



**North Atlantic  
Smaller Companies  
Investment Trust plc**

**Annual Report for the year ended 31 January 2005**

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

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

## objective of the company and financial highlights

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

	2005	% change	2004	2003	2002	2001
<b>revenue</b>						
Gross income (£'000)	3,671		2,736	3,275	5,039	4,052
Net revenue after tax (£'000)	245		(685)	(4,897)	(519)	221
Basic return per Ordinary Share – revenue	1.96p		(5.62)p	(41.09)p	(4.54)p	2.01p
– capital	224.16p		215.77p	(185.14)p	(192.64)p	393.07p
<b>assets</b>						
Total assets less current liabilities (£'000)	177,457	22.7	144,612	132,651	171,394	194,361
Net asset value per 5p Ordinary Share:						
Basic	1,334p	13.3	1,177p	982p	1,253p	1,509p
Fully diluted	860p	18.9	723p	598p	696p	801p
Mid-market price of the 5p Ordinary Shares at 31 January	794.5p	27.8	621.5p	462.5p	575.0p	677.5p
<b>discount to fully diluted net asset value</b>	7.6%		14.0%	22.7%	17.4%	15.4%
<b>indices and exchange rates at 31 January</b>						
Standard & Poor's 500 Composite Index	1,181.3	4.4	1,131.1	855.7	1,130.2	1,366.0
Russell 2000	624.0	7.4	580.8	372.2	483.1	508.3
Sterling/US Dollar exchange rate	1.8861	3.6	1.8203	1.6437	1.4133	1.4611
Standard & Poor's 500 Composite – Sterling adjusted	626.3	0.8	621.4	520.6	799.7	934.9
Russell 2000 – Sterling adjusted	330.8	3.7	319.1	226.4	341.8	347.9
FTSE All-Share Index	2,441.2	11.6	2,187.1	1,722.3	2,496.0	3,030.1

## directors

\*†# Enrique Foster Gittes (USA) (Chairman), aged 65, joined the Board in 1992 and was appointed Chairman on 20 July 1998. He is an American lawyer who was President of Hambro America in New York until 1983, responsible for venture capital investments, and subsequently Chairman of European Home Products PLC until 1988 and a director of Scholl PLC until 1994. He was a founder and a director of Denison International PLC until 1999 and is currently a director of LESCO, Inc., formerly a non-executive director of J O Hambro Capital Management (Bermuda) Limited and formerly a director of North Atlantic Value (General Partner) Limited (part of the same group as North Atlantic Value LLP).

Christopher H B Mills, aged 52, is the Company's Chief Executive and Investment Manager and joined the Board in August 1984 (formerly Consolidated Venture Trust plc). He is also Chief Executive of American Opportunity Trust PLC (formerly the Leveraged Opportunity Trust plc). He is currently a member and Chief Investment Officer of North Atlantic Value LLP. Prior to joining the J O Hambro Capital Management Group in 1993, Mr Mills was a director of INVESCO MIM Limited and Samuel Montagu International Limited and operated as its Head of North American Investments and its head of North American Venture Capital.

He is also a non executive director of the following companies which are either now or have in the past five years been publicly quoted: Mid-States PLC; Jarvis Porter Group PLC; Jubilee Investment Trust PLC; Langley Park Investment Trust PLC; Second London American Trust PLC; Paramount PLC; Lonrho Africa PLC; Nationwide Accident Repair Services PLC; United Industries PLC; Darby Group Limited, Izodia Limited, VTR PLC and Castle Acquisitions PLC.

\*†# The Hon Peregrine D E M Moncreiffe, aged 54, joined the Board in March 1993. He is Chairman of UA Group PLC and has extensive experience in the investment business in London, New York and the Far East.

\*†# Kristian Siem (Norwegian), aged 56, joined the Board in April 2001. He is Chairman of Siem Industries Inc., an industrial company which includes offshore oil and gas drilling, sub-sea construction services and marine transportation worldwide. He is also a director of various companies in Norway, USA, Sweden, Portugal and the Cayman Islands.

\*†# Charles L A Irby, aged 59, joined the Board in December 2002. He is Chairman of Aberdeen Asset Management PLC and a non-executive director of Great Portland Estates PLC and QBE Insurance Group Limited. He was Head of Corporate Finance of ING Barings from 1992 to 1999 and a Managing Director from 1995 to 1999. He was also a Member of the Panel on Takeovers and Mergers from 1997 to 1998.

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

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**chairman's statement**

During the year ended 31 January 2005, the net asset value of a share in the Trust rose by 18.9% thereby outperforming by a considerable margin the rise in the Standard & Poor's 500 Composite Index which rose by 4.4%. The Company's share price also rose sharply increasing from 621.5p to 794.5p over the same period.

The revenue account showed a profit of £245,000 after taxation (2004: loss of £685,000). Consistent with the Company's long term policy, the Directors are not recommending a dividend for the current year.

**quoted investments**

The United States portfolio continued to suffer from the weakness of the dollar which weakened from \$1.8203 to \$1.8861 at the year end. Individual stocks, however, performed well, American Opportunity Trust PLC considerably outperformed the Standard & Poor's index. Denison was acquired at a substantial premium whilst other major holdings, LESCO, W-H Energy and Sterling Construction all performed better than their benchmarks.

The United Kingdom portfolio also performed well during this period with substantial profits being made in Whatman, Mentmore, Oryx International Growth Fund, Primary Health Properties and TBI.

**unquoted investments**

In the unquoted portfolio, the year's major event was the sale of Waterbury, concluded in February 2005, at a significant uplift to the previous valuation, the actual price being approximately nine times our initial dollar cost. In addition, Wichford went public at a significant premium whilst Executive Air Support was sold for a profit in excess of 100% of our last year's holding cost.

Wagamama (now Ramen Holdings) was refinanced generating a significant profit and it is possible that this will go public in the current year. Worldport Communications was successful at mitigating liabilities which resulted in an uplift in valuation. AllianceOne failed to meet forecasts and it was deemed prudent to write down this investment.

Finally a new investment was made in the USA – Glass America. The company is one of the largest providers of automotive windscreens; to date, results have been encouraging.

Further details of these investments can be found on pages 5 to 11.

**outlook**

The recovery that began in March 2003 in small and mid-cap securities continued into 2004. Regrettably there are now few bargains left for value investors such as ourselves.

The Company has built its cash resources to approximately £40 million at the time of writing, which will enable us to fully participate should attractive opportunities arise or to continue our policy of buying back the Company's Convertible Loan Notes.

Interest rates in the UK and USA are, in my opinion, likely to rise and this will most probably subdue the outlook for equity markets over the next twelve months. Furthermore, with the election cycle over it is likely that politicians will take measures to offset structural deficits rather than prolong the feel good factor of asset inflation supporting unsustainable levels of consumer expenditure and debt.

**Enrique Foster Gittes**

*Chairman*

18 May 2005

## fixed assets at valuation

	USA & Canada	United Kingdom	Europe	Total	Total
<b>equities, convertible securities &amp; loan stocks as a % of total portfolio valuation</b>	<b>31.01.05</b>	<b>31.01.05</b>	<b>31.01.05</b>	<b>31.01.05</b>	<b>31.01.04</b>
	%	%	%	%	%
Investment Companies	1.5	12.3	–	13.8	13.6
Financial Services	4.0	6.3	–	10.3	10.5
Healthcare	–	9.1	–	9.1	9.1
Support Services	–	8.9	–	8.9	8.6
Chemicals	7.5	–	–	7.5	4.3
Food Manufacturing	5.0	–	–	5.0	4.6
Property	–	4.6	–	4.6	5.0
Consumer/Commercial Services	1.2	3.2	–	4.4	3.8
Oil & Gas	4.4	–	–	4.4	3.2
Telephone Network	4.4	–	–	4.4	2.1
Stores & Retail	3.6	–	–	3.6	3.5
Insurance	–	3.3	–	3.3	2.5
Transport	1.5	1.2	–	2.7	4.4
Industrial Materials	1.6	1.1	–	2.7	2.2
Water	–	2.7	–	2.7	–
Construction	2.3	–	–	2.3	4.4
Engineering	–	2.2	–	2.2	8.0
Electronic & Electrical Equipment	–	1.5	–	1.5	1.0
Media	–	1.1	–	1.1	1.0
Packaging & Paper	–	0.9	–	0.9	2.3
Technology	0.8	–	–	0.8	0.6
Hotel & Leisure	–	0.6	–	0.6	0.9
Automotive Parts	–	–	–	–	2.4
Textiles	–	–	–	–	0.9
Drugs	–	–	–	–	0.2
	<b>37.8</b>	<b>59.0</b>	<b>–</b>	<b>96.8</b>	<b>99.1</b>
<b>treasury bills</b>	<b>3.2</b>	<b>–</b>	<b>–</b>	<b>3.2</b>	<b>0.9</b>
<b>total at 31 January 2005</b>	<b>41.0</b>	<b>59.0</b>	<b>–</b>	<b>100.0</b>	
total at 31 January 2004	43.4	56.1	0.5		100.0

**twenty largest investments***as at 31 January 2005*

<b>equities (including convertibles, loan stocks and related financing)</b>		<b>At valuation</b>
		<b>£'000</b>
Waterbury Inc.	USA Unquoted	11,187
Whatman PLC	UK Listed	10,260
Paramount PLC	UK Quoted on AIM	9,378
American Opportunity Trust PLC	UK Listed	9,238
Communis PLC	UK Listed	7,531
Santa Maria Foods Inc. *	Canadian Unquoted	7,469
Oryx International Growth Fund Limited **	UK Listed	7,380
W-H Energy Services Inc.	USA Listed	6,576
Worldport Communications Inc.	USA Unquoted	6,520
Wichford PLC ***	UK Quoted on AIM	5,620
		<hr/>
<b>ten largest investments</b>		<b>81,159</b>
		<hr/>
LESCO, Inc.	USA Listed	5,380
Highway Insurance Holdings PLC	UK Listed	4,938
Nationwide Accident Repair Services PLC	UK Unquoted	4,743
East Surrey Holdings PLC	UK Listed	4,050
AllianceOne Inc.	USA Unquoted	4,003
Simon Group PLC	UK Listed	3,560
Sterling Construction Inc.	USA Listed	3,397
Craegmoor Limited	UK Unquoted	3,375
United Industries PLC	UK Unquoted	3,360
Carwash Partners Inc.	USA Unquoted	2,256
		<hr/>
<b>twenty largest investments</b>		<b>120,221</b>
Aggregate of other fixed asset investments		<hr/> 24,307
		<hr/>
USA Treasury Bills		144,528
		<hr/> 4,754
		<hr/>
<b>total value of fixed asset investments of the company</b>		<b>149,282</b>
		<hr/> <hr/>

\* includes £5,308,000 invested in Ontario Inc., a subsidiary of Santa Maria Foods Inc.

\*\* incorporated in Guernsey.

\*\*\* incorporated in the Isle of Man.

## unlisted investments profile

	2005 Valuation £'000
<b>Waterbury Inc. (USA) Cost: £1,442,000</b>	<b>11,187</b>
Waterbury focuses on the manufacture and marketing of branded commercial sanitation and pest-control products. Operating results have consistently exceeded expectations and since acquisition in 1998 both revenue and EBITDA have doubled. A full exit from this investment was concluded in February 2005, yielding a 9x return on invested capital.	
Information as at 31 December 2003: Dividend cover or underlying earnings. No dividend Percentage of equity held (undiluted). 23.5% Latest audited earnings per share. \$2.59 Share of latest audited net assets. \$3,740,720 Income received in the year from this company. Nil	
<b>Santa Maria Foods Inc. (Canada) Cost: £3,981,000</b>	<b>7,469</b>
Santa Maria is the leading manufacturer and wholesaler of prosciutto and salami in Canada, with a small export business to the US. It also imports and distributes leading branded Italian foodstuffs, such as olive oil and dry pasta. It has a strong position in the specialty retail sector and has expanded into supermarkets, including manufacturing supermarkets' own-label products. Santa Maria suffered in 2004 due to rising pork prices and a strong Canadian dollar. An improvement in performance is expected for 2005. NASCIT receives an annual stock dividend from Santa Maria.	
Information as at 31 December 2003: Dividend cover or underlying earnings. No dividend Percentage of equity held (undiluted). 37.0% Latest audited earnings per share. Can\$1.54 Share of latest audited net assets. Can\$9,473,538 Income received in the year from this company. Can\$608,000.	
Carried forward	<hr/> 18,656



## unlisted investments profile

	2005 Valuation £'000
Brought forward	18,656
<b>Worldport Communications Inc. (USA) Cost: £6,843,000</b>	<b>6,520</b>
Worldport has been a cash shell, originally offset by various liabilities since Q3 2003. In the current financial year the company has substantially mitigated these liabilities and as a consequence it has been possible to increase the valuation significantly. Worldport is now considering how best to utilise the company's substantial cash balances and tax loss carried forward. The numbers shown below are unaudited due to the non trading status of Worldport.	
Information as at 31 December 2004:	
Dividend cover or underlying earnings. No dividend	
Percentage of equity held (undiluted). 46.0%	
Latest audited earnings per share. \$0.39	
Share of latest audited net assets. \$12,565,414	
Income received in the year from this company. Nil	
<b>Nationwide Accident Repair Services PLC (UK) Cost: £4,267,000</b>	<b>4,743</b>
Nationwide was taken private in 2002 through a management buy-in. Nationwide is the largest chain of automobile body-shops in the United Kingdom. Since its purchase, loss-making operations and peripheral assets have been disposed of. All debt has been repaid and the company has significant cash balances. Nationwide had a good year in 2004 and the outlook for 2005 is favourable. Options are being considered for investor liquidity which could be at a significant premium to the current valuation.	
<b>AllianceOne Inc. (USA) Cost: £5,176,000</b>	<b>4,003</b>
AllianceOne is a Philadelphia based debt collection business which has grown rapidly through acquisition. Recent trading has been below expectation and it was deemed prudent to write down this investment during the year.	
Carried forward	<hr/> 33,922

## unlisted investments profile

	2005 Valuation £'000
Brought forward	33,922
<b>Craegmoor Limited (UK)</b> <i>Cost: £3,260,000</i>	3,375
Craegmoor is one of the UK's leading providers of quality residential healthcare to the elderly and other special needs clients. The company's performance has been under budget recently due to reorganisation costs and pressure on revenue (occupancy and fees). Due to this, we have taken the prudent step of reducing the valuation of the equity. The Company has started a period of consolidation in order to maximise profitability over the next twelve months. We continue to seek an exit during 2005/2006 following strong M&A activity in the sector.	
<b>United Industries PLC (UK)</b> <i>Cost: £3,392,000</i>	3,360
United Industries Group consists of two subsidiary companies: Perplas one of the largest manufacturers of speciality materials for the orthopaedics industry. Railko produces synthetic anti-friction materials for a wide range of niche industrial applications, particularly marine. These businesses have performed reasonably well; however, neither business will be helped by the weakness of the dollar relative to Sterling.	
<b>Carwash Partners Inc. (USA)</b> <i>Cost: £2,943,000</i>	2,256
Carwash is a consolidator of the car-wash industry in the US, operating in four regions: The Northwest, the Upper Midwest, Texas and Southern California. It operates predominantly full service outlets (i.e. cleaning vehicles both inside and out), which, on average, command a 50% premium to exterior only washes. The Company's profitability suffered from an unusually adverse weather trend in 2004 and the valuation was written down as a result. In turn this provided NASCIT with the opportunity to increase its holding slightly. Improved results are expected for 2005.	
<b>Trident Private Equity LP (USA)</b> <i>Cost: £1,013,000</i>	2,250
This is a \$30 million offshore private equity partnership, which invests in private companies in Europe, the UK and US. Launched in September 1999, the Fund has made twenty investments to date of which nine have been successfully realised. The Fund has a seven year life, the commitment has been fully drawn down and over 75% of the capital has been repaid with the balance likely to be returned in the next few months.	
Carried forward	45,163

## unlisted investments profile

	2005 Valuation £'000
Brought forward	45,163
<b>Primesco Inc. (USA) Cost: £1,872,000</b>	<b>1,648</b>
Primesco is the successful culmination of a hostile management buy-in and demutualisation of the long established Mutual Life Insurance Company of Alabama. Primesco has now restructured its product portfolio and is in the process of substantially reducing its cost base.	
<b>Hi-Tech Holdings, Inc. (USA) Cost: £1,269,000</b>	<b>1,590</b>
Hi-Tech is a leading manufacturer of industrial and medical hose, based in Massachusetts USA. Hi-Tech's business is very stable and generates good cashflow. The company had a very good year in 2004 and is currently in advanced discussions which could lead to an offer significantly above the current valuation.	
<b>Glass America (USA) Cost: £1,389,000</b>	<b>1,325</b>
Glass America is a consolidator of automotive glass repair companies in the USA. To date the performance of the business has been encouraging and two further acquisitions are under consideration.	
<b>Telos Corporation (USA) Cost: £1,365,000</b>	<b>1,210</b>
Telos continues to perform well. As a consequence, all bank debt has been repaid and the modest amount of mezzanine debt should be repaid in the current year. Telos is considering ways to enhance shareholder value and it expects this issue will be addressed by December 2005.	
Carried forward	<hr/> 50,936

## unlisted investments profile

	2005 Valuation £'000
Brought forward	50,936
<b>Ramen Holdings Limited (UK) Cost: £840,000</b>	<b>840</b>
Ramen is the new holding company for Wagamama which continues to perform well and has twenty-three restaurants throughout the United Kingdom. Despite an uncertain restaurant environment and start-up costs in some provincial cities, the company performed in line with targets during 2004. The outlook for the current year appears favourable as the new restaurants achieve sustained profitability and the full benefits of the highly successful international franchising operations contribute to the group's results.	
<b>Jaffer Holdings Corporation (USA) Cost: £923,000</b>	<b>795</b>
Jaffer is a leading operator of drilling rigs for water in the south eastern part of the United States. A management buy-in was led by Ken White (WH Corp/WH Energy Services Inc) with whom the Company has invested successfully in the past. The sector is fragmented and should benefit from consolidation. Jaffer has performed very well in recent months and has record orders on the books.	
<b>Progeny Inc. (USA) Cost: £517,000</b>	<b>464</b>
Progeny Holdings Inc is the ultimate controlling entity of Winnfield Inc. which is a chain of African-American funeral homes in the Southern United States. The African-American niche is particularly attractive given this community's historically higher spend on funerals which, with their loyalty to local homes, creates a significant barrier to entry. The company sold its life assurance business last year and returned a significant part of NASCIT's investment. Discussions have commenced to sell the balance of NASCIT's interest.	
<b>GEI Group Limited (UK) Cost: £100,000</b>	<b>350</b>
GEI has sold off all its businesses, repaid debt and is now a cash shell.	
Other unquoted investments	716
<b>Total value of unquoted investments at Directors' valuation</b>	<b>54,101</b>

## unlisted investments profile (AIM quoted)

	2005
	Valuation
	£'000
<b>Paramount PLC</b> <i>Cost: £6,080,000</i>	9,378
Paramount is a public limited company incorporated in England and Wales whose shares are admitted to trading on AIM. Paramount acquired Groupe Chez Gerard in April 2003, becoming the holding company of the restaurant group with the Chez Gerard, Bertorelli, Livebait and Café Fish brands. Prior to its acquisition by Paramount, the Groupe Chez Gerard restaurant businesses were underperforming. The new management introduced by Paramount identified opportunities to strengthen the individual restaurant brands, reduce the cost base, focus on improving the dining experience and drive cash flow and as a consequence the trading results of the Paramount Group have shown a considerable improvement. The Paramount Group currently operates 12 Chez Gerard, 4 Livebait, 5 Bertorelli and 1 Café Fish leasehold restaurants with a new Bertorelli due to open in Fenchurch Street in the City of London shortly.	
Since January NASCIT has accepted a bid from Craftbutton Limited for the entire share capital of Paramount. It is expected that this transaction will be concluded by the end of May. As a result NASCIT will become the owner of 26.6% of the ordinary share capital of Craftbutton. The purpose of this transaction was to delist the shares, lifting the company of the onerous cost and reporting responsibilities associated with being listed.	
Information as at 27 June 2004:	
Dividend cover and underlying earnings. No dividend	
Last audited earnings per share. 1.36p	
Share of latest audited net assets. £6,026,556	
Income received in the year from this company. Nil	
<b>Wichford PLC</b> <i>Cost: £4,000,000</i>	5,620
Wichford PLC quoted on AIM in August 2004. The Company owns property valued at approximately £210 million, which are occupied by UK Government bodies. Wichford is seeking to benefit from the Government's commitment to act upon the recommendations of the Lyons Review (March 2004) that about 20,000 public sector jobs should be relocated outside London and the South-East of England over the next seven years.	
No audited financial information available.	
Other AIM quoted investments	8,324
<b>Total value of AIM quoted investments at market valuation</b>	<u><u>23,322</u></u>

**report of the directors***for the year ended 31 January 2005*

<b>results and dividend</b>	The net return after taxation for the financial year ended 31 January 2005 amounted to £245,000 (2004: £685,000 deficit). The Directors do not propose a final dividend (2004: nil).		
<b>company's business</b>	<p>The Company is an investment company within the meaning of Section 266 of the Companies Act 1985 and its business is that of an investment trust. The business of the Company's subsidiary undertaking is investment dealing and holding.</p> <p>The Chairman's Statement on page 3 contains a review of the Company's activities during the year and an indication of future prospects. A list of the Company's largest investments is given on page 5 and details of unlisted investments on pages 6 to 11.</p>		
<b>taxation status</b>	In the opinion of the Directors, the Company has conducted its affairs so as to be able to seek approved investment trust status from the Inland Revenue under Section 842 of the Income and Corporation Taxes Act 1988 for the accounting year ended 31 January 2005. Pursuant to arrangements between The Association of Investment Trust Companies and the Inland Revenue, who have agreed that written approval of investment trust status can be granted within the Corporation Tax Self Assessment Regime, written approval for all accounting years to 31 January 2004 has been received.		
<b>share valuations</b>	On 31 January 2005, the middle market quotation and the fully diluted net asset value per 5p Ordinary share were 794.5p and 860.0p respectively. The comparable figures at 31 January 2004 were 621.5p and 723.0p.		
<b>donations</b>	The Company does not make any political or charitable donations.		
<b>substantial shareholders</b>	At the date of this report, the following interests in the Ordinary shares of the Company which exceed 3% of the issued share capital have been notified to the Company pursuant to Section 198 of the Companies Act 1985:		
		Number of Ordinary shares	% of issued share capital
	Christopher H B Mills	2,610,899	20.19
	HBOS plc	1,222,474	9.45
	Findlay Park US Smaller Companies Fund Plc	795,000	6.15
<b>directors</b>	<p>The biographical details for Directors currently in office are shown on page 2.</p> <p>In accordance with Article 87 of the Company's Articles of Association, Mr E F Gittes and The Hon P D E M Moncreiffe retire by rotation at the forthcoming Annual General Meeting of the Company and, being eligible, offer themselves for re-election.</p> <p>In accordance with Listing Rule 21.9(e), effective from 1 April 2005, Mr C H B Mills is subject to annual election and accordingly a resolution to re-elect him as a Director is included in the notice of Annual General Meeting of the Company on page 56.</p> <p>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.</p>		

**report of the directors***for the year ended 31 January 2005***directors' interests**

The interests of the Directors, beneficial unless otherwise stated, in the securities of the Company as at 31 January 2005 and 31 January 2004 were as follows:

	31 January 2005		31 January 2004	
	5p Ordinary shares	Units of 5p loan stock	5p Ordinary shares	Units of 5p loan stock
E Foster Gittes	200,000	–	178,000	–
C H B Mills	2,610,899	–	2,311,067	249,440
P D E M Moncreiffe	123,000	52,000	123,000	27,000
K Siem*	–	2,000	–	2,000
C L A Irby	22,500	–	22,500	–

\*Siem Industries Inc. a Company in which Mr Siem is Chairman and a shareholder is ultimately interested in 95,000 Ordinary Shares and 50,000 units of Loan Stock (2004: 95,000 Ordinary Shares and 50,000 units of Loan Stock).

Details of Directors' remuneration and interests in share options are described in the Directors' Remuneration Report on pages 21 to 23.

On 21 September 2004 Mr A Hammond-Chambers Chairman of American Opportunity Trust plc, a subsidiary of the Company, purchased 2,000 Ordinary Shares in the issued share capital of the Company.

**investment management  
agreements**

Pursuant to the Management, Administration and Custody Agreement dated 7 January 1993 as amended by the Amendment and Restatement Agreement on 19 March 2002 novated in November 2003 to North Atlantic Value LLP, the Joint Manager provides management and administration services to the Company.

The Management, Administration and Custody Agreement continues unless thereafter terminated by either party on not less than four months' notice in writing or may be terminated forthwith as a result of a material breach of the agreement or the insolvency of either party. The Board reviews the activities of both the Joint Manager and the Chief Executive who carries out day-to-day investment decisions for and on behalf of the Company and as part of this review is satisfied that the continuing appointment of the Joint Manager, on the terms agreed, is in the best interests of shareholders. Mr Mills has been Chief Executive of the Company since 1984 and the Board consider it is in the best interest of the Company for this arrangement to continue.

As part of this review, the Board has given consideration to the experience, skills and commitment of the Chief Executive in addition to the personnel, services and resources provided by the Joint Manager. The Company's performance over the last year is described in the Chief Executive's Review and Chairman's Statement. The Board considers that the arrangements between the Chief Executive and the Joint Manager continue to work well.

**report of the directors***for the year ended 31 January 2005*

<b>related party transactions</b>	<p>Mr Mills, the Chief Executive is Chief Investment Officer and a member of North Atlantic Value LLP, Joint Manager to the Company. Mr Mills makes day-to-day investment decisions for the Company in his capacity as its Chief Executive and this position is distinct from his position as Chief Investment Officer of the Joint Manager. Mr Mills is a Director and holds 35.9% of the issued share capital of J O Hambro Capital Management Group Limited, the holding company of the Corporate Company Secretary, J O Hambro Capital Management Limited and Designated Members of the Joint Manager. Mr Mills is a director and sole shareholder in Growth Financial Services Limited ("GFS").</p> <p>Pursuant to the Secondment Services Agreement between the Company, GFS and Mr Mills and the Management, Administration and Custody Agreement between the Company and North Atlantic Value LLP, Mr Mills is responsible for the day-to-day investment decisions in conjunction with the Joint Manager, North Atlantic Value LLP. The Secondment Services Agreement continues until terminated by the Company or GFS on not less than twelve months notice. Details of the related party transactions and fees payable are disclosed in note 23 on pages 53 to 55 and in the Directors' Remuneration Report on pages 21 to 23. The Investment Management fees are disclosed in note 3 on page 34. The performance fee payable to GFS is disclosed in the Directors' Remuneration Report on pages 21 to 23 and note 3 of the Financial Statements on page 34.</p> <p>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.</p>
<b>institutional investors – use of voting rights</b>	<p>The Chief Executive and the Joint Manager, in the absence of explicit instruction from the Board, are empowered to exercise discretion in the use of the Company's voting rights in respect of investments and to then report to the Board where appropriate regarding decisions taken. The Board have considered whether it was appropriate to adopt a voting policy and an investment policy with regard to social, ethical and environmental issues and concluded that it was not appropriate to change the existing arrangements.</p>
<b>creditors' payment policy</b>	<p>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 2005 had been paid (31 January 2004 – all supplier invoices paid).</p>
<b>soft commission</b>	<p>The Joint Manager receives indirect benefits for certain investment services in the form of soft commission as a result of agreements with two brokers. The value of services supplied may depend upon a minimum threshold of commissions or a percentage of such commissions arising on dealings in securities for all clients including the Company. The practice of best execution is not compromised by these arrangements.</p>
<b>auditors</b>	<p>A resolution to reappoint RSM Robson Rhodes LLP as the Company's Auditors will be proposed at the forthcoming Annual General Meeting.</p>



**report of the directors***for the year ended 31 January 2005***explanatory notes for  
special business at the  
annual general meeting**

The following resolutions (if passed) would allow the Board to issue shares without first offering them to existing shareholders. Although the Directors have no current intention of exercising either of the authorities (if renewed) to allot shares or disapply pre-emption rights, they reserve the right to allot shares at any time.

*Resolution 7 Renewal of Directors' authority to allot shares*

The authority given to the Directors at the last Annual General Meeting to allot shares expires at the conclusion of this year's meeting. Resolution 7 will renew the authority to allot shares of the Company on similar terms. If Resolution 7 is passed the Directors will have the authority to allot shares up to the aggregate nominal amount of £215,544, representing one third of the current issued share capital. This authority will expire at the next Annual General Meeting of the Company or, if earlier, 15 months after the passing of this resolution

*Resolution 8 Renewal of Directors' authority for the disapplication of pre-emption rights*

The authority given to Directors to disapply pre-emption rights expires at the Annual General Meeting. Resolution 8 will renew the disapplication of pre-emption rights thereby authorising the Directors to allot equity securities for cash up to a maximum aggregate renewal amount of £32,332 representing 646,640 Ordinary shares of 5p each, being equivalent to 5% of the current issued share capital, without first offering such securities to existing shareholders.

The resolutions referred to above are contained in the Notice of Annual General Meeting on pages 56 and 57.

By Order of the Board

**J O Hambro Capital Management Limited**

Company Secretary

Registered Office:

Ground Floor

Ryder Court

14 Ryder Street

London SW1Y 6QB

Registered No: 1091347

18 May 2005

**corporate governance***directors' statement of compliance with the combined code*

<b>background</b>	The UK Listing Authority requires all listed companies to disclose how they have applied the principles and complied with the provisions of the Combined Code (the "Code") applicable for reference periods commencing on or after 1 November 2003. As a member of the Association of Investment Trusts, the Company has adopted the AITC Code of Governance.
<b>application of the principles of the code</b>	The Board considers the matters set out in the Code to be very important and is committed to maintaining its principles. The Board is accountable to the Company's shareholders for the governance of the Company's affairs and this statement describes how the relevant principles have been applied by the Company.
<b>compliance with the combined code</b>	The Board considers that the Company has complied with the provisions of Section 1 of the Code throughout the year ended 31 January 2005 and thereafter as required by Listing Rule 12.43A issued by the UK Listing Authority save as disclosed below.
<b>directors</b>	<p>Brief biographical details of the Directors are set out on page 2. The Board consists of five Directors, three of whom are non-executive and considered by the Board to be independent of the Company's Joint Manager for the purposes of the Code. The Chairman is not considered to be independent. However for the purposes of the Listing Rules effective from 1 April 2005, he has relinquished all of his appointments as a director with corporate entities within the same group as the Joint Manager. The AITC Code of Governance permits a director to be considered to be independent notwithstanding that he has served for a period of more than nine years. Mr Moncreiffe has served for more than nine years and is nonetheless considered by the Board to be non executive and independent of the Joint Manager. The Board considers that it benefits from his experience and does not consider that this impairs his independence and rather it aids continuity. The Board considers that it has the appropriate balance of skills, experience, ages and length of service in the circumstances. The majority of the Board is considered to be independent.</p> <p>The Board is a small Board and individual members have a wide range of qualities and expertise to bring to any debate. The Board normally meets four times a year and at other times as necessary. The Directors have no service contracts. The Articles of Association provide that newly appointed Directors are required to submit themselves for election by shareholders at the general meeting following their appointment and for all Directors to be re-elected at least once every three years. Your Board has considered the need to appoint a senior independent director but believes that this is not necessary as the majority of the Directors are independent. The Board lays down guidelines within which the Chief Executive and the Joint Manager implement investment policy and has a Schedule of Matters reserved to it. The Chief Executive and the Joint Manager are responsible for managing the Company and its portfolio of assets on a discretionary basis, subject to the supervision of the Board.</p>
<b>board evaluations</b>	During the year the Board has carried out an effectiveness evaluation exercise. This was an informal exercise carried out by the Chairman in relation to the key arrangements in place and included the performance of individual directors. The Chairman's performance was considered by the non-executive directors. The results of these evaluations were considered by the Board in preparation for the disclosure reporting in respect of the Code. The informal exercise was considered by the Board to be more appropriate in the circumstances due to its size and activities rather than a more formal rigorous annual evaluation.

**corporate governance***directors' statement of compliance with the combined code*

The Chairman and other members of the Board recommend that the Directors retiring be re-elected. The Chairman has confirmed that all Directors retiring have been subject to performance evaluation and as part of this evaluation the Chairman confirms that they continue to demonstrate commitment to their role and in his view continue to responsibly fulfil their functions.

**board meetings**

The Board has a schedule of matters reserved to it and sets down matters which require prior approval of the Board. The Chief Executive and Joint Manager pursuant to the management arrangements in place carry out day-to-day activities pursuant to the terms of this contract. In addition to scheduled board meetings the Board may carry out certain urgent matters not requiring debate by way of delegation to a Committee of the Board or by resolution in writing of all Directors.

**attendance at board meetings and audit committees**

	Total number in year 4 Board Meetings	Total number in year 2 Audit Committees
E F Gittes	4	2
C H B Mills	3	N/A
The Hon P Moncreiffe	4	2
Kristian Siem	4	2
Charles Irby	4	2

**remuneration committee**

All of the non-executive Directors comprise the Remuneration Committee. The Remuneration Committee reviews the remuneration paid to North Atlantic Value LLP and GFS pursuant to the management agreements. The remuneration of GFS is disclosed in the Directors' Remuneration Report on pages 21 to 23 and also in note 3 on page 34. The remuneration of North Atlantic Value LLP is disclosed in note 3 on page 34.

**audit committee**

The Board is supported by an Audit Committee which comprises all of the non-executive Directors. The Committee meets representatives of the Joint Manager twice a year, who report on the proper conduct of business in accordance with the regulatory environment in which both the Company and the Manager operate. The Company's Auditors also attend the Committee at its request, at least once a year and comment on their work procedures, the quality and effectiveness of the Company's accounting procedures and their findings in relation to the Company's statutory audit. The responsibilities of the Audit Committee include a review of the risk analysis, effectiveness of the internal control environment, accounting policies and the terms of appointment of the auditors. The Audit Committee is authorised to take such independent professional advice (including legal advice) and to secure the attendance of any external advisers with relevant expertise as it considers necessary. The Audit Committee is also responsible for the review of the annual and interim reports, the nature and scope of the external audit, their findings and the provision of any non-audit services. The Audit Committee is satisfied that the Auditors are independent.

**corporate governance***directors' statement of compliance with the combined code*

The Committee's terms of reference are available from the Company Secretary. The Audit Committee met twice during the year to review the interim and annual financial statements and to review reports and hold discussions with the Chief Executive and Joint Manager. In carrying out its duties during this review the Audit Committee has considered inter alia the annual budget, internal control reports, the risk management framework, the effectiveness of the external audit process, the independence and objectivity of the external auditors, the audit plan, audit reports and corporate governance report including the Code. The Audit Committee has considered the need to take out separate insurance cover for Mr Mills. The Audit Committee considers that the Committee as a whole has the relevant and recent financial experience required to carry out its duties and does not consider it appropriate to rely on any one member with financial expertise. The Audit Committee is satisfied that the Auditors are independent notwithstanding the proportion of non audit fees in the year to 31 January 2005. The audit committee consider that the auditor objectivity and independence is not impaired by the performance by the auditors of non audit services. The audit committee does not consider that the appointment of a third party unfamiliar with the Company to carry out non audit services would benefit shareholders since they would incur unnecessary additional expense.

The Company carries out its activities using the services of third party service providers; it has no staff of its own.

**shareholder relations**

The Company, through the Chief Executive and Joint Manager, has regular contact with its institutional shareholders. The Board supports the principle that the Annual General Meeting be used to communicate with private shareholders and encourages them to participate. The Annual General Meeting is attended by the Chairman and the Chief Executive.

The notice of general meeting sets out the business of the meeting and can be found on pages 56 and 57. The special business is also explained more fully in the Explanatory Notes on page 15. Separate resolutions are proposed for each substantive issue.

**nominations committee**

The Board is a small Board and fulfills the function of the Nominations Committee as a whole. The Nominations Committee considers the leadership needs and succession of the Board when making decisions on new appointments. Compatibility with each and every Director is considered a priority. The Board considers that the current size of the Board is the optimum size and does not consider that there are any vacancies. The Nominations Committee meets only when there are vacancies and has not met during the year.

**the company secretary**

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

**independent professional advice**

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

**accountability and audit**

The Board's responsibilities with regard to the financial statements are set out on page 20 and a Statement of Going Concern is given below. The report of the auditors is on pages 24 to 25.

**corporate governance***directors' statement of compliance with the combined code***internal control**

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The Board has regularly reviewed the effectiveness of the system of internal control in place. The Board believes that the key risks identified and the implementation of the system to monitor and manage those risks are appropriate to the Company's business as an investment trust. The ongoing risk assessment includes the monitoring of the financial, operational and compliance risks as well as an evaluation of the scope and quality of the system of internal control adopted by the third party service providers. The Board regularly reviews the delegated services to ensure their continued competitiveness and effectiveness. The system is designed to ensure regular communication of the results of monitoring by third parties to the Board and the incidence of any significant control failings or weaknesses that have been identified and the extent to which they have resulted in unforeseen outcomes or contingencies that may have a material impact on the Company's performance or operations. This review process was in place throughout the year under review and including the period to the date of the approval of the Annual Report. This accords with the guidance in "Internal Control – Guidance for Directors on the Combined Code" (the Turnbull Report). The Board believes that, although robust, the Company's system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives. Any system can provide only reasonable and not absolute assurance against material misstatement or loss. The Company does not have an internal audit function as it uses third party service providers and does not employ any staff nor does the Board consider it appropriate to do so.

**going concern**

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operation for the foreseeable future. They have therefore adopted the going concern basis in preparing these accounts.

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**statement of directors' responsibilities**

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the return of the Group for that period. In preparing those financial statements, the Directors have:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- followed applicable United Kingdom accounting standards; and
- prepared the financial statements on the going concern basis.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for ensuring that the Directors' report and other information included in the Annual Report is prepared in accordance with company law in the United Kingdom. They are also responsible for ensuring that the Annual Report includes information required by the Listing Rules of the Financial Services Authority.

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

## directors' remuneration report

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

The law requires your Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in their report on pages 24 and 25.

### role and composition

The Remuneration Committee consists of the Chairman and three independent Non-Executive Directors. It is chaired by Enrique Foster Gittes and the other members are The Hon Peregrine Moncreiffe, Kristian Siem and Charles L A Irby.

The Remuneration Committee is responsible for determining all aspects of Directors' remuneration. No Director participates in discussions on his own remuneration. The Committee takes independent professional advice as it considers appropriate. The Committee has not sought or received independent professional advice in the year to 31 January 2005.

### non-executive directors

The fees payable to Non-Executive Directors are agreed by the Board, following the recommendation of the Chairman of the Board and with the assistance of independent external advice on comparable organisations and appointments. Non-Executive Directors' fees are determined by the Board, or by a committee authorised by the Board, subject to the limits set out in the Company's Articles of Association. These fees are currently £16,000 p.a. for Directors and £20,000 p.a. for the Chairman (2004: same). The Remuneration Committee has no plans to alter the remuneration structure currently in place for Non-Executive Directors. Non-Executive Directors do not have service contracts nor do they have the benefit of notice periods, termination payments, benefits in kind or option schemes.

### chief executive

The Chief Executive is responsible for the day-to-day investment decisions in conjunction with North Atlantic Value LLP. He has no service contract with the Company; his appointment is pursuant to the Secondment Services Agreement dated 7 January 1993 between the Company, the Chief Executive and Growth Financial Services Limited. The Remuneration Committee has no plans to alter the remuneration structure for the Chief Executive. As stated in note 3 on page 34 the Chief Executive is entitled to retain any fees received from investee companies in respect of his role as a non-executive director of these entities, such a role is considered to benefit shareholders since it allows the Chief Executive to monitor the performance of the investee company more closely than would be possible under other circumstances.

### remuneration of directors (audited)

Chief Executive	2005	2004
	£	£
Fees	16,000	16,000
Investment management and related fees	695,000	610,000
Performance fee	858,000	357,000
	<u>1,569,000</u>	<u>983,000</u>
Total (excluding irrecoverable VAT)	<u>1,569,000</u>	<u>983,000</u>

## directors' remuneration report

The total fees of £1,569,000 in respect of Mr Mills' services as a Director are payable to Growth Financial Services Limited, as described on page 34. In addition, Growth Financial Services Limited receives, and is contractually entitled to receive, part of the Annual Fee payable to the Joint Managers, Growth Financial Services Limited and North Atlantic Value LLP in respect of the investment management activities of the Chief Executive pursuant to the investment management agreements described on pages 13 and 14.

The Performance fee is a contractual entitlement pursuant to the Secondment Services Agreement dated 7 January 1993 as amended and is paid to Growth Financial Services Limited.

No pension or other benefits are paid to the Chief Executive.

Non-executive directors	2005	2004
	£	£
Enrique Foster Gittes (Chairman)	20,000	20,000
Peregrine D E M Moncreiffe	16,000	16,000
Kristian Siem	16,000	16,000
Charles L A Irby	16,000	16,000
	<u>68,000</u>	<u>68,000</u>

No Directors receive any benefits in kind.

**service contracts**

No Director has a service contract. The contract for the Chief Executive's services and the carrying on of day-to-day investment decisions is with Growth Financial Services Limited and contained in the Secondment Services Agreement.

**interests in options (audited)**

	No. of options at		Exercised/ cancelled during the	Grant of options during the	No. of options at	
	1 February 2004	Year of grant			Price	Price
C H B Mills	100,000	2000	677.57p	–	–	100,000*
	300,000	2002	645.54p	–	–	300,000
	200,000	2003	663.80p	–	–	200,000

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

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

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

The Options granted in 2003 are exercisable at any time between 25 September 2006 and 25 September 2013.



## directors' remuneration report

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

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

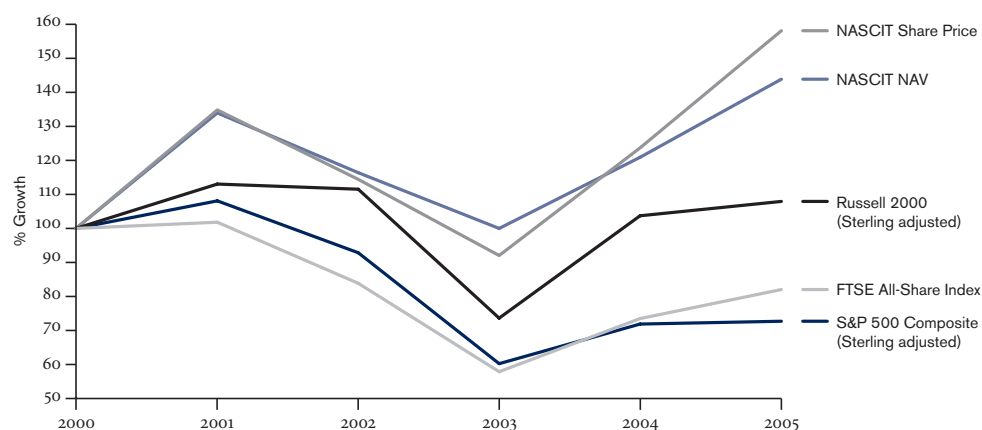
The Share Option Scheme is an unapproved scheme. Options will normally be exercisable between three and ten years from the date of grant. Options granted under the 2002 Share Executive Option Scheme may only be exercisable if the fully diluted net asset value of the company (ignoring dilution on the exercise of share options) has grown at a compound rate of five per cent. per annum over a period of at least three years following the grant of options and has grown by a percentage at least equal to sixty per cent. of the percentage increase in the sterling adjusted Standard & Poor's Composite Index in the three year period between the date of grant and the third anniversary of the date of the grant of options.

The highest and lowest mid-market price of the Company's Ordinary Shares during the year was 794.5p and 612.0p respectively. The mid-market price of the Company's Ordinary Shares at 31 January 2005 was 794.5p.

## company's performance

The following graph compares over a five year period the total shareholder return on the Company's shares with a hypothetical holding of shares of the same kinds and number as those by reference to which a broad equity market index is calculated.

*Graph showing total shareholder return over 5 years as compared to total shareholder return of a broad equity market index over the last 5 years. (Source: Financial Data/Datastream)*



The equity market indexes chosen are the Sterling adjusted Russell 2000 and the Sterling adjusted Standard & Poor's 500 Composite Index. After consultation with major shareholders, 60% of this latter index was selected as the additional equity index-related benchmark to supplement the absolute five per cent per annum growth rate hurdle for the 2002 Executive Option Scheme. The FTSE All-Share Index is also included for comparative purposes as the portfolio currently consists of UK incorporated companies as well as US companies.

This report was approved by the Board on 18 May 2005 and signed by E F Gittes, Chairman.

**independent auditors' report***to the shareholders of north atlantic smaller companies investment trust plc*

We have audited the financial statements on pages 26 to 55. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

**respective responsibilities of directors and auditors**

The Directors' responsibilities for preparing the Annual Report, and the Directors' Remuneration Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' responsibilities and the listing rules of the Financial Services Authority.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the listing rules of the Financial Services Authority. We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

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

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

**basis of audit opinion**

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

**independent auditors' report**

*to the shareholders of north atlantic smaller companies investment trust plc*

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

**opinion**

In our opinion:

- The financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 January 2005 and of the Group's net profit, total return and cashflow for the year then ended; and
- The financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

**RSM Robson Rhodes LLP**

**Chartered Accountants and Registered Auditors**

**London England**

18 May 2005

**consolidated statement of total return***(incorporating the revenue account\*) for the year ended 31 January*

	Notes	2005			2004		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gains on investments	10	–	28,303	28,303	–	25,541	25,541
Exchange differences	10	–	661	661	–	1,173	1,173
Dividends and interest	2	3,671	–	3,671	2,736	–	2,736
Investment management fee	3	(1,777)	(930)	(2,707)	(1,528)	(395)	(1,923)
Other expenses	4	(650)	–	(650)	(530)	–	(530)
<b>net return before finance costs and taxation</b>		<b>1,244</b>	<b>28,034</b>	<b>29,278</b>	<b>678</b>	<b>26,319</b>	<b>26,997</b>
Interest payable and similar charges	6	(979)	–	(979)	(1,350)	–	(1,350)
<b>return/(deficit) on ordinary activities before taxation</b>		<b>265</b>	<b>28,034</b>	<b>28,299</b>	<b>(672)</b>	<b>26,319</b>	<b>25,647</b>
Taxation on ordinary activities	7	(20)	–	(20)	(13)	–	(13)
<b>return/(deficit) on ordinary activities after taxation</b>		<b>245</b>	<b>28,034</b>	<b>28,279</b>	<b>(685)</b>	<b>26,319</b>	<b>25,634</b>
Dividend	8	–	–	–	–	–	–
Transfers to/(from) reserves		<u>245</u>	<u>28,034</u>	<u>28,279</u>	<u>(685)</u>	<u>26,319</u>	<u>25,634</u>
<b>return per ordinary share</b>							
Basic	9	1.96p	224.16p	226.12p	(5.62)p	215.77p	210.15p
Diluted†	9	1.41p	140.38p	141.79p	(3.24)p	132.04p	128.80p

\* The revenue column of this statement is the consolidated profit and loss account of the Group.

† Although Financial Reporting Standard No. 14: Earnings per Share states that diluted capital returns per share and non diluted returns per share are not disclosed, they have been shown here for information.

All revenue and capital items in the above statement derive from continuing operations.

The notes on pages 29 to 55 form part of these financial statements.

## group and company balance sheets

at 31 January

	Notes	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
<b>fixed assets</b>					
Investments	10	138,454	141,536	138,454	141,536
Investments in unconsolidated subsidiaries	1b	10,828	9,653	10,828	9,653
		<u>149,282</u>	<u>151,189</u>	<u>149,282</u>	<u>151,189</u>
<b>current assets</b>					
Investments held in subsidiary company	10f	137	48	–	–
Debtors	11	858	549	20,828	11,724
Cash at bank		28,862	13,776	8,790	2,649
		<u>29,857</u>	<u>14,373</u>	<u>29,618</u>	<u>14,373</u>
<b>creditors: amounts falling due within one year</b>					
Bank loans and overdrafts	12	–	19,248	–	19,248
Other creditors and accruals	13	1,682	1,702	1,682	1,702
		<u>1,682</u>	<u>20,950</u>	<u>1,682</u>	<u>20,950</u>
<b>net current assets/(liabilities)</b>		<u>28,175</u>	<u>(6,577)</u>	<u>27,936</u>	<u>(6,577)</u>
<b>total assets less current liabilities</b>		<u>177,457</u>	<u>144,612</u>	<u>177,218</u>	<u>144,612</u>
<b>creditors: amounts falling due after more than one year</b>					
Bank loans	14	4,566	–	4,566	–
Debenture loan – Convertible Unsecured Loan Stock 2013	15	350	384	350	384
		<u>172,541</u>	<u>144,228</u>	<u>172,302</u>	<u>144,228</u>
<b>capital and reserves</b>					
Called-up share capital	16	647	613	647	613
Share premium account	17	629	629	629	629
Capital reserve – realised	17	141,956	118,383	141,532	118,187
Capital reserve – unrealised	17	34,550	30,089	34,621	30,046
Revenue reserve	17	(5,241)	(5,486)	(5,127)	(5,247)
		<u>172,541</u>	<u>144,228</u>	<u>172,302</u>	<u>144,228</u>
<b>equity shareholders' funds</b>	9, 18	<u>172,541</u>	<u>144,228</u>	<u>172,302</u>	<u>144,228</u>

These financial statements were approved by the Board of Directors on 18 May 2005 and signed on its behalf by:

E Foster Gittes, *Chairman*

The notes on pages 29 to 55 form part of these financial statements.

**consolidated cash flow statement***for the year ended 31 January*

	Notes	2005 £'000	2004 £'000
<b>net cash outflow from operating activities</b>	19	<u>(849)</u>	<u>(187)</u>
<b>servicing of finance</b>			
Bank interest paid		(1,204)	(1,067)
CULS interest paid		(35)	(38)
Expenses of bank loan		—	(40)
<b>net cash outflow from servicing of finance</b>		<u>(1,239)</u>	<u>(1,145)</u>
<b>taxation</b>			
Tax recovered		—	5
<b>investing activities</b>			
Purchases of fixed asset investments		(71,210)	(49,943)
Proceeds from sale of fixed asset investments (including option premiums)		102,557	56,287
Repayment of loan made to Ryder Court Investments Limited		—	2,667
<b>net cash inflow from investing activities</b>		<u>31,347</u>	<u>9,011</u>
<b>net cash inflow before financing</b>		<u>29,259</u>	<u>7,684</u>
<b>financing</b>			
Repayment of fixed term borrowings		(14,321)	(3,009)
<b>net cash outflow from financing</b>		<u>(14,321)</u>	<u>(3,009)</u>
<b>increase in cash</b>	20	<u><u>14,938</u></u>	<u><u>4,675</u></u>

The notes on pages 29 to 55 form part of these financial statements.

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**notes to the financial statements****1 accounting policies**

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below.

**a basis of accounting**

The financial statements are prepared under the historical cost convention, modified to include the revaluation of fixed asset investments. The financial statements have been prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice “Financial Statements of Investment Trust Companies” (“SORP”), issued in 2003, except as set out in Note 10(c) in respect of the valuations of American Opportunity Trust PLC (“AOT”) and Oryx International Growth Fund Limited (“ORYX”).

**b basis of consolidation**

The consolidated financial statements incorporate the results, assets and liabilities of the Company and one of its subsidiaries (Consolidated Venture Finance Limited) for the year ended 31 January 2005. A revenue account is not presented for the Company as provided by Section 230 of the Companies Act 1985. The revenue after taxation of the Company dealt with in the consolidated revenue account is £120,000 (2004: £641,000 deficit).

During the year ended 31 January 2004, the Group exercised its conversion rights and as a result its interest in the share capital of AOT increased from 36.5% to 50.1%. By virtue of the Company’s original holding of 36.5% in the share capital of AOT, the investment would have been accounted for as an associate but for the fact that the Company does not actively participate in the commercial and policy decisions of AOT and is therefore exempted from doing so under Financial Reporting Standard 9 – “Associates and joint ventures”. Whilst this investment is now classified as a subsidiary undertaking in accordance with Financial Reporting Standard 2, in the Directors’ opinion it is not appropriate to consolidate the results of this subsidiary into the Group accounts on the basis of immateriality.

The Company also owns 53.6% of Hi-Tech Holdings, Inc. In the Directors opinion, it is not appropriate to consolidate the results of this subsidiary into the Group accounts on the basis of immateriality.

**c income**

Dividends receivable on quoted equity shares are brought into account on the ex-dividend date.

Dividends receivable on equity shares where no ex-dividend date is quoted are brought into account when the Company’s right to receive payment is established.

Fixed returns on non-equity shares are recognised on a time apportionment basis so as to reflect the effective yield on the shares. Other returns on non-equity shares are recognised when the right to the return is established.

The fixed return on a debt security is recognised on a time apportionment basis so as to reflect the effective yield on the debt security.

Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the amount of the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend is recognised in the capital reserve.

## notes to the financial statements

## 1 accounting policies continued

**d valuation of investments**

Investments are made with the express intention of capital appreciation and receipt of income. The terms of investment are such that the Group often has the right, directly or indirectly, to influence the overall direction of an investee company. However, the Group does not participate in the day-to-day management of such companies. Whilst certain of the Group's investments may be classified as associated undertakings as defined by Financial Reporting Standard 9 and the Companies Act 1985, the Group does not conduct an important part of its business through such companies, nor does it actively participate in the commercial and policy decisions of companies in which it has an interest. Accordingly, such investments are accounted for as stated below and not on an equity accounting method which, in the Directors' opinion, would not give a true and fair view of the Group's interest in these undertakings.

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

**(i) listed at market value on a recognised stock exchange.**

With the exception of the investments in AOT and ORYX (see below), securities listed on recognised stock exchanges are valued at the mid-market prices and exchange rates ruling at the balance sheet date. Where securities are hedged by unexpired traded call options written by the Company, the market value is reduced by the prevailing market value of such options at the year end date. Unexpired traded put options are held in other creditors and accruals as disclosed in note 13 on page 42. Unexpired traded put and call options written by the Company are revalued to the prevailing market value at the year end date.

**(ii) listed at directors' valuation**

The Directors have valued the Group's investment in AOT and ORYX both being investment funds, based on its share of the fully diluted net assets of each at 31 January 2005. This valuation method is not in accordance with the SORP but has been adopted as the Company is a significant shareholder in AOT (50.1%) and ORYX (32.2%). In the Directors' opinion, such investments are more properly valued at fully diluted net asset value as to apply significant discounts is misleading.

**(iii) unlisted at market value**

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

**(iv) unlisted at directors' valuation**

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



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**notes to the financial statements****1 accounting policies** continued**(v) current asset investments**

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

**(vi) investment in subsidiaries**

Investment in one of the Company's subsidiaries, Consolidated Venture Finance Limited, is valued at cost and any losses in this subsidiary's financial statements are provided for in the parent Company's financial statements. The valuations of AOT and Hi-Tech Holdings, also subsidiaries of the Company, are referred to under notes 1b and 1d(ii).

**e treatment of profits and losses on investments**

Any profits or losses (including currency movements) arising on the disposal of fixed asset investments are taken directly to the capital reserve – realised. Unrealised profits or losses on such investments arising on revaluation at the balance sheet date are taken to the capital reserve – unrealised.

Where option transactions are entered into, either for hedging or investment purposes, the premiums received are taken to the capital reserve – realised, and the gains or losses arising on their revaluations are recognised in the capital reserve – unrealised. Where an option transaction is in profit at the year end, the premium received on any open option is spread over the life of that option. Where the transaction is shown to be loss making at the year end, the premium received is recognised in full, reducing the loss arising.

Profits or losses on the disposal of investments held as current assets are taken to the revenue account.

**f foreign currency**

Transactions in a foreign currency, whether of a revenue or capital nature, are translated into sterling at the rates of exchange ruling on the dates of such transactions. Revenue items accrued and other foreign currency assets and liabilities at the balance sheet date are translated into sterling at the rates of exchange ruling on that date. Any profits or losses on foreign currency held, whether realised or unrealised, are taken directly to the capital reserve.

**g expenses**

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

Expenses which are incidental to the purchase of an investment are included in the cost of that investment. Expenses which are incidental to the sale of an investment are included within the costs deducted from the disposal proceeds of that investment.

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**notes to the financial statements****1 accounting policies** continued**h capital reserves**

Capital reserve – realised

The following are accounted for in this reserve:

- gains and losses on the realisation of investments
- realised exchange differences of a capital nature
- realised gains and losses on transactions undertaken to hedge an exposure of a capital nature.
- gains and losses on the repurchase of the Convertible Unsecured Loan Stock 2013.
- investment management performance fee

Capital reserve – unrealised

The following are accounted for in this reserve:

- increases or decreases in the valuation of investments held at the year-end
- unrealised exchange differences of a capital nature
- unrealised gains and losses on transactions undertaken to hedge an exposure of a capital nature.

**i taxation**

No taxation liability arises on gains from sales of fixed asset investments made by the Company by reason of its Investment Trust status. However, both the net revenue (excluding UK dividend income) accruing to the Company and any trading profits earned by its subsidiary undertaking, Consolidated Venture Finance Limited, are liable to corporation tax at the prevailing rates.

The payment of taxation is deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes. Full provision for deferred taxation is made under the liability method, without discounting, on all timing differences that have arisen but not reversed by the balance sheet date, unless such provision is not permitted by Financial Reporting Standard No. 19: Deferred tax.

## notes to the financial statements

**2 income**

	2005	2004
	£'000	£'000
<b>income from investments</b>		
UK dividend income	1,388	1,097
Unfranked investment income		
– dividends	135	125
– dividends reinvested	284	–
– interest	323	486
– interest reinvested	1,094	556
	<u>3,224</u>	<u>2,264</u>
	2005	2004
	£'000	£'000
<b>other income</b>		
Interest receivable	511	349
Dealing (losses)/gains of subsidiary undertaking	(91)	105
Overdraft guarantee fee of investee company	20	–
Sundry income	7	18
	<u>447</u>	<u>472</u>
Total income	<u>3,671</u>	<u>2,736</u>
	2005	2004
	£'000	£'000
<b>total income comprises:</b>		
Dividends	1,807	1,222
Interest	1,928	1,391
Other income	(64)	123
	<u>3,671</u>	<u>2,736</u>
<b>income from investments</b>		
Listed UK	1,388	1,097
Listed overseas	1	71
Unlisted	1,835	1,096
	<u>3,224</u>	<u>2,264</u>

## notes to the financial statements

## 3 investment management fee

- (i) Pursuant to the Secondment Services Agreement, described in the Report of the Directors on page 14 and the Directors' Remuneration Report on page 21, Growth Financial Services Limited ("GFS") provides the services of Mr Mills as Chief Executive of the Company who is responsible for day-to-day investment decisions. Mr Mills is the sole shareholder and a director of GFS. GFS is entitled to receive part of the investment management and related fees payable to GFS and North Atlantic Value LLP as may be agreed between them from time to time.
- (ii) Pursuant to the terms of the Management, Administration and Custody Agreement, described on page 13 of the Report of the Directors, North Atlantic Value LLP is entitled to receive a fee (the "Annual Fee") in respect of each financial period equal to the difference between (a) 1% per annum plus VAT based on Shareholders' Funds (as defined) on 31 January each year and (b) the amount payable to GFS referred to in note 3(i) above. This fee is payable quarterly in advance.
- As set out in note 23, no formal arrangements exist to avoid double charging on investments managed or advised by North Atlantic Value LLP.
- (iii) The Performance Fee, calculated annually to 31 January is only payable if the investment portfolio outperforms the Sterling Adjusted Standard & Poors' Composite Index and is limited to a maximum payment of 0.5% of Shareholders' Funds. The Performance Fee arrangements have been in place since 1984 when they were approved by shareholders.
- (iv) In addition to the management fees disclosed in note 3(ii) above, North Atlantic Value LLP is also paid the following:
- an activity fee of £225 per transaction as reimbursement of custodian and related transaction costs incurred on the Company's behalf (see note 4).
  - an investment management related fee of £100,000 per annum (see note 4).

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

	2005			2004		
	Revenue	Capital	Total	Revenue	Capital	Total
	£000	£000	£000	£000	£000	£000
Annual fee	1,639	–	1,639	1,426	–	1,426
Performance fee	–	858	858	–	357	357
Irrecoverable VAT thereon	138	72	210	102	38	140
	<u>1,777</u>	<u>930</u>	<u>2,707</u>	<u>1,528</u>	<u>395</u>	<u>1,923</u>

At 31 January 2005, £82,000 plus VAT was payable to the Joint Manager in respect of outstanding management fees (2004: £285,000 plus VAT) and £858,000 plus VAT was payable to GFS in respect of the outstanding performance fee (2004: £357,000 plus VAT).

## notes to the financial statements

**4 other expenses**

	2005	2004
	£'000	£'000
Directors' remuneration (see note 5)	84	84
Investment management related fee (see note 3)	100	100
Auditors' remuneration (see below)	29	27
Activity fees (see note 3)	36	36
Other expenses	401	283
	<u>650</u>	<u>530</u>
	2005	2004
	£'000	£'000
Audit services – current year statutory audit	21	20
– prior year statutory audit	–	1
Tax compliance fees	7	4
Review of interim report	1	1
Other professional fees	–	1
	<u>29</u>	<u>27</u>

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

**5 directors' emoluments**

	2005	2004
	Fees	Fees
	£'000	£'000
Total	<u>84</u>	<u>84</u>

Full details of Directors' emoluments are given in the Directors' Remuneration Report on pages 21 to 23.

**6 interest payable and similar charges**

	2005	2004
	£'000	£'000
On bank loans and overdrafts	906	1,297
Interest on Convertible Unsecured Loan Stock 2013	35	38
Amortisation of loan issue expenses	38	15
	<u>979</u>	<u>1,350</u>

## notes to the financial statements

## 7 taxation on ordinary activities

	2005 £'000	2004 £'000
Overseas taxation	20	18
Repayment relating to prior years	—	(5)
	<u>20</u>	<u>13</u>

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

	2005 £'000	2004 £'000
Revenue on ordinary activities before taxation	265	(672)
Theoretical tax at UK Corporation tax rate of 30% (2004: 30%)	80	(202)
Effects of:		
UK dividends which are not taxable	(416)	(356)
Increase in tax losses carried forward	553	533
Expenditure which is not tax deductible	38	18
Relief for irrecoverable overseas tax suffered	(6)	(6)
Repayment relating to prior years	—	(5)
Profit on intra-group sale of assets	34	13
Overseas tax which is not recoverable	20	18
Relief for expenses charged to capital	(281)	—
Benefits of starting rate of tax	(2)	—
Actual current tax charge	<u>20</u>	<u>13</u>

## Factors that may affect future tax charges:

The Group has tax losses of £12,435,000 (2004: £10,180,000) that are available to offset future taxable revenue. A deferred tax asset has not been recognised in respect of those losses which will be recoverable only to the extent that the Group has sufficient future taxable revenue.

Of the Group tax losses shown above, the parent Company has tax losses of £11,735,000 (2004: £9,459,000) that are available to offset future taxable revenue. A deferred tax asset has not been recognised in respect of those losses, which will be recoverable only to the extent that the Company has sufficient future taxable revenue.

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

## notes to the financial statements

## 8 dividend

No dividend has been proposed for the year (2004: nil).

## 9 consolidated return and net asset value per ordinary share

Consolidated return per Ordinary Share:

	2005			2004		
	*Net return £'000	Ordinary Shares	Per Share (pence)	*Net return £'000	Ordinary Shares	Per Share (pence)
<b>revenue</b>						
Basic return per Share	245	12,506,381	1.96	(685)	12,197,459	(5.62)
Option conversion**	–	37,346		–	–	
Loan Stock 2013†	37	7,425,672		39	7,734,593	
	<u>282</u>	<u>19,969,399</u>	<u>1.41</u>	<u>(646)</u>	<u>19,932,052</u>	<u>(3.24)</u>
Diluted revenue return per Share						
<b>capital</b>						
Basic return per Share	28,034	12,506,381	224.16	26,319	12,197,459	215.77
Option conversion**	–	37,346		–	–	
Loan Stock 2013†	–	7,425,672		–	7,734,593	
	<u>28,034</u>	<u>19,969,399</u>	<u>140.38</u>	<u>26,319</u>	<u>19,932,052</u>	<u>132.04</u>
Diluted capital return per Share						

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

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

\*\*Excess of the total number of potential shares on option conversion over the number that could be issued at fair value as calculated in accordance with Financial Reporting Standard No. 14: Earnings per Share.

†Loan Stock assumed converted as average share price during the year was greater than the conversion price.

Consolidated net asset value per share:

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

		Net asset value per share	
		2005	2004
Ordinary shares	– basic	1,334P	1,177P
	– fully diluted	860p	723p

Basic net asset value per Ordinary Share is based on net assets of £172,541,000 (2004: £144,228,000) and on 12,932,672 Ordinary Shares (2004: 12,254,313) being the number of Ordinary Shares in issue at the year end.

## notes to the financial statements

## 9 consolidated return and net asset value per ordinary share continued

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

## 10 investments

## a. Investments held as fixed assets – Group and Company

	2005 £'000	2004 £'000				
<b>investment portfolio summary</b>						
Listed at market value:						
United Kingdom	58,457	61,953				
Overseas	15,352	22,886				
Listed investments at Directors' valuation (see note 10(c))	<u>16,618</u>	<u>14,855</u>				
Total listed investments	90,427	99,694				
Unlisted at market value	4,754	1,372				
Unlisted at Directors' valuation	<u>54,101</u>	<u>50,123</u>				
	<u>149,282</u>	<u>151,189</u>				
	Listed equities £'000	AIM Quoted £'000	Unlisted equities £'000	Loan stocks £'000	Treasury Bills £'000	Total £'000
<b>analysis of investment portfolio movements</b>						
Opening book cost	53,761	23,073	32,694	13,397	1,416	124,341
Opening unrealised appreciation/(depreciation)	24,544	(6,271)	8,646	(27)	(44)	26,848
Opening valuation	78,305	16,802	41,340	13,370	1,372	151,189
Reclassification of investments	1,104	2,000	(1,937)	(1,167)	–	–
Purchases at cost	19,161	4,272	5,118	1,284	43,037	72,872
Sales – proceeds	(50,952)	(2,805)	(6,804)	(3,325)	(39,078)	(102,964)
– realised gains/(losses) on sales	19,539	(764)	4,046	(804)	(660)	21,357
(Decrease)/increase in unrealised appreciation	(797)	3,817	4,524	(799)	83	6,828
<b>closing valuation</b>	<u>66,360</u>	<u>23,322</u>	<u>46,287</u>	<u>8,559</u>	<u>4,754</u>	<u>149,282</u>
Closing book cost	42,613	25,776	33,117	9,385	4,715	115,606
Closing unrealised appreciation/(depreciation)	<u>23,747</u>	<u>(2,454)</u>	<u>13,170</u>	<u>(826)</u>	<u>39</u>	<u>33,676</u>
	<u>66,360</u>	<u>23,322</u>	<u>46,287</u>	<u>8,559</u>	<u>4,754</u>	<u>149,282</u>



## notes to the financial statements

## 10 investments continued

	2005	2004
	£'000	£'000
<b>analysis of capital gains and losses</b>		
Realised gains on sales	21,357	1,797
Add back loss on sale to subsidiary (included above)	114	–
(Appreciation)/depreciation dealt with last year	(11,510)	4,560
	<u>9,961</u>	<u>6,357</u>
Additional unrealised appreciation	18,338	18,832
	<u>28,299</u>	<u>25,189</u>
Net premiums on sale of options	373	188
Movement in valuation of unexpired put options	(369)	164
	<u>28,303</u>	<u>25,541</u>
<b>gains on investments</b>		
Realised exchange gains on capital items	2,659	61
Unrealised exchange (losses)/gains on capital items and currency	(1,998)	1,112
	<u>661</u>	<u>1,173</u>
<b>exchange differences</b>		
	2005	2004
	£'000	£'000
<b>portfolio analysis</b>		
Equity shares	130,549	130,711
Convertible preference securities	5,420	5,736
Fixed interest securities	8,559	13,370
Treasury bills	4,754	1,372
	<u>149,282</u>	<u>151,189</u>

## notes to the financial statements

## 10 investments continued

## b. Subsidiary undertaking

The Company has the following subsidiaries.

Subsidiary	Principal activity	% equity held	Country of registration
Consolidated Venture Finance Limited*	Security trading	100.0	England and Wales
American Opportunity Trust PLC†	Investment trust	50.1	England and Wales
Hi-Tech Holdings, Inc†	Hose manufacturer	53.6	USA

The subsidiaries are directly held by the Company and were active during the year.

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

†These subsidiaries have not been consolidated as described in note 1b on page 29.

## c. Valuation of American Opportunity Trust PLC (“AOT”) and Oryx International Growth Fund Limited (“ORYX”).

Based on the valuation criteria set out in note 1(d)(ii), the Directors have valued the Company’s holding in AOT at £9,238,000 (2004: £8,555,000). The mid-market value of the shares in AOT held by the Group at 31 January 2005 was £7,708,000 (2004: £7,100,000).

Based on the valuation criteria set out in note 1(d)(ii), the Directors have valued the Company’s holding in ORYX at £7,380,000 (2004: £6,300,000). The mid-market value of the shares in ORYX held by the Group at 31 January 2005 was £6,586,000 (2004: £5,205,000 including loan stock).

If the Group’s investment in ORYX had been valued on an equity accounting basis as at the date of its most recently published financial statements for the year to 31 March 2004 the effect upon the Group’s financial statements would have been to decrease the value of fixed asset investments by £358,000 (2004: decrease by £1,802,000) and to increase net revenue before tax by £80,000 (2004: decrease by £22,000).

## notes to the financial statements

## 10 investments continued

## d. Significant holdings

At the year end, the Company held 20% or over of the aggregate nominal value of voting equity of the following companies, all of which are incorporated in Great Britain and registered in England and Wales, unless stated.

		31 January 2005 %	31 January 2004 %
United Industries PLC	– Ordinary Shares	49.4	49.4
American Opportunity Trust PLC	– Ordinary Shares	50.1	50.1
Paramount PLC	– Ordinary Shares	36.6	37.4
Waterbury Inc. (USA)	– Common Stock	23.5	23.5
Oryx International Growth Fund Limited	– Ordinary Shares	32.2	24.2
	– Convertible Unsecured Loan Stock 31/5/05	–	52.1
Nationwide Accident Repair Services PLC	– Ordinary Shares	21.9	21.9
Mid-States PLC	– Ordinary Shares	22.9	21.0
Santa Maria Foods Inc. (Canada)	– Common Stock	37.0	37.0
Hi-Tech Holdings Inc. (USA)	– Common Stock	53.6	53.6
Worldport Communications Inc. (USA)	– Common Stock	46.0	27.0

As at 31 January 2005, AOT had in issue 1,525,000 Management Options held by its Directors, the Company's Manager, North Atlantic Value LLP and its employees exercisable at 95p each at any time up to 31 August 2006. On the assumption that these options, are exercised, then the Company's interest in the share capital of AOT will fall below 50% by 31 August 2006.

The net assets of AOT at 30 September 2004, the date of the last audited accounts, were £17,830,000 (2003: £16,275,000) and the net deficit from ordinary activities after tax for the year then ended was £119,000 (2003: deficit £318,000).

## e. Investments deposited as collateral

Where US Treasury Bills or investments are required in accordance with United States SEC regulations to be deposited with brokers as cover for option transactions, these may be held to the order of these brokers until the relevant option positions are closed.

## f. Investments held as current assets

Investments held as current assets have been included in the accounts on an individual basis at the lower of cost and market value. The market value of the current asset investments held at 31 January 2005 amounted to £137,000 (2004: £48,000), of which none (2004: none) were listed investments.

## notes to the financial statements

## 11 debtors

	2005	2004	2005	2004
	Group	Group	Company	Company
	£'000	£'000	£'000	£'000
Amounts due from brokers	1	1	–	1
Amounts owed by subsidiary undertakings	–	–	20,009	11,175
Accrued income	437	468	437	468
Other debtors	407	58	369	58
Prepayments	13	22	13	22
	<u>858</u>	<u>549</u>	<u>20,828</u>	<u>11,724</u>

## 12 bank loans and overdrafts: due in less than one year

	2005	2004	2005	2004
	Group	Group	Company	Company
	£'000	£'000	£'000	£'000
6.36% Sterling £6 million bank loan 31/3/04†	–	6,000	–	6,000
Canadian \$2.25 million bank loan*	–	929	–	929
6.48% US\$22.5 million term bank loan 31/01/05*	–	12,319	–	12,319
	<u>–</u>	<u>19,248</u>	<u>–</u>	<u>19,248</u>

† The loan was repaid on 31 March 2004.

\* On 31 January 2005, US\$16.5 million was repaid and Canadian \$1 million was drawdown. The remaining loans were extended and reclassified as being due in more than one year (see note 14).

## 13 other creditors and accruals

	2004	2004	2005	2004
	Group	Group	Company	Company
	£'000	£'000	£'000	£'000
Amounts due to brokers	–	486	–	486
Valuation of unexpired put options	369	–	369	–
Unrealised profit on unexpired put options (see note 1e)	16	–	16	–
Other creditors and accruals	<u>1,297</u>	<u>1,216</u>	<u>1,297</u>	<u>1,216</u>
	<u>1,682</u>	<u>1,702</u>	<u>1,682</u>	<u>1,702</u>

## notes to the financial statements

**14 bank loans: falling due after more than one year**

	2005	2004	2005	2004
	Group	Group	Company	Company
	£'000	£'000	£'000	£'000
US\$6.00 million term bank				
loan 31/03/06	3,177	–	3,177	–
Canadian \$3.25 million term				
loan 31/03/06	1,389	–	1,389	–
	<u>4,566</u>	<u>–</u>	<u>4,566</u>	<u>–</u>

With effect from 31 January 2005, the loan facility, which is a Multi-Currency Revolving Credit Facility, was reduced from £24 million to £9 million. In addition, the termination date of the facility was extended from 30 September 2005 to 31 March 2006. The facility was granted by Allied Irish Banks, p.l.c..

**15 debenture loan – convertible unsecured loan stock 2013**

	2005	2005	2004	2004
	No units	£'000	No units	£'000
Group and Company				
Balance at beginning of year	7,677,739	384	7,850,670	393
Converted during the year	(678,359)	(34)	(172,931)	(9)
	<u>6,999,380</u>	<u>350</u>	<u>7,677,739</u>	<u>384</u>

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

During the year ended 31 January 2005, 678,359 (2004: 172,931) Loan Stock units were converted into Ordinary shares of 5p each at the rate of one 5p Ordinary share for every unit of 5p.

The remaining Loan Stock units are convertible into Ordinary shares of 5p each at the rate of one 5p Ordinary share for every unit of 5p one month after despatch of the audited accounts in each of the years 2005 to 2013 inclusive. Interest at the rate of 0.5p gross per 5p unit per annum is payable on 31 January in each year.

## notes to the financial statements

## 16 called-up share capital

	2005 Number	2005 £'000	2004 Number	2004 £'000
<b>– authorised:</b>				
As at 31 January:				
Ordinary shares of 5p	27,000,000	1,350	27,000,000	1,350
<b>– issued and fully paid:</b>				
Ordinary shares of 5p:				
As at 1 February	12,254,313	613	12,081,382	604
Conversion of Loan Stock	678,359	34	172,931	9
As at 31 January	<u>12,932,672</u>	<u>647</u>	<u>12,254,313</u>	<u>613</u>

During the year, 678,359 (2004: 172,931) Loan Stock units were converted into Ordinary shares of 5p as detailed in note 15.

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

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

(ii) 2002 (a) Executive Share Option Scheme: 355,000 Ordinary Shares at 645.54p per share exercisable at any time between 6 December 2005 and 6 December 2012 (This figure excludes 40,000 options granted to a past employee of the investment manager); (b) 237,500 options were granted at 663.80p exercisable at any time between 25 September 2006 and 25 September 2013.

These options totalling 692,500, include those granted to the Chief Executive, details of which are given on page 22 in the Directors' Remuneration Report. The balance of the options have been granted to investment management employees of the Joint Manager.

## notes to the financial statements

## 17 reserves

	Share premium £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
<b>group</b>				
Beginning of year	629	118,383	30,089	(5,486)
Increase in unrealised appreciation				
before transfer on disposal	–	–	18,338	–
Transfer on disposal of investments	–	11,510	(11,510)	–
Net gain on realisation of investments	–	9,961	–	–
Net premiums on sale of options	–	373	–	–
Movement in valuation of unexpired put options	–	–	(369)	–
Exchange differences on capital items	–	114	–	–
Exchange differences on currency	–	–	230	–
Exchange differences on repayment of loans	–	2,545	(2,228)	–
Expenses charged to capital	–	(930)	–	–
Net revenue for the year	–	–	–	245
<b>end of year</b>	<b>629</b>	<b>141,956</b>	<b>34,550</b>	<b>(5,241)</b>
<b>company</b>				
Beginning of year	629	118,187	30,046	(5,247)
Increase in unrealised appreciation				
before transfer on disposal	–	–	18,338	–
Transfer on disposal of investments	–	11,396	(11,396)	–
Net gain on realisation of investments	–	9,847	–	–
Net premiums on sale of options	–	373	–	–
Movement in valuation of unexpired put options	–	–	(369)	–
Exchange differences on capital items	–	114	–	–
Exchange differences on currency	–	–	230	–
Exchange differences on repayment of loans	–	2,545	(2,228)	–
Expenses charged to capital	–	(930)	–	–
Net revenue for the year	–	–	–	120
<b>end of year</b>	<b>629</b>	<b>141,532</b>	<b>34,621</b>	<b>(5,127)</b>

## notes to the financial statements

**18 reconciliation of movements in equity shareholders' funds**

	2005	2004
	£'000	£'000
<b>group</b>		
<b>revenue reserve</b>		
Net revenue/(deficit) for the year	245	(685)
<b>capital reserve</b>		
Movements in capital reserves	28,034	26,319
<b>share capital</b>		
Conversion of CULS 2013	34	9
<b>net increase in shareholders' funds</b>		
Opening shareholders' funds	144,228	118,585
Closing shareholders' funds	<u>172,541</u>	<u>144,228</u>

**19 reconciliation of net revenue before finance costs and taxation to net cash inflow from operating activities**

	2005	2004
	£'000	£'000
Net revenue from ordinary activities before finance costs and taxation	1,244	678
Expenses charged to capital	(930)	(395)
Dividends and interest reinvested	(1,339)	(556)
(Increase)/decrease in debtors and accrued income	(309)	218
Changes relating to investments of dealing subsidiary	125	12
Increase/(decrease) in creditors and accruals	380	(126)
Tax on investment income	(20)	(18)
Net cash outflow from operating activities	<u>(849)</u>	<u>(187)</u>



## notes to the financial statements

**20 reconciliation of net cashflow to movement in net debt**

	2005	2004
	£'000	£'000
Increase in cash in the year	14,938	4,675
Repayment of bank loan	14,321	3,009
Conversion of loan stock	34	9
Amortisation of loan issue expenses	(38)	(15)
Loan expenses paid in year	–	40
Revaluation of currency balances	547	1,145
	<u>29,802</u>	<u>8,863</u>
Movement in net debt	<u>29,802</u>	<u>8,863</u>

**21 analysis of net (debt)/cash**

	At 1 February 2004 £'000	Cash flow £'000	Non cash flow movements £'000	Exchange movement £'000	At 31 January 2005 £'000
Cash at bank	13,776	14,938	–	148	28,862
Due within one year	(19,248)	14,321	4,528	399	–
Due after one year	(384)	–	(4,532)	–	(4,916)
	<u>(19,632)</u>	<u>14,321</u>	<u>(4)</u>	<u>399</u>	<u>(4,916)</u>
Net (debt)/cash	<u>(5,856)</u>	<u>29,259</u>	<u>(4)</u>	<u>547</u>	<u>23,946</u>

## notes to the financial statements

**22 financial instruments and risk profile**

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

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

The Company, as stated in the Report of the Directors on page 12, conducts its affairs so as to enable it to qualify as an investment trust. As part of the rules governing this status, no investment at the time of purchase can represent more than 15% by value of the Company's portfolio of investments.

The two main risks arising from the Group's financial instruments are market price risk and foreign currency risk. The Directors review and agree policies with the Joint Manager, North Atlantic Value LLP, for managing these risks. The policies have remained substantially unchanged since 31 January 2004.

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

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

**market price risk**

The Company's exposure to market 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 on page 4.

**foreign currency risk**

The base currency of the Company is Sterling and, therefore, the Company's principal exposure to foreign currency risk comprises investments priced in other currencies, principally US dollars. At 31 January 2005, the Company had no open forward currency contracts (2004: none).

**interest rate risk profile of financial assets and liabilities**

The Group's assets and liabilities, excluding short term debtors and creditors, comprise financial instruments which include investments in equities, preference securities and fixed interest securities.

Fixed assets are valued as disclosed in note 1(d) which equate to their fair values with the exception of the holdings in American Opportunity Trust PLC and Oryx International Growth Fund Limited which are valued at the fully diluted net asset value at the balance sheet date. See note 10(c).

## notes to the financial statements

## 22 financial instruments and risk profile continued

The interest rate profile of the Group's financial assets at 31 January (excluding short-term debtors) is as follows:

	Fixed rate financial assets – fair value £'000	Variable rate financial assets – fair value £'000	Financial assets on which no interest is received £'000	Weighted average interest rate %	Weighted average period to maturity (years)
<b>currency as at 31 January 2005:</b>					
Sterling					
– Loan stocks	3,232	–	–	6.3	8.1
– Equity	–	–	84,934	–	–
– Cash at bank	–	28,297	–	*	*
US dollar					
– Loan stocks	3,166	–	–	12.1	1.5
– Treasury Bills	4,754	–	–	2.2	0.2
– Preference shares	–	5,420	–	*	*
– Equity	–	–	40,307	–	–
– Cash at bank	–	138	–	*	*
Canadian dollar					
– Loan stocks	2,161	–	–	13.7	3.3
– Equity	–	–	5,308	–	–
– Cash at bank	–	427	–	*	*
	<u>13,313</u>	<u>34,282</u>	<u>130,549</u>		

\* Primarily exposed to variable interest rates which are linked to bank base rates and no fixed maturity dates.

No interest is received on equity shares.

## notes to the financial statements

## 22 financial instruments and risk profile continued

	Fixed rate financial assets – fair value £'000	Variable rate financial assets – fair value £'000	Financial assets on which no interest is received £'000	Weighted average interest rate %	Weighted average period to maturity (years)
<b>currency as at 31 January 2004:</b>					
Sterling					
– Loan stocks	6,033	–	–	3.2	5.3
– Preference shares	1,313	–	–	14.9	2.0
– Equity	–	–	77,586	–	–
– Cash at bank	–	12,155	–	*	*
US dollar					
– Loan stocks	4,770	–	–	8.5	2.0
– Treasury Bills	1,372	–	–	0.8	0.1
– Preference shares	–	4,423	–	*	*
– Equity	–	–	47,996	–	–
– Cash at bank	–	1,569	–	*	*
Canadian dollar					
– Loan stocks	1,838	–	–	13.1	4.3
– Equity	–	–	5,129	–	–
Other European currencies					
– Loan stocks	729	–	–	5.6	36.4
– Cash at bank	–	52	–	*	*
	<u>16,055</u>	<u>18,199</u>	<u>130,711</u>		

\* Exposed to variable interest rates which are linked to bank base rates and no fixed maturity dates.  
No interest is received on equity shares.

## notes to the financial statements

## 22 financial instruments and risk profile continued

The interest rate profile of the Group's financial liabilities at 31 January (excluding short-term creditors but including short-term loans) is as follows:

	Fixed rate financial liabilities – fair value £'000	Variable rate financial liabilities – fair value £'000	Weighted average interest rate %	Weighted average period to maturity (years)
<b>currency as at 31 January 2005:</b>				
Sterling				
– Convertible Unsecured Loan Stock 2013	350	–	10.0	8.3
US dollar				
– Term bank loan	3,177	–	4.4	1.2
Canadian dollar				
– Term bank loan	1,389	–	3.9	1.2
	<u>4,916</u>	<u>–</u>		
<b>currency as at 31 January 2004:</b>				
Sterling				
– Convertible Unsecured Loan Stock 2013	384	–	10.0	9.3
– Short-term bank loan	6,000	–	4.6	0.2
US dollar				
– Term bank loan	12,319	–	6.6	1.0
Canadian dollar				
– Short-term bank loan	–	929	3.4	0.2
	<u>18,703</u>	<u>929</u>		

The fair value of the Convertible Unsecured Loan Stock 2013 as at 31 January 2005 was £55,610,000 (2004: £47,756,000), based on the mid-market price of that stock at the year end. All other liabilities are stated at fair value.

## notes to the financial statements

## 22 financial instruments and risk profile continued

The maturity profile of the Company's financial liabilities at 31 January 2005 is as follows:

	2005 £'000	2004 £'000
In one year or less	–	19,248
In more than one year but less than two years	4,566	–
In more than two years but less than five years	–	–
In more than five years but less than ten years	350	384
In more than ten years	–	–
	<u>4,916</u>	<u>19,632</u>

With effect from 31 January 2005, the loan facility, which is a Multi-Currency Revolving Credit Facility, was reduced from £24 million to £9 million. In addition, the termination date of the facility was extended from 30 September 2005 to 31 March 2006. The facility is with Allied Irish Banks, p.l.c..

The table below summarises the Group's currency exposure.

	Investment portfolio £'000	Cash at bank £'000	Other financial current assets £'000	Financial liabilities £'000
<b>as at 31 January 2005:</b>				
US dollars – non equity	13,340	138	110	3,600
Canadian dollars – non equity	<u>2,161</u>	<u>427</u>	<u>258</u>	<u>1,389</u>
Total non sterling – non equity	15,501	565	368	4,989
US dollars – equity	40,307	–	72	–
Canadian dollars – equity	<u>5,308</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total non sterling	<u>61,116</u>	<u>565</u>	<u>440</u>	<u>4,989</u>
Sterling	<u>88,166</u>	<u>28,297</u>	<u>555</u>	<u>1,609</u>
Total	<u>149,282</u>	<u>28,862</u>	<u>995</u>	<u>6,598</u>

## notes to the financial statements

## 22 financial instruments and risk profile continued

	Investment portfolio £'000	Cash at bank £'000	Other financial current assets £'000	Financial liabilities £'000
<b>as at 31 January 2004:</b>				
US dollars – non equity	6,142	1,569	175	12,528
Canadian dollars – non equity	1,838	–	220	940
Other European currencies – non equity	729	52	4	–
Total non sterling – non equity	8,709	1,621	399	13,468
US dollars – equity	52,419	–	67	–
Canadian dollars – equity	5,129	–	–	–
Total non sterling	66,257	1,621	466	13,468
Sterling	84,932	12,155	131	7,866
Total	151,189	13,776	597	21,334

## 23 related party transactions

The Joint Manager, North Atlantic Value LLP, is regarded as a related party of the Company and acts as Investment Manager or Investment Adviser of the following companies in which the Company has an investment and from which companies the Joint Manager receives fees or other incentives for its services. The amounts payable to the Joint Manager are disclosed in note 3. The relationships between the Company, its Directors and the Joint Managers are disclosed in the Report of the Directors.

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

	Services	Fees
American Opportunity Trust PLC	Administration and investment management	£215,000
Oryx International Growth Fund Limited	Investment advisory	£228,000
Trident Private Equity LP	Investment advisory	£156,000

## notes to the financial statements

**23 related party transactions** continued

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

	Services	Fees
Second London American Trust PLC	Administration	£100,000
Wichford PLC	Joint Management and Administration	£895,000

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

In addition, on 29 January 2004, the Company guaranteed the bank overdraft of The Wichford Property Limited Partnership for which it received a fee of £20,000. This overdraft facility has now expired.

Mr Mills is Chief Investment Officer and a member of North Atlantic Value LLP. He holds 35.9% of the issued share capital of J O Hambro Capital Management Group Limited (one of the two Designated Members of North Atlantic Value LLP) and the holding company of the Corporate Company Secretary.

**disclosure of interests**

Mr Mills, the Chief Executive and Investment Manager is also Chief Executive of American Opportunity Trust PLC (“AOT”) and a director of Oryx International Growth Fund Limited (“ORYX”).

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

Mr Mills is also a director of the following companies in which the Company has an investment or may have had in the year and from which he may receive fees or hold options or shares: Tinopolis PLC, American Opportunity Trust PLC, Autotag Limited, Cross-Border Publishing Limited, Darby Group Limited, Deepenhardt Limited, GEI Group Limited, Izodia PLC, Jarvis Porter Group PLC, Jubilee Investment Trust PLC, Langley Park Investment Trust PLC, Lindley Catering Limited, Mid-States PLC, Nationwide Accident Repair Services PLC, Paramount PLC, Ryder Court Investments Limited, Second London American Trust PLC, United Industries PLC, VTR PLC, LESCO, Inc, AllianceOne, Inc, Santa Maria Foods, Inc, Trident North Atlantic Fund, Oryx International Growth Fund Limited, Primesco, Inc, W-H Energy Services, Inc, Carwash Partners, Inc, Worldport Communications, Inc, Glass America, Hi-Tech Holdings, Inc, Sterling Construction, Inc and Progeny, Inc. Employees of the Joint Manager may hold options over shares in investee companies. Mr Mills is the chairman of Lonrho Africa PLC.

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



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**notes to the financial statements****23 related party transactions** continued

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 the Joint Manager. Members and private clients of the Joint Manager hold 116,550 shares in the Company.

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

Mr E Foster Gittes is a director of LESCO, Inc.

Ryder Court Investments Limited is a company incorporated for the purposes of the mandatory cash offer to acquire the issued share capital of Stratagem Group PLC in September 2002 not already owned by the Company. Ryder Court Investments Limited is owned as to 74.62% by Trident Private Equity LP (a fund advised by North Atlantic Value LLP), 12.69% by Totalassist Company Limited and as to 12.69% by Forwardissue Limited. The offer for Stratagem Group PLC was funded by way of a loan from the Company on normal commercial terms and the Company received interest in the year to 31 January 2004 of £25,000. The loan was repaid on 4 April 2003.

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

**24 commitments and contingent liabilities**

- (i) At the year end, there were no unexpired call options relating to fixed asset investments (2004: none).
- (ii) At the year end, there were 2 unexpired put options (2004: none), giving the holders at any time prior to expiry, the right to require the Company to purchase investments at the stated exercise price. As set out in note 1(e) the premiums received for writing such options and the movements in valuation of put options unexpired at the balance sheet date are recognised in the capital reserve. At 31 January 2005, changes in the put option valuations showed a net gain of £164,000 (2004: £nil). The maximum potential liability to which the Company was exposed at the balance sheet date, in respect of put options, totalled £4,507,000 (2004: £nil).

## notice of annual general meeting

NOTICE IS GIVEN that the ANNUAL GENERAL MEETING of North Atlantic Smaller Companies Investment Trust PLC will be held on 28 June 2005, at 11.00 am in the Board Room, Ground Floor, Ryder Court, 14 Ryder Street, London SW1Y 6QB for the following purposes:

**ordinary business:**

1. To receive and approve the Report of the Directors and the audited financial statements for the year ended 31 January 2005.
2. To approve the Directors' Remuneration Report.
3. To re-elect Mr C H B Mills as a Director of the Company.
4. To re-elect Mr E F Gittes as a Director of the Company.
5. To re-elect The Hon P D E M Moncreiffe as a Director of the Company.
6. To re-appoint RSM Robson Rhodes LLP as Auditors and authorise the Directors to determine their remuneration.

**special business:**

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

**7. ordinary resolution – renewal of Directors' authority to allot shares**

THAT the Directors be generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (as defined in Section 80 of the Companies Act 1985 ("the Act")) up to an aggregate nominal amount of £215,544 provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the date of the passing of this resolution, except that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred by this resolution had not expired and that this authority shall be in substitution for all previous authorities conferred upon the Directors pursuant to Section 80 of the Act but without prejudice to the allotment of any relevant securities already made or to be made pursuant to such authorities.

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

THAT, subject to and conditional upon the passing of resolution number 6 above, the Directors be empowered, pursuant to Section 95 of the Act, to allot equity securities (as defined in Section 94 of the Act) for cash as if Section 89 of the Act did not apply to any such allotment provided that this power shall be limited to:

- (i) the allotment of equity securities in connection with a rights issue or other pro rata offer in favour of holders of ordinary shares where the equity securities respectively attributable to the interests of all the Ordinary shareholders are proportionate (as nearly as may be) to the respective number of equity securities held by them subject in each case to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal difficulties under the laws of any territory or the requirements of a regulatory body; and
- (ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal amount of £32,332;

## notice of annual general meeting

and shall expire at the conclusion of the Annual General Meeting of the Company after the date of the passing of this resolution except that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred by this resolution had not expired.

Dated this 18th day of May 2005

By order of the Board

**J O Hambro Capital Management Limited**

*Company Secretary*

Registered Office:

Ground Floor, Ryder Court

14 Ryder Street

London

SW1Y 6QB

Registered No. 1091347

**notes:**

1. Any member entitled to attend and vote at this Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his or her place. A proxy need not be a member of the Company. A form of proxy is enclosed.
2. To be valid, completed forms must be received at the offices of the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not less than 48 hours before the time fixed for the meeting. Deposit of the form of proxy will not prevent a member from attending the meeting and voting in person.
3. The following documents are available for inspection at the registered office of the Company during normal business hours on each weekday (public holidays excluded) and at the place of the Annual General Meeting for 15 minutes prior to and during the meeting:
  - a) the register of Directors' interests in shares of the Company;
  - b) there are no service contracts.
4. The Company specifies, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, that only those shareholders registered in the register of members of the Company as at 6pm on 26 June 2005 shall be entitled to attend or vote at the Annual General Meeting in respect of the number of shares registered in their respective names at that time. Changes to entries on the register after that time will be disregarded in determining the right of any person to attend or vote at the meeting.

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**shareholder information**

<b>financial calendar</b>	Preliminary results	May
	Annual report	May
	Annual General Meeting	June
	Interim figures announced	September
	Interim report posted	October
<b>share price</b>	The Company's mid-market share price is quoted daily in the Financial Times appearing under "Investment Companies".	
	It also appears on:	
	Reuters:	convertible Loan Stock NASp.L
	Bloomberg:	NAS. LN
	SEAO Ordinary Shares:	NAS
Trustnet:	www.trustnet.ltd.uk	
<b>net asset value</b>	The latest net asset value of the Company can be found on the North Atlantic Value LLP website : <a href="http://www.navalue.co.uk">www.navalue.co.uk</a>	
<b>share dealing</b>	Investors wishing to purchase more Ordinary Shares or dispose of all or part of their holding may do so through a stockbroker. Many banks also offer this service.	
	The Company's registrars are Capita Registrars. In the event of any queries regarding your holding of shares, please contact the registrars on: 020 8639 2000, email address: <a href="mailto:ssd@capitaregistrars.com">ssd@capitaregistrars.com</a>	
	Changes of name or address must be notified to the registrars in writing at:	
	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU	

**form of proxy**

I/We, the undersigned, being (a) members(s) of the above-named Company,

Name(s) in full .....  
 (BLOCK LETTERS PLEASE)

hereby appoint the Chairman of the Meeting or .....(see note 3)

as my/own proxy to vote for me/us and on my/our behalf at the Annual General Meeting on the Company to be held on 28 June 2005 and at any adjournment thereof, in the following manner:

1. the resolution to receive and approve the Report of the Directors and the financial statements for the year ended 31 January 2005;
2. the resolution to approve the Directors' Remuneration Report
3. the resolution to re-elect Mr C H B Mills as a Director of the Company;
4. the resolution to re-elect Mr E F Gittes as a Director of the Company;
5. the resolution to re-elect The Hon P D E M Moncreiffe as a Director of the Company;
6. the resolution to re-appoint RSM Robson Rhodes LLP as Auditors and to authorise the Directors to determine their remuneration;
7. the ordinary resolution to renew the annual authority to allot shares;
8. the special resolution to renew the disapplication of pre-emption rights.

For*	Against*	Vote Withheld

\* PLEASE INDICATE BY MARKING 'X' IN THE APPROPRIATE SPACE HOW YOU WISH YOUR VOTE TO BE CAST. UNLESS SO INDICATED THE PROXY WILL VOTE OR ABSTAIN AS HE/SHE THINKS FIT.

As WITNESS my/our hand(s) this ..... day of ..... 2005

Signature .....

Notes:

1. If this form is returned without any indication as to how the person appointed as proxy shall vote, he will exercise his discretion as to how he votes or whether he abstains from voting.
2. This form of proxy, duly signed, and any power of attorney under which it is executed must be deposited at the offices of the Company's Registrars not less than 48 hours before the time fixed for holding the meeting or an adjourned meeting.
3. A member may appoint a proxy of his own choice by deleting the reference to the Chairman and inserting the name of his proxy in the space provided. A proxy need not be a member of the Company but must attend the meeting in person to represent the member.
4. A corporation should complete this form under its common seal or under the hand of a duly authorised officer or attorney.
5. In the case of joint holders, this form may be signed by any one of the holders, but the names of all of them should be stated.



Third fold and tuck in

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First  
fold

**CAPITA REGISTRARS (Proxies)**  
**PO Box 25**  
**BECKENHAM**  
**Kent BR3 4BR**

Second fold

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**advisers**

**Joint Manager**

North Atlantic Value LLP

*Regulated by the FSA.*

Ground Floor

Ryder Court

14 Ryder Street

London SW1Y 6QB

Telephone: 020 7747 5678

**Company Secretary & Registered Office**

J O Hambro Capital Management Limited

Ground Floor

Ryder Court

14 Ryder Street

London SW1Y 6QB

Telephone: 020 7747 5682

**Registrars**

Capita Registrars

The Registry

34 Beckenham Road

Beckenham

Kent BR3 4TU

**Auditors**

RSM Robson Rhodes LLP

186 City Road

London EC1V 2NU

