

North Atlantic Smaller Companies Investment Trust plc

Preliminary results for the year ended 31 January 2018

NASCIT is pleased to announce its results for the year ended 31 January 2018

The preliminary financial information, which comprises the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet and the Statement of Cash Flow together with the related explanatory notes has been prepared on the basis of the accounting policies as set out in the audited financial statements for the year ended 31 January 2018 and International Financial Reporting Standards and Interpretations issued by the International Accounting Standards Board as adopted for use in the EU ("IFRS").

The financial information set out in this announcement does not constitute the Company's statutory accounts for the years ended 31 January 2018 or 2017 but is derived from those accounts. Statutory accounts for 2017 have been delivered to the registrar of companies, and those for 2018 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Highlights

	31 January 2018	%	31 January 2017	31 January 2016	31 January 2015	restated # 31 January 2014
revenue						
Gross income (£'000)	10,115	65.7%	6,105	3,175	1,840	3,344
Net Revenue after tax attributable to shareholders (£'000)	5,138	296.8%	1,295	(890)	(2,182)	(355)
Basic return per 5p Ordinary Share:* – Revenue	35.62p	297.1%	8.97p	(6.13)p	(14.55)p	(2.29)p
– Capital	455.29p	113.8%	212.95p	490.70p	254.88p	369.44p
assets						
Total assets less current liabilities (£'000)	499,423	16.5%	428,606	396,961	328,904	318,557
Net asset value ("NAV") per 5p Ordinary Share:**						
Basic	3,462p	16.5%	2,971p	2,749p	2,262p	2,006p
Diluted	3,458p	16.5%	2,968p	2,746p	2,259p	1,991p
Basic adjusted†	3,529p	16.2%	3,036p	2,776p	2,300p	2,054p
Diluted adjusted†	3,525p	16.2%	3,033p	2,773p	2,297p	2,037p
Mid-market price of the 5p Ordinary Shares	2,870.0p	16.9%	2,455.0p	2,280.0p	1,845.0p	1,600.0p
discount to diluted net asset value	17.0%		17.3%	17.0%	18.3%	19.6%
discount to diluted adjusted net asset value	18.6%		19.1%	17.8%	19.7%	21.5%
indices and exchange rates at 31 January						
Standard & Poor's 500 Composite Index	2,823.8	23.9%	2,278.9	1,940.2	1,995.0	1,782.6
Russell 2000 Index	1,575.0	16.5%	1,352.3	1,035.4	1,165.4	1,130.9
US Dollar/Sterling exchange rate	1.42205	13.0%	1.2581	1.4185	1.5019	1.6435
Standard & Poor's 500 Composite Index – Sterling adjusted	1,989.9	9.8%	1,811.7	1,362.2	1,324.7	1,084.4
Russell 2000 – Sterling adjusted	1,109.9	3.2%	1,075.1	726.9	773.8	688

* Please refer to note 7 for details on how the basic return per 5p Ordinary Share is calculated.

** Includes current period revenue. Please refer to note 7 for details on how the net asset value per 5p Ordinary Share is calculated.

The amounts for 31 January 2014 have been restated due to the adoption of International Financial Reporting Standard ("IFRS") 10.

† 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. This is useful to the shareholder as it shows the NAV based on valuing Oryx at NAV. See note 7.

chairman's statement

During the period under review, the fully diluted net asset value rose by 16.5%, to an all-time high of 3,458p. This compares with a rise in the sterling adjusted Standard & Poor's Composite Index of 9.8%.

The revenue account showed a profit after tax attributable to shareholders of £5,138,000 (2017: £1,295,000). In accordance with the Company's long standing policy, the Directors do not recommend the payment of a final dividend (2017: nil).

No shares were acquired for cancellation during the year, as the holding of our Chief Executive and his family are sufficiently close to 30% of the Company that any significant purchase could require him to make a bid for the Company.

A commentary on the Company's holdings and activities can be found in the Investment Manager's Report.

As I stated in last year's Annual Report, we had confidence in the performance of our investment portfolio and this indeed proved justified by the satisfactory rise in our net asset value.

In retrospect, our cautious liquidity position mainly held in the US dollars proved wrong as equity markets continued their upward trajectory despite valuations reaching levels where it is difficult to see little, if any, fundamental value. It is a truism that all bull markets are based on "it will be different this time." In my experience it never is, and preserving capital is critical to securing long term performance.

In the US quantitative easing is firmly behind us; interest rates and inflationary pressures are both rising, not least because wages are finally increasing in real terms as the labour market starts to meet capacity limitations. President Trump's tax cuts and increased fiscal spending will no doubt stimulate US economic growth for at least the next two years. Domestic corporate profits are also expected to rise substantially in 2018. I would, however, contend that this is reflected in the near 33% rise in US equities since Trump's election with the Standard & Poor's Composite Index now trading in excess of 17 times projected 2018 earnings (22 times historic).

US equity markets since the beginning of February have shown increased volatility, not least because of a significant decline in US Treasury 10 year bonds with most experts now expecting three or four rises in US short term rates over the next twelve months. Investors who have been chasing yield in equity markets may well think twice during 2018.

The UK economy continues to expand, although the rate of growth is modest as consumer debt reaches levels which are more commonly associated with the top of an economic cycle. However, there seems little sign of excess with growth in house prices in particular moderate.

Inflation has almost certainly peaked in the short term as the recovery in sterling against the US dollar should offset rising real wages.

Corporate profits for major companies face a difficult period due to the headwinds of a weak US dollar. Domestic companies taken as a whole should fare better.

The latest financial directives agreed by Brussels and Westminster will have a significant impact on the type of company in which the Trust invests in that it is likely to reduce both coverage and liquidity in smaller capital companies. Already one major investor is eliminating all exposure to companies with a market capitalisation of less than £100m. I believe this will create considerable opportunities over the next few years which the Trust is well placed to exploit given our substantial cash resources.

Our colleague Harry Gittes, who served on our Board since July 1992 and as our Chairman from 1998 to 2009, decided it was the appropriate time for him to step down. His wise counsel and friendship will be much missed. The Board is lucky to have gained the services of Walter Loewenbaum. Walter is a serial entrepreneur and is currently chairman of two substantial companies publicly listed in the United States, one of which he founded.

Kristian Siem has decided not to offer himself for re-election at the AGM. The Board is enormously appreciative of the outstanding contribution he has made to the Company over the last seventeen years, and we will miss his insightful guidance and business acumen.

Finally, I would like to congratulate our Chief Executive, Christopher Mills. Christopher became the Investment Manager for what was then Montagu Boston in 1982 and he became our Chief Executive in 1984. Since then the net asset value is up over one hundred times. At the end of January 2018 our net assets exceeded £500m with Oryx priced at net asset value and I am sure all the shareholders would wish to join with the Board in congratulating him.

Peregrine Moncreiffe

Chairman

11 May 2018

investment manager's report

quoted portfolio

United Kingdom:

It was a good year for the UK portfolio of the Company with significant rises in nearly all of our major holdings, including the recent purchase of Polar Capital Holdings plc. Of particular note, was the IPO and subsequent good market performance of Ten Entertainment Group plc. This transaction was completed approximately three years ago. During that period the value of our equity rose from £13.3m to £51.6m at the end of January 2018.

MJ Gleeson Group plc also performed very well during the twelve month period, rising by 34%. Advantage was taken of this strength to reduce our holding, although we believe the long term prospects for the business are good.

EKF Diagnostics Holdings plc also performed notably well rising by 60% following 3 profit upgrades.

Bioquell PLC rose by nearly 120% as the new management reduced costs and focussed the business to take full advantage of its unique solution to eliminate bacteria in the pharma industry. The company recently announced that profits would exceed market expectations.

Quantum Pharma PLC was sold at a 75% premium to the 31 January 2017 valuation following a takeover bid from Clinigen.

Oryx International Growth Fund Limited also performed well, comfortably outperforming its benchmark index.

The principal disappointment during the period was Goals Soccer Centres plc. The company is in the first year of a three year turnaround. Results from the sites, where there have been upgrades, have been most encouraging but the other sites have diluted the effects of these improvements. As the process is rolled out over the next two years, I would anticipate a good improvement in operating performance. It is difficult to turn around a company in a stock market where fund managers focus on short term results.

United States:

Taken as a whole, the US bank portfolio (consisting of Mountain Commerce and Metropolitan Bank Group) performed very well during the twelve month period. All the original unquoted banks have now been taken over at significant premiums to cost, with the exception of Mountain Commerce which remains publicly listed and rose substantially during the period following better than anticipated operating results.

The principal disappointment was Ambac Financial Group Inc. which fell over the period due to exposure to Puerto Rico which suffered catastrophic structural damage following Hurricane Maria.

unquoted portfolio

A description of the unquoted investments can be found in the Annual Report.

United Kingdom:

Industrial Properties Limited and Hampton Investment Properties Limited ("HIP") are both in the course of being liquidated. Industrial Properties Limited was written up during the year following the successful sale of all its assets. HIP however, had to be written down following disappointing offers for one of its properties.

Indoor Bowling Equity Limited, as previously noted, went public.

Viking Investments LP was refinanced on favourable terms during the year, although its operating performance remains solid but hardly exciting.

The majority of the UK portfolio is now concentrated in the two private equity funds, Trident Private Equity Fund III LP ("TPE3") and Harwood Private Equity Fund IV LP ("HPE4"). TPE3 is now in liquidation with its largest holding, Curtis Gilmour Holding Company under offer (see below) and its last investment is likely to be sold in fiscal year 2019.

United States:

Curtis Gilmour Holding Company is currently in an auction process following a further year of significant improvement in profitability.

Jaguar Holdings Limited continues to perform very well and has won substantial new business from American Airlines. This required significant new investment in facilities which resulted in an equity raise and the repayment of the majority of our mezzanine debt. The Trust participated in the equity raise. We are hopeful that this investment held indirectly through HPE4 and now directly will prove highly successful over the next two to three years.

Liquidity:

Liquidity at the end of the period was in excess of £100m, down from £129m last year. New investments were identified during the year but finding attractive opportunities remains challenging, not least as older investments mature.

The Company has some £50m of tax shelter for interest earned on bonds. As a consequence, we have a number of debt holdings and we will be seeking how best to maximise this asset in the future.

As Mr. Moncreiffe noted, the latest financial directives agreed by Brussels and Westminster should create good opportunities for a Company such as ours, with its fixed capital base ideally suited to take full advantage of illiquid markets.

Christopher Mills

Chief Executive & Investment Manager

11 May 2018

sector analysis of investments at fair value

as at 31 January

	Canada 31 January 2018 %	United States 31 January 2018 %	United Kingdom 31 January 2018 %	Total 31 January 2018 %	Total 31 January 2017 %
equities, convertible securities & loan stocks as a % of total portfolio valuation					
Financial Services	–	–	26.4	26.4	19.0
Travel & Leisure	–	0.3	14.2	14.5	5.1
Health Care	–	0.2	13.3	13.5	10.2
Industrial Goods & Services	–	5.2	5.4	10.6	13.0
Real Estate	–	–	9.7	9.7	13.9
Oil & Gas	–	2.7	–	2.7	3.1
Insurance	–	1.1	–	1.1	1.6
Banks	–	1.0	–	1.0	3.4
Technology	–	0.6	0.3	0.9	2.5
	–	11.1	69.3	80.4	71.8
treasury bills	–	19.6	–	19.6	28.2
total at 31 January 2018	–	30.7	69.3	100.0	
total at 31 January 2017	0.2	45.1	54.7		100.0

twenty largest investments

as at 31 January

		At fair value £'000
equities (including convertibles, loan stocks and related financing)		
Oryx International Growth Fund Limited*	UK Listed	55,663
Ten Entertainment Group plc	UK Listed	51,600
MJ Gleeson Group plc	UK Listed	42,304
Polar Capital Holdings plc	UK Quoted on AIM	34,650
EKF Diagnostics Holdings plc	UK Quoted on AIM	26,215
Trident Private Equity Fund III LP	UK Unquoted	16,261
Sherwood Holdings Limited	UK Unquoted	15,165
Bioquell PLC	UK Listed	14,844
Harwood Private Equity IV LP	UK Unquoted	14,503
Performance Chemicals Company	US Unquoted	12,776
ten largest investments		283,981
Sportech PLC	UK Listed	11,501
AssetCo plc	UK Quoted on AIM	9,441
Benchmark Holdings plc	UK Quoted on AIM	8,409
BBA Aviation plc	UK Listed	7,036
Lakehouse plc	UK Quoted on AIM	7,020
Curtis Gilmour Holding Company	US Unquoted	6,683
Jaguar Holdings Limited	US Unquoted	6,645
Goals Soccer Centres plc	UK Quoted on AIM	6,480
Ambac Financial Group Inc.	US Listed	5,696
Coventbridge Group	US Unquoted	5,626
twenty largest investments		358,518
Aggregate of other investments at fair value		34,782
		393,300
US Treasury Bills		95,612
total		488,912

* incorporated in Guernsey.

All investments are valued at fair value.

strategic report

The Directors present the strategic report of the Company for the year ended 31 January 2018.

principal activity

The Company carries on business as an investment trust and its principal activity is portfolio investment.

objective

The Company's objective is to provide capital appreciation to its Shareholders through investing in a portfolio of smaller companies which are based primarily in countries bordering the North Atlantic Ocean.

strategy

In order to achieve the Company's investment objective, the Manager uses a stock specific approach in managing the Company's portfolio, selecting investments that he believes will increase in value over a period of time, whether that be due to issues in the management of the businesses which he believes can be improved by Shareholder engagement and involvement or simply due to the fact that the stock is undervalued and he can see potential for improvement in value over the long term. The Company may invest in both quoted and unquoted companies. At present, the investments in the portfolio are principally in companies which are located either in the United Kingdom or the United States of America. Typically the investment portfolio will comprise between 40 and 50 securities.

investment policy

While pursuing the Company's objective, the Manager must adhere to the following:

1. The maximum investment limit is 15% of the Company's investments in any one company at the time of the investment;
2. Gearing is limited to a maximum of 30% of net assets;
3. The Company may invest on both sides of the Atlantic, with the weighting varying from time to time;
4. The Company may invest in unquoted securities as and when opportunities arise and again the weighting will vary from time to time.

investment approach

The Company invests in a diversified range of companies, both quoted and unquoted, on both sides of the Atlantic in accordance with its objective and investment policy.

Christopher Mills, the Company's Chief Executive and Investment Manager, is responsible for the construction of the portfolio and details of the principal investments are set out the Annual Report. The top twenty largest investments by current valuation are listed above.

When analysing a potential investment, the Manager will employ a number of valuation techniques depending on their relevance to the particular investment. A key consideration when deciding on a potential investment would be the sustainability and growth of long term cash flow. The Manager will consider the balance of quoted and unquoted securities in the portfolio when deciding whether to invest in an unquoted stock as he is aware that the level of risk in unquoted securities may be considered higher.

In respect of the unquoted portfolio, regular contact is maintained with the management of prospective and existing investments and rigorous financial and business analysis of these companies is undertaken. It is recognised that different types of business perform better than others depending on economic cycles and market conditions and this is taken into consideration when the Manager selects investments and is therefore reflected within the range of investments in the portfolio. The Company attempts to minimise its risk by investing in a diversified spread of investments whether that spread be geographical, industry type or quoted or unquoted companies.

financial instruments

The financial instruments employed by the Company primarily comprise equity and loan stock investments, although it does hold cash and liquid instruments. Further details of the Company's risk management objectives and policies relating to the use of financial instruments can be found in note 14 to the financial statements.

performance

At 31 January 2018, the diluted NAV per share was 3,458p (2017: 2,968p), an increase of 16.5% during the year, compared to an increase of 9.8% during the year in the Standard & Poor's 500 Composite Index (Sterling adjusted).

Net assets attributable to equity holders at 31 January 2018 amounted to £499,423,000 compared with £428,606,000 at 31 January 2017.

The ongoing charges relating to the Company are 1.0% (2017: 1.1%), based on total expenses, excluding finance charges and non-recurring items for the year and average monthly net assets.

results and dividends

The total net return after taxation for the financial year ended 31 January 2018 amounted to £70,817,000 (2017: £32,038,000). The Board does not propose a final dividend (2017: nil).

key performance indicators

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

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

net asset value in pence

Due to the adoption of IFRS 10, the net asset value figure for 2014 has been restated. Previous years remain unchanged.

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

share price return

- (iii) **Performance against benchmark**

The performance of the Company's share price is measured against the Standard & Poor's 500 Composite Index (Sterling adjusted), the Company's benchmark. A graph comparing performance can be found in the Directors' Remuneration Report in the Annual Report.

principal risks and uncertainties

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

- Performance risk – the Board is responsible for deciding the investment strategy in order to fulfil the Company's objectives and for monitoring the performance of the Manager. An inappropriate investment strategy may result in under performance against the companies in the peer group or against the benchmark indices. The Board manages this risk by ensuring that the investments are appropriately diverse and by receiving reports from the Manager at every board meeting explaining his investment decisions and the composition and performance of the portfolio.
- Market risk – this category of risk includes currency risk, market price risk and interest rate risk. The fair value or future cash flows of a financial investment held by the Company may fluctuate because of changes in market prices. Also, the valuations of the investments in the portfolio may be subject to fluctuation due to exchange rates or general market prices. The Manager monitors these fluctuations and the markets on a daily basis; the performance of the investment portfolio against its benchmarks is also closely monitored by the Manager. The afore-mentioned graph in the Directors' Remuneration Report illustrates the Company's performance against its benchmarks over the last nine years.
- Investments in unquoted stocks, by their nature, involve a higher degree of risk than investments in the listed market. The valuation of unquoted investments can include a significant element of estimation based on professional assumptions that is not always supported by prices from current market transactions. Recognised valuation techniques are used and recent arms' length transactions in the same or similar entities may be taken into account. Clearly the valuation of such investments is therefore a key uncertainty but the Board manages this risk by regularly reviewing the valuation principles applied by the Manager to ensure that they comply with the Company's accounting policies and with fair value principles. Harwood Capital LLP, a firm which is ultimately owned by Christopher Mills, the Company's Manager, and which provides services such as dealings administration and compliance to the Company, operates a Valuations and Pricing Committee which meets regularly throughout the year to review and agree the valuations of the investments in the portfolio for onward submission to the Board. The Company's independent auditors also attend these Committee meetings.
- Discount volatility: the Company's shares historically trade at a discount to its underlying net asset value. The Company has a share buyback programme in place to try to narrow this discount as far as possible by cancelling shares that it repurchases. The Company did not repurchase any Ordinary Shares for cancellation during the year.
- Regulatory risk: any breach of a number of regulations applicable to the Company, the UKLA's Listing Rules and the Companies Act could lead to a number of detrimental effects on the Company as well as reputational damage. The Audit Committee monitors compliance with these regulations in close alliance with the Manager and Secretary.
- Custodial and Banking risk: there is a risk that the custodians and banks used by the Company to hold assets and cash balances could fail and the Company's assets may not be returned. Associated with this is the additional risk of fraud or theft by employees of those third parties. The Board exercises monitoring through the Manager and Harwood Capital LLP over the financial position of its custodial banks.
- Credit risk/Counterparty risk: the Company holds preference shares in some investee companies and provides other forms of debt or loan guarantees where deemed necessary. There is a risk of those counterparties being unable to meet their obligations. The financial position and performance of those investee companies are continually monitored by the Manager and actions are taken to protect the Company's investment if needed.

viability statement

In accordance with the UK Corporate Governance Code the Board has considered the longer term prospects for the Company. The Directors have reviewed the Company over the next three years to May 2021, which is generally a reasonable investment horizon for many investment trust shareholders. This assessment took into account the Company's current position as well as its continuing investment strategy. Additional factors under review included the principal risks inherent in its management and portfolio structure, contractual arrangements and cost base.

The Directors have noted the following elements as part of its evaluation:

- the Company invests in a combination of listed and unquoted companies, the large majority of which have positive EBITDA and/or net tangible asset values which support their valuations;
- the Company holds around 20% of its portfolio in US Treasury Bills which are readily realisable and intends to continue to hold liquidity comfortably in excess of any contingent liabilities, including any requirements to fund any future drawdowns resulting from private equity or put option commitments;
- the Company's forecasts for income and expenses are relatively stable while its overheads are largely variable and positively correlated with the Company's net asset value and relative performance, giving comfort that the Company could easily cover costs in the event of a substantial decline in net asset value.

The Directors have also assessed the Company's principal risks and uncertainties and believe that appropriate measures are in place to minimise the likelihood of their potential to impact the viability of the Company. These measures include:

- the Manager's reports on compliance with the investment objective;
- the Manager's control of counterparty and custodial risk;
- the Board's monitoring of gearing (if any), compliance with specific investment guidelines and liquidity risk;
- monitoring the share price's discount to net asset value and the stability of the shareholder base.

Based on the results of this analysis, the Directors have concluded that there is a reasonable expectation that the Company can continue in operation and meet its liabilities as they fall due during the period to May 2021.

future prospects

The Directors are hopeful that some of the Company's investments will see corporate activity over the coming year and that the year ending 31 January 2019 will see a further rise in the Company's net asset value.

social, community and human rights issues

As an investment trust with no employees the Company has no direct social or community responsibilities or impact on the environment. The Company, however, takes into account the impact of environmental, social and governance factors when selecting and managing its investments within the context of its obligation to manage investments in the financial interests of its shareholders.

modern slavery act

As an investment vehicle the Company does not provide goods or services in the normal course of business. Accordingly, the Directors consider that the Company is not required to make any slavery or human trafficking statement under the Modern Slavery Act 2015.

greenhouse gas emissions

The Company has no physical assets, operations, premises or employees of its own. Consequently it has no greenhouse gas emissions to report. Hampton Investment Properties Limited ("Hampton"), a property investment and development company, in which the Company has a 71% holding, owns a portfolio of commercial properties which it leases out to third party tenants and the Company is required to report on this. It has not been practical to obtain this information as Hampton is not required to collate such information for its own reporting purposes, thus the information is not readily available. Also, Hampton is in the process of liquidating its property portfolio. However the Board has communicated its views on environmental matters to Hampton's management team and requested that they strive to minimise any impact on the environment.

AIFMD

The Company is authorised under the AIFMD as a Small Registered UK Alternative Investment Fund Manager under regulation 10(1) of the Alternative Investment Fund Managers Regulations 2013 (SI 2013/1773). Small registered UK AIFMs are not authorised persons as a result of their registration as small registered UK AIFMs and are not included on the Financial Services Register in relation to this business. However, small registered UK AIFMs are not prevented from carrying on regulated activities as a result of their registration and therefore may be included on the Financial Services Register in relation to other business. For AIFMD purpose the Company is internally managed with Christopher Mills making the investment decisions in his capacity as Chief Executive. As the Company is at the tipping point it is now seeking approval as a full-scope UK AIFM of an internally managed AIF.

By Order of the Board

Derringtons Limited

Company Secretary
11 May 2018

report of the directors

for the year ended 31 January

The Directors present their report to Shareholders and the financial statements for the year ended 31 January 2018. Certain information that is required to be disclosed in this report has been provided in other sections of this Annual Report and accordingly, these are incorporated into this report by reference.

taxation status

In the opinion of the Directors, the Company has conducted its affairs during the period under review, and subsequently, so as to maintain its status as an investment trust for the purposes of Chapter 4 of Part 24 of the Corporation Tax Act 2010. The Company 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 subject to the Company continuing to meet the eligibility conditions contained in Section 1158 of the Corporation Tax Act 2010 and the ongoing requirements outlined in Chapter 3 of Part 2 of the Regulations.

share capital

The Company's issued share capital consisted of 14,425,620 Ordinary Shares of 5p nominal value each on 31 January 2018. Since the year end, no Ordinary Shares have been repurchased for cancellation. All shares hold equal rights with no restrictions and no shares carry special rights with regard to the control of the Company. There are no special rights attached to the shares in the event that the Company is wound up.

During the year, the Company did not purchase any Ordinary Shares for cancellation.

share valuations

On 31 January 2018, the middle market quotation and the diluted net asset value per 5p Ordinary Share were 2,870p and 3,458p respectively. The comparable figures at 31 January 2017 were 2,455p and 2,968p respectively. It should be noted that since the conversion of the outstanding units of Convertible Unsecured Loan Stock 2013, the only dilution on the net asset value is those share options that have been issued to certain employees of the Manager.

substantial shareholders

As at 31 January 2018, the following interests in the Ordinary Shares of the Company which exceed 3% of the issued share capital had been notified to the Company:

	Number of Ordinary Shares	% of issued share capital
Christopher Mills	3,664,000	25.40
CG Asset Management Limited	1,125,863	7.80
Rathbone Brothers Plc	764,697	5.30
Old Mutual Plc	724,171	5.02
Butterfield Trust (Bermuda) Limited	670,880	4.65

directors

The biographical details for Directors currently in office are shown in the Annual Report.

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

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

directors' interests

The interests of the Directors as notified to the Company, including those of their connected persons, in the Ordinary Shares of the Company as at 31 January 2018 and 31 January 2017 were as follows:

	31 January 2018 5p Ordinary Shares	31 January 2017 5p Ordinary Shares
Peregrine Moncreiffe	417,640	405,630
Christopher Mills	3,664,000	3,640,000
Christopher Mills (non-beneficial)	355,740	355,740
Kristian Siem*	—	—
Enrique Foster Gittes (resigned 31 October 2017)	N/A	111,400
Lord Howard of Rising	5,000	3,000
G Walter Loewenbaum (appointed 31 October 2017)	15,000	N/A

* Siem Capital International Limited, a company which is indirectly controlled by a trust of which Kristian Siem and his family are potential beneficiaries, is ultimately interested in 147,000 Ordinary Shares (2017: 147,000 Ordinary Shares).

Since the year end Christopher Mills' holding has increased to 3,666,000 shares.

Save as disclosed, there have been no changes to the above interests between 31 January 2018 and the date of this report.

Details of Directors' remuneration are described in the Directors' Remuneration Report in the Annual Report.

Save as disclosed below or in notes 3 and 15 to the financial statements, no Director was party to or had any interest in any contract or arrangement with the Company at any time during the year.

significant agreements

The Company is required to disclose details of any agreement that it considers to be essential to the business. Pursuant to the Sub Advisory, Administration and Transmission Services Agreement dated 15 June 2016, Harwood Capital LLP provides administration services to the Company. This is considered by the Board to be a significant agreement.

The Sub Advisory, Administration and Transmission Services Agreement continues unless thereafter terminated by either party on not less than twelve months' notice in writing or may be terminated forthwith as a result of a material breach of the agreement or the insolvency of either party. No compensation is payable on termination of the Agreement. The Board reviews the activities of the Manager. 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 Manager, on the terms agreed, is in the best interests of Shareholders. Christopher 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 Harwood Capital LLP. The Company's performance over the last year is described in the Chairman's Statement above.

related party transactions

Christopher Mills, the Chief Executive, is Chief Investment Officer and a member of Harwood Capital LLP. Christopher 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 Harwood Capital LLP. Christopher Mills is a director of Growth Financial Services Limited ("GFS"). GFS is a wholly-owned subsidiary of Harwood Capital Management Limited, which is the holding company of the Harwood group of companies and is, in turn, 100% owned by Christopher Mills. Harwood Capital Management Limited is also a Designated Member of Harwood Capital LLP.

Pursuant to the Secondment Services Agreement between the Company, GFS and Christopher Mills and the Sub Advisory, Administration and Transmission Services Agreement between the Company and Harwood Capital LLP, Christopher Mills is responsible for the day-to-day investment decisions. 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 15 and in the Directors' Remuneration Report of the Annual Report. The Investment Management Fees are disclosed in note 3 of the Annual Report. Any Performance Fee payable to GFS is disclosed in the Directors' Remuneration Report of the Annual Report and notes 3 and 4 of the financial statements.

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, in the absence of explicit instruction from the Board, is 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 is appropriate to adopt a voting policy and an investment policy with regard to social, ethical and environmental issues and concluded that it is not appropriate to change the existing arrangements.

donations

The Company does not make any political or charitable donations.

post balance sheet events

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

creditors' payment policy

It is the Company's policy to settle investment transactions according to the settlement periods operating for the relevant markets. For other creditors, it is the Company's policy to pay amounts due to them as and when they become due. All supplier invoices received by 31 January 2018 had been paid (31 January 2017 – all supplier invoices paid).

auditors

A resolution to reappoint KPMG LLP as the Company's auditors and to authorise the Board to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

going concern

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

additional disclosures

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

- The Company's capital structure and voting rights are summarised earlier in this report and note 11;
- Details of the substantial shareholders in the Company are listed earlier in this report.
- The rules concerning the appointment and replacement of directors are contained in the Company's Articles of Association and are discussed earlier in this report.
- Amendment of the Company's Articles of Association and powers to issue on a pre-emptive basis or buy back the Company's shares requires a special resolution to be passed by the Shareholders;
- There are: no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; no agreements which the Company is party to that might affect its control following a takeover bid; no agreements between the Company and its Directors concerning compensation for loss of office; and no qualifying third party indemnities in place.

explanatory notes for the 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 9 – Ordinary Resolution – Renewal of Directors' authority to allot shares

The authority given to the Directors at the last Annual General Meeting to allot Shares expires at the conclusion of this year's meeting. Resolution 10 will renew the authority to allot Shares of the Company on similar terms. If Resolution 10 is passed the Directors will have the authority to allot Shares up to the aggregate nominal amount of £240,427 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 10 – Special Resolution – Renewal of Directors' authority for the disapplication of pre-emption rights

The authority given to Directors to disapply pre-emption rights expires at the Annual General Meeting. Resolution 11 will renew the disapplication of pre-emption rights thereby authorising the Directors to allot equity securities for cash up to a maximum aggregate renewal amount of £36,064 representing 721,281 Ordinary Shares of 5p each, being equivalent to 5% of the current issued share capital, without first offering such securities to existing Shareholders.

Resolution 11 – Special Resolution – Authority to purchase the Company's own shares

The authority given to Directors to purchase the Company's Ordinary Shares in the market expires at the forthcoming Annual General Meeting. Resolution 11 seeks the authority of Shareholders to purchase a maximum of 1,081,922 Ordinary Shares representing 7.5% of the current issued share capital. The Directors intend to exercise this authority only when, in the light of market conditions prevailing at the time and taking into account investment opportunities, appropriate gearing levels and the overall financial position, they believe that the effect of such purchases will be to increase the underlying value per Ordinary Share having regard to the interests of Shareholders generally. Shares will not be bought at a price of less than 5 pence each being the nominal value of each share nor more than 5% above the average middle market quotation of the shares over the preceding five business days nor will they be purchased during periods when the Company would be prohibited from making such purchases. Purchases will be made within guidelines set by the Board and using available reserves. Ordinary Shares purchased will be cancelled and the number of shares in issue reduced accordingly.

Resolution 12 – Special Resolution – Notice of general meetings

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

The above resolutions are contained in the Notice of Annual General Meeting in the Annual Report.

recommendation

The Board considers that resolutions 9 to 12 are likely to promote the success of the Company and are in the best interests of the Company and its Shareholders as a whole. The Directors therefore unanimously recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings which amount in aggregate to 4,101,640 shares representing 28.43% of the voting rights of the Company.

By Order of the Board

Derringtons Limited

Company Secretary

Registered Office:

6 Stratton Street

Mayfair

London

W1J 8LD

Registered No: 1091347

11 May 2018

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

for the year ended 31 January

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Report of the Directors, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company taken as a whole; and
- the Strategic Report and the Report of the Directors includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

For and on behalf of the Board

Peregrine Moncreiffe

Chairman

11 May 2018

statement of comprehensive income

for the year ended 31 January

		2018			2017		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income	2	10,115	–	10,115	6,105	–	6,105
Net gains on investments at fair value	8	–	69,197	69,197	–	30,069	30,069
Currency exchange (losses)/gains	8	–	(769)	(769)	–	626	626
total income		10,115	68,428	78,543	6,105	30,695	36,800
Expenses							
Investment management fee	3	(4,380)	(2,749)	(7,129)	(4,009)	48	(3,961)
Other expenses	4	(586)	–	(586)	(790)	–	(790)
return before taxation		5,149	65,679	70,828	1,306	30,743	32,049
Taxation	6	(11)	–	(11)	(11)	–	(11)
return for the year		5,138	65,679	70,817	1,295	30,743	32,038
basic earnings per ordinary share	7	35.62	455.29	490.91	8.97	212.95	221.92
diluted earnings per ordinary share	7	35.61	455.19	490.80	8.97	212.95	221.92

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

The total column of the statement is the Statement of Comprehensive Income of the Company. 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 year.

The financial statements have been prepared in accordance with the accounting policies below.

The notes form part of these financial statements.

statement of changes in equity

for the year ended 31 January

	Share capital £'000	Share options reserve £'000	Share premium account £'000	Capital reserve £'000	Capital redemption reserve £'000	Revenue reserve £'000	Total £'000
2018							
31 January 2017	721	55	1,301	432,444	149	(6,064)	428,606
Total comprehensive income for the year	–	–	–	65,679	–	5,138	70,817
31 January 2018	721	55	1,301	498,123	149	(926)	499,423

	Share capital £'000	Share options reserve £'000	Share premium account £'000	Capital reserve £'000	Capital redemption reserve £'000	Revenue reserve £'000	Total £'000
2017							
31 January 2016	722	55	1,301	402,094	148	(7,359)	396,961
Total comprehensive income for the year	–	–	–	30,743	–	1,295	32,038
Shares purchased for cancellation	(1)	–	–	(393)	1	–	(393)
31 January 2017	721	55	1,301	432,444	149	(6,064)	428,606

The financial statements have been prepared in accordance with the accounting policies below.

The notes form part of these financial statements.

balance sheet
as at 31 January

	Notes	31 January 2018 £'000	31 January 2017 £'000
non current assets			
Investments at fair value through profit or loss	8	<u>488,912</u>	414,618
		488,912	414,618
current assets			
Trade and other receivables	9	3,943	2,516
Cash and cash equivalents		<u>10,653</u>	11,829
		14,596	14,345
total assets		503,508	428,963
current liabilities			
Trade and other payables	10	<u>(4,085)</u>	(357)
total liabilities		(4,085)	(357)
total assets less current liabilities		<u>499,423</u>	428,606
net assets		499,423	428,606
represented by:			
Share capital	11	721	721
Share options reserve		55	55
Share premium account		1,301	1,301
Capital reserve		498,123	432,444
Capital redemption reserve		149	149
Revenue reserve		<u>(926)</u>	(6,064)
total equity attributable to equity holders of the company		499,423	428,606
net asset value per ordinary share:			
Basic	7	3,462p	2,971p
Diluted	7	3,458p	2,968p

The financial statements have been prepared in accordance with the accounting policies below.

The notes form part of these financial statements.

These financial statements were approved by the Board of Directors on 11 May 2018 and signed on its behalf by:

Peregrine Moncreiffe, Chairman

Company Registered Number: 1091347

cash flow statement

for the year ended 31 January

	Notes	2018 £'000	2017 £'000
cash flows from operating activities			
Investment income received		7,023	2,112
Deposit interest received		5	–
Other income		192	2,438
Investment Manager's fees paid		(4,398)	(6,058)
Other cash payments		(653)	(821)
cash generated/(expended) from operations	12	2,169	(2,329)
Taxation paid		(11)	(11)
net cash inflow/(outflow) from operating activities		2,158	(2,340)
cash flows from investing activities			
Purchases of investments		(431,754)	(446,923)
Sales of investments		428,896	430,274
net cash outflow from investing activities		(2,858)	(16,649)
cash flows from financing activities			
Repurchase of Ordinary Shares for cancellation		–	(393)
net cash outflow from financing activities		–	(393)
decrease in cash and cash equivalents for the year		(700)	(19,382)
cash and cash equivalents at the start of the year		11,829	30,839
Revaluation of foreign currency balances		(476)	372
cash and cash equivalents at the end of the year	13	10,653	11,829

The financial statements have been prepared in accordance with the accounting policies below.

The notes form part of these financial statements.

notes to the financial statements

1 accounting policies

NASCIT is a listed public limited company incorporated in Great Britain and registered in England and Wales. The registered office of the Company is 6 Stratton Street, Mayfair, London W1J 8LD.

During the year, the Company has not adopted any new IFRS's.

new standards and interpretations not yet applied

IASB and IFRIC have issued and endorsed the following standards and interpretations, applicable to the Company, which are not yet effective for the year ended 31 January 2018 and have therefore not been applied in preparing these financial statements.

New/Revised IFRSs		Issued	Effective date for annual periods beginning on or after
IFRS 9	Financial Instruments	July 2014	1 January 2018
IFRS 15	Revenue from Contracts with Customers	May 2014	1 January 2018
Amendments to IFRSs			
IFRS 2	Classification and Measurement of Share-based Payment Transactions	June 2016	1 January 2018*
	Annual Improvements to IFRS Standards 2015-2017 Cycle	December 2017	1 January 2019*
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration	December 2016	1 January 2018*

* not yet endorsed by the EU.

The Directors have considered the implications of IFRS 9 and, in light of the Company's business model, believe that the Company's investments will be valued at fair value. Consequently, the Directors expect IFRS 9 to have very little impact on the results of the entity.

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

The Company will continue to monitor future standards.

The Company will only adopt standards at the beginning of its financial year, therefore any standards or interpretations with an effective date after 1 February 2017 will not have been adopted.

a) basis of preparation/statement of compliance

The annual financial statements of the Company have been prepared in conformity with IFRSs which comprise standards and interpretations approved by the International Accounting Standards Board and International Financial Accounting Standards and Standing Interpretation Committee, interpretations approved by the International Accounting Standards Committee that remain in effect and to the extent they have been adopted by the European Union. They have also been prepared in accordance with applicable requirements of England and Wales company law and reflect the following policies which have been adopted and applied consistently. The financial statements have also been prepared in accordance with the SORP for investment trust companies issued in November 2014 and updated in February 2018 with consequential amendments, except to any extent where it conflicts with IFRS.

b) measurement basis

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 designated at fair value through profit or loss.

c) segmental reporting

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

d) investments at fair value through profit or loss

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

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

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

d) investments at fair value through profit or loss continued

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

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

Securities and Treasury Bills quoted on recognised stock exchanges are valued at the market bid price and exchange rates ruling at the Balance Sheet date, with the exception of SETS stocks, which are valued using latest trade price, which is equivalent to the fair value, being representational of any sale price that the Company would achieve.

(ii) unquoted at directors' estimate of fair value

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

Included within the Statement of Comprehensive Income as at 31 January 2018, is a loss of £10,749,000 relative to the movement in the fair value of the unquoted investments valued using valuation techniques.

e) foreign currency

The currency of the primary economic environment in which the Company operates (the "functional currency") is pounds Sterling, which is also the presentational currency of the Company. 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 are measured at fair value through profit or loss; and
- other monetary items are included in the Statement of Comprehensive Income and allocated as capital if they are of a capital nature, or as revenue if they are of a revenue nature.

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

f) 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.

g) 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.

h) 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 also allocated to capital.

i) share based payments

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

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

j) trade and other receivables

Trade and other receivables do not carry any interest and are stated at their fair value as reduced by appropriate allowances for estimated irrecoverable amounts.

k) cash and cash equivalents

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 Company's cash management, are included as a component of cash and cash equivalents for the purpose of the Cash Flow Statement. Cash in hand and at banks and short-term deposits which are held to maturity are carried at cost.

l) taxation

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

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

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

m) share capital and reserves

Share Capital represents the nominal value of equity shares.

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

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

Capital Reserve represents realised and unrealised capital and exchange gains and losses on the disposal and revaluation of investments and of foreign currency items. In addition, performance fee costs are allocated to the Capital Reserve. The realised capital reserve can be used for the repurchase of shares.

Capital redemption reserve represents the amount by which the share capital has been reduced, equivalent to the nominal value of the Ordinary Shares repurchased for cancellation.

Revenue Reserve represents retained profits from the income derived from holding investment assets less the costs associated with running the Company. This reserve can be distributed.

n) use of estimates and judgements

The preparation of these financial statements in conformity with IFRS requires the Directors to make judgements, estimates and assumptions that affect the application of accounting policies and therefore, the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

These estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

In particular, information about significant areas of estimation uncertainty in applying accounting policies that have the most effect on the amounts recognised in the financial statements relates to the determination of fair value of financial instruments with significant unobservable inputs.

In order to value the unquoted investments, there are a number of valuation techniques that can be used. Judgement is used to determine the best methodology to obtain the most accurate valuation. These types of valuation technique are mentioned earlier in this note and disclosed as part of the 'other price risk profile' in note 14.

2 income

	2018 £'000	2017 £'000
income from investments		
Dividend income	4,426	1,850
Unfranked investment income		
– interest	3,077	447
– interest reinvested	2,450	647
	9,953	2,944
other income		
Interest receivable	5	3,159
Net return from Subsidiary	82	–
Realised gains on income	–	2
Sundry income received	75	–
	162	3,161
Total income	10,115	6,105
total income comprises		
Dividends	4,426	1,850
Interest	5,532	4,253
Other income	157	2
	10,115	6,105
income from investments		
Listed UK	4,350	1,793
Other listed	76	57
Other unquoted	5,527	1,094
	9,953	2,944

3 investment management fee

- (i) Pursuant to the Secondment Services Agreement, described in the Report of the Directors above and the Directors' Remuneration Report of the Annual Report, GFS provides the services of Christopher Mills as Chief Executive of the Company, who is responsible for day-to-day investment decisions. Christopher Mills is a director of GFS. GFS is entitled to receive part of the investment management and related fees payable to GFS and Harwood Capital LLP as may be agreed between them from time to time.
- (ii) Pursuant to the terms of the Sub Advisory, Administration and Transmission Services Agreement, described above in the Report of the Directors, Harwood Capital LLP is entitled to receive a fee (the Annual Fee) in respect of each financial period equal to the difference between (a) 1% of Shareholders' Funds (as defined) on 31 January each year and (b) the amount payable to GFS referred to in note 3(i) above. This fee is payable quarterly in advance.

As set out in note 15, no formal arrangements exist to avoid double charging on investments managed or advised by the Chief Executive or Harwood Capital LLP.

- (iii) The Performance Fee, calculated annually to 31 January, is only payable if the investment portfolio, including Oryx at the adjusted price, outperforms the Sterling adjusted Standard & Poors' 500 Composite Index. It is calculated as 10% of the outperformance and paid as a percentage of Shareholders' Funds. It is limited to a maximum payment of 0.5% of Shareholders' Funds. The Performance Fee arrangements payable to GFS have been in place since 1984 when they were approved by Shareholders.

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

	2018			2017		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Annual fee	4,380	–	4,380	4,009	–	4,009
Performance Fee	–	2,560	2,560	–	–	–
Irrecoverable VAT thereon	–	189	189	–	(48)*	(48)
	4,380	2,749	7,129	4,009	(48)	3,961

* Adjustment to 2016 VAT based on actual amount of VAT recovered in VAT return.

At 31 January 2018, £219,000 was payable to Harwood Capital LLP in respect of outstanding management fees (2017: £200,000). At 31 January 2018, £2,560,000 net of VAT was payable to GFS in respect of outstanding performance fees (2017: £nil).

4 other expenses

	2018 £'000	2017 £'000
Auditor's remuneration (see below)	53	47
Directors' fees (see page • and below)	130	115
Administration fee (see note 3)	243	226
Other expenses	160	402
	586	790
auditors' remuneration	2018 £'000	2017 £'000
Fees payable to Auditor for audit	53	47
	53	47
directors' remuneration	2018 £'000	2017 £'000
a) Directors Fees		
Peregrine Moncreiffe (Chairman)	30	15
Kristian Siem	25	25
Enrique Foster Gittes	21	25
Lord Howard of Rising	25	25
Christopher Mills	25	25
G Walter Loewenbaum	4	–
	130	115
b) Other fees		
Performance fee (net of VAT)*	2,560	–
Investment management and related fees*	1,752	1,604
	4,442	1,719

* Payable to GFS.

5 share based remuneration

A list of the Options in issue are shown below;

No. of options at 1 February 2017	Year of grant	Discharged during the year	Grant of options during the year	Price	No. of Options at 31 January 2018
10,000	2011	–	–	1,467.71	10,000
20,000	2012	–	–	1,396.24	20,000

Further details of Options are disclosed in the Annual Report and in note 11.

On 14 July 2011, Christopher Mills was granted 420,000 share options under the NASCIT 2011 Executive Share Option Scheme at an exercise price of 1,467.71p per share. A further 10,000 options were granted to an eligible employee of Harwood Capital LLP. Christopher Mills discharged his share of these options on 23 October 2014. The remaining 10,000 options are exercisable (providing the necessary performance requirements are met between 14 July 2014 and 14 July 2021).

On 9 July 2012, a further 30,000 options were granted to other eligible employees of Harwood Capital LLP at an exercise price of 1,396.24p. 10,000 of these options were discharged on 31 May 2015. The remaining 20,000 options are exercisable (providing the necessary performance requirements are met between 9 July 2015 and 9 July 2022).

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

	2011 Options	2012 Options
Award date	14 July 2011	9 July 2012
Exercise price	1,467.71p	1,396.24p
Assumptions:	per annum	per annum
Future share price volatility	25.0%	20.0%
Future dividend yield	0.0%	0.0%
Future risk-free interest rate	1.2%	30.0%
Minimum gain threshold	33.0%	33.0%
Proportion of options exercised given minimum gain achieved	50.0%	50.0%
Share price [^]	1,097.00p	1,045.00p

[^] Share price is the closing mid-market price on the day before the date of grant.

Based on the above assumptions (prior to any options discharged):

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

The accounting charge is based on the fair value of each grant, at the grant date and is spread over the vesting period, being 3 years from the date of grant assuming all necessary performance criteria are met. The deemed expense is transferred to the Share options reserve. As at 31 January 2018 and 2017 there was no accounting charge as the vesting period has expired.

At the date of this report there were a total of 30,000 options in issue with an estimated fair value at the date of grant of £56,000.

6 taxation

	2018 Total £'000	2017 Total £'000
Withholding tax	<u>11</u>	<u>11</u>
	<u>11</u>	<u>11</u>

The current taxation charge for the year is different from the standard rate of corporation tax in the UK of 20% to 31 March 2017 and 19% from 1 April 2017. The differences are explained below.

	2018 Total £'000	2017 Total £'000
Total return before taxation	<u>70,828</u>	<u>32,049</u>
Theoretical tax at UK Corporation tax rate of 19.17% (2017: 20%)	13,578	6,410
Effects of:		
Non taxable capital return	(13,118)	(6,139)
UK and overseas dividends which are not taxable	(848)	(370)
Subsidiary return which is not taxable	(16)	–
Withholding tax	11	11
Increase in tax losses, disallowable expenses and excess management expenses	<u>404</u>	<u>99</u>
Actual current tax charge	<u>11</u>	<u>11</u>

Factors that may affect future tax charges:

As at 31 January 2018, the Company has tax losses of £56,079,000 (2017: £49,967,000) that are available to offset future taxable revenue, comprising excess management expenses of £47,308,000, a non-trade loan relationship deficit of £8,771,000 and a trade loss of £nil (2017: excess management expenses of £39,840,000, a non-trade loan relationship deficit of £10,127,000 and a trade loss of £nil). A deferred tax asset has not been recognised in respect of those losses as the Company is not expected to generate taxable income in the future in excess of the deductible expenses of future periods and, accordingly, it is unlikely that the Company will be able to reduce future tax liabilities through the use of those losses.

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

7 return per ordinary share and net asset value per ordinary share

a) return per ordinary share:

	Net return £'000	Revenue Ordinary Shares	Per Share pence	Net return £'000	Capital Ordinary Shares	Per Share pence	Net return £'000	Total Ordinary Shares	Per Share pence
2018									
Basic return per Share	5,138	14,425,620	35.62	65,679	14,425,620	455.29	70,817	14,425,620	490.91
Share options*	–	3,324		–	3,324		–	3,324	
Diluted return per Share	5,138	14,428,944	35.61	65,679	14,428,944	455.19	70,817	14,428,944	490.80
2017									
Basic return per Share	1,295	14,436,637	8.97	30,743	14,436,637	212.95	32,038	14,436,637	221.92
Share options*	–	–		–	–		–	–	
Diluted return per Share	1,295	14,436,637	8.97	30,743	14,436,637	212.95	32,038	14,436,637	221.92

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

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

b) net asset value per ordinary share:

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

2018		Net assets £'000	Number of Ordinary Shares	Net asset value per Share
Ordinary Shares	– Basic	499,423	14,425,620	3,462p
	– Diluted	499,849	14,455,620	3,458p
Ordinary Shares*	– Basic	509,128	14,425,620	3,529p
	– Diluted	509,554	14,455,620	3,525p
2017		Net assets £'000	Number of Ordinary Shares	Net asset value per Share
Ordinary Shares	– Basic	428,606	14,425,620	2,971p
	– Diluted	429,032	14,455,620	2,968p
Ordinary Shares*	– Basic	437,950	14,425,620	3,036p
	– Diluted	438,376	14,455,620	3,033p

* Adjusted for Oryx using equity accounting.

The diluted net asset value per Ordinary Share is calculated on the assumption that the outstanding 30,000 (2017: 30,000) Share Options were exercised at the prevailing exercise prices, giving a total of 14,455,620 issued Ordinary Shares (2017: 14,455,620).

The Company has also reported an adjusted net asset value per share using equity accounting, in accordance with its previous method of valuing its investment in Oryx. The Company has chosen to report this net asset value per share to show the difference derived if equity accounting was used. Equity accounting permits the use of net asset value pricing for listed assets which in the case of Oryx is higher than its fair value.

The values of Oryx, as at each year end, are as follows:

	2018 £'000	2017 £'000
Oryx at Fair value (traded price) using IFRS 10	55,663	45,303
Oryx value using Equity Accounting	65,368	54,647
Increase in net assets using Equity Accounting	9,705	9,344

8 investments at fair value through profit or loss

a) investments at fair value through profit or loss

	2018 £'000	2017 £'000
Quoted at fair value:		
United Kingdom	283,171	153,335
Overseas	14,726	15,147
Total quoted investments	297,897	168,482
Treasury bills at fair value	95,612	116,747
Unquoted and loan stock at fair value	95,403	129,389
Investments at fair value through profit or loss	488,912	414,618

	Listed equities £'000	AIM quoted £'000	Unquoted equities £'000	Loan stocks £'000	Treasury Bills £'000	Total £'000
2018						
analysis of investment portfolio movements						
Opening bookcost as at 1 February 2017	48,538	44,182	32,477	57,317	118,221	300,735
Opening unrealised appreciation/(depreciation)	68,675	7,087	37,505	2,090	(1,474)	113,883
opening valuation as at 1 February 2017	117,213	51,269	69,982	59,407	116,747	414,618
Movements in year:						
Transfer	1,922	–	5,338	(7,260)	–	–
Purchases at cost	37,252	56,565	16,371	12,430	327,985	450,603
Sales – proceeds	(44,087)	(19,632)	(14,840)	(29,067)	(337,880)	(445,506)
– realised gains/(losses) on sales	23,880	7,253	(3,531)	27	(7,846)	19,783
Increase/(decrease) in appreciation on assets held	61,493	4,769	(10,749)	(2,705)	(3,394)	49,414
closing valuation as at 31 January 2018	197,673	100,224	62,571	32,832	95,612	488,912
Closing bookcost as at 31 January 2018	67,505	88,368	35,815	33,447	100,480	325,615
Closing unrealised appreciation/(depreciation)	130,168	11,856	26,756	(615)	(4,868)	163,297
	197,673	100,224	62,571	32,832	95,612	488,912
2017						
analysis of investment portfolio movements						
Opening bookcost as at 1 February 2016	62,838	29,590	42,528	20,538	93,588	249,082
Opening unrealised appreciation	75,193	388	36,084	353	6,738	118,756
opening valuation as at 1 February 2016	138,031	29,978	78,612	20,891	100,326	367,838
Movements in year:						
Transfer	197	–	(197)	–	–	–
Purchases at cost	6,507	16,913	12,496	39,779	374,241	449,936
Sales – proceeds	(38,463)	(2,570)	(19,022)	(3,000)	(370,170)	(433,225)
– realised gains/(losses) on sales	17,459	249	(3,328)	–	20,562	34,942
(Decrease)/increase in appreciation on assets held	(6,518)	6,699	1,421	1,737	(8,212)	(4,873)
closing valuation as at 31 January 2017	117,213	51,269	69,982	59,407	116,747	414,618
Closing bookcost as at 31 January 2017	48,538	44,182	32,477	57,317	118,221	300,735
Closing appreciation/(depreciation)	68,675	7,087	37,505	2,090	(1,474)	113,883
	117,213	51,269	69,982	59,407	116,747	414,618

	2018 £'000	2017 £'000
analysis of capital gains and losses		
Gains on sales	19,783	34,942
Unrealised gains/(losses)	<u>49,414</u>	<u>(4,873)</u>
gains on investments at fair value	<u>69,197</u>	<u>30,069</u>
	2018	2017
	£'000	£'000
Exchange (losses)/gains on capital items	(293)	256
Exchange losses on escrow	–	(2)
Exchange (losses)/gains on capital items and currency	<u>(476)</u>	<u>372</u>
exchange (losses)/gains	<u>(769)</u>	<u>626</u>
	2018	2017
	£'000	£'000
portfolio analysis		
Equity shares	354,184	233,832
Convertible preference securities	6,284	4,632
Fixed interest securities	32,832	59,407
Treasury Bills	<u>95,612</u>	<u>116,747</u>
	<u>488,912</u>	<u>414,618</u>

b) subsidiary undertakings

At 31 January 2018 the Company has the following Subsidiaries:

Subsidiary	Principal activity	equity held	Country of registration
Consolidated Venture Finance Limited*	Investment entity	100.0%	England and Wales
Hampton Investment Properties Limited	Property investment	70.8%	England and Wales
Harwood Leeds Property	Property investment	100.0%	England and Wales
Oryx International Growth Fund Limited	Investment company	50.3%	Guernsey
Performance Chemical Company	Oil field service company	53.1%	United States of America

These subsidiaries were active during the year.

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

Assessment as an investment entity

Entities that meet the definition of an investment entity within IFRS 10 Consolidated Financial Statements, are required to measure their subsidiaries at fair value through profit or loss rather than consolidate the entities. The criteria which define an investment entity are as follows:

- an entity that obtains funds from one or more investors for the purpose of providing those investors with investment services;
- an entity that commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and
- an entity that measures and evaluates the performance of substantially all of its investments on a fair value basis.

Upon initial adoption of IFRS 10, the Board concluded that the Company met the additional characteristics of an investment entity in that it has more than one investment, it has ownership interests in the form of equity and similar interests, it has more than one investor and its investors are not related parties.

Following the adoption of IFRS 10 amendments effective for periods starting after 1 January 2016, all investments are now recognised at fair value through profit or loss, including those investments that had previously been consolidated.

The Company has only one subsidiary, CVF, which had been consolidated under IAS 27 previously and is now included at fair value through profit or loss. Had the Company consolidated CVF the Group accounts would be identical to the Company only accounts, with the exception of the following immaterial historical differences.

Bookcost – there would be a difference between the Company's carried forward bookcost of £325,615,000 with the Group's carried forward bookcost due to an historical sale from CVF to NASCIT. Had the accounts been consolidated the Group's carried forward bookcost would have been £325,573,000.

Capital and revenue reserves – there would be differences between the Company’s carried forward capital and revenue reserves (positive £498,123,000 and negative £926,000, respectively) with the Group’s carried forward capital and revenue reserves due to historical CVF transactions. Had the accounts been consolidated the Group’s carried forward capital and revenue reserves would have been positive £498,476,000 and negative £1,279,000, respectively.

c) significant holdings

At the year-end, the Company held 20% or over of the aggregate nominal value of voting equity of the following companies:

Company and address of principal business	Country of incorporation and registration	Year end	Capital and reserves £'000	Revenue reserves for the last financial year £'000	Company holding 31 January 2018 %	Company holding 31 January 2017 %
AssetCo plc Singleton Court Business Park, Wonastow Road, Monmouth, Monmouthshire NP25 5JA	England and Wales	30 September 2017	27,791	2,173	28.6	28.6
Bioquell PLC 52 Royce Close, West Portway, Andover, Hampshire SP10 3TS	England and Wales	31 December 2017	26,760	2,692	21.1	21.6
Consolidated Venture Finance Limited 6 Stratton Street, Mayfair, London W1J 8LD	England and Wales	31 January 2018	(753)	82	100.0	100.0
EKF Diagnostics Holdings plc Avon House, 19 Stanwell Road, Penarth, Cardiff CF64 2EZ	England and Wales	31 December 2017	77,157	2,940	21.4	19.4
Hampton Investment Properties Limited 6 Stratton Street, Mayfair, London W1J 8LD	England and Wales	31 December 2016	13,175	214	70.8	70.8
Harwood Leeds Property 6 Stratton Street, Mayfair, London W1J 8LD	England and Wales	31 August 2018	n/a**	n/a**	100.0	n/a**
Harwood Private Equity Fund IV LP 6 Stratton Street, Mayfair, London W1J 8LD	England and Wales	31 December 2017	n/a*	n/a*	26.2	n/a*
Oryx International Growth Fund Limited BNP Paribas House, St Julian’s Avenue, St Peter Port, Guernsey GY1 1WA	Guernsey	31 March 2017	119,226	16,585	50.3	47.6
Performance Chemical Company 9105 W Interstate 20 Midland TX 79706	United States of America	30 September 2017	\$11,871	\$2,887	53.1	53.1
Ten Entertainment Group Plc Head Office, Tenpin Ltd, Aragon House, Bedford, MK43 0EQ	England and Wales	31 December 2017	53,193	5,181	30.8	n/a
Trident Private Equity Fund III LP 6 Stratton Street, Mayfair, London W1J 8LD	England and Wales	31 December 2017	n/a*	n/a*	38.7	n/a*

* Where the Company holding is less than 50%, and the information is not publicly available, this information is not required to be disclosed.

** Information not yet available as the year-end is not until 31 August 2018.

All the investments detailed above have not been consolidated into the financial statements due to the Company meeting the definition of an investment entity under IFRS 10 and therefore these investments are included at fair value through profit and loss.

d) investments in US treasury bills

At 31 January 2018, the Company held US Treasury Bills with a market value of £95,612,000 (2017: £116,747,000).

e) transaction costs

During the year, the Company incurred total transaction costs of £399,000 (2017: £74,000) comprising £271,000 (2017: £28,000) and £128,000 (2017: £47,000) on purchases and sales of investments respectively. These amounts are included in gains on investments as disclosed in the Statement of Comprehensive Income.

f) material disposals of unlisted investments in the year:

Security Name	Proceeds £'000	Bookcost £'000	Gain/(loss) £'000	Carrying value at 31 January 2017 £'000
Industrial Properties Limited – loan notes and ords	12,173	11,473	700	11,473
Jaguar Holdings Limited – loan notes US	8,687	9,167	(480)	9,141
Indoor Bowling Equity Limited – loan notes and ords	7,441	7,441	–	10,921
Harwood Bristol – loan notes	5,000	5,000	–	–
Harwood Private Equity Fund IV LP	3,934	10,204	(6,270)	4,236
Utitec Holdings – loan notes	2,849	2,492	357	2,941
Trident Private Equity Fund III LP	1,961	–	1,961	2,008
Jaguar Holdings Limited – loan notes UK	1,079	1,079	–	1,079
Performance Chemicals Company – loan notes	679	529	150	676

The information on exit strategy for the invested companies is confidential and in most cases the likely exit is a sale to a trade or financial buyer at an uplifted multiple on increased profits.

9 trade and other receivables

	2018 £'000	2017 £'000
Amounts owed by Subsidiary	82	–
Accrued income	1,422	985
Other debtors	926	558
Recoverable withholding tax	1,513	973
	3,943	2,516

10 trade and other payables

	2018 £'000	2017 £'000
Investment Manager's fees	219	200
Performance fees	3,071	–
Amounts due to brokers	623	–
Other creditors and accruals	172	157
	4,085	357

11 share capital

	2018 Number	2018 £'000	2017 Number	2017 £'000
– authorised:				
Ordinary Shares of 5p:	27,000,000	1,350	27,000,000	1,350
– issued and fully paid:				
Ordinary Shares of 5p:				
Balance at beginning of year	14,425,620	721	14,442,035	722
Cancellation of shares	–	–	(16,415)	(1)
Balance at end of year	14,425,620	721	14,425,620	721

Since 31 January 2018, no Ordinary Shares have been purchased by the Company for cancellation. As at the date of this report, the Company's issued share capital consists of 14,425,620 Ordinary Shares of 5p nominal value each.

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

There are Options totalling 30,000 (2017: 30,000) remaining, details of which are given in note 5 above.

12 reconciliation of total return before taxation to cash generated/(expended) from operations

	2018 £'000	2017 £'000
Total return before taxation	70,828	32,049
Gains on investments	(68,428)	(30,695)
Interest reinvested	(2,450)	(647)
Net return from subsidiary	(82)	–
Increase in debtors and accrued income	(804)	(639)
Increase/(decrease) in creditors and accruals	3,105	(2,397)
Cash generated/(expended) from operations	2,169	(2,329)

13 analysis of net cash and net debt

	At 1 February 2017 £'000	Cash flow £'000	Exchange £'000	At 31 January 2018 £'000
Cash and cash equivalents	11,829	(700)	(476)	10,653

14 financial instruments and risk profile

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

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

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

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

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

(i) market price risk

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

currency risk

The Company's total return and net assets can be materially affected by currency translation movements as a significant proportion of the Company's assets are denominated in currencies other than Sterling, which is the Company's functional currency. It is not the Company's policy to hedge this risk on a continuing basis but the Company may, from time to time, match specific overseas investment with foreign currency borrowings. The Manager seeks, when deemed appropriate, to manage exposure to currency movements on borrowings by using forward foreign currency contracts as a hedge against potential foreign currency movements. At 31 January 2018, the Company had no open forward currency contracts (2017: none).

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

Foreign currency exposure by currency of denomination:

	31 January 2018			31 January 2017		
	Overseas investments £'000	Net monetary assets £'000	Total currency exposure £'000	Overseas investments £'000	Net monetary assets £'000	Total currency exposure £'000
US Dollar	150,273	4,614	154,887	186,814	2,710	189,524
Canadian Dollar	-	-	-	677	-	677
	150,273	4,614	154,887	187,491	2,710	190,201

Sensitivity analysis is based on the Company's monetary foreign currency financial instruments held at each balance sheet date. If Sterling had moved by 10% against all currencies, with all other variables constant, net assets would have moved by the amounts shown below. The analysis is shown on the same basis for 2017.

	31 January 2018		31 January 2017	
	10% weakening £'000	10% strengthening £'000	10% weakening £'000	10% strengthening £'000
US Dollar	17,210	(14,081)	21,058	(17,229)
Canadian Dollar	-	-	75	(62)
	17,210	(14,081)	21,133	(17,291)

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

interest rate risk

Interest rate movements may affect;

- the fair value of the investments in fixed interest rate securities (including unquoted loans);
- the level of income receivable on cash deposits;

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions.

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

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

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

other price risk

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

The Company's exposure to price risk comprises mainly movements in the value of the Company'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 Company's investment portfolio analysed by sector was as set out earlier in the Annual Report.

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

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

The Company's exposure to other changes in market prices at 31 January 2018 on its quoted and unquoted investments and options on investments was as follows:

	2018 £'000	2017 £'000
Financial assets at fair value through profit or loss		
– Non current investments at fair value through profit or loss	488,912	414,618

As mentioned in the accounting policies note, the Private equity investments have been valued following the IPEV Valuation Guidelines. The valuation incorporates all relevant factors that market participants would consider in setting a price.

Methods applied include cost of investment, price of recent investments, net assets and earnings multiples. Any valuations in local currency are converted into sterling at the prevailing exchange rate on the valuation date.

Although the Manager believes that the estimates of fair values are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair values.

Subsequent adjustments in price are determined by the Manager's Valuation and Pricing Committee.

The table below shows how the most significant unquoted investments have been valued as at 31 January 2018.

	Method of fair value valuation	2018 fair value GBP £'000	2017 fair value GBP £'000
Trident Private Equity Fund III LP	Net Assets	16,261	12,984
Sherwood Holdings Limited, Loan	Cost	15,165	13,600
Harwood Private Equity IV LP	Net Assets	14,503	17,532
Performance Chemical Company Ordinary	Valuation Multiple	12,776	11,673
Curtis Gilmour Holding Company, 11% Unsec Sub US\$ Debt	Cost	4,307	4,868
Curtis Gilmour Holding Company, Co Inc – Common US\$ Stock	Valuation Multiple	2,011	954
Curtis Gilmour Holding Company, Co Inc Non-Dividend Redeem US\$	Cost	365	413
Jaguar Holdings Limited, Loan Notes – USD	Cost	4,219	11,995
Jaguar Holdings Limited, Preferred	Cost	2,004	–
Jaguar Holdings Limited, Ordinary	Cost	422	–
Coventbridge Group, Loan	Cost	5,626	6,359
Viking Investments LP	Cost	4,411	3,500
Harwood Leeds Property	Cost	3,584	–
Utitec Holdings Inc	Cost	3,516	2,941
GAJV Holdings Inc, Ordinary shares	Valuation Multiple	215	–
GAJV Holdings Inc, CD	Cost	250	1,164
GAJV Holdings Inc, Preferred	Cost	2,650	2,357
Hampton Investment Properties Limited	Cost	995	–
		93,280	90,340

the valuation techniques applied are based on the following assumptions:

Unquoted investments are usually valued by reference to the valuation multiples of similar listed companies or from transactions of similar businesses. Where appropriate discounts are then applied to those comparable multiples to reflect difference in size and liquidity. These enterprise values are then adjusted for net debt to arrive at an equity valuation. Where companies are in compliance with the loan note terms these loans are generally held at par plus accrued interest (where applicable) unless the enterprise value suggests that the debt cannot be recovered.

Further detail on the valuation of significant investments, are detailed below:

Trident Private Equity Fund III LP (TPE3) and Harwood Private Equity IV LP (HPE4)

Held at net asset value, derived from the audited financial statements of the Funds, as the underlying investments within TPE3 and HPE4 are valued on a fair value basis. The Directors believe that the movement between the Funds' measurement dates and the reporting dates are not material. As the funds have no debts, a change of 10% in the underlying assets would have a 10% impact on the Funds' carrying value.

Curtis Gilmour Holding Company, Co Inc – Common Stock, Unsecured Subordinated USD Loan, Non-dividend Redeemable Preference Shares

The enterprise value is calculated based on an EBITDA multiple of 8.8x. A reduction in the multiple by a factor of 1x would reduce the carrying value of the total investment by US\$0.44 million, or -5%. An increase in the multiple by a factor of 1x would increase the value of the total investment by US\$0.44 million, or 5%. The loan is held at par plus accrued interest. The preference shares are held at cost.

Performance Chemical Company – Ordinary Shares, Preferred Shares, Loan

The enterprise value is calculated based on an EBITDA multiple of 6.3x. A reduction in the multiple by a factor of 1x would reduce the carrying value of the total investment by US\$2.34 million, or -13%. An increase in the multiple by a factor of 1x would increase the value of the total investment by US\$2.34 million, or 13%. The loan, which was carried at cost plus accrued interest at the year end has since been repaid in full. The preference shares are held at cost.

GAJV Holdings Inc – Ordinary Shares, CD, Preferred Shares

The enterprise value is calculated based on an EBITDA multiple of 6.5x. A reduction in the multiple by a factor of 1x would reduce the carrying value of the total investment by US\$0.50 million, or -11%. An increase in the multiple by a factor of 1x would increase the value of the total investment by US\$0.50 million, or 11%. The Series C and B preference shares are held at par plus accrued interest and the Series A preference shares are held at 30% of par. At this total valuation the equity is carried at nil value.

Coventbridge Group – Loan

The loan is held at par plus accrued interest.

Jaguar Holdings Limited – Jaguar Ordinary, USD Loan Notes, GBP Loan Notes

The USD loan is held at par plus accrued interest. The GBP loan plus accrued interest has subsequently been repaid in full.

Sherwood Holdings Limited – Loan

The loan is held at par plus accrued interest on a quarterly basis.

Utitec Holdings Inc – Loan

The loan is held at par plus accrued interest.

Viking Investments

The enterprise value is calculated based on an EBITDA multiple of 10x. A reduction in the multiple by a factor of 1x would reduce the carrying value of the total investment by £0.88 million, or 25%. An increase in the multiple by a factor of 1x would increase the value of the total investment by £0.88 million, or 25%.

Hampton Investment Properties Limited

The investment has been valued at cost (£1.397m) with the underlying properties valued at £1.6m. The valuation of the properties represents fair value taking into consideration the transaction cost, market conditions and the pricing risks. A 5% decrease in the market value of the properties would decrease the investment value by £56k or 5.73%.

Harwood Leeds Property

The investment has been valued at cost (£3.584m) with the underlying properties valued at £6.15m. The valuation of the properties represents fair value taking into consideration the transaction cost, market conditions and the pricing risks. A 5% decrease in the market value of the properties would decrease the investment value by £0.31m or 8.58%.

Management have performed other assessments, including multiples and nets assets and concluded that the fair value derived from those methods is not significantly different from costs.

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

	2018		2017	
	Increase in fair value £'000	Decrease in fair value £'000	Increase in fair value £'000	Decrease in fair value £'000
Increase/(decrease) in net assets	48,891	(48,891)	41,462	(41,462)

(ii) liquidity risk

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

The Company invests in equities and other investments that are readily realisable. It also invests in unquoted securities, which are less readily marketable than equities. These investments are monitored by the Board on regular basis.

The majority of the Company's cash is held in short-term Treasury Bills, which are highly liquid. As a consequence, the Company could access in excess of £95 million based on current exchange rates, within one week.

(iii) credit risk

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

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

	2018 £'000	2017 £'000
financial assets neither past due or impaired		
Fixed income securities	32,832	59,407
Preference shares	6,284	4,632
Treasury Bills	95,612	116,747
Accrued income and other debtors	3,943	2,516
Cash and cash equivalents	10,653	11,829
	149,324	195,131

The maximum credit exposure of financial assets represents the carrying amount.

There are no financial assets that are past due or impaired.

commitments giving rise to credit risk

There are no commitments giving rise to credit risk as at 31 January 2018.

fair value of financial assets and financial liabilities

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

	31 January 2018		31 January 2017	
	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	488,912	488,912	414,618	414,618
Loans and receivables				
– Cash and cash equivalents	10,653	10,653	11,829	11,829
	499,565	499,565	426,447	426,447

There have been no financial liabilities in the financial year's ending 31 January 2018 and 31 January 2017.

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.
- Non current financial assets (non current and held for trading) – as set out in the accounting policies.
- Cash and cash equivalents, bank overdraft and bank loans – at face value of the account.

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). See note 1e) for details on how the value of level 3 investments are calculated.
The Company's main unobservable inputs are earnings multiples, recent transactions and net asset basis. The market value would be sensitive to movements in these unobservable inputs. Movements in these inputs, individually or in aggregate could have a significant effect on the market value. The effect of such a change or a reasonable possible alternative would be difficult to quantify as such data is not available.

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

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

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

financial assets at fair value through profit or loss

At 31 January 2018

	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Equity investments	360,468	297,897	–	62,571
Fixed interest investments	128,444	95,612	–	32,832
Total	488,912	393,509	–	95,403

At 31 January 2017

	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Equity investments	238,464	168,482	3,720	66,262
Fixed interest investments	176,154	116,747	–	59,407
Total	414,618	285,229	3,720	125,669

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

level 3 financial assets at fair value through profit or loss

At 31 January 2018

	Total £'000	Equity investments £'000	Fixed interest investments £'000
Opening Balance	125,669	66,262	59,407
Purchases	28,801	16,371	12,430
Sales	(43,907)	(14,840)	(29,067)
Transfer between fixed interest and equity	–	7,260	(7,260)
Transfer between levels†	(550)	(550)	–
Total (losses)/gains included in gains on investments in the Statement of Comprehensive Income:			
– on assets sold	(3,504)	(3,531)	27
– on assets held at the end of the year	(11,106)	(8,401)	(2,705)
Closing balance	95,403	62,571	32,832

† Metropolitan Banc Group became a listed investment (level 1) during the year.

capital management policies and procedures

The Company's capital management objectives are:

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

The Company's capital at 31 January comprises:

	2018 £'000	2017 £'000
Debt	-	-
Equity		
Equity share capital	721	721
Retained earnings and other reserves	498,702	427,885
	<u>499,423</u>	<u>428,606</u>
Debt as a % of net assets	0.00%	0.00%

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

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

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

15 related party transactions

Harwood Capital LLP is regarded as a related party of the Company due to Christopher Mills, the Company's Chief Executive and Investment Manager being a member of Harwood Capital LLP until 9 June 2015 and the ultimate beneficial owner. Harwood Capital LLP acts as Investment Manager or Investment Adviser of the following companies in which the Company has an investment and from which companies it receives fees or other incentives for its services:

	Services	Fees
Oryx International Growth Fund Limited	Investment Advisory	£1,548,000
Trident Private Equity III LP	Investment Advisory	£341,074
Harwood Private Equity IV LP	Investment Advisory	£3,050,000

The amounts payable to the Manager are disclosed in note 3. The relationships between the Company, its Directors and the Manager are disclosed in the Report of the Directors on pages • to •.

Christopher Mills is Chief Executive Officer and indirectly a member of Harwood Capital LLP. He is also a director of Oryx. GFS is a wholly-owned subsidiary of Harwood Capital Management Limited, which is the holding company of the Harwood group of companies and is, in turn, 100% owned by Christopher Mills. Harwood Capital Management Limited is also a Designated Member of Harwood Capital LLP, the Manager of the Company.

disclosure of interests

Christopher Mills is also a director of the following companies in which the Company has an investment or may have had in the year and/or from which he may receive fees or hold shares: AssetCo plc, MJ Gleeson Group plc, Curtis Gilmour Holding Company, Oryx, Sunlink Health Systems Inc, Goals Soccer Centres plc, Quantum Pharma PLC and Bioquell PLC. Employees of the Manager may hold options over shares in investee companies. A total of £278,273 in directors fees was received by Christopher Mills during the year under review.

No formal arrangements exist to avoid double charging on investments held by the Company which are also managed or advised by Christopher Mills (Chief Executive) and/or Harwood Capital LLP. Members and certain private clients of Harwood Capital LLP, and its associates (excluding Christopher Mills and his family) hold 40,843 shares in the Company (2017: 52,543).

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

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

transactions with other companies

The Company owns 100% of the £1 Ordinary Shares in CVF, and as at 31 January 2018 amounts due from CVF were £nil (2017: £nil).

Full details of related companies of the Company can be found in note 8.