

North Atlantic Smaller Companies Investment Trust plc

# Half-Yearly Report

for the six months ended 31 July 2016





Cover Image: Detail of “Defeat of the Spanish Armada”, 8 August 1588.  
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**objective of the company and financial highlights**

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

	31 July 2016 (unaudited)	31 January 2016 (audited)	% Change
Net asset value (“NAV”) per 5p Ordinary Share*:			
Basic	2,799p	2,749p	1.8
Diluted	2,796p	2,746p	1.8
Basic adjusted#‡	2,860p	2,776p	3.0
Diluted adjusted#‡	2,857p	2,773p	3.0
Mid-market price of the 5p Ordinary Shares	2,494p	2,280p	9.4
Discount to diluted net asset value	10.8%	17.0%	
Discount to diluted adjusted net asset value	12.7%	17.8%	
Standard & Poor’s 500 Composite Index†	1,642.9	1,362.2	20.6
Russell 2000 Index†	922.1	726.9	26.9
FTSE Small Cap Index	4,217.7	3,952.2	6.7
US Dollar/Sterling exchange rate	1.3277	1.4185	(6.4)

\* Including retained revenue for the period.

# Adjusted to reflect Oryx International Growth Fund plc (“Oryx”) under the equity method of accounting, which is how the Company previously accounted for its share of Oryx, prior to the adoption of IFRS 10.

‡ Calculated using the adjusted Net Assets per note 5.

† Sterling adjusted.

**chief executive's review**

During the six month period to 31 July 2016, the fully diluted adjusted net asset value (with Oryx under the equity method of accounting) rose by +3.0% as compared to a rise in the sterling adjusted Standard & Poor's 500 Composite Index of +20.6% and the FTSE Small Cap Index of +6.7%.

Performance against the Standard & Poor's Index was disappointing although the Company only has a very small portfolio of US listed stocks amounting to approximately 2% of assets.

Income for the period amounted to a loss of £1,530,000 (31 July 2015: loss of £688,000). Consistent with past policy the directors do not propose to pay a dividend (31 July 2015: nil).

**quoted portfolio**

The biggest impact on the quoted portfolio was the fall in the price of MJ Gleeson Group which reduced the net asset value by £6.3m together with a more modest fall in the value of Goals Soccer Centres which cost a further £2.0m. In total these two holdings reduced the NAV by approximately 2%.

In the UK, Oryx performed broadly in line with the index with the net asset value rising by 6.2% over the period. AssetCo and EKF Diagnostics Holdings also performed well rising by 15% and 25% respectively. BBA Aviation rose 45% and Bioquell (adjusted for a share buyback) rose just over 20%.

In the US, the Company's modest position in AMBAC Financial Group performed well rising by nearly 30% over the period.

**unquoted portfolio**

The principal disappointment during the six month period was the need to write off two thirds of the investment in Team Rock following results that fell significantly short of the business plan. This was almost offset by Indoor Bowling Equity which continues to perform in excess of expectations.

**chief executive's review** (continued)

**outlook**

The Company has been very defensively positioned with cash or near cash of around 40% of the value of the investment portfolio. Fortunately, the majority of this was held in US Dollars so the Company has so far benefitted considerably from the weakness of Sterling following the BREXIT vote, and is well placed to take advantage of new opportunities.

We remain optimistic that the net asset value of the Company will continue to improve modestly over the balance of the year assisted by further realisations, particularly in the unquoted part of the portfolio.

C H B Mills  
*Chief Executive*

14 September 2016

**chief executive's review** (continued)

**top ten investments**

*as at 31 July 2016*

<b>Company</b>		Fair value £'000	% of net assets
US Treasury Bills	US Treasury Stock	101,243	25.1
MJ Gleeson Group plc	UK Listed	47,250	11.7
Oryx International Growth Fund Limited*†	UK Listed	42,638	10.5
Trident Private Equity Fund III LP	UK Unquoted	19,539	4.8
EKF Diagnostics Holdings plc	UK Quoted on AIM	14,063	3.5
AssetCo plc	UK Quoted on AIM	12,413	3.1
Industrial Properties Limited	UK Unquoted	11,473	2.8
Indoor Bowling Equity Limited	UK Unquoted	10,274	2.5
Performance Chemicals Company	US Unquoted	9,701	2.4
Harwood Private Equity IV LP	UK Unquoted	9,158	2.3
		<u>277,752</u>	<u>68.7</u>

† Incorporated in Guernsey.

\* Traded price under IFRS 10.

All investments are valued at fair value.

**interim management report**

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

**material events** The Board do not consider that there were any material events during the period ended 31 July 2016.

**material transactions** The Board do not consider that there were any material transactions during the period ended 31 July 2016.

**risk profile** The principal risks and uncertainties for the remaining six months of the year continue to be as described in the Annual Report for the year ended 31 January 2016 on pages 16 and 17 and pages 66 to 74. The principal risks arising from the Company’s financial instruments are market price risk, including currency risk, interest rate risk and other price risk, liquidity risk and credit/counterparty risk. The Directors review and agree policies with the Manager, Harwood Capital LLP, for managing these risks. The policies have remained substantially unchanged in the six months since the year end.

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

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

The Group’s exposure to market price risk comprises mainly movements in the value of the Group’s investments. It should be noted that the prices of options tend to be more volatile than the prices of the underlying securities. The Manager assesses the exposure to market risk when making each investment decision and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

**interim management report** (continued)

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

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

**related party  
transactions**

These are listed in note 10 to the half yearly condensed financial statements on page 23.

By Order of the Board

Peregrine Moncreiffe  
*Chairman*

14 September 2016



**responsibility statement**

The Directors confirm to the best of their knowledge that:

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

The half yearly financial report was approved by the Board on 14 September 2016 and the above responsibility statement was signed on its behalf by:

Peregrine Moncreiffe  
*Chairman*

14 September 2016

**condensed consolidated statement of comprehensive income**

	Six months ended 31 July 2016 (unaudited)			Six months ended 31 July 2015 (unaudited)		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income	873	–	873	1,279	–	1,279
Net gains on investments at fair value	–	8,465	8,465	–	40,432	40,432
Currency exchange gains/(losses)	–	306	306	–	(70)	(70)
<b>total income</b>	<b>873</b>	<b>8,771</b>	<b>9,644</b>	<b>1,279</b>	<b>40,362</b>	<b>41,641</b>
Expenses						
Investment management fee (note 10)	(2,005)	48	(1,957)	(1,672)	(937)	(2,609)
Other expenses	(389)	–	(389)	(281)	–	(281)
Share based remuneration	–	–	–	(7)	–	(7)
<b>return before finance costs and taxation</b>	<b>(1,521)</b>	<b>8,819</b>	<b>7,298</b>	<b>(681)</b>	<b>39,425</b>	<b>38,744</b>
Finance costs	–	–	–	–	–	–
<b>return before taxation</b>	<b>(1,521)</b>	<b>8,819</b>	<b>7,298</b>	<b>(681)</b>	<b>39,425</b>	<b>38,744</b>
Taxation	(9)	–	(9)	(7)	–	(7)
<b>return for the period</b>	<b>(1,530)</b>	<b>8,819</b>	<b>7,289</b>	<b>(688)</b>	<b>39,425</b>	<b>38,737</b>
<b>return per ordinary share (note 4)</b>						
Basic				50.5p		266.4p
Diluted				50.5p		266.2p

The total column of the statement is the Statement of Comprehensive Income of the Group prepared in accordance with International Financial Reporting Standards (“IFRS”). The supplementary revenue and capital columns are presented for information purposes as recommended by the Statement of Recommended Practice (“SORP”) issued by the Association of Investment Companies (“AIC”).

All items in the above Statement derive from continuing operations. No operations were acquired or discontinued in the period.

**condensed consolidated statement of comprehensive income (continued)**

	Year ended 31 January 2016 (audited)		
Revenue £'000	Capital £'000	Total £'000	
3,175	–	3,175	Income
–	73,165	73,165	Net gains on investments at fair value
–	149	149	Currency exchange gains/(losses)
<u>3,175</u>	<u>73,314</u>	<u>76,489</u>	<b>total income</b>
			Expenses
(3,344)	(2,076)	(5,420)	Investment management fee (note 10)
(702)	–	(702)	Other expenses
(7)	–	(7)	Share based remuneration
<u>(878)</u>	<u>71,238</u>	<u>70,360</u>	<b>return before finance costs and taxation</b>
–	–	–	Finance costs
<u>(878)</u>	<u>71,238</u>	<u>70,360</u>	<b>return before taxation</b>
(12)	–	(12)	Taxation
<u>(890)</u>	<u>71,238</u>	<u>70,348</u>	<b>return for the period</b>
		484.57p	<b>return per ordinary share (note 4)</b>
		484.57p	Basic
		484.57p	Diluted

The total column of the statement is the Statement of Comprehensive Income of the Group prepared in accordance with IFRS. The supplementary revenue and capital columns are presented for information purposes as recommended by the SORP issued by the AIC.

All items in the above Statement derive from continuing operations. No operations were acquired or discontinued in the period.

**condensed consolidated statement of changes in equity**

	Share capital £'000	Share options reserve £'000	Share premium account £'000	Capital reserve £'000
<b>six months ended 31 July 2016</b>				
<b>(unaudited)</b>				
31 January 2016	722	55	1,301	402,447
Total comprehensive income for the period	–	–	–	8,819
Shares purchased for cancellation	–	–	–	(82)
	<u>722</u>	<u>55</u>	<u>1,301</u>	<u>411,184</u>
31 July 2016	<u><u>722</u></u>	<u><u>55</u></u>	<u><u>1,301</u></u>	<u><u>411,184</u></u>
<b>six months ended 31 July 2015</b>				
<b>(unaudited)</b>				
31 January 2015	727	293	1,301	333,262
Total comprehensive income for the period	–	–	–	39,425
Share options discharge	–	(15)	–	(88)
Share options expenses	–	7	–	–
	<u>727</u>	<u>285</u>	<u>1,301</u>	<u>372,599</u>
31 July 2015	<u><u>727</u></u>	<u><u>285</u></u>	<u><u>1,301</u></u>	<u><u>372,599</u></u>
<b>year ended 31 January 2016</b>				
<b>(audited)</b>				
31 January 2015	727	293	1,301	333,262
Total comprehensive income for the year	–	–	–	71,238
Share option discharge	–	(16)	–	(87)
Transfer between reserves	–	(229)	–	229
Shares purchased for cancellation	(5)	–	–	(2,195)
Share option expenses	–	7	–	–
	<u>722</u>	<u>55</u>	<u>1,301</u>	<u>402,447</u>
31 January 2016	<u><u>722</u></u>	<u><u>55</u></u>	<u><u>1,301</u></u>	<u><u>402,447</u></u>

**condensed consolidated statement of changes in equity (continued)**

Capital redemption reserve £'000	Revenue reserve £'000	Total £'000
148	(7,712)	396,961
–	(1,530)	7,289
–	–	(82)
<u>148</u>	<u>(9,242)</u>	<u>404,168</u>

**six months ended 31 July 2016  
(unaudited)**

31 January 2016  
Total comprehensive income for the period  
Shares purchased for cancellation  
31 July 2016

143	(6,822)	328,904
–	(688)	38,737
–	–	(103)
–	–	7
<u>143</u>	<u>(7,510)</u>	<u>367,545</u>

**six months ended 31 July 2015  
(unaudited)**

31 January 2015  
Total comprehensive income for the period  
Share option discharge  
Share options expenses  
31 July 2015

143	(6,822)	328,904
–	(890)	70,348
–	–	(103)
–	–	–
5	–	(2,195)
–	–	7
<u>148</u>	<u>(7,712)</u>	<u>396,961</u>

**year ended 31 January 2016  
(audited)**

31 January 2015  
Total comprehensive income for the year  
Share option discharge  
Transfer between reserves  
Shares purchased for cancellation  
Share option expenses  
31 January 2016

**condensed consolidated balance sheet**

	As at 31 July 2016 (unaudited) £'000	As at 31 July 2015 (unaudited) £'000	As at 31 January 2016 (audited) £'000
<b>non current assets</b>			
Investments at fair value through profit or loss	367,596	314,656	367,838
	<u>367,596</u>	<u>314,656</u>	<u>367,838</u>
<b>current assets</b>			
Trade and other receivables	2,553	809	1,038
Cash and cash equivalents	34,461	53,489	30,839
	<u>37,014</u>	<u>54,298</u>	<u>31,877</u>
<b>total assets</b>	<u>404,610</u>	<u>368,954</u>	<u>399,715</u>
<b>current liabilities</b>			
Trade and other payables	(442)	(1,409)	(2,754)
<b>total liabilities</b>	<u>(442)</u>	<u>(1,409)</u>	<u>(2,754)</u>
<b>total assets less current liabilities</b>	<u>404,168</u>	<u>367,545</u>	<u>396,961</u>
<b>net assets</b>	<u>404,168</u>	<u>367,545</u>	<u>396,961</u>
 <b>represented by:</b>			
Share capital	722	727	722
Capital redemption reserve	55	143	55
Share premium account	1,301	1,301	1,301
Capital reserve	411,184	372,599	402,447
Share options reserve	148	285	148
Revenue reserve	(9,242)	(7,510)	(7,712)
<b>total equity attributable to equity holders of the company</b>	<u>404,168</u>	<u>367,545</u>	<u>396,961</u>
 <b>net asset value per ordinary share (note 5):</b>			
Basic	2,799p	2,527p	2,749p
Diluted	2,796p	2,525p	2,746p

**condensed consolidated cash flow statement**

	Six months ended 31 July 2016 (unaudited) £'000	Six months ended 31 July 2015 (unaudited) £'000	Year ended 31 January 2016 (audited) £'000
<b>cash flows from operating activities</b>			
Investment income received	950	861	1,750
Other income	38	425	562
Investment Manager's fees and Performance fees paid	(3,986)	(1,739)	(3,394)
Other cash payments	(1,045)	(321)	(687)
<b>cash expended from operations (note 7)</b>	(4,043)	(774)	(1,769)
Taxation paid	(9)	(7)	(12)
<b>net cash outflow from operating activities</b>	(4,052)	(781)	(1,781)
<b>cash flows from investing activities</b>			
Purchases of investments	(223,729)	(186,975)	(370,401)
Sales of investments	231,382	233,790	397,598
<b>net cash inflow from investing activities</b>	7,653	46,815	27,197
<b>cash flows from financing activities</b>			
Repurchase of ordinary shares for cancellation	(82)	–	(2,195)
<b>net cash outflow from financing activities</b>	(82)	–	(2,195)
<b>increase in cash and cash equivalents for the period</b>	3,519	46,034	23,221
<b>cash and cash equivalents at the start of the period</b>	30,839	7,598	7,598
Revaluation of foreign currency balances	103	(143)	20
<b>cash and cash equivalents at the end of the period</b>	34,461	53,489	30,839

**notes**

**1. a) general information**

North Atlantic Smaller Companies Investment Trust plc (“NASCIT”) is a Company incorporated and domiciled in Great Britain and registered in England and Wales.

The Company operates as an investment trust company within the meaning of Section 833 of the Companies Act 2006 and has made a successful application under Regulation 5 of the Investment Trust (Approved Company) (Tax) Regulations 2011 for investment trust status to apply to all accounting periods starting on or after 1 February 2013. The Company is managed in such a way to ensure that it continues to meet the eligibility conditions contained in Section 1158 of the Corporation Tax Act 2010 and the ongoing requirements outlined in Chapter 3 of Part 2 of the regulations.

**b) basis of preparation**

The condensed consolidated interim financial statements for the six months ended 31 July 2016 have been prepared in accordance with IAS 34 “Interim Financial Reporting”. They do not include all financial information required for full annual financial statements and have been prepared using the accounting policies adopted in the audited financial statements for the year ended 31 January 2016. Those financial statements were prepared in accordance with IFRS and with the SORP for Investment Companies and Venture Capital Trusts issued by the AIC in November 2014.

The condensed consolidated interim financial information includes the financial statements of the Company and its wholly owned Subsidiary, Consolidated Venture Finance Limited, for the six months ended 31 July 2016.

**c) significant accounting policies**

The accounting policies applied are consistent with those of the Annual Financial Report for the year ended 31 January 2016. Since the year end no new standards have been adopted.

**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) going concern**

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



**notes** (continued)

**2. investment management and performance fees**

A Performance Fee is only payable if the investment portfolio, including Oryx at the adjusted price, outperforms the Sterling adjusted Standard & Poor's 500 Composite Index at the end of each financial year and is limited to a maximum payment of 0.5% of Shareholders' Funds, and is allocated 100% to capital.

In accordance with the SORP for investment trust companies, an amount would be included in these financial statements for the Performance Fee that could be payable based on investment performance to 31 July 2016.

At that date, no Performance Fee has been accrued for in the accounts (31 July 2015: £937,000; 31 January 2016: £2,016,000).

**3. taxation**

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

notes (continued)

**4. return per ordinary share**

	*Net return £'000	Revenue Ordinary Shares	Per Share pence	*Net return £'000	Capital Ordinary Shares	Per Share pence
<b>six months ended 31 July 2016</b>						
<b>(unaudited)</b>						
Basic return	(1,530)	14,440,412	(10.6)	8,819	14,440,412	61.1
Share options**	—	—		—	—	
Diluted return	<u>(1,530)</u>	<u>14,440,412</u>	(10.6)	<u>8,819</u>	<u>14,440,412</u>	61.1
<b>six months ended 31 July 2015</b>						
<b>(unaudited)</b>						
Basic return	(688)	14,542,035	(4.7)	39,425	14,542,035	271.1
Share options**	—	10,442		—	10,442	
Diluted return	<u>(688)</u>	<u>14,552,477</u>	(4.7)	<u>39,425</u>	<u>14,552,477</u>	270.9
<b>year ended 31 January 2016</b>						
<b>(audited)</b>						
Basic return	(890)	14,517,651	(6.1)	71,238	14,517,651	490.7
Share options**	—	—		—	—	
Diluted return	<u>(890)</u>	<u>14,517,651</u>	(6.1)	<u>71,238</u>	<u>14,517,651</u>	490.7

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

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

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

**notes** (continued)

**4. return per ordinary share** (continued)

*Net return £'000	Total Ordinary Shares	Per Share pence	
			<b>six months ended 31 July 2016</b> <b>(unaudited)</b>
7,289	14,440,412	50.5	Basic return
—	—		Share options**
<u>7,289</u>	<u>14,440,412</u>	50.5	Diluted return
			<b>six months ended 31 July 2015</b> <b>(unaudited)</b>
38,737	14,542,035	266.4	Basic return
—	10,442		Share options**
<u>38,737</u>	<u>14,552,477</u>	266.2	Diluted return
			<b>year ended 31 January 2016</b> <b>(audited)</b>
70,348	14,517,651	484.6	Basic return
—	—		Share options**
<u>70,348</u>	<u>14,517,651</u>	484.6	Diluted return

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

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

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

**notes** (continued)

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

The basic net asset value per Ordinary Share is based on net assets of £404,168,000 (31 July 2015: £367,545,000; 31 January 2016: £396,961,000) and on 14,438,520 Ordinary Shares (31 July 2015: 14,542,035; 31 January 2016: 14,442,035) being the number of Ordinary Shares in issue at the period end.

The diluted net asset value per Ordinary Share is calculated on the assumption that all 30,000 (31 July 2015: 30,000; 31 January 2016: 30,000) Share Options in-the-money were exercised at the prevailing exercise prices, giving a total of 14,468,520 issued Ordinary Shares (31 July 2015: 14,572,035; 31 January 2016: 14,472,035).

During the period, 3,515 Ordinary Shares were bought back for cancellation, at a total cost to the Company of £82,000.

**adjustment for Oryx**

On adoption of IFRS 10 during the year ended 31 January 2015, the Company changed its method of accounting for its investment in Oryx. It was previously priced using equity accounting to account for the Company's share of Oryx's net assets. It is now valued using fair value, derived from the share price which is materially different to the value derived from equity accounting.

The below table shows the effect on the net assets of the change in method.

	31 July 2016 (unaudited) £'000	31 July 2015 (unaudited) £'000	31 January 2016 (audited) £'000
Total equity attributable to equity holders of the Company	404,168	367,545	396,961
Increase in net assets if equity accounted*	8,740	5,898	3,980
<b>Adjusted net assets</b>	<b>412,908</b>	<b>373,443</b>	<b>400,941</b>

\* increase in net gains on investments at fair value/increase in value of investments at fair value through profit or loss.

**notes** (continued)

**5. net asset value per ordinary share** (continued)

	31 July 2016 (unaudited)	31 July 2015 (unaudited)	31 January 2016 (audited)
Net asset value			
– Basic	2,799p	2,527p	2,749p
– Diluted	2,796p	2,525p	2,746p
Net asset value adjusted			
– Basic	2,860p	2,568p	2,776p
– Diluted	2,857p	2,566p	2,773p

**6. share based remuneration**

As at 31 July 2016 and as at the date of this report, there were a total of 30,000 options in issue with an estimated fair value of £0.4m (31 July 2015: 30,000; 31 January 2016: 30,000). 10,000 options are under the 2011 options scheme and 20,000 options are under the 2012 option scheme.

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

	Six months ended 31 July 2016 (unaudited) £'000	Six months ended 31 July 2015 (unaudited) £'000	Year ended 31 January 2016 (audited) £'000
Return before finance costs and taxation	7,298	38,744	70,360
Gains on investments	(8,771)	(40,362)	(73,314)
Share options discharge	–	(103)	(103)
Share based remuneration	–	7	7
Dividends and interest reinvested	–	–	(721)
Increase in debtors and accrued income	(258)	(186)	(470)
(Decrease)/increase in creditors and accruals	(2,312)	1,126	2,472
Cash expended from operations	<u>(4,043)</u>	<u>(774)</u>	<u>(1,769)</u>

notes (continued)

**8. investments**

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

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

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.  
An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume on an ongoing basis such that quoted prices reflect prices at which an orderly transaction would take place between market participants at the measurement date. Quoted prices provided by external pricing services, brokers and vendors are included in Level 1, if they reflect actual and regularly occurring market transactions on an arms length basis.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

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

notes (continued)

**8. investments (continued)**

**financial assets at fair value through profit or loss (continued)**

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

**group**

**six months ended 31 July 2016 (unaudited)**

	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Equity investments	235,045	166,624	–	68,421
Fixed interest investments	132,551	101,243	–	31,308
<b>Total</b>	<b>367,596</b>	<b>267,867</b>	<b>–</b>	<b>99,729</b>

**six months ended 31 July 2015 (unaudited)**

	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Equity investments	227,352	153,087	2,050	72,215
Fixed interest investments	87,304	65,643	–	21,661
<b>Total</b>	<b>314,656</b>	<b>218,730</b>	<b>2,050</b>	<b>93,876</b>

**year ended 31 January 2016 (audited)**

	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Equity investments	246,621	168,009	–	78,612
Fixed interest investments	121,217	100,326	–	20,891
<b>Total</b>	<b>367,838</b>	<b>268,335</b>	<b>–</b>	<b>99,503</b>

notes (continued)

**8. investments** (continued)

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

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

**group**

**at 31 July 2016**

	Total £'000	Equity investments £'000	Fixed interest investments £'000
Opening balance at 31 January 2016	99,503	78,612	20,891
Purchases	16,267	3,896	12,371
Sales	(11,858)	(8,858)	(3,000)
Total gains/(losses) included in gains on investments in the statement of comprehensive income:			
– on assets sold	107	107	–
– on assets held at the end of the period	(4,290)	(5,336)	1,046
Closing balance	<u>99,729</u>	<u>68,421</u>	<u>31,308</u>

**9. principal risk profile**

The principal risks which the Company faces include exposure to:

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

Further details of the Company's management of these risks and exposure to them is set out in Note 14 of the Company's Annual Report for the year ended 31 January 2016, as issued on 12 May 2016. There have been no changes to the management of or exposure to these risks since that date.



## 10. related party transactions

There have been no changes to the related party arrangements or transactions as reported in the Statutory Annual Financial Report for the year ended 31 January 2016.

The Manager, Harwood Capital LLP, is regarded as a related party of the Company. The amounts payable to the Manager and Growth Financial Services Limited in respect of investment management for the six months to 31 July 2016 are as follows:

	Six months ended 31 July 2016 (unaudited) £'000	Six months ended 31 July 2015 (unaudited) £'000	Year ended 31 January 2016 (audited) £'000
Annual fee	2,005	1,672	3,344
Performance fee	–	930	2,016
Irrecoverable VAT thereon	(48)*	7	60
	<u>1,957</u>	<u>2,609</u>	<u>5,420</u>

\* Adjusted to VAT based on actual amount of VAT recovered in VAT return.

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

## 11. financial information

The financial information contained in this half yearly report does not constitute full Statutory accounts as defined in Section 434 of the Companies Act 2006. The financial information for the periods ended 31 July 2016 and 31 July 2015 is not a financial year and has not been audited. The information for the financial year ended 31 January 2016 has been extracted from the latest published Financial Statements, which have been delivered to the Registrar of Companies. The Report of the Auditors on those Financial Statements contained no qualification or statement under Section 498 of the Companies Act 2006.

**shareholder information**

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

**shareholder information** (continued)

**Directors**

Peregrine Moncreiffe (Chairman)  
Christopher Mills (Chief Executive)  
Kristian Siem  
Lord Howard of Rising  
Enrique Foster Gittes

**Manager**

Harwood Capital LLP  
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6 Stratton Street  
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London W1J 8LD  
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**Financial Adviser and Stockbroker**

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25 Dowgate Hill  
London EC4R 2GA

**Registered Office**

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Mayfair  
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Telephone: 020 7640 3200

**Registrars**

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Kent BR3 4TU

**Auditors**

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**Company Secretary**

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