

**North Atlantic
Smaller Companies
Investment Trust plc**

Interim Report for the six months ended 31 July 2006



objective of the company and financial highlights

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

	31 July 2006 (unaudited)	31 January 2006 (audited)	% Change
Net asset value per Ordinary Share*:			
Basic	1,602p	1,597p	0.3
Diluted	1,102p	1,063p	3.7
Mid-market price of the 5p Ordinary Shares	1,015.5p	1,022.5p	(0.7)
Discount to diluted net asset value*	7.8%	3.8%	
Standard & Poor's Composite Index**	683.8	720.2	(5.1)
Russell 2000 Index**	375.2	412.5	(9.0)
Exchange rate (US\$/£)	1.8671	1.7774	(5.0)

* Including retained revenue for the period.

** Sterling adjusted.

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

chief executive's review

During the six month period to 31 July 2006, the fully diluted net asset value of the Company rose by 3.7% as compared to a fall in the Sterling adjusted Standard and Poor's Composite Index of 5.1%. Net income for the period amounted to £961,000 (2005: £248,000). Consistent with policy, no dividend will be paid.

listed equities

The quoted portfolio in the United States suffered from the weakness of the United States Dollar which fell by 5.0% during the period under review. Sterling Construction Inc. and W-H Energy Services Inc. performed well although this was to some extent offset by the weakness of LESCO, Inc. following disappointing results.

In the United Kingdom, Oryx International Growth Fund Limited continued to perform well. Georgica PLC was an outstanding success rising nearly 40% during the period under review. The remainder of the UK portfolio performed acceptably with the notable exception of Communisis PLC which fell by approximately 30% during the period. Parkdean Holidays PLC was taken over at a good premium to our cost. Overall the UK portfolio made a positive contribution during the period.

unlisted equities

The unquoted portfolio benefited from the pending Initial Public Offering ("IPO") of Nationwide Accident Repair Services PLC. This has now happened and I am pleased to report that the shares have subsequently performed well. This holding including cash proceeds received in the IPO is now worth approximately £17.5 million against our cost of £3.0 million. The holding in Wembley PLC was liquidated for cash.

post balance sheet events

Since 31 July, the Board has reassessed the carrying value of a number of our unquoted investments as a result of various acquisition discussions. Consequently, the Board, for purposes of its 30 September valuation, has increased the valuation of the unquoted portfolio by approximately 112p per share. As announced on 9 October 2006, the estimated basic net asset value (excluding current period revenue) as at 30 September 2006 was 1,735.5p per share and the estimated fully diluted net asset value (also excluding current period revenue) was 1,190.9p per share.

chief executive's review (continued)

outlook

The outlook for the balance of the year is encouraging. Although no new investments were made in the period, we expect to close a number of new unquoted investments prior to the year-end. Public equities which have been weak in recent months are starting to create opportunities which we hope to capitalise on given the Trust's substantial cash resources.

C H B Mills
Chief Executive

11 October 2006

top ten investments

as at 31 July 2006

Company		Fair value £'000	% of net assets
W-H Energy Services Inc.	USA Quoted	19,579	8.6
US Treasury Bill 07/09/2006	US Treasury Stock	15,219	6.7
Nationwide Accident Repair Services PLC	UK Quoted on AIM	13,500	5.9
Georgica PLC	UK Quoted on AIM	12,480	5.5
Sterling Construction Inc.	USA Listed	10,704	4.7
Whatman PLC	UK Listed	9,788	4.3
Oryx International Growth Fund Limited	UK Listed	9,697	4.2
Santa Maria Foods Inc.	Canadian Unquoted	9,496	4.1
Paramount Restaurants Limited	UK Unquoted	9,186	4.0
DM Technical Services Limited	UK Unquoted	8,246	3.6
		<u>117,895</u>	<u>51.6</u>

consolidated income statement

for the six months ended 31 July

	Six months to 31 July 2006 (unaudited)			Six months to 31 July 2005 (unaudited)		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
investments						
Gains on investments	–	7,248	7,248	–	31,808	31,808
Exchange differences	–	(226)	(226)	–	(203)	(203)
net investment result	–	7,022	7,022	–	31,605	31,605
income	2,861	–	2,861	1,705	–	1,705
expenses						
Investment management fee	(1,220)	(575)	(1,795)	(962)	(552)	(1,514)
Interest payable and similar charges	(80)	–	(80)	(126)	–	(126)
Share based remuneration	(161)	–	(161)	(184)	–	(184)
Other expenses	(415)	–	(415)	(184)	–	(184)
total expenses	(1,876)	(575)	(2,451)	(1,456)	(552)	(2,008)
profit before taxation	985	6,447	7,432	249	31,053	31,302
Taxation	(24)	–	(24)	(1)	–	(1)
transfer to reserves	961	6,447	7,408	248	31,053	31,301
attributable to:						
Equity holders of the parent	977	6,928	7,905	248	31,053	31,301
Minority interest	(16)	(481)	(497)	–	–	–
	961	6,447	7,408	248	31,053	31,301
return per ordinary share (note 2):						
Basic			59.09p			240.66p
Diluted			39.70p			156.14p

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

All items in the above statement derive from continuing operations.

consolidated income statement (continued)
for the year ended 31 January

	Year to 31 January 2006 (audited)		
Revenue £'000	Capital £'000	Total £'000	
–	46,593	46,593	investments
–	(422)	(422)	Gains on investments
–	46,171	46,171	Exchange differences
4,052	–	4,052	net investment result
(1,981)	(1,155)	(3,136)	income
(253)	–	(253)	expenses
(368)	–	(368)	Investment management fee
(594)	–	(594)	Interest payable and similar charges
(3,196)	(1,155)	(4,351)	Share based remuneration
856	45,016	45,872	Other expenses
(13)	–	(13)	total expenses
843	45,016	45,859	profit before taxation
			Taxation
			transfer to reserves
876	44,674	45,550	attributable to:
(33)	342	309	Equity holders of the parent
843	45,016	45,859	Minority interest
			return per ordinary share (note 2):
	346.10p		Basic
	227.13p		Diluted

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

All items in the above statement derive from continuing operations.

consolidated statement of changes in equity

for the six months ended 31 July

	Share capital £'000	CULS reserve £'000	Share options reserve £'000	Share premium account £'000	Capital reserve – realised £'000
six months ended 31 July 2006 (unaudited)					
31 January 2006	666	48	764	629	168,946
Total recognised income and expenses for the period	–	–	161	–	2,075
Arising on conversion of CULS	23	(3)	–	–	–
31 July 2006	<u>689</u>	<u>45</u>	<u>925</u>	<u>629</u>	<u>171,021</u>
year ended 31 January 2006 (audited)					
31 January 2005	647	–	–	629	141,956
Opening reserves adjusted for IFRS 2	–	–	396	–	–
Restated as at 31 January 2005	647	–	396	629	141,956
Restatement of opening reserves for IAS 32 and 39	–	52	–	–	–
	647	52	396	629	141,956
Total recognised income and expenses for the year	–	–	368	–	22,738
Arising on conversion of CULS	19	(3)	–	–	–
Premium paid on repurchase of CULS	–	(1)	–	–	(2,129)
Arising on acquisition of majority interest in AOT	–	–	–	–	6,381
31 January 2006	<u>666</u>	<u>48</u>	<u>764</u>	<u>629</u>	<u>168,946</u>
six months ended 31 July 2005 (unaudited)					
31 January 2005	647	–	–	629	141,956
Opening reserves adjusted for IFRS 2	–	–	396	–	–
Restated as at 31 January 2005	647	–	396	629	141,956
Restatement of opening reserves for IAS 32 and 39	–	52	–	–	–
	647	52	396	629	141,956
Total recognised income and expenses for the period	–	–	184	–	18,627
Arising on conversion of CULS	19	(3)	–	–	–
31 July 2005	<u>666</u>	<u>49</u>	<u>580</u>	<u>629</u>	<u>160,583</u>

consolidated statement of changes in equity (continued)

for the six months ended 31 July

Capital reserve – unrealised £'000	Reserve revenue £'000	Total £'000	Minority interest £'000	Total £'000	
46,724	(5,132)	212,645	8,205	220,850	six months ended 31 July 2006 (unaudited)
					31 January 2006
4,853	977	8,066	(497)	7,569	Total recognised income and expenses for the period
–	–	20	–	20	Arising on conversion of CULS
<u>51,577</u>	<u>(4,155)</u>	<u>220,731</u>	<u>7,708</u>	<u>228,439</u>	31 July 2006
34,550	(5,241)	172,541	–	172,541	year ended 31 January 2006 (audited)
–	(396)	–	–	–	31 January 2005
34,550	(5,637)	172,541	–	172,541	Opening reserves adjusted for IFRS 2
(3,555)	(3)	(3,506)	–	(3,506)	Restated as at 31 January 2005
30,995	(5,640)	169,035	–	169,035	Restatement of opening reserves for IAS 32 and 39
21,936	876	45,918	309	46,227	Total recognised income and expenses for the year
–	–	16	–	16	Arising on conversion of CULS
–	–	(2,130)	–	(2,130)	Premium paid on repurchase of CULS
(6,207)	(368)	(194)	7,896	7,702	Arising on acquisition of majority interest in AOT
<u>46,724</u>	<u>(5,132)</u>	<u>212,645</u>	<u>8,205</u>	<u>220,850</u>	31 January 2006
34,550	(5,241)	172,541	–	172,541	six months ended 31 July 2005 (unaudited)
–	(396)	–	–	–	31 January 2005
34,550	(5,637)	172,541	–	172,541	Opening reserves adjusted for IFRS 2
(3,555)	(3)	(3,506)	–	(3,506)	Restated as at 31 January 2005
30,995	(5,640)	169,035	–	169,035	Restatement of opening reserves for IAS 32 and 39
12,426	248	31,485	–	31,485	Total recognised income and expenses for the period
–	–	16	–	16	Arising on conversion of CULS
<u>43,421</u>	<u>(5,392)</u>	<u>200,536</u>	<u>–</u>	<u>200,536</u>	31 July 2005

consolidated balance sheet

	31 July 2006 (unaudited) £'000	31 January 2006 (audited) £'000	31 July 2005 (unaudited) £'000
non current assets			
Investments at fair value through profit or loss	212,977	214,822	198,955
current assets			
Investments held for trading in Subsidiary Companies	1,103	382	527
Trade and other receivables	2,955	7,039	2,469
Cash and cash equivalents	15,526	6,429	6,775
	<u>19,584</u>	<u>13,850</u>	<u>9,771</u>
total assets	<u>232,561</u>	<u>228,672</u>	<u>208,726</u>
current liabilities			
Bank loans and overdrafts	(1,540)	(4,975)	(4,914)
Investments held for trading – derivatives	(323)	(239)	(18)
Trade and other payables	(2,007)	(2,336)	(2,976)
	<u>(3,870)</u>	<u>(7,550)</u>	<u>(7,908)</u>
total assets less current liabilities	<u>228,691</u>	<u>221,122</u>	<u>200,818</u>
non current liabilities			
CULS	(252)	(272)	(282)
total liabilities	<u>(4,122)</u>	<u>(7,822)</u>	<u>(8,190)</u>
net assets	<u>228,439</u>	<u>220,850</u>	<u>200,536</u>

consolidated balance sheet (continued)

	31 July 2006 (unaudited) £'000	31 January 2006 (audited) £'000	31 July 2005 (unaudited) £'000
represented by:			
Share capital	689	666	666
Equity component of CULS	45	48	49
Share options reserve	925	764	580
Share premium account	629	629	629
Capital reserve – realised	171,021	168,946	160,583
Capital reserve – unrealised	51,577	46,724	43,421
Revenue reserve	(4,155)	(5,132)	(5,392)
equity attributable to equity holders of the parent	<u>220,731</u>	<u>212,645</u>	<u>200,536</u>
Minority interest	<u>7,708</u>	<u>8,205</u>	<u>–</u>
total equity	<u><u>228,439</u></u>	<u><u>220,850</u></u>	<u><u>200,536</u></u>
net asset value per ordinary share (note 4):			
Basic	1,602p	1,597p	1,506p
Diluted	1,102p	1,063p	994p

consolidated cash flow statement

for the six months ended 31 July

	Six months to 31 July 2006 (unaudited) £'000	Six months to 31 July 2005 (unaudited) £'000	Year to 31 January 2006 (audited) £'000
cash flows from operating activities			
Investment income received	1,563	962	2,391
Bank deposit interest received	216	278	428
Underwriting commission received	–	–	14
Other income	–	–	3
Sale of investments by Subsidiary Undertaking	31	2	36
Investment manager's fees paid	(2,282)	(1,309)	(2,894)
Other cash payments	(562)	(190)	(713)
Cash expended from operations	(1,034)	(257)	(735)
Bank interest paid	(83)	(98)	(205)
CULS interest paid	–	–	(32)
Loan renewal expenses	–	(9)	(9)
net cash outflow from operating activities	(1,117)	(364)	(981)
cash flows from investing activities			
Purchases of investments	(97,167)	(88,955)	(182,869)
Sales of investments	110,789	67,230	162,596
Realised gain on forward currency contracts	–	–	764
net cash inflow/(outflow) from investing activities	13,622	(21,725)	(19,509)
cash flows from acquisition			
Cost of additional shares purchased in AOT	–	–	(1,945)
net cash outflow from acquisitions	–	–	(1,945)
cash flows from financing activities			
Repayment of fixed term borrowings	(3,459)	–	–
Repurchase of CULS for cancellation	–	–	(2,140)
net cash outflow from financing activities	(3,459)	–	(2,140)
increase/(decrease) in cash and cash equivalents for the period	9,046	(22,089)	(24,575)
cash and cash equivalents at the start of the period	6,429	28,862	28,862
Cash and cash equivalents acquired on acquisition	–	–	2,040
Revaluation of foreign currency balances	51	2	102
cash and cash equivalents at the end of the period	15,526	6,775	6,429

notes

1. basis of preparation

North Atlantic Smaller Companies Investment Trust PLC (“NASCIT”) is a Company incorporated and registered in England and Wales under the Companies Acts 1948 to 1967.

The figures for the six months ended 31 July 2006 have been prepared on a basis consistent with the accounting policies adopted in the audited financial statements for the year ended 31 January 2006.

The Group financial statements consolidate the financial statements of the Company, its wholly owned Subsidiary Consolidated Venture Finance Limited, and its majority owned Subsidiary American Opportunity Trust PLC (“AOT”) for the six months ended 31 July 2006.

The Company purchased an additional holding in AOT on 16 September 2005 to take its total holding to 60.49% on an undiluted basis and greater than 50% on a diluted basis. Hence the comparative figures include AOT results from that date.

2. return per ordinary share

	*Net return £'000	Revenue Ordinary Shares	Per Share (pence)	*Net return £'000	Capital Ordinary Shares	Per Share (pence)	Total (pence)
six months to							
31 July 2006							
Basic return per Share	977	13,378,001	7.30	6,928	13,378,001	51.79	59.09
Option conversion**	–	284,594		–	284,594		
CULS***	32	6,329,051		–	6,329,051		
	<u>1,009</u>	<u>19,991,646</u>	5.05	<u>6,928</u>	<u>19,991,646</u>	34.65	39.70
six months to							
31 July 2005							
Basic return per Share	248	13,006,299	1.91	31,053	13,006,299	238.75	240.66
Option conversion**	–	136,783		–	136,783		
CULS***	35	6,925,754		–	6,925,754		
	<u>283</u>	<u>20,068,836</u>	1.41	<u>31,053</u>	<u>20,068,836</u>	154.73	156.14
year to 31 January							
2006							
Basic return per Share	876	13,161,125	6.66	44,674	13,161,125	339.44	346.10
Option conversion**	–	188,069		–	188,069		
CULS***	34	6,719,899		–	6,719,899		
	<u>910</u>	<u>20,069,093</u>	4.53	<u>44,674</u>	<u>20,069,093</u>	222.60	227.13

notes (continued)

2. return per ordinary share (continued)

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

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

3. performance fees

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

In accordance with the Statement of Recommended Practice ("SORP") for investment trust companies, an amount is included in these financial statements for the performance fee that could be payable based on investment performance to 31 July 2006.

At that date, a performance fee of £575,000, including irrecoverable VAT, has been accrued for in the accounts (31 July 2005: £552,000 including irrecoverable VAT; 31 January 2006: £1,155,000 including irrecoverable VAT), and is allocated 100% to capital.

4. net asset value per ordinary share

The basic net asset value per Ordinary Share is based on net assets of £220,731,000 (31 January 2006: £212,645,000; 31 July 2005: £200,536,000) and on 13,780,945 Ordinary Shares (31 January 2006: 13,313,427; 31 July 2005: 13,313,427) being the number of Ordinary Shares in issue at the period end.

The diluted net asset value per Ordinary Share is calculated on the assumption that the outstanding 2013 CULS are fully converted at par and that all 1,030,000 (31 January 2006: 1,030,000; 31 July 2005: 1,030,000) Share Options were exercised at the prevailing exercise prices, giving a total of 20,737,052 issued Ordinary Shares (31 January 2006: 20,737,052; 31 July 2005: 20,962,052).

5. transaction costs

During the six months ended 31 July 2006, the Group incurred transaction costs of £99,000 (six months ended 31 July 2005: £149,000; year ended 31 January 2006: £210,000) and £115,000 (six months ended 31 July 2005: £7,000; year ended 31 January 2006: £47,000) on purchases and sales of investments, respectively. These amounts are included in gains on investments as disclosed in the income statement.

notes (continued)

6. financial information

The financial information contained in this Interim Report is not the Group's statutory accounts. The financial information for the periods ended 31 July 2006 and 31 July 2005 is not a financial year and has not been audited. The statutory accounts for the financial year ended 31 January 2006 have been delivered to the Registrar of Companies and received an Audit Report which was unqualified, did not include a reference to any matters to which the Auditors drew attention by way of emphasis without qualifying the report, and did not contain statements under section 237(2) and (3) of the Companies Act 1985.

shareholder information

financial calendar	Preliminary results Annual report Annual General Meeting Interim figures announced Interim report posted	April May July October October
share price	The Company's mid market Ordinary Share price and CULS price are quoted daily in the Financial Times appearing under "Investment Companies". They also appear on: Reuters: Convertible Loan Stock NASp.L Bloomberg: NAS. LN SEAQ Ordinary Shares: NAS Trustnet: www.trustnet.ltd.uk	
net asset value	The latest net asset value of the Company can be found on the North Atlantic Value LLP website: www.navalu.co.uk	
share dealing	Investors wishing to purchase more Ordinary Shares or dispose of all or part of their holding may do so through a stockbroker. Many banks also offer this service. The Company's registrars are Capita Registrars. In the event of any queries regarding your holding of shares, please contact the registrars on: 0870 162 3100, or email them at ssd@capitaregistrars.com Changes of name or address must be notified to the registrars in writing at: Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU	

Directors

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

Joint Manager

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

Company Secretary and Registered Office

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

Registrars

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

Auditors

RSM Robson Rhodes LLP
30 Finsbury Square
London EC2P 2YU

Bankers

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

