–	(1)	(20)	–	(20)
transfer to/(from) reserves	248	31,053	31,301	(273)	9,972	9,699
return per ordinary share (Note 2):						
Basic			240.66p			79.15p
Diluted			156.14p			48.76p

* Details of the restatement are shown in note 8.

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 11 to 16. All items in the above statement derive from continuing operations.

consolidated income statement (unaudited)
for the year ended 31 January 2005

Year to 31 January 2005 (restated)*			
Revenue £'000	Capital £'000	Total £'000	
–	28,303	28,303	investments
–	661	661	Gains on investments
–	28,964	28,964	Exchange differences
3,671	–	3,671	net investment result
(1,777)	(930)	(2,707)	income
–	–	–	expenses
(979)	–	(979)	Investment management fee
(222)	–	(222)	Costs of investment transactions
(650)	–	(650)	Bank interest payable
(3,628)	(930)	(4,558)	Share based remuneration
43	28,034	28,077	Other expenses
(20)	–	(20)	total expenses
23	28,034	28,057	profit before taxation
			taxation
			transfer to reserves
			return per ordinary share (Note 2):
		224.34p	Basic
		140.68p	Diluted

* Details of the restatement are shown in note 8.

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 11 to 16. All items in the above statement derive from continuing operations.

consolidated statement of changes in equity (unaudited)
for the six months ended 31 July 2005

	Share capital £'000	CULS reserve £'000	Share options reserve £'000	Share premium account £'000
six months ended 31 July 2005				
31 January 2005 (as previously reported)	647	–	396	629
Restatement of opening reserves for IAS 39 (see note 1(a))	–	52	–	–
	<u>647</u>	<u>52</u>	<u>396</u>	<u>629</u>
Net increase in net assets from operations	–	–	184	–
Arising on conversion of CULS	19	(3)	–	–
31 July 2005	<u><u>666</u></u>	<u><u>49</u></u>	<u><u>580</u></u>	<u><u>629</u></u>
year ended 31 January 2005				
31 January 2004	613	–	174	629
Net increase in net assets from operations	–	–	222	–
Arising on conversion of CULS	34	–	–	–
31 January 2005	<u><u>647</u></u>	<u><u>–</u></u>	<u><u>396</u></u>	<u><u>629</u></u>
six months ended 31 July 2004				
31 January 2004	613	–	174	629
Net increase in net assets from operations	–	–	111	–
31 July 2004	<u><u>613</u></u>	<u><u>–</u></u>	<u><u>285</u></u>	<u><u>629</u></u>

The financial statements have been prepared in accordance with the accounting policies on pages 11 to 16.

consolidated statement of changes in equity (unaudited)
for the six months ended 31 July 2005 (continued)

Capital reserve – realised £'000	Capital reserve – unrealised £'000	Reserve revenue £'000	Total £'000
141,956	34,550	(5,637)	172,541
(91)	(3,464)	(3)	(3,506)
141,865	31,086	(5,640)	169,035
18,627	12,426	248	31,485
–	–	–	16
160,492	43,512	(5,392)	200,536
118,383	30,089	(5,660)	144,228
23,573	4,461	23	28,279
–	–	–	34
141,956	34,550	(5,637)	172,541
118,383	30,089	(5,660)	144,228
11,471	(1,499)	(273)	9,810
129,854	28,590	(5,933)	154,038

six months ended 31 July 2005

31 January 2005 (as previously reported)

Restatement of opening reserves for IAS 39
(see note 1(a))

Net increase in net assets from operations
Arising on conversion of CULS

31 July 2005

year ended 31 January 2005

31 January 2004

Net increase in net assets from operations
Arising on conversion of CULS

31 January 2005

six months ended 31 July 2004

31 January 2004

Net increase/(decrease) in net assets
from operations

31 July 2004

The financial statements have been prepared in accordance with the accounting policies on pages 11 to 16.

north atlantic smaller companies investment trust plc

consolidated balance sheet (unaudited)

	31 July 2005	31 January 2005 (restated)*	31 July 2004 (restated)*
	£'000	£'000	£'000
non current assets			
Investments at fair value through profit or loss	198,955	–	–
Investments at valuation	–	149,282	153,978
current assets			
Investments held for trading in subsidiary company	527	–	–
Investments held in subsidiary company	–	137	36
Trade and other receivables	2,469	858	1,262
Cash and cash equivalents	6,775	28,862	13,161
	9,771	29,857	14,459
total assets	208,726	179,139	168,437
current liabilities			
Bank loans and overdrafts	(4,914)	–	(13,276)
Trade and other payables	(2,994)	(1,682)	(739)
	(7,908)	(1,682)	(14,015)
total current assets less current liabilities	200,818	177,457	154,422
non current liabilities			
Bank loans	–	(4,566)	–
CULS	(282)	(350)	(384)
	(282)	(4,916)	(384)
total liabilities	(8,190)	(6,598)	(14,399)
net assets	200,536	172,541	154,038

* Details of the restatement are shown in note 9.

The financial statements have been prepared in accordance with the accounting policies on pages 11 to 16.

consolidated balance sheet (unaudited)
(continued)

	31 July 2005	31 January 2005 (restated)*	31 July 2004 (restated)*
	£'000	£'000	£'000
represented by:			
Share capital	666	647	613
Equity component of CULS	49	–	–
Share options reserve	580	396	285
Share premium account	629	629	629
Capital reserve – realised	160,492	141,956	129,854
Capital reserve – unrealised	43,512	34,550	28,590
Revenue reserve	(5,392)	(5,637)	(5,933)
issued capital and reserves	<u>200,536</u>	<u>172,541</u>	<u>154,038</u>
net asset value per ordinary share (Note 5):			
Basic	1,506p	1,334p	1,257p
Diluted	994p	860p	771p

* Details of the restatement are shown in note 9 on pages 22 to 27.

The financial statements have been prepared in accordance with the accounting policies on pages 11 to 16.

consolidated cashflow statement (unaudited)
for the six months ended 31 July 2005

	Six months to 31 July 2005 £'000	Six months to 31 July 2004 (restated)* £'000	Year to 31 January 2005 (restated)* £'000
cash flows from operating activities			
Investment income received	962	894	1,859
Bank deposit interest received	278	210	511
Other income	–	20	24
Sale of investments by subsidiary undertaking	2	25	34
Investment Manager's fees paid	(1,309)	(1,380)	(2,361)
Transaction charges on sale and purchase of financial investments	(156)	–	–
Other cash payments	(190)	(526)	(916)
Cash expended from operations	(413)	(757)	(849)
Bank interest paid	(98)	(788)	(1,204)
CULS interest paid	–	–	(35)
Loan renewal expenses	(9)	–	–
net cash outflow from operating activities	(520)	(1,545)	(2,088)
cash flows from investing activities			
Purchases of investments	(88,806)	(35,549)	(71,210)
Sales of investments	67,237	42,411	102,557
net cash (outflow)/inflow from investing activities	(21,569)	6,862	31,347
cash flows from financing activities			
Repayment of fixed term borrowings	–	(6,000)	(14,321)
net cash outflow from financing activities	–	(6,000)	(14,321)
(decrease)/increase in cash and cash equivalents for the period	(22,089)	(683)	14,938
cash and cash equivalents at start of period	28,862	13,776	13,776
Revaluation of foreign currency balances	2	68	148
cash and cash equivalents at end of period	6,775	13,161	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 and within the interim report for the six months ended 31 July 2004.

notes

1. accounting policies

North Atlantic Smaller Companies Investment Trust plc (“NASCIT”) is a company incorporated in England and Wales under the Companies Act 1948 to 1980. The consolidated interim report for the Company for the period ended 31 July 2005 comprises the results of the Company and its subsidiary (together referred to as the “Group”).

(a) basis of preparation/statement of compliance

The consolidated interim financial statements of the Group 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 unaudited 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 (notes 8 and 9).

Explanations of how the transition to IFRS has affected the reported financial position and financial performance of the Group are provided in notes 8 and 9.

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 6 and 7).

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

	£’000
Transaction costs on purchases now treated as a realised loss	(91)
Use of bid prices for quoted* holdings rather than previous methods	
– in parent company	(3,464)
– 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 (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 classified as fair value through profit or loss and derivative financial instruments.

(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 July 2005.

(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) listed 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 Company, the market value is reduced by the prevailing market value of such options at the period-end date. Unexpired traded put options are held in other creditors and accruals. Unexpired traded put and call options written by the Company are revalued to the prevailing market value at the period-end date.

(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 period-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 period-end. Accrued income arising from them is included in debtors.

(iv) unlisted at directors' valuation

Unlisted investments included at Directors' valuation 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 July 2005

All investments held by the Company are designated as 'fair value through profit or loss'. Investments are initially recognised at cost, being the fair value of the consideration given, excluding transaction costs associated with the investment that are charged to the income statement and allocated to capital.

After initial recognition, investments are measured at fair value, with unrealised gains and losses on investments and impairment of investments recognised in the income statement and allocated to capital. Realised gains and losses on investments sold are calculated as the difference between sales proceeds and cost.

notes (continued)

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

(vi) listed 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.

(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 period-end. Accrued income arising from them is included in debtors.

(viii) unlisted at directors' valuation

Unlisted investments included at Directors' valuation 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 undertaking 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 listed and unlisted holdings respectively.

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

(f) options

Where option transactions are entered into, either for hedging or investment purposes, the premiums received are taken to the capital reserve – realised, and the gains or losses arising on their revaluations are recognised in the capital reserve – unrealised.

(g) foreign currency

Transactions denominated in foreign currencies are converted to Sterling at the actual exchange rate as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rate of exchange ruling at that date. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in the income statement and depending on the nature of the gain or loss is allocated to either revenue or capital.

(h) trade date accounting

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

(i) income

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

(j) expenses

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

(k) 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.

(l) cash and cash equivalents

Cash in hand and in 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.

(m) bank loans and borrowings

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

notes (continued)

(n) taxation

Income tax on the profit or loss for the period comprises current and deferred tax. Income 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 period, 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 income 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 income 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.

2. return per share

	*Net return £'000	Revenue Ordinary Shares	Per share (pence)	*Net return £'000	Capital Ordinary Shares	Per share (pence)	Total (pence)
six months to							
31 July 2005							
Basic return per Share	248	13,006,299	1.91	31,053	13,006,299	238.75	240.66
Option conversion**	–	136,783		–	136,783		
Loan Stock 2013***	35	6,925,754		–	6,925,754		
	<u>283</u>	<u>20,068,836</u>	1.41	<u>31,053</u>	<u>20,068,836</u>	154.73	156.14
six months to							
31 July 2004							
(restated)							
Basic return per Share	(273)	12,254,313	(2.23)	9,972	12,254,313	81.38	79.15
Option conversion**	–	292		–	292		
Loan Stock 2013***	19	7,677,739		–	7,677,739		
	<u>(254)</u>	<u>19,932,344</u>	(1.27)	<u>9,972</u>	<u>19,932,344</u>	50.03	48.76
year to 31 January							
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		
Loan Stock 2013***	37	7,425,672		–	7,425,672		
	<u>60</u>	<u>19,969,399</u>	0.30	<u>28,034</u>	<u>19,969,399</u>	140.38	140.68

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

* Net return on ordinary activities attributable to Ordinary Shareholders.

** Excess of 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.

*** Loan Stock assumed converted as the share price during the period was greater than the conversion price.

notes (continued)

3. distribution of non current investments

	31 July 2005 £'000	31 January 2005 £'000	31 July 2004 £'000
Listed at fair value:			
United Kingdom	82,700	–	–
Overseas	27,240	–	–
Listed at market value:			
United Kingdom	–	58,457	60,396
Overseas	–	15,352	14,521
Listed at Directors' valuation	–	16,618	15,077
Total listed investments	<u>109,940</u>	<u>90,427</u>	<u>89,994</u>
Unlisted at fair value	89,015	–	–
Unlisted at market value	–	4,754	10,707
Unlisted at Directors' valuation	–	54,101	53,277
Total fixed asset investments	<u><u>198,955</u></u>	<u><u>149,282</u></u>	<u><u>153,978</u></u>

4. performance fees

A performance fee is only payable if the investment portfolio has outperformed the Sterling adjusted Standard & Poor's Composite Index at the end of each financial year, and is limited to a maximum payment of 0.5% of Shareholders' Funds.

In accordance with the SORP, an amount is included in these financial statements for the performance fee that would be payable based on investment performance to 31 July 2005.

As at 31 July 2005, a performance fee of £552,000, including irrecoverable VAT, has been accrued for in the accounts (31 July 2004: £412,000; 31 January 2005: £930,000 including irrecoverable VAT).

5. consolidated net asset value per ordinary share (debt at par)

The basic net asset value per Ordinary Share is based on net assets of £200,536,000 (31 January 2005: £172,541,000; 31 July 2004: £154,038,000) and on 13,313,427 Ordinary Shares (31 January 2005: 12,932,672; 31 July 2004: 12,245,313) being the number of Ordinary Shares in issue at the period end.

The fully diluted net asset value per Ordinary Share is calculated on the assumption that all of the outstanding 2013 Loan Stock is fully converted at par and that all 1,030,000 (31 January 2005: 692,500; 31 July 2004: 692,500) Share Options were exercised at the prevailing exercise prices, giving a total of 20,962,052 issued Ordinary Shares (31 January 2005: 20,624,552; 31 July 2004: 20,624,552).

6. post balance sheet event

Subsequent to 31 July 2005, the Company acquired a further 1,686,000 shares in AOT, taking its total holding to 60.49%.

7. financial information

The financial information contained in this interim report does not constitute full statutory accounts as defined in Section 240 of the Companies Act 1985. The financial information for the six months ended 31 July 2005 and 31 July 2004 has not been audited.

The information for the year ended 31 January 2005, other than that which has been restated as described above, has been extracted from the latest published audited financial statements, which have been filed with the Registrar of Companies. The report of the auditors on those financial statements contained no qualification or statement under sections 237(2) or (3) of the Companies Act 1985. Those statutory accounts were prepared under UK GAAP and in accordance with the SORP.

notes (continued)

8a. reconciliation of consolidated income (unaudited)*for the six months ended 31 July 2004*

		Previous GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
investments				
Gains on investments		10,147	–	10,147
Exchange differences		237	–	237
net investment result		<u>10,384</u>	<u>–</u>	<u>10,384</u>
income		<u>1,581</u>	<u>–</u>	<u>1,581</u>
expenses				
Investment Manager's fee		(1,309)	–	(1,309)
Bank interest payable		(497)	–	(497)
Share based remuneration	1	–	(111)	(111)
Other expenses		(329)	–	(329)
total expenses		<u>(2,135)</u>	<u>(111)</u>	<u>(2,246)</u>
profit before taxation		<u>9,830</u>	<u>(111)</u>	<u>9,719</u>
taxation		<u>(20)</u>	<u>–</u>	<u>(20)</u>
profit after taxation		<u>9,810</u>	<u>(111)</u>	<u>9,699</u>
return per ordinary share:				
Basic		80.06p	(0.91)p	79.15p
Diluted		49.31p	(0.55)p	48.76p

Note to the reconciliation of consolidated income at 31 July 2004:

- 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.

8b. reconciliation of consolidated income (unaudited)

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

		Previous GAAP	Effect of transition to IFRS	IFRS
	note	£'000	£'000	£'000
investments				
Gains on investments		28,303	–	28,303
Exchange differences		661	–	661
net investment result		<u>28,964</u>	<u>–</u>	<u>28,964</u>
income		<u>3,671</u>	<u>–</u>	<u>3,671</u>
expenses				
Investment Manager's fee		(2,707)	–	(2,707)
Bank interest payable		(979)	–	(979)
Share based remuneration	1	–	(222)	(222)
Other expenses		(650)	–	(650)
total expenses		<u>(4,336)</u>	<u>(222)</u>	<u>(4,558)</u>
profit before taxation		<u>28,299</u>	<u>(222)</u>	<u>28,077</u>
taxation		<u>(20)</u>	<u>–</u>	<u>(20)</u>
profit after taxation		<u>28,279</u>	<u>(222)</u>	<u>28,057</u>
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:

- 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 (continued)

9a. reconciliation of consolidated equity (unaudited)*as at 1 February 2004 (date of transition)*

	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
	<u>14,373</u>	<u>–</u>	<u>14,373</u>
total assets	<u>165,562</u>	<u>–</u>	<u>165,562</u>
current liabilities			
Bank loans and overdrafts	(19,248)	–	(19,248)
Trade and other payables	(1,702)	–	(1,702)
	<u>(20,950)</u>	<u>–</u>	<u>(20,950)</u>
total assets less current liabilities	<u>144,612</u>	<u>–</u>	<u>144,612</u>
non current liabilities			
CULS	(384)	–	(384)
	<u>(384)</u>	<u>–</u>	<u>(384)</u>
total liabilities	<u>(21,334)</u>	<u>–</u>	<u>(21,334)</u>
net assets	<u><u>144,228</u></u>	<u><u>–</u></u>	<u><u>144,228</u></u>

reconciliation of consolidated equity (unaudited)
as at 1 February 2004 (date of transition)
(continued)

	note	Previous GAAP £'000	Effect of transition to IFRS £'000	IFRS at 1 February 2004 £'000
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)
		144,228	–	144,228
issued capital and reserves				
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:

- 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 (continued)

9b. reconciliation of consolidated equity (unaudited)

as at 31 July 2004

	Previous GAAP £'000	Effect of transition to IFRS £'000	IFRS at 31 July 2004 £'000
non current assets			
Investments at valuation	153,978	–	153,978
current assets			
Investments held in subsidiary company	36	–	36
Trade and other receivables	1,262	–	1,262
Cash and cash equivalents	13,161	–	13,161
	<u>14,459</u>	<u>–</u>	<u>14,459</u>
total assets	<u>168,437</u>	<u>–</u>	<u>168,437</u>
current liabilities			
Bank loans and overdrafts	(13,276)	–	(13,276)
Trade and other payables	(739)	–	(739)
	<u>(14,015)</u>	<u>–</u>	<u>(14,015)</u>
total assets less current liabilities	<u>154,422</u>	<u>–</u>	<u>154,422</u>
non current liabilities			
CULS	(384)	–	(384)
	<u>(384)</u>	<u>–</u>	<u>(384)</u>
total liabilities	<u>(14,399)</u>	<u>–</u>	<u>(14,399)</u>
net assets	<u>154,038</u>	<u>–</u>	<u>154,038</u>

reconciliation of consolidated equity (unaudited)

as at 31 July 2004

(continued)

	note	Previous GAAP £'000	Effect of transition to IFRS £'000	IFRS at 31 July 2004 £'000
represented by:				
Share capital		613	–	613
Share options reserve	1	–	285	285
Share premium account		629	–	629
Capital reserve – realised		129,854	–	129,854
Capital reserve – unrealised		28,590	–	28,590
Revenue reserve	1	(5,648)	(285)	(5,933)
issued capital and reserves		<u>154,038</u>	<u>–</u>	<u>154,038</u>
net asset value per ordinary share:				
Basic		1,257p	–p	1,257p
Diluted		771p	–p	771p

Note to the reconciliation of consolidated equity at 31 July 2004:

- 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 (continued)

9c. reconciliation of consolidated equity (unaudited)*as at 31 January 2005 (end of last period presented under previous GAAP)*

	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
Trade and other receivables	858	–	858
Cash and cash equivalents	28,862	–	28,862
	<u>29,857</u>	<u>–</u>	<u>29,857</u>
total assets	<u>179,139</u>	<u>–</u>	<u>179,139</u>
current liabilities			
Trade and other payables	(1,682)	–	(1,682)
	<u>(1,682)</u>	<u>–</u>	<u>(1,682)</u>
total assets less current liabilities	<u>177,457</u>	<u>–</u>	<u>177,457</u>
non current liabilities			
Bank loans	(4,566)	–	(4,566)
CULS	(350)	–	(350)
	<u>(4,916)</u>	<u>–</u>	<u>(4,916)</u>
total liabilities	<u>(6,598)</u>	<u>–</u>	<u>(6,598)</u>
net assets	<u>172,541</u>	<u>–</u>	<u>172,541</u>

reconciliation of consolidated equity (unaudited)

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

(continued)

	note	Previous GAAP £'000	Effect of transition to IFRS £'000	IFRS at 31 January 2005 £'000
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)
		<u>172,541</u>	<u>–</u>	<u>172,541</u>
issued capital and reserves				
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.

shareholder information

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

share price The Company's mid market Ordinary Share price and Loan Stock price are quoted daily in the Financial Times appearing under "Investment Companies".

They also appear on:

Reuters:	Convertible Loan Stock NASp.L
Bloomberg:	NAS. LN
SEAQ Ordinary Shares:	NAS
Trustnet:	www.trustnet.com

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

www.navalu.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, or email them at 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

Directors

E Foster Gittes (Chairman)
C H B Mills (Chief Executive)
The Hon P D E M Moncreiffe
K Siem
C L A Irby

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 and 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
186 City Road
London EC1V 2NU

