North Atlantic Smaller Companies Investment Trust plc

Annual Report
for the year ended 31 January 2019

contents

Company Registered Number:
1091347

Front Cover:
Nelson Forcing the Passage of the Sound, 30 March 1801, prior to the Battle of Copenhagen

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 January 2019	% change	31 January 2018	31 January 2017	31 January 2016	31 January 2015
revenue						
Gross income (£'000)	**11,645**	15.1%	10,115	6,105	3,175	1,840
Net Revenue after tax attributable to shareholders (£'000)	**5,840**	13.7%	5,138	1,295	(890)	(2,182)
Basic return per 5p Ordinary Share:* – Revenue	**40.59p**	13.9%	35.62p	8.97p	(6.13)p	(14.55)p
– Capital	**205.57p**	(54.8)%	455.29p	212.95p	490.70p	254.88p
assets						
Total assets less current liabilities (£'000)	**531,425**	6.0%	499,423	428,606	396,961	328,904
Net asset value ("NAV") per 5p Ordinary Share:**						
Basic	**3,710p**	7.2%	3,462p	2,971p	2,749p	2,262p
Diluted	**3,708p**	7.2%	3,458p	2,968p	2,746p	2,259p
Basic adjusted†	**3,776p**	7.0%	3,529p	3,036p	2,776p	2,300p
Diluted adjusted†	**3,774p**	7.0%	3,525p	3,033p	2,773p	2,297p
Mid-market price of the 5p Ordinary Shares	**2,910.0p**	1.4%	2,870.0p	2,455.0p	2,280.0p	1,845.0p
discount to diluted net asset value	**21.5%**		17.0%	17.3%	17.0%	18.3%
discount to diluted adjusted net asset value	**22.9%**		18.6%	19.1%	17.8%	19.7%
indices and exchange rates at 31 January						
Standard & Poor's 500 Composite Index	**2,704.1**	(4.2)%	2,823.8	2,278.9	1,940.2	1,995.0
Russell 2000 Index	**1,499.4**	(4.8)%	1,575.0	1,352.3	1,035.4	1,165.4
US Dollar/Sterling exchange rate	**1.31505**	(7.5)%	1.42205	1.2581	1.4185	1.5019
Standard & Poor's 500 Composite Index – Sterling adjusted	**2,062.8**	3.7%	1,989.9	1,811.7	1,362.2	1,324.7
Russell 2000 – Sterling adjusted	**1,143.8**	3.1%	1,109.9	1,075.1	726.9	773.8

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

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

† Adjusted to reflect Oryx International Growth Fund plc ("Oryx") under the equity method of accounting, which is how the Company previously accounted for its share of Oryx, prior to the adoption of IFRS 10. This is useful to the shareholder as it shows the NAV based on valuing Oryx at NAV. See note 7.

strategic report – corporate summary

introduction

North Atlantic Smaller Companies Investment Trust plc ("NASCIT") is an investment trust; the shares of which are listed on the London Stock Exchange.

objective and investment strategy

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. The Company invests in both listed and unquoted companies.

company's business

The Company is an investment company within the meaning of Section 833 of the Companies Act 2006 and its business is that of an investment trust. The business of the Company's wholly owned subsidiary, Consolidated Venture Finance Limited ("CVF"), is an investment dealing and holding company. CVF is no longer consolidated following the adoption of IFRS 10 amendments effective for periods starting after 1 January 2016, see note 8 on page 63 for further details.

risk

Investment in small companies is generally perceived to carry a greater risk than investment in large companies. This is reasonable when comparing individual companies, but is much less so when comparing the volatility of returns from a diversified portfolio of companies. The Board believe that the Company's portfolio is diversified although considerably less liquid than a portfolio of large-cap listed equities.

The Company has the ability to utilise gearing in the form of term loan facilities, although no facility currently exists. Gearing has the effect of accentuating market falls and gains.

The Company outsources all of its main operational activities to recognised third party providers.

AIFMD

The Company was approved as a small registered UK Alternative Investment Fund Manager with effect from 26 August 2014 under the Alternative Investment Fund Managers Regulations 2013. This means that the Company is internally managed. For further information see page 20.

company secretary

The Company Secretary is Derringtons Limited, Hyde Park House, 5 Manfred Road,
London SW15 2RS.

website

www.harwoodcapital.co.uk

Peregrine D E M Moncreiffe [1,2,3] Non-Executive Chairman. Appointed November 2008 (having previously been a Director of the Company from 1993 – 2006). He has over the years worked in London, New York and the Far East, with Credit Suisse First Boston, Lehman Brothers and Buchanan Partners.

Christopher H B Mills Chief Executive and Investment Manager. Appointed August 1984. He is currently a member and Chief Investment Officer of Harwood Capital LLP. In addition, he is a non-executive director of numerous UK companies which are either now or have in the past five years been publicly quoted, further details of which are included in note 15 of the financial statements.

The Lord Howard of Rising [1,2,3] Non-Executive Director. Appointed November 2015. He is a member of the House of Lords and a District Councillor for the Borough Council of Kings Lynn & West Norfolk, as well as being a landowner and farmer and Chairman of Wicksteed Leisure Limited. He was formerly a director of the The Keep Trust and Fortress Trust.

G Walter Loewenbaum (USA) [1,2,3] Non-Executive Director. Appointed on 31 October 2017. He currently serves as Chairman of the Board of Luminex Corporation and 3D Systems. As an investment banker and private equity investor, Mr Loewenbaum has worked with multiple companies in a variety of different industries at different phases of organisational development, ranging from startup to publicly traded. He brings a depth of knowledge in serving as chairman for public and private companies, building stockholder value and capital market considerations.

Sir Charles Wake [1,2,3] Non-Executive Director. Appointed 27 June 2018. Started as a management trainee with Whitbread's in 1972 and left in 1980. Since then he has been a director of various companies including sheet metal engineers, motor retailers, off-licences, pubs, bonded warehouses, farming and healthcare. He was chairman of St Andrew's Healthcare from 2004-2014 having been on the board since 1991.

[1] Independent

[2] Member of the Audit Committee

[3] Member of the Remuneration Committee

During the period under review, the fully-diluted net asset value rose by 7.2% (pre-dividend) to 3,708p. This increase compares with a rise in the sterling adjusted Standard & Poor's Composite Index of 3.7%. However, the Company's performance was particularly remarkable, because a significant part of the portfolio is invested in UK small Cap shares which had a poor year in general.

The revenue account showed a profit after tax of £5,840,000 (2018: £5,138,000). The Directors have therefore declared a final dividend of 30p per share.

During the year, 100,000 shares were acquired for cancellation, at a discount to net asset value, thereby building value for all long-term shareholders. At the forthcoming AGM, shareholders will be asked to support a whitewash proposal, allowing the company to continue to repurchase shares without requiring our Chief Executive and persons and companies presumed to be acting in concert with him to make a mandatory offer under Rule 9 of The Takeover Code for the Company. This proposal and the background surrounding it are outlined in a separate circular being to sent to Shareholders.

Economic uncertainty persists with last year's monetary tightening succeeded by a more accommodative Federal Reserve Bank stance. It had been widely accepted that rates would continue to normalise in 2019 and that quantitative easing would be unwound over a five year period. Faced with a crisis of liquidity stock markets fell sharply in the fourth quarter of 2018 which led to the Federal Reserve's hasty volte-face. This in turn sparked off a significant rally in equities but limits the scope for further monetary stimulus in the event of a rapid decline in growth in the coming year. While the US and China are working to improve their fraught trade relationship with China probably committing to buying more from the US, continental Europe will have difficulty in adjusting to an aggressive US trade policy, the advanced manufacturing success of Asia and a secular decline in the traditional automobile industry. The UK with its emphasis on services and its flexible entrepreneurialism should fare better, supported by its more favourable reception in Washington as a serious contributor to NATO.

As I stated last year, MIFID2 should create good opportunities for the Company with the consequent contraction in smaller company coverage and liquidity compelling many large institutions to change their focus to the main market. Based on recent developments, it now appears that as the dust settles the situations presented to us will be far better than I anticipated. This will favour our approach and create the opportunity for significant capital gain over the next few years if these attractive investments can be identified.

Finally, I would like to thank our Chief Executive, Christopher Mills, for another excellent year despite an environment which was undoubtedly challenging. I am hopeful that our unique and distinctive investment style and process will enable the Company to make good progress in the current year.

Peregrine Moncreiffe *Chairman*
20 May 2019

quoted portfolio

United Kingdom:
The market for smaller companies was weak throughout most of 2018. Profit warnings combined with limited liquidity created a difficult environment with most relevant indices falling by more than 10%. It is therefore pleasing to report that our portfolio performed well.

The major standout success stories were Bioquell with the value of our holding rising by £14 million, EKF/Renalytix which contributed £11 million and the recently purchased Augean adding almost £6 million. Oryx significantly outperformed its benchmarks while the other major holdings (Ten Entertainment, MJ Gleeson and Polar Capital) taken as a whole and adjusted for dividends made a positive contribution to the net asset value. Two smaller holdings have proved disappointing with both Sportech and Goals Soccer falling after worse than expected results.

United States:
The equity portfolio made some good profits for the Company but as the total value is less than £16 million, the overall impact was limited. However, very substantial holdings were held in short-dated US Treasury Bills which provided a considerable uplift as Sterling weakened from $1.422 to $1.315 over the 12 month period.

unquoted portfolio

United Kingdom:
Most of the unquoted portfolio is now concentrated in the two private equity funds, Trident Private Equity III LP ("TPE3") and Harwood Private Equity IV ("HPE IV"). Both funds performed well during the year. TPE3 only has one remaining investment which is expected to be sold in 2020. HPE IV is almost fully invested with further realisations expected in the current year.

One major new investment made in the year, Pelsis/Hamsard, has performed in line with expectations. It is anticipated that remainder of the Company's property investments will be sold in the current year.

United States:
Both Performance Chemicals and Jaguar performed well during the past year and their prospects look good. Unfortunately the arbitration decision on GAJV was unfavourable resulting in a write-down on the investment.

A description of the unquoted investments can be found on pages 8-11.

Liquidity:
Liquidity, that is, cash and short-term government securities, at the end the period was £116 million up from £100 million last year. This provides the Company with the resources for the Trust to benefit from the favourable opportunities that are now occurring to acquire good businesses at a discount to private market value.

Whilst I have major reservations about stock market valuations in general, I believe that we have a good portfolio of companies that will create value for North Atlantic shareholders in the coming years.

Christopher Mills *Chief Executive & Investment Manager*
20 May 2019

strategic report – sector analysis of investments at fair value

as at 31 January

equities, convertible securities & loan stocks as a % of total portfolio valuation	Canada 31 January 2019 %	Europe 31 January 2019 %	United States 31 January 2019 %	United Kingdom 31 January 2019 %	Total 31 January 2019 %	Total 31 January 2018 %
Telecommunications	–	–	–	1.3	1.3	–
Financial Services	–	–	–	23.5	23.5	26.4
Travel & Leisure	–	–	–	10.8	10.8	14.5
Health Care	–	–	–	11.5	11.5	13.5
Industrial Goods & Services	–	1.4	4.1	12.6	18.1	10.6
Real Estate	–	–	–	2.1	2.1	9.7
Oil & Gas	–	–	2.9	–	2.9	2.7
Insurance	–	–	1.0	–	1.0	1.1
Banks	–	–	1.1	6.6	7.7	1.0
Technology	–	–	1.1	1.9	3.0	0.9
	–	1.4	10.2	70.3	81.9	80.4
treasury bills	–	–	18.1	–	18.1	19.6
total at 31 January 2019	–	1.4	28.3	70.3	100.0	
total at 31 January 2018	0.2	–	45.1	54.7		100.0

strategic report – twenty largest investments
as at 31 January

equities (including convertibles, loan stocks and related financing)		At fair value £'000
Oryx International Growth Fund Limited*	UK Listed	57,776
MJ Gleeson Group plc	UK Listed	36,495
Ten Entertainment Group plc	UK Listed	36,000
Polar Capital Holdings plc	UK Quoted on AIM	32,970
EKF Diagnostics Holdings plc	UK Quoted on AIM	31,262
Harwood Private Equity IV LP	UK Unquoted	31,569
Sherwood Holdings Limited	UK Unquoted	17,131
Performance Chemicals Company	US Unquoted	13,815
Odyssean Investment Trust Plc	UK Listed	13,500
Augean plc	UK Quoted on AIM	12,250
ten largest investments		282,768
Harwood Leeds Property	UK Unquoted	9,516
AssetCo plc	UK Quoted on AIM	9,441
Benchmark Holdings plc	UK Quoted on AIM	8,800
Coventbridge Group	US Unquoted	7,604
Renalytix AI plc	UK Quoted on AIM	7,374
BBA Aviation plc	UK Listed	7,104
Pelsis Holding/Hamsard 3468 Limited	UK Unquoted	6,981
BigBlu Broadband Plc	UK Quoted on AIM	6,600
Trident Private Equity Fund III LP	UK Unquoted	6,338
Sportech PLC	UK Listed	6,205
twenty largest investments		358,731
Aggregate of other investments at fair value		51,072
		409,803
US Treasury Bills		90,893
total		500,696

* incorporated in Guernsey.

All investments are valued at fair value.

strategic report – unquoted investments profile

as at 31 January

	2019 At fair value £'000
Harwood Private Equity IV LP (UK) *Cost: £24,607,000*	31,569

Harwood Private Equity IV LP ("HPE4") was established in June 2015 with committed capital of £152.5 million. The Company has made a £40 million commitment to HPE4, with £34.8 million drawn down so far. HPE4 invests primarily in small and lower mid-market companies. During 2018 HPE4 invested in Pelsis, a global manufacturer and supplier of branded chemical and durable pest control products; The Slimming Clinic, a UK private non-surgical medicated weight-loss operator, and acquired shares, immediately prior to its AIM delisting, in GBGI plc, a vertically integrated medical insurance company. These bring the total number of investments made by HPE4 to nine. The first exit from the fund took place when Ten Entertainment was floated on the London Stock Exchange in April 2017 at a valuation representing a significant uplift on original cost. The basis of the valuation of HPE4 is its audited accounts as at 31 December 2018.

Sherwood Holdings Limited – loan notes (UK) *Cost: £17,131,000*	17,131

The Company provides laboratory services and products to the healthcare, clinical, life science research and biopharma industries. Customers include large pharmaceutical companies, leading universities and research institutes, the NHS and other healthcare providers. Following a change of management in 2017 the performance of the Company continues to improve with profits up significantly year-on-year. The core businesses of pathology and sequencing are performing above expectations and non-core activities are being exited. The Trust holds loan notes.

Performance Chemical Company (US) *Cost: £3,158,000*	13,815

The Company provides chemicals to assist oil and gas production and fracking predominantly in the Permian Basin in West Texas. The company's year-ended September financial performance was off from prior year record results; however, production chemicals volume increases look to make up for these shortfalls and then some in the current fiscal year. The company's dry chemistry plant is now operational which could add substantially to profits in coming years. The company has settled the first of two law suits related to former employees breaching their duties to the company customer raids and a trial date for the second suit is set for this summer.

Carried forward	62,515

strategic report – unquoted investments profile

as at 31 January

	2019 At fair value £'000
Brought Forward	62,515
Harwood Leeds Limited (UK) *Cost: £9,516,000*	9,516
The Company owns 4 residential investment properties in Leeds, Preston, Derby and Cannock comprising 169 units in total. At present, 155 units are let for a total current rent of £1,167,309 p.a. The subject properties are circa 10% under rented with the Estimated Rental Value being £1,276,080 which reflects a blended gross yield of 7.41%. The properties were acquired for a total consideration of £16,850,000, excluding acquisition costs, and funded through a combination of shareholder loans and debt from Santander Bank Plc. As at July 2018 the assets were valued by Savills Plc at £17,250,000. As the assets reach operational maturity, options are actively being considered to dispose of the holding into an increasingly liquid residential investment market.	
Coventbridge Group (US) *Cost: £7,110,000*	7,604
Coventbridge is a provider of insurance claims, healthcare network, and government reimbursement integrity services. Its clients include global insurance carriers, third-party administrators, healthcare networks, and governmental agencies. The company has trading operations in the UK and US. Results for 2018 were good and 2019 is expected to be even better based on recent contract wins.	
Pelsis Holding (UK) Limited (UK) **(Hamsard 3468)** *Cost: £7,156,000*	6,981
The company is a leading global manufacturer and supplier of branded chemical and durable pest control products. It provides a broad range of rodenticides, insecticides, sprayers, foggers, fly killers, herbicides and bird controllers sold under a variety of owned brands and third-party brands. It sells to both professional pest control operators and consumer markets. The company is headquartered in Yorkshire and has other manufacturing facilities in Wales, Sweden, Belgium, the Netherlands and the US. The original Pelsis business is performing to expectations whilst the US Curtis Gilmour operation is lagging due to merger integration disruption. Benefit from merger synergies are expected to emerge in 2019.	
Carried forward	86,616

strategic report – unquoted investments profile

as at 31 January

	2019 At fair value £'000
Brought Forward	86,616
Trident Private Equity Fund III LP (UK) *Cost £nil* Trident Private Equity Fund III LP ("TPE3") is the predecessor private equity fund to HPE4 and is invested in small and lower mid-market companies. The Company made a £25 million commitment to TPE3 which is fully drawn down. TPE3 is fully invested and has been realising its positions over several years. TPE3 has one remaining holding and it is anticipated this holding will be disposed of in the next 18 months. The basis of the valuation of TPE3 is its audited accounts as at 31 December 2018.	6,338
Jaguar Holdings Limited (US) *Cost: £2,617,000* The company provides food services to major US airlines through a patent protected process mainly at the Los Angeles hub. Principal clients include United/Continental, American Airlines and Federal Express. The company completed the build out of a second large facility in Los Angeles in early 2018 to provide capacity for a major new contract won towards the end of 2017. Despite a few initial operating issues with the new facility the business met its budget targets for the year and run-rate heading in to 2019 is strong.	5,210
Viking Investments LP (UK) *Cost: £4,411,000* The company is one of the largest chains of specialised homes caring for long term patients with severe mental illness. The company continues to make modest progress against the headwinds of government funding difficulties and rising minimum wages. The government has once again changed employee reimbursement for sleepovers which should see a significant rise in profits in the current year.	4,411
Utitec Holdings Inc (US) *Cost: £3,849,000* Utitec is a manufacturer of medical device component parts. Its technologies include deep draw transfer press, progressive stamping, EDM, screw machining and laser-cutting and it is ISO 13485 certified. Principal clients include Medtronic, Becton Dickinson, Smith & Nephew and Stryker. The company performed well in 2018 with further improvement anticipated in 2019 as a result of significant new contract wins.	3,802
Carried forward	106,377

strategic report – unquoted investments profile

as at 31 January

	2019 At fair value £'000
Brought Forward	106,377
GAJV Holdings Inc. (US) *Cost: £2,953,000* The conditions were not favourable and as a consequence the investment was marked down during the year. The investment has subsequently been sold.	1,546
WEP Superior Industrial Maintenance Co (US) *Cost: £1,485,000* The company is a provider of industrial coatings and lining applications, inspection and maintenance services, and lead and asbestos abatement. New CFO installed and investment made in field staff to increase sales and marketing capacity since May completion. New ERP to improve field reporting and KPI tracking implemented. One add-on acquisition under LOI and expected to complete Q1 2019. Favourable 2019 outlook due to strong revenue backlog and growing sales pipeline.	1,521
Hampton Investment Properties Limited (UK) *Cost: £2,427,000* The company continues with its programme of liquidation; with Heads of Terms now being agreed for the disposal of the Company's final holding. The basis of valuation is anticipated to be the realisable value. On successful completion the Company will be liquidated.	995
Telos Corporation (US) *Cost: £1,134,000* The company provides sophisticated software including cyber security for the US military. The company had a better year in 2018 and recent contract wins suggest 2019 could be significantly better. The company is a leader in certain areas of cyber security which had structural long-term growth opportunities.	937
Carried forward	**111,376**
Other unquoted investments at fair value	**955**
Total value of unlisted investments at fair value**	**112,331**

** Includes unlisted loan notes in these companies with a total value of £45,002,000.

strategic report – quoted investments profile (AIM Quoted)

as at 31 January

	2019 At fair value £'000
Polar Capital Holdings plc (UK) *Cost: £31,019,000*	32,970
The company is a fund management business with a specialist niche in technology and healthcare companies. The company grew its funds under management to £12.7b in FY 2019 from just over £10b in FY 2018 and is supported by a dividend yield of approximately 7%. Polar Capital plc is a high quality business with a respected management team and resilient fee revenue. The company is substantially profitable and could continue to expand its product line and geographic presence in FY 2020.	
EKF Diagnostics plc (UK) *Cost: £10,151,000*	31,262
EKF Diagnostics plc is a leading provider of point of care products for haemoglobin and diabetes testing to the worldwide market. The company's other business is the market leader in testing for acetosis following a diabetic coma. EKF Diagnostics plc has been refocused and significantly reduced its cost base. Results in 2018 were good. More importantly the company was awarded a long term contract from McKeeson which could add materially to profits over the next few years.	
Augean plc (UK) *Cost: £5,414,000*	12,250
Augean is a leading disposer of hazardous waste in the UK. The shares fell following a public dispute over landfill tax with the Inland Revenue. New management was appointed to lead the company which has resulted in a significant cost reduction and more focused capital expenditure. The company believes it has no exposure to the Revenue's claims and intends to mitigate this liability, although the process may take some time. Results announcement for 2018 were in excess of market expectations and recent contract wins should secure profitability for both 2019 and 2020.	
AssetCo plc (UK) *Cost: £10,162,000*	9,441
AssetCo is an international Fire & Rescue business. The company's major contract was lost in Abu Dhabi during the year but a smaller new contract is under negotiation. At the end of the period the company was successful in its litigation against Grant Thornton which if upheld on appeal would add very significantly to the value of this investment.	
Carried forward	85,923

strategic report – quoted investments profile (AIM Quoted)
as at 31 January

	2019 At fair value £'000
Brought Forward	85,923
Benchmark Holdings PLC (UK) *Cost: £8,672,000* The company is a leading manufacturer producing vaccines and nutritional products for the fish industry. The company is modestly EBITDA positive reflecting a very large R&D programme. A new cure for salmon lice has the ability to increase EBITDA meaningfully over the next few years. The shares were bought at a significant discount to private market value.	8,800
Renalytix AI plc (UK) *Cost: £4,023,000* Renalytix AI plc was spun out of EKF Diagnostics in 2018. The company is developing artificial intelligence-enabled diagnostics for kidney disease, serving patients on a global scale. The company recently announced the completion of a joint venture with AKESOgen, an industry leading commercial laboratory facility and provider of clinical trial precision medicine services. The partnership will allow Renalytix AI to immediately scale operations to support additional partnerships without incurring additional fixed overhead. The company has a strong management team and is supported by the Icahn School of Medicine at Mt Sinai.	7,374
BigBlu Broadband plc (UK) *Cost: £7,516,000* BigBlu Broadband plc provides satellite broadband services in the UK, Australia and Europe to residential, business and government clients. The company has established a strong position as an alternative and rural broadband provider across multiple geographies using satellite, fixed wireless and 4G/5G technologies. Organic growth is expected to accelerate, while increased scale and further integration of previous acquisitions should lead to improved margins and cash generation. A recent partnership with Eutelsat will boost subscriber growth as the company expands its sales network.	6,600
Carried forward	108,967

strategic report – quoted investments profile (AIM Quoted)

as at 31 January

	2019 At fair value £'000
Brought Forward	108,697
Lakehouse plc (Sureserve) (UK) *Cost: £8,637,000* The company provides compliance, safety and energy services to local authority housing estates. Two barely profitable subsidiaries were sold in 2018, but this delayed the sale of the company which is now expected to happen within eighteen months.	5,000
Goals Soccer Centres plc (UK) *Cost: £13,246,000* The company is the largest five a side soccer business in the UK. Following years of under investment, the company's centres are undergoing a period of significant investment, the full benefits of which are likely to be seen in 2019/2020. Poor weather in early 2018 adversely impacted profits which caused the share price to decline for a second year in a row. The company entered into a joint venture with City Football Club for developing its United States business. This could create significant value over the medium term.	4,909
Frenkel Topping Group plc (UK) *Cost: £5,503,000* The company is a market leading IFA providing advisory services and financial advice for people who have suffered catastrophic life changing injuries. The company is now building an investment advisory business where it looks after clients' funds which could add meaningfully to profits over the next few years. The company is nicely profitable, has substantial cash balances and the shares were acquired at a discount to private market value.	4,047
Total value of AIM quoted investments at bid value	**122,653**

strategic report

The Directors present the strategic report of the Company for the year ended 31 January 2019.

principal activity

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

objective

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

strategy

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

investment policy

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

1 the maximum investment limit is 15% of the Company's investments in any one company at the time of the investment;

2 gearing is limited to a maximum of 30% of net assets;

3 the Company may invest on both sides of the Atlantic, with the weighting varying from time to time;

4 the Company may invest in unquoted securities as and when opportunities arise and again the weighting will vary from time to time.

investment approach

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

Christopher Mills, the Company's Chief Executive and Investment Manager, is responsible for the construction of the portfolio and details of the principal investments are set out on pages 8 to 14. The top twenty largest investments by current valuation are listed on page 7.

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

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

financial instruments

The financial instruments employed by the Company primarily comprise equity and loan stock investments, although it does hold cash and liquid instruments. Further details of the Company's risk management objectives and policies relating to the use of financial instruments can be found in note 14 to the financial statements on pages 70 to 79.

performance

At 31 January 2019, the diluted NAV per share was 3,708p (2018: 3,458p), an increase of 6.8% during the year, compared to an increase of 3.7% during the year in the Standard & Poor's 500 Composite Index (Sterling adjusted).

Net assets attributable to equity holders at 31 January 2019 amounted to £531,425,000 compared with £499,423,000 at 31 January 2018.

The ongoing charges relating to the Company are 1.1% (2018: 1.0%), based on total expenses, excluding finance charges and non-recurring items for the year and average monthly net assets.

results and dividends

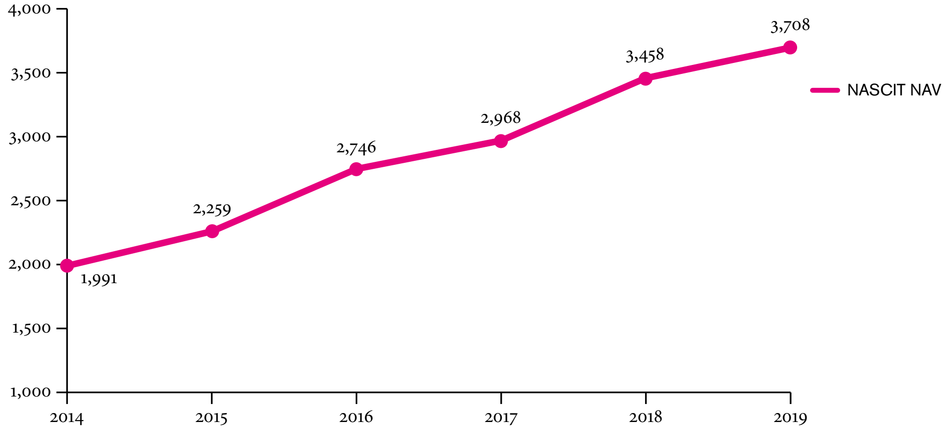
The total net return after taxation for the financial year ended 31 January 2019 amounted to £35,418,000 (2018: £70,817,000). The Board proposes to pay a final dividend of 30p per share (2018: nil).

key performance indicators

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

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

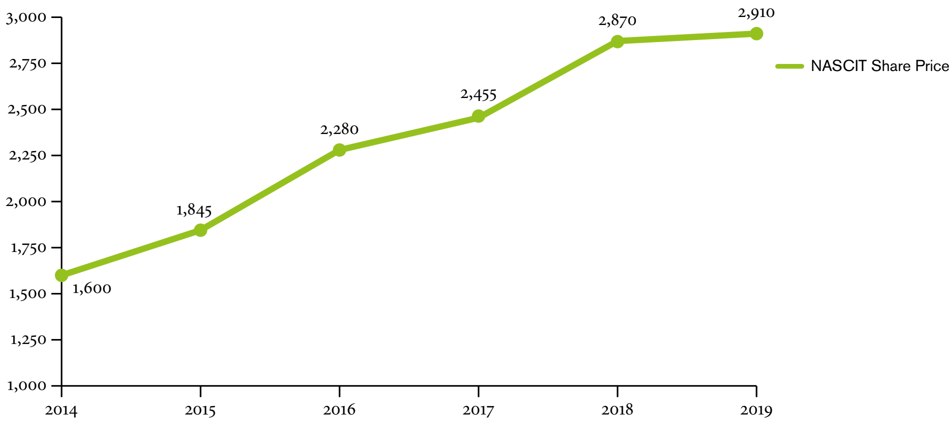
net asset value in pence



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

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

share price return



(iii) **Performance against benchmark**

The performance of the Company's share price is measured against the Standard & Poor's 500 Composite Index (Sterling adjusted), the Company's benchmark. A graph comparing performance can be found in the Directors' Remuneration Report on page 37.

principal risks and uncertainties

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

- Performance risk: the Board is responsible for deciding the investment strategy in order to fulfil the Company's objectives and for monitoring the performance of the Manager. An inappropriate investment strategy may result in under performance against the companies in the peer group or against the benchmark indices. The Board manages this risk by ensuring that the investments are appropriately diverse and by receiving reports from the Manager at every board meeting explaining his investment decisions and the composition and performance of the portfolio.

- Market risk: this category of risk includes currency risk, market price risk and interest rate risk. The fair value or future cash flows of a financial investment held by the Company may fluctuate because of changes in market prices. Also, the valuations of the investments in the portfolio may be subject to fluctuation due to exchange rates or general market prices. The Manager monitors these fluctuations and the markets on a daily basis; the performance of the investment portfolio against its benchmarks is also closely monitored by the Manager. The afore-mentioned graph on page 37 of the Directors' Remuneration Report illustrates the Company's performance against its benchmarks over the last nine years.

- Impact of Brexit: the Board has considered whether Brexit poses a discrete risk to the Company. The Board believes that Brexit is unlikely to affect the Company's business model and is also unlikely to have a perceptible impact on the level of discount or premium at which the Company's shares trade. The Board will continue to monitor developments as they occur.

- Investments in unquoted stocks, by their nature, involve a higher degree of risk than investments in the listed market. The valuation of unquoted investments can include a significant element of estimation based on professional assumptions that is not always supported by prices from current market transactions. Recognised valuation techniques are used and recent arms' length transactions in the same or similar entities may be taken into account. Clearly the valuation of such investments is therefore a key uncertainty but the Board manages this risk by regularly reviewing the valuation principles applied by the Manager to ensure that they comply with the Company's accounting policies and with fair value principles. Harwood Capital LLP, a firm which is ultimately owned by Christopher Mills, the Company's Manager, and which provides services such as dealings administration and compliance to the Company, operates a Valuations and Pricing Committee which meets regularly throughout the year to review and agree the valuations of the investments in the portfolio for onward submission to the Board. The Company's independent auditors also attend these Committee meetings.
- Discount volatility: the Company's shares historically trade at a discount to its underlying net asset value. The Company has a share buyback programme in place to try to narrow this discount as far as possible by cancelling shares that it repurchases. The Company repurchased 100,000 any Ordinary Shares for cancellation during the year.
- Regulatory risk: any breach of a number of regulations applicable to the Company, the UKLA's Listing Rules and the Companies Act could lead to a number of detrimental effects on the Company as well as reputational damage. The Audit Committee monitors compliance with these regulations in close alliance with the Manager and Secretary.
- Custodial and Banking risk: there is a risk that the custodians and banks used by the Company to hold assets and cash balances could fail and the Company's assets may not be returned. Associated with this is the additional risk of fraud or theft by employees of those third parties. The Board exercises monitoring through the Manager and Harwood Capital LLP over the financial position of its custodial banks.
- Credit risk/Counterparty risk: the Company holds preference shares in some investee companies and provides other forms of debt or loan guarantees where deemed necessary. There is a risk of those counterparties being unable to meet their obligations. The financial position and performance of those investee companies are continually monitored by the Manager and actions are taken to protect the Company's investment if needed.

strategic report

viability statement

In accordance with the UK Corporate Governance Code the Board has considered the longer term prospects for the Company. The Directors have reviewed the Company over the next three years to May 2022, which is generally a reasonable investment horizon for many investment trust shareholders. This assessment took into account the Company's current position as well as its continuing investment strategy. Additional factors under review included the principal risks inherent in its management and portfolio structure, contractual arrangements and cost base.

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

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

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

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

Based on the results of this analysis, the Directors have concluded that there is a reasonable expectation that the Company can continue in operation and meet its liabilities as they fall due during the period to May 2022.

future prospects

The Directors are hopeful that some of the Company's investments will see corporate activity over the coming year and that the year ending 31 January 2020 will see a further rise in the Company's net asset value.

social, community and human rights issues

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

modern slavery act

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

greenhouse gas emissions

The Company has no physical assets, operations, premises or employees of its own. Consequently it has no greenhouse gas emissions to report. Hampton Investment Properties Limited, a property investment and development company, in which the Company has a 70.8% holding, has effectively liquidated its property portfolio and now only owns a redevelopment site which produces no greenhouse gas emissions. The Company's only other real estate assets, held via the wholly owned subsidiary Harwood Leeds Limited ("Leeds"), owns 4 residential investment properties which it leases out to third party tenants and the Company is not required to report on this. It has not been practical to obtain this information as Leeds is not required to collate such information for its own reporting purposes, thus the information is not readily available. However the properties naturally draw on domestic electricity and gas in order to light and heat both the individual rental units themselves as well as the relevant common parts. All underlying units do of course benefit from both appropriate Electrical Performance Certificates and all gas safety verifications. However the Board has communicated its views on environmental matters to the Leeds management team and requested that they strive to minimise any impact on the environment.

AIFMD

The Company is authorised under the AIFMD as a Small Registered UK Alternative Investment Fund Manager under regulation 10(1) of the Alternative Investment Fund Managers Regulations 2013 (SI 2013/1773). Small registered UK AIFMs are not authorised persons as a result of their registration as small registered UK AIFMs and are not included on the Financial Services Register in relation to this business. However, small registered UK AIFMs are not prevented from carrying on regulated activities as a result of their registration and therefore may be included on the Financial Services Register in relation to other business. For AIFMD purpose the Company is internally managed with Christopher Mills making the investment decisions in his capacity as Chief Executive. As the Company has passed the tipping point it is now seeking approval as a full-scope UK AIFM of an internally managed AIF. The Company submitted the original application in 2018 to vary the Company's FCA permission and the FCA requested the Company to submit a full application for authorisation which is in progress. It is envisaged that the Company will be authorised as a full-scope AIFM by the end of quarter three 2019.

By Order of the Board

Derringtons Limited
Company Secretary
20 May 2019

report of the directors
for the year ended 31 January

The Directors present their report to Shareholders and the financial statements for the year ended 31 January 2019. Certain information that is required to be disclosed in this report has been provided in other sections of this Annual Report and accordingly, these are incorporated into this report by reference.

taxation status

In the opinion of the Directors, the Company has conducted its affairs during the period under review, and subsequently, so as to maintain its status as an investment trust for the purposes of Chapter 4 of Part 24 of the Corporation Tax Act 2010. The Company made a successful application under Regulation 5 of the Investment Trust (Approved Company) (Tax) Regulations 2011 for investment trust status to apply to all accounting periods starting on or after 1 February 2013 subject to the Company continuing to meet the eligibility conditions contained in Section 1158 of the Corporation Tax Act 2010 and the ongoing requirements outlined in Chapter 3 of Part 2 of the Regulations.

share capital

The Company's issued share capital consisted of 14,325,620 Ordinary Shares of 5p nominal value each on 31 January 2019. Since the year end, no Ordinary Shares have been repurchased for cancellation. All shares hold equal rights with no restrictions and no shares carry special rights with regard to the control of the Company. There are no special rights attached to the shares in the event that the Company is wound up.

During the year, the Company purchased 100,000 Ordinary Shares for cancellation.

share valuations

On 31 January 2019, the middle market quotation and the diluted net asset value per 5p Ordinary Share were 2,910p and 3,708p respectively. The comparable figures at 31 January 2018 were 2,870p and 3,458p respectively. It should be noted that since the conversion of the outstanding units of Convertible Unsecured Loan Stock 2013, the only dilution on the net asset value is those share options that have been issued to certain employees of the Manager.

substantial shareholders

As at 31 January 2019, the following interests in the Ordinary Shares of the Company which exceed 3% of the issued share capital had been notified to the Company:

	Number of Ordinary Shares	% of issued share capital
Christopher Mills	3,666,000	25.41
CG Asset Management Limited	1,116,363	7.79
Butterfield Trust (Bermuda) Limited	828,270	5.78
Rathbone Brothers Plc	789,405	5.51
Old Mutual Plc	754,038	5.26

report of the directors
for the year ended 31 January

directors

The biographical details for Directors currently in office are shown on page 3.

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

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

directors' interests

The interests of the Directors as notified to the Company, including those of their connected persons, in the Ordinary Shares of the Company as at 31 January 2019 and 31 January 2018 were as follows:

	31 January 2019 5p Ordinary Shares	31 January 2018 5p Ordinary Shares
Peregrine Moncreiffe	**417,640**	417,640
Christopher Mills	**3,666,000**	3,664,000
Christopher Mills (non-beneficial)	**355,740**	355,740
Kristian Siem (resigned 26 June 2018)	**N/A**	N/A
Lord Howard of Rising	**5,000**	5,000
G Walter Loewenbaum	**15,000**	15,000
Sir Charles Wake (appointed 27 June 2018)	**–**	–

There have been no changes to the above interests between 31 January 2019 and the date of this report.

Details of Directors' remuneration are described in the Directors' Remuneration Report on pages 33 to 37.

Save as disclosed on page 23 or in notes 3 and 15 to the financial statements, no Director was party to or had any interest in any contract or arrangement with the Company at any time during the year.

report of the directors
for the year ended 31 January

significant agreements

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

The Sub Advisory, Administration and Transmission Services Agreement continues unless thereafter terminated by either party on not less than twelve months' notice in writing or may be terminated forthwith as a result of a material breach of the agreement or the insolvency of either party. No compensation is payable on termination of the Agreement. The Board reviews the activities of the Manager. The Chief Executive carries out day-to-day investment decisions for and on behalf of the Company. As part of this review, the Board is satisfied that the continuing appointment of the Manager, on the terms agreed, is in the best interests of Shareholders. Christopher Mills has been Chief Executive of the Company since 1984 and the Board consider it is in the best interest of the Company for this arrangement to continue.

As part of this review, the Board has given consideration to the experience, skills and commitment of the Chief Executive in addition to the personnel, services and resources provided by Harwood Capital LLP. The Company's performance over the last year is described in the Chairman's Statement on page 4.

related party transactions

Christopher Mills, the Chief Executive, is Chief Investment Officer and a member of Harwood Capital LLP. Christopher Mills makes day-to-day investment decisions for the Company in his capacity as its Chief Executive and this position is distinct from his position as Chief Investment Officer of Harwood Capital LLP. Christopher Mills is a director of Growth Financial Services Limited ("GFS"). GFS is a wholly-owned subsidiary of Harwood Capital Management Limited, which is the holding company of the Harwood group of companies and is, in turn, 100% owned by Christopher Mills. Harwood Capital Management Limited is also a Designated Member of Harwood Capital LLP.

Pursuant to the Secondment Services Agreement between the Company, GFS and Christopher Mills and the Sub Advisory, Administration and Transmission Services Agreement between the Company and Harwood Capital LLP, Christopher Mills is responsible for the day-to-day investment decisions. The Secondment Services Agreement continues until terminated by the Company or GFS on not less than twelve months' notice. Details of the related party transactions and fees payable are disclosed in note 15 on page 79 and in the Directors' Remuneration Report on pages 33 to 37. The Investment Management Fees are disclosed in note 3 on page 57. Any Performance Fee payable to GFS is disclosed in the Directors' Remuneration Report on pages 33 to 37 and notes 3 and 4 of the financial statements on pages 57 and 58.

report of the directors
for the year ended 31 January

With the exception of the matters referred to above, during the year no Director was materially interested in any contract of significance (as defined by the UK Listing Authority Listing Rules) entered into by the Company.

institutional investors – use of voting rights

The Chief Executive, in the absence of explicit instruction from the Board, is empowered to exercise discretion in the use of the Company's voting rights in respect of investments and to then report to the Board, where appropriate, regarding decisions taken. The Board have considered whether it is appropriate to adopt a voting policy and an investment policy with regard to social, ethical and environmental issues and concluded that it is not appropriate to change the existing arrangements.

donations

The Company does not make any political or charitable donations.

post balance sheet events

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

creditors' payment policy

It is the Company's policy to settle investment transactions according to the settlement periods operating for the relevant markets. For other creditors, it is the Company's policy to pay amounts due to them as and when they become due. All supplier invoices received by 31 January 2019 had been paid (31 January 2018 – all supplier invoices paid).

auditors

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

going concern

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

report of the directors
for the year ended 31 January

additional disclosures

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

- the Company's capital structure and voting rights are summarised on page 21 and note 11;
- details of the substantial shareholders in the Company are listed on page 21;
- the rules concerning the appointment and replacement of directors are contained in the Company's Articles of Association and are discussed on page 22;
- amendment of the Company's Articles of Association and powers to issue on a pre-emptive basis or buy back the Company's shares requires a special resolution to be passed by the Shareholders; and
- there are: no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; no agreements which the Company is party to that might affect its control following a takeover bid; no agreements between the Company and its Directors concerning compensation for loss of office; and no qualifying third party indemnities in place.

By Order of the Board

Derringtons Limited
Company Secretary
Registered Office:
6 Stratton Street
Mayfair
London
W1J 8LD

Registered No: 1091347
20 May 2019

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

for the year ended 31 January

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they are required to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

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

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

for the year ended 31 January

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

We confirm that to the best of our knowledge:

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

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

For and on behalf of the Board
Peregrine Moncreiffe
Chairman
20 May 2019

corporate governance

Statement of Compliance with the UK Corporate Governance Code

statement of compliance with the uk corporate governance code

The Company's policy is to achieve best practice in its standards of business integrity in all of its activities. This includes a commitment to follow the highest standards of corporate governance wherever possible. This section of the Annual Report describes how the Company has complied with the applicable provisions of the UK Corporate Governance Code published by the Financial Reporting Council ("FRC") in April 2016 (the "Code"). The Board considers that it has complied with the provisions of the Code throughout the year with the exception that non-executive Directors are not appointed for a specific term and one of them has served on the Board for more than nine years with the other three joining since October 2015. However all Directors have been subject to performance evaluation and review during the year and are now subject to annual election.

directors

Brief biographical details of the Directors in office are set out on page 3. The Board consists of five Directors, four of whom are non-executive (the Chairman – Peregrine Moncreiffe, Lord Howard of Rising, G Walter Loewenbaum and Sir Charles Wake) and considered by the Board to be independent for the purposes of the Code despite the length of service of one of them. They are all free of any relationship that could materially interfere with the exercise of their independent judgement on issues concerning strategy, performance and standards of conduct. The Board considers that it has the appropriate balance of skills, experience, ages and length of service in the circumstances and values highly the experience of those Directors who have served on the Board for a longer period. The majority of the Board is therefore considered to be independent. Christopher Mills is the Company's Chief Executive and not independent.

The Board acts as the Nomination Committee and meets as and when necessary and to discharge its role in nominating a new Director to the Board and succession planning.

The Board is made up of individual members who have a wide range of qualifications and expertise to bring to any debate. The Board normally meets four times a year and at other times as necessary. The terms and condition of their appointment, including the expected time commitment, are available for inspection at the Registered Office of the Company during normal business hours and will also be available for at least fifteen minutes prior to and during the Annual General Meeting. The contract for Christopher Mills' services as a Director is with GFS. 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. However, the Company has adopted the requirements of the UK Corporate Governance Code in relation to the annual re-election of directors and accordingly, all of the Directors will retire at the Annual General Meeting and being eligible, offer themselves up for re-election. The Board lays down guidelines within which the Chief Executive implements investment policy and has a Schedule of Matters reserved to it. The Chief Executive is responsible for managing the Company and its portfolio of assets on a discretionary basis.

corporate governance

Statement of Compliance with the UK Corporate Governance Code

The Chairman and other members of the Board recommend that all of the Directors be re-elected. The Chairman has confirmed that all Directors have been subject to performance evaluation and following that evaluation, the Chairman confirms that their performance continues to be effective and that they continue to demonstrate commitment to their role and in his view responsibly fulfil their functions. The performance evaluation programme took the form of a questionnaire circulated to and completed by all Directors. The Chairman then discussed the results with the Board and the individual Directors as necessary and any requests for further training or action were complied with. The non-executive Directors evaluated the performance of the Chairman and can confirm that they are happy with his performance and with his leadership of the Board.

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 carries out day-to-day activities pursuant to the terms of the management arrangements in place. These day-to-day activities relate to the management of the Company's investment portfolio within guidelines that have been set by the Board. These guidelines include, amongst other things, maximum exposure to any one investment and total exposure to unquoted investments. The management of the investment portfolio also includes the monitoring of the performance and activities of the investee companies in the portfolio and detailed research into any prospective investment. 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, audit and remuneration committees

	Total number in year 4 Board Meetings	Total number in year 2 Audit Committees	Total number in year 1 Remuneration Committee
Peregrine Moncreiffe	4	2	1
Christopher Mills	4	N/A	N/A
Kristian Siem (resigned 26 June 2018)	3	1	1
Lord Howard of Rising	4	2	1
G Walter Loewenbaum (appointed 31 October 2017)	4	2	1
Sir Charles Wake (appointed 27 June 2018)	1	1	–

In addition, there have been a number of meetings of Committees of the Board during the year to deal with matters on an adhoc basis.

remuneration committee

All of the non-executive Directors comprise the Remuneration Committee. The Remuneration Committee reviews the remuneration paid to Harwood Capital LLP and GFS pursuant to the Management Agreements and the level of directors' remuneration. The remuneration of GFS is disclosed in the Directors' Remuneration Report on pages 33 to 37 and also in notes 3 and 4 on pages 57 and 58. The terms of reference of the Remuneration Committee are available from the Company Secretary.

corporate governance

Statement of Compliance with the UK Corporate Governance Code

audit committee

The Board is supported by an Audit Committee which is chaired by Lord Howard of Rising and comprises all of the non-executive Directors. The Audit Committee meets representatives of Harwood Capital LLP twice a year, who report on the proper conduct of business in accordance with the regulatory environment in which the Company operates. 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 monitoring the integrity of the financial statements including Annual and Half-Yearly reports, reviewing the effectiveness of the Company's internal controls and risk management, making recommendations in relation to the appointment of the auditors and reporting to the Board on all matters within its duties and responsibilities.

The Committee monitors the performance of the Auditors on a regular basis (at least annually) and if satisfied, recommends their re-appointment to the Board. 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 Half-Yearly Reports, the nature and scope of the external audit, its findings and the provision of any non-audit services. The Audit Committee is satisfied that KPMG LLP, the Company's Auditor, is independent and that it has adequate policies and safeguards in place to ensure that its objectivity and independence is maintained. The Audit Committee receive each year a report from the Auditor as to any matters the Auditor considers bear on its independence and which require disclosure to the Company.

KPMG were appointed as the Company's auditors in 2011 and Jatin Patel, our new audit partner, has been working with the Company for the first time on the January 2019 accounts. The Company will put the audit contract out to tender in 2020, with a view to making the appointment at the 2020 AGM. It is the Company's policy not to use KPMG for non-audit services. There has been no interaction between the Company and the Financial Reporting Council's Corporate Reporting Review team during the period.

The Committee's terms of reference are available from the Company Secretary. The Audit Committee met twice during the year to review the Half-Yearly and Annual financial statements and to review reports and hold discussions with the Chief Executive and Harwood Capital LLP. 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 Auditor, the Audit Plan, Audit Reports and Corporate Governance Report including the Code. The Board is satisfied that all of the Committee's members have recent and relevant commercial and financial knowledge and experience to satisfy the Code, by virtue of their having held various executive and non-executive roles in investment management and business management.

financial report and significant issues

The Audit Committee met with the Auditor during the year to discuss the audit plan and strategy for the year and identify the significant issues to be dealt with in the review of the year end results. The principal issues identified for the review and those identified as presenting the greatest risks, were:

- the valuation of the investments in the portfolio; and
- the liquidity of the portfolio, and how this affects the valuation.

corporate governance

Statement of Compliance with the UK Corporate Governance Code

Listed investments are valued using stock exchange prices provided by third party financial data vendors. Unquoted investments are recognised on a fair value basis as set out in the statement of accounting policies on page 52 and are reviewed by Harwood Capital LLP's Valuations and Pricing Committee before being approved by the Board and being made available to the Auditor.

The Board receive reports from the Manager on the liquidity of the portfolio and the processes for monitoring portfolio liquidity are also examined. The Board then assesses the impact of the liquidity on the valuation of the portfolio.

These and other matters, identified as posing less of a risk, were considered and discussed with the Manager and the Auditor as part of the year end process.

Throughout the year the Board has considered, as part of its ongoing Risk Management Review, the principal risks facing the Company. This has included specifically assessing those risks which would threaten its business model, future performance, solvency or liquidity.

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 its Chief Executive, 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 Directors and the Chief Executive.

nominations committee

The Board is a small Board and fulfils 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 has considered its size during the year and considers that it is still a suitable size for the size of the Company and does not consider that there are any vacancies. The terms of reference of the Nominations Committee are available from the Company Secretary.

the company secretary

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

accountability and audit

The statement of going concern is given on page 24 and the Board's responsibilities with regard to the financial statements are set out on pages 26 and 27. The Independent Auditor's Report is on pages 38 to 45.

share capital

Shareholders' attention is drawn to the further information on page 25 which is disclosed in accordance with the Large and Medium-sized Companies and Groups (Account and Reports) Regulations 2008 and rule 7.2.6 of the Disclosure and Transparency Rules.

corporate governance

Statement of Compliance with the UK Corporate Governance 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 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 the 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 contingences 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. 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.

Throughout the year ended 31 January 2019, the Company has complied with the Code, except as follows:

B.2.3 – This provision states that non-executive directors should be appointed for specific terms. Non-executive Directors are not appointed for specific terms but in compliance with Code provision D.1.5 their appointment is terminable on one month's notice. Furthermore, all Directors are now subject to annual election. The provision also states that any term beyond six years for a non-executive director should be subject to particularly rigorous review. The Board has been refreshed by the recent addition of Sir Charles Wake. The Board of an investment company is best served by those with outstanding experience in the sector and with great knowledge of the investment manager's relative strengths and modus operandi. After an intensive review the Directors do not believe that the Company's stakeholders would be well-served by any further Board changes at this time.

C.3.5 – This provision states that the audit committee should review arrangements by which staff of the company may raise concerns about the company in confidence. This has not been complied with as the Company has no staff.

E.1.1 – This provision states that the Chairman should meet regularly with major Shareholders to discuss governance and strategy. This is not strictly complied with insofar as it is the Chief Executive who has regular contact with major Shareholders. However, any concerns raised by those substantial Shareholders are fed back to the Board and the Chairman is available to meet with major Shareholders at their request. Also, all Directors including the Chairman attend the Annual General Meeting and are available to communicate with Shareholders.

By Order of the Board

Derringtons Limited
Company Secretary
Registered Office:
6 Stratton Street
Mayfair
London
W1J 8LD

Registered No: 1091347
20 May 2019

directors' remuneration report

for the year ended 31 January

This Report has been prepared in accordance with the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008, Schedule 8. An ordinary resolution for the approval of the Directors' Remuneration Policy will be put to a binding Shareholder vote at the forthcoming annual general meeting. The Directors' Remuneration Implementation Report will be put to an advisory Shareholder vote at this year's annual general meeting.

The law requires your Company's Auditor to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in their report on pages 38 to 45.

role and composition

The Remuneration Committee consists of the Chairman, Peregrine Moncreiffe, Lord Howard of Rising, G Walter Loewenbaum and Sir Charles Wake, being the Independent non-executive Directors. Christopher Mills, the Company's Chief Executive, is not a member of the Remuneration Committee and does not attend meetings of the Remuneration Committee.

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 where it considers this is appropriate. No such advice has been received in the year.

The Remuneration Committee will normally meet at least once a year to consider its policy on Directors' Remuneration.

directors' interests (audited)

	31 January 2019 5p Ordinary Shares	31 January 2018 5p Ordinary Shares
Peregrine Moncreiffe	**417,640**	417,640
Christopher Mills	**3,666,000**	3,664,000
Christopher Mills (non-beneficial)	**355,740**	355,740
Kristian Siem (resigned 26 June 2018)	**N/A**	N/A
Lord Howard of Rising	**5,000**	5,000
G Walter Loewenbaum	**15,000**	15,000
Sir Charles Wake (appointed 27 June 2018)	**–**	–

policy on directors' remuneration

The Company's Articles of Association sets out the aggregate total of Directors' fees that can be paid during the year to £150,000. The Remuneration Committee's policy, subject to this overall limit, is to determine the level of Directors' fees having regard to the level of fees payable to non-executive directors in other investment trusts, the rate of inflation and the increasing amount of time that individual Directors must commit to the Company's affairs. The Committee is also concerned that the remuneration of the non-executive Directors should reflect the experience of those Directors and believes that the level of remuneration should be sufficient to attract and retain non-executive Directors to oversee the Company.

directors' remuneration report

for the year ended 31 January

The Directors are entitled to be reimbursed for any reasonable expenses properly incurred by them in connection with the performance of their duties and attendance at meetings. Non-executive Directors are not eligible for bonuses, pension benefits, share options or any other incentives or benefits. There are no agreements between the Company and its Directors concerning compensation for loss of office.

These fees may be increased up to a total of no more than £150,000 per annum by resolution of the Board and this limit will apply until a new Directors' Remuneration Policy is approved by Shareholders.

The Directors' Remuneration Policy is the same in all material aspects as that implemented by the Board during the year under review and as summarised in last year's Directors' Remuneration Report. This policy is intended to take effect immediately upon its approval by Shareholders. The Board will consider, where raised, Shareholders' views on Directors' remuneration.

The Company has no employees and therefore has no policy on the remuneration of employees.

The performance graph on page 37 measures the Company's share price and net asset value performance against the Sterling adjusted Russell 2000 and the Sterling adjusted Standard & Poor's 500 Composite Index. An explanation of the Company's performance is given in the Chairman's Statement and the Investment Manager's Report.

implementation report

The policy is to review Directors' fees from time to time, but reviews will not necessarily result in the level of Directors' fees changing. In the year under review, the Directors were paid at a rate of £25,000 per annum with the exception of the Chairman, whose emoluments amounted to £30,000. The current fees have applied since 1 July 2011.

	2019				2018			
	Fees & Salary £	**Taxable Benefits £**	**Annual Incentives £**	**Total £**	Fees & Salary £	Taxable Benefits £	Annual Incentives £	Total £
Executive								
Christopher Mills	**25,000**	**–**	**3,780,000**	**3,805,000**	25,000	–	4,312,000	4,337,000
Non-Executive								
Peregrine Moncreiffe (Chairman)	**30,000**	**–**	**–**	**30,000**	30,000	–	–	30,000
Kristian Siem (resigned 26 June 2018)	**10,100**	**–**	**–**	**10,100**	25,000	–	–	25,000
Lord Howard of Rising	**25,000**	**–**	**–**	**25,000**	25,000	–	–	25,000
G Walter Loewenbaum (appointed 31 October 2017)	**25,000**	**–**	**–**	**25,000**	4,000	–	–	4,000
Sir Charles Wake (appointed 27 June 2018)	**14,900**	**–**	**–**	**14,900**	–	–	–	–

directors' remuneration report

for the year ended 31 January

chief executive

The Chief Executive is responsible for the day-to-day investment decisions. 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 GFS. The Remuneration Committee has no plans to alter the remuneration structure for the Chief Executive. As stated in note 15 on pages 79 and 80, 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 as it allows the Chief Executive to monitor the performance of the investee company more closely than would be possible under other circumstances.

remuneration of chief executive (audited)

	Year ended 31 January 2019 £	Year ended 31 January 2018 £
Director's fees	**25,000**	25,000
Investment Management and related fees	**2,037,000**	1,752,000
Performance fee	**1,743,000**	2,560,000
Total (excluding irrecoverable VAT)	**3,805,000**	4,337,000

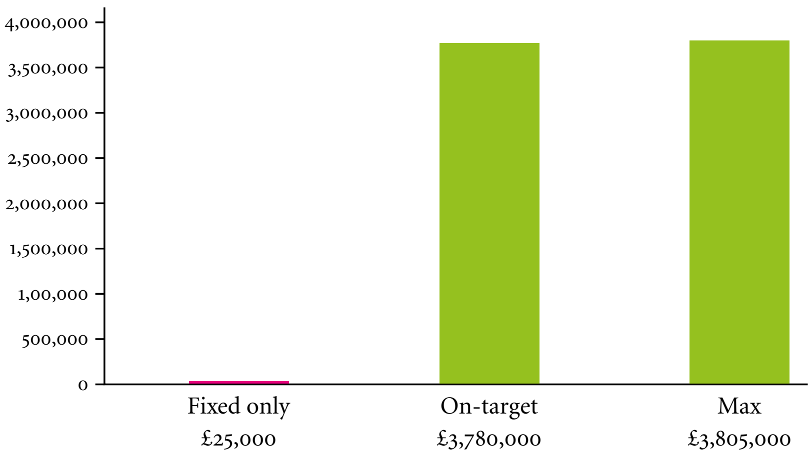
The total fees of £3,805,000, in respect of Christopher Mills' services as a Director and Chief Executive are payable to GFS, as described on page 23. GFS receives, and is contractually entitled to receive, part of the Annual Fee payable to the GFS and Harwood Capital LLP in respect of the investment management activities of the Chief Executive pursuant to the Investment Management Agreements described on page 23 and notes 3 and 4 on pages 57 and 58 to the financial statements.

Christopher Mills is a director of GFS. GFS is a wholly owned subsidiary of Harwood Capital Management Limited, which is in turn wholly owned by Christopher Mills. Christopher Mills is also the Chief Investment Officer of Harwood Capital LLP.

The Performance Fee is a contractual entitlement pursuant to the Secondment Services Agreement dated 7 January 1993 as amended and is paid to GFS. Calculation of the Performance Fee includes Oryx at the adjusted price (using equity accounting methods).

Explanations of the calculation of the Investment Management and Performance fees can be found in note 3 on page 57 to the financial statements.

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



The fixed element represents the director's fee of £25,000 per annum.

directors' remuneration report

for the year ended 31 January

Included within the 'On-target' and 'Maximum' bars are the investment management fee (2019: £2,037,000) and performance fee (2019: £1,743,000) that are payable to GFS and Harwood Capital LLP for the year ended 31 January 2019. Christopher Mills is deemed to have received these fees due to the fact that he is a director of and the ultimate beneficial owner of GFS and a Member of Harwood Capital LLP. These amounts are included in the 'On Target' bar as the fees were only payable if performance related hurdles were met. There are no long term incentive plans in place so the maximum that Christopher Mills could have earned during the year is the total amount of the investment management fee and the performance fee.

single total figure of remuneration for each director (audited)

The Directors who served during the years ended 31 January 2019 and 31 January 2018 received the following emoluments:

	Total Fees £ 31 January 2019	Total Fees £ 31 January 2018
Peregrine Moncreiffe	**30,000**	30,000
Kristian Siem	**10,100**	25,000
Lord Howard of Rising	**25,000**	25,000
G Walter Loewenbaum	**25,000**	4,000
Sir Charles Wake	**14,900**	–
Christopher Mills	**3,805,000**	4,337,000
Total	**3,910,000**	4,442,000

No Directors receive any benefits in kind.

The Directors are aware that it is a statutory requirement that this report provides Shareholders and other interested parties with an analysis of Directors' Remuneration against the remuneration of employees or the amount of distributions to Shareholders. However, the Company has no employees and has a long-standing policy of not paying dividends so it is not possible to provide any such analysis. The Directors also do not consider that such a comparison would be a meaningful measure of the Company's overall performance.

service contracts

No Director has a service contract. The contract for the Chief Executive's services and the carrying on day-to-day investment decisions is with GFS and contained in the Secondment Services Agreement between GFS and the Company as noted in the paragraph describing the Chief Executive's activities.

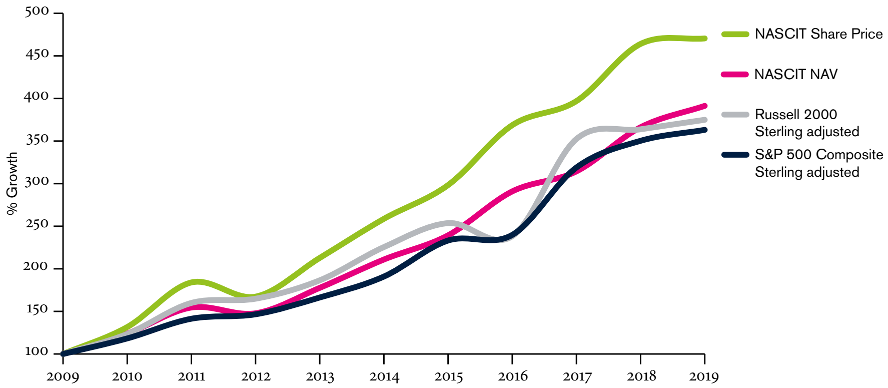
directors' remuneration report

for the year ended 31 January

company's performance

The following graph compares over a nine 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 9 years as compared to total Shareholder return of a broad equity market index over the last 10 years. (Source: Financial Data/Datastream)



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

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 5% per annum growth rate hurdle for the 2002 Executive Option Scheme.

This Report was approved by the Board on 20 May 2019 and signed by Peregrine Moncreiffe, Chairman.

On behalf of the Board
Peregrine Moncreiffe
Chairman
20 May 2019

independent auditor's report

to the members of North Atlantic Smaller Companies Investment Trust plc

1. our opinion is unmodified

We have audited the financial statements of North Atlantic Smaller Companies Investment Trust plc ("the Company") for the year ended 31 January 2019 which comprise the statement of comprehensive income, statement of changes in equity, balance sheet, cash flow statements and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 January 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 7 February 2011. The period of total uninterrupted engagement is for the 9 financial years ended 31 January 2019 We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: financial statements as a whole	£5.5m (2018: £4.9m) 1% (2018: 1%) of Total Assets

Key audit matters		**vs 2018**
Recurring risks	Valuation of unlisted investments	◄►
	Carrying value of listed investments	◄►
New risk	The impact of uncertainties due to the UK exiting the European Union on our audit	★

2. key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

independent auditor's report

to the members of North Atlantic Smaller Companies Investment Trust plc

The impact of uncertainties due to the UK exiting the European Union on our audit

The risk	Our response
Unprecedented levels of uncertainty: All audits assess and challenge the reasonableness of estimates, in particular as described in valuation of unquoted investments below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the Company's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the Directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. **Our procedures included:** • **Our Brexit knowledge:** We considered the Directors' assessment of Brexit-related sources of risk for the Company's business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks. • **Sensitivity analysis:** When addressing valuation of unquoted investments and other areas that depend on forecasts, we compared the Directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty provided to investee companies. • **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on valuation of unquoted investments, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results:** • As reported under valuation of unquoted investments, we found the resulting estimates and related disclosures in respect of investments and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

independent auditor's report

to the members of North Atlantic Smaller Companies Investment Trust plc

Unquoted Investments (£112 million; 2018: £95m)

Refer to page 30 (Audit Committee Report), refer to pages 50 to 55 (accounting policy) and pages 70 to 79 (financial disclosures).

The risk	Our response
Valuation of unquoted investments: As at 31 January 2019, £112m or 20% of the company's total assets (by value) is held in investments where no quoted market price is available. Unquoted investments are measured at fair value, which is established in accordance with the International Private Equity and Venture Capital Valuation Guidelines, by using measurements of value such as prices of recent orderly transactions, earnings multiples, and net assets. There is a significant risk relating to the valuation of these investments.	**Our procedures included:** • **Control observation:** Attendance at valuation meetings with the Directors and investment manager to assess their discussion and review of the investment valuations; • **Historic comparisons:** Assessment of investment realisation in the period, comparing actual sales proceeds to prior year end valuations to understand the reasons for significant variances and determine whether they are indicative of bias or error in the company's approach to valuations; • **Methodology choice:** In the context of observed industry best practice and the provisions of the International Private Equity and Venture Capital Valuation Guidelines, we challenged the appropriateness of the valuation basis selected; • **Our valuation experience:** Challenge the investment manager on key judgements affecting investee company valuations, such the choice of benchmark earnings multiples, which were compared to independently generated multiples. We compared, investee company audited accounts and management information as applicable. We challenged the assumptions around sustainability of earnings based on the plans of the investee companies and whether these are achievable. Our work included consideration of events which occurred subsequent to the year end until the date of this audit report; • **Assessing transparency:** Consideration of the appropriateness, in accordance with relevant accounting standards, of the disclosures in respect of unquoted investments and the effect of changing one or more inputs to reasonably possible alternative valuation assumptions. **Our results** • We found the Company's valuation of unquoted investments to be acceptable (2018: acceptable).

independent auditor's report

to the members of North Atlantic Smaller Companies Investment Trust plc

Carrying Value of Quoted Investments (£388 million; 2018: £394 million)

Refer to page 30 (Audit Committee Report), pages 50 to 55 (accounting policy) and page 70 to 79 (financial disclosures)

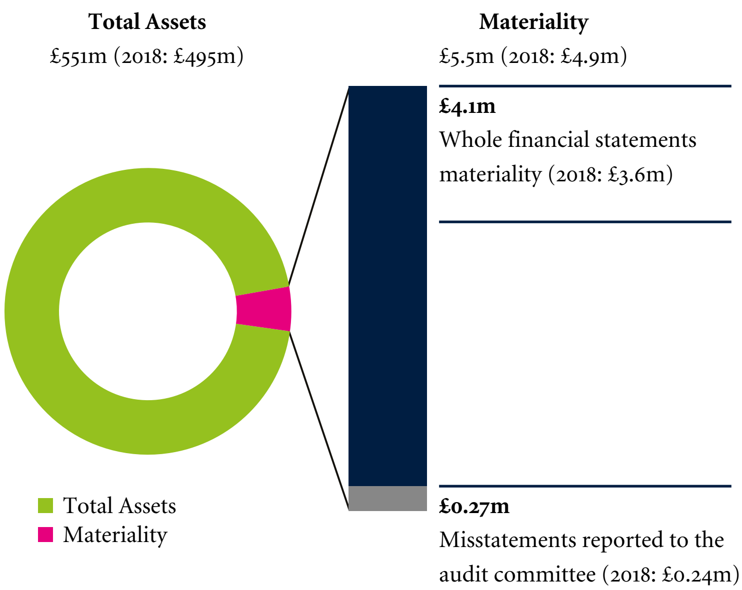
The risk	Our response
Low risk, high value: The Company's portfolio of quoted investments makes up 77% of the Company's total assets (by value) and is one of the key drivers of results. We do not consider these investments to be at a high risk of significant misstatement, or to be subject to a significant level of judgement because they comprise liquid, quoted investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be one of the areas which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.	**Our procedures included:** • **Tests of Detail:** Agreeing the valuation of 100% of investments in the portfolio to externally quoted prices; and • **Enquiry of custodians:** Agreeing 100% of investment holdings in the portfolio to independently received third party confirmations from investment custodians or share certificates, **Our results:** • We found the carrying amount of quoted investments to be acceptable (2018: acceptable).

3. our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £5.5m (2018: £4.9m), determined with reference to a benchmark of total assets, of which it represents 1% (2018: 1%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £275,000 (2018: £245,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality level specified above and was performed at the our offices.



independent auditor's report

to the members of North Atlantic Smaller Companies Investment Trust plc

4. we have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional procedures.

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 18 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. we have nothing to report on the other information in the annual report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

independent auditor's report

to the members of North Atlantic Smaller Companies Investment Trust plc

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within viability statement on page 19 that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the in the Viability Statement of how they have assessed the prospects of the Company, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

independent auditor's report

to the members of North Atlantic Smaller Companies Investment Trust plc

6. we have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 26, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the Directors the manager and the administrator (as required by auditing standards), and discussed with the Directors and the manager the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

independent auditor's report

to the members of North Atlantic Smaller Companies Investment Trust plc

Firstly, the company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), and its qualification as an Investment Trust under UK legislation, any breach of which could lead to the Company losing various deductions and exemptions from UK corporation tax, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation We identified the following areas as those most likely to have such an effect: the Listing Rules and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify ant actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. the purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members 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 members, as a body, for our audit work, for this report, or for the opinions we have formed.

Jatin Patel (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GH
20 May 2019

statement of comprehensive income

for the year ended 31 January

			2019			2018	
		Revenue	Capital	Total	Revenue	Capital	Total
	Notes	£'000	£'000	£'000	£'000	£'000	£'000
Income	2	11,645	–	11,645	10,115	–	10,115
Net gains on investments at fair value	8	–	31,095	31,095	–	69,197	69,197
Currency exchange gains/(losses)	8	–	271	271	–	(769)	(769)
total income		11,645	31,366	43,011	10,115	68,428	78,543
Expenses							
Investment management fee	3	(5,091)	(1,788)	(6,879)	(4,380)	(2,749)	(7,129)
Other expenses	4	(714)	–	(714)	(586)	–	(586)
return before taxation		5,840	29,578	35,418	5,149	65,679	70,828
Taxation	6	–	–	–	(11)	–	(11)
return for the year		5,840	29,578	35,418	5,138	65,679	70,817
basic earnings per ordinary share	7	40.59	205.57	246.16	35.62	455.29	490.91
diluted earnings per ordinary share	7	40.53	205.27	245.80	35.61	455.19	490.80

The total column of the statement is the Statement of Comprehensive Income of the Company, prepared in accordance with IFRS, as adopted by the European Union. The supplementary revenue and capital columns are presented in accordance with the Statement of Recommended Practice issued by the Association of Investment Companies ("AIC SORP").

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

There is no other comprehensive income, and therefore the return for the year is also the comprehensive income.

The notes on pages 50 to 80 form part of these financial statements.

statement of changes in equity

for the year ended 31 January

	Share capital £'000	Share options reserve £'000	Share premium account £'000	Capital reserve £'000	Capital redemption reserve £'000	Revenue reserve £'000	Total £'000
2019							
31 January 2018	**721**	**55**	**1,301**	**498,123**	**149**	**(926)**	**499,423**
Total comprehensive income for the year	**–**	**–**	**–**	**29,578**	**–**	**5,840**	**35,418**
Shares purchased for cancellation	**(5)**	**–**	**–**	**(2,920)**	**5**	**–**	**(2,920)**
Share options discharge	**–**	**(31)**	**–**	**(465)**	**–**	**–**	**(496)**
31 January 2019	**716**	**24**	**1,301**	**524,316**	**154**	**4,914**	**531,425**

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

The notes on pages 50 to 80 form part of these financial statements.

balance sheet
as at 31 January

	Notes	31 January 2019 £'000	31 January 2018 £'000
non current assets			
Investments at fair value through profit or loss	8	**500,696**	488,912
		500,696	488,912
current assets			
Trade and other receivables	9	**19,623**	3,943
Cash and cash equivalents		**30,669**	10,653
		50,292	14,596
total assets		**550,988**	503,508
current liabilities			
Trade and other payables	10	**(19,563)**	(4,085)
total liabilities		**(19,563)**	(4,085)
total assets less current liabilities		**531,425**	499,423
net assets		**531,425**	499,423
represented by:			
Share capital	11	**716**	721
Share options reserve		**24**	55
Share premium account		**1,301**	1,301
Capital reserve		**524,316**	498,123
Capital redemption reserve		**154**	149
Revenue reserve		**4,914**	(926)
total equity attributable to equity holders of the company		**531,425**	499,423
net asset value per ordinary share:			
Basic	7	**3,710p**	3,462p
Diluted	7	**3,708p**	3,458p

These financial statements were approved and authorised for issue by the Board of Directors on 20 May 2019 and signed on its behalf by:

The notes on pages 50 to 80 form part of these financial statements.

Peregrine Moncreiffe, *Chairman*

Company Registered Number:
1091347

cash flow statement

for the year ended 31 January

	Notes	2019 £'000	2018 £'000
cash flows from operating activities			
Investment income received		9,002	7,023
Deposit interest received		15	5
Other income		–	192
Investment Manager's fees paid		(7,686)	(4,398)
Share based payment – discharge of options		(496)	–
Other cash payments		(826)	(653)
cash generated from operations	12	9	2,169
Taxation paid		–	(11)
net cash inflow from operating activities		9	2,158
cash flows from investing activities			
Purchases of investments		(358,127)	(431,754)
Sales of investments		380,966	428,896
net cash inflow/(outflow) from investing activities		22,839	(2,858)
cash flows from financing activities			
Repurchase of Ordinary Shares for cancellation		(2,920)	–
net cash outflow from financing activities		(2,920)	–
increase/(decrease) in cash and cash equivalents for the year		19,928	(700)
Revaluation of foreign currency balances		88	(476)
cash and cash equivalents at the end of the year	13	30,669	10,653

The notes on pages 50 to 80 form part of these financial statements.

notes to the financial statements

1 accounting policies

NASCIT is a listed public company incorporated and registered in England and Wales. The registered office of the Company is 6 Stratton Street, Mayfair, London W1J 8LD. The principal activity of the Company is that of an investment trust company within the meaning of sections 1158/1159 of the Corporation Tax Act 2010 and its investment approach is detailed in the Strategic Report.

a) basis of preparation

The financial statements of the Company have been prepared in accordance with IFRS as adopted by the European Union which comprise standards and interpretations approved by the International Accounting Standards Board ('IASB'), and as applied in accordance with the provisions of the Companies Act 2006. The annual financial statements have also been prepared in accordance with the AIC SORP for the financial statements of investment trust companies and venture capital trusts, except to any extent where it is not consistent with the requirements of IFRS.

In order to better reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been prepared alongside the Income Statement.

The functional currency of the Company is Pounds Sterling because this is the currency of the primary economic environment in which the Company operates. The financial statements are also presented in Pounds Sterling rounded to the nearest thousand, except where otherwise indicated.

b) going concern

The financial statements have been prepared on a going concern basis that approval as an investment trust company will continue to be met.

The Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that the Company has the resources to continue in business for the foreseeable future, being a period of at least 12 months from the date these financial statements were approved. Furthermore, the Directors are not aware of any material uncertainties that may cast doubt upon the Company's ability to continue as a going concern, having taken into account the liquidity of the Company's investment portfolio and the Company's financial position in respect of its cash flows, debt and investment commitments. Therefore, the financial statements have been prepared on a going concern basis.

c) segmental reporting

The Directors of the opinion that the Company is engaged in a single segment of the business, being investment business. The Company invests in small companies principally based in countries bordering the North Atlantic Ocean.

1 accounting policies continued

d) accounting developments

In the current year, the Company has applied a number of amendments to IFRS, issued by the IASB mandatorily effective for an accounting period that begins on or after 1 January 2018. These include annual improvements to IFRS, changes in standards, legislative and regulatory amendments, changes in disclosure and presentation requirements. The Company has also applied, with associated amendments, for the first time the following standards:

- IFRS 2 Share based payments (amendments);
- IFRS 9 Financial Instruments; and
- IFRS 15 Revenue from Contracts with Customers.

The assessment of the impact of the adoption of these standards is set out below:

IFRS 2 Share based Payments has been amended to clarify the classification and measurement of share based payments. Details of the accounting policy are set out in Note 5.

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets, and replaces the multiple classification and measurement models in IAS 39. The financial instruments are managed and have their performance evaluated on a fair value basis, in accordance with the risk management and investment strategies of the Company consistent with prior periods.

The other receivables and prepayment are accounted for at amortised cost meeting the criteria for classification in IFRS 9, hence there has been no change in the accounting for these assets. The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than incurred credit losses as in the case of IAS39 applicable to all financial assets.

IFRS 15 specifies how and when revenue is recognised and enhances disclosures. Given the nature of the Company's revenue streams from financial instruments, the provisions of this standard will not have a material impact. There are no changes in the methodology of accounting for investment income and other income is recognised when the amounts fall due, both consistent with prior periods. The application of IFRS 9 the changes in fair value of financial assets through profit or loss do not fall within the scope of IFRS15.

The adoption of these has not had any material impact on these financial statements.

e) critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts in the Balance Sheet, the Income Statement and the disclosure of contingent assets and liabilities at the date of the financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

1 accounting policies continued

e) critical accounting judgements and key sources of estimation uncertainty continued

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future period if the revision affects both current and future periods.

In order to value the unquoted investments, there are a number of valuation techniques that can be used. Judgement is used to determine the best methodology to obtain the most accurate valuation.

The Board of Directors has assessed the Company as meeting the definition of an investment entity within IFRS 10 Consolidated Financial Statements requirements. The Company is required to measure the subsidiaries at fair value through profit or loss rather than consolidate the entities. The details are set out in Note 8.

Further to the above there were no accounting estimates or significant judgements in the current period that have had a material impact upon the financial statements.

f) investments

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. The Company classifies its investments based on their contractual cash flow characteristics and of the Company's business model for managing the assets. The business model, which is the determining feature, is such that the portfolio of investments is managed, performance and risk is evaluated on a fair value basis. Consequently, all investments are designated as at fair value through profit or loss.

All investments are designated upon initial recognition as held at fair value through profit or loss, and are measured at subsequent reporting dates at fair value, which is either the bid price or the closing price for Stock Exchange Electronic Trading Service – quotes and crosses ('SETSqx'). The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of consideration received and receivable and the cumulative gain or loss that had been accumulated is recognised in profit or loss.

Fair values for unquoted investments, or investments for which the market is inactive, are established by using (the "IPEV") various valuation techniques in accordance with the International Private Equity and Venture Capital Valuation guidelines. These may include recent arm's length market transactions, the current fair value of another instrument which is substantially the same, discounted cash flow analysis and option pricing models. Where there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, that technique is utilised. Where no reliable fair value can be estimated for such instruments, they are carried at cost subject to any provision for impairment.

1 accounting policies continued

f) investments continued

Gains and losses arising from changes in fair value are included in the total return as a capital item. Also included within this heading are transaction costs in relation to the purchase or sale of investments. When a sale or purchase is made under a contract, the terms of which require delivery within the timeframe of the relevant market, the investments concerned are recognised or derecognised on the trade date.

All investments for which a fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy levels set out in Note 14.

g) foreign currency translation

Transactions in currencies other than Pounds Sterling are recorded at the rates of exchange prevailing on the date of the transaction. Items that are denominated in foreign currencies are retranslated at the rates prevailing on the Balance Sheet date. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in the capital reserve or the revenue account depending on whether the gain or loss in the capital reserve or the revenue account depending on whether the gain or loss is capital or revenue in nature.

h) cash and cash equivalents

Cash comprises cash in hand, overdrafts and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts when applicable.

i) other receivables and payables

Trade receivables and trade payables are measured at amortised cost and balances revalued for exchange rate movement.

j) income

Dividends receivable on quoted equity shares are taken to revenue on an ex-dividend basis. 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-apportioned basis. Dividends from overseas companies are shown gross of any withholding taxes which are disclosed separately in the Statement of Comprehensive Income.

Special dividends are taken to the revenue or capital account depending on their nature. In deciding whether a dividend should be regarded as capital or revenue receipt, the Board reviews all relevant information as to the sources of the dividend on a case-by-case basis.

When the Company has elected to receive scrip dividends in the form of additional shares rather than in cash, the amount of the cash dividend foregone is recognised as income. Any excess in the value of the cash dividend is recognised in the capital column.

All other income is accounted on a time-apportioned accruals basis and is recognised in the Statement of Comprehensive Income.

1 accounting policies continued

k) expenses and finance costs

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

Expenses incurred in shares purchased for cancellation are charged to the capital reserve through the Statement of Changes in Equity.

l) share based payments

The value of share options awarded under the 2011 Executive Share Option Scheme to the Chief Executive and employees of Harwood Capital LLP. The accounting charge is based on the fair value of each grant, measured at the grant date and is spread over the vesting period. The deemed expense over the vesting period is transferred to the Share Options Reserve.

Where the share options are discharged this is released to the Share Options Reserve.

In accordance with the IFRS 2: Share Based Payments where there is a change in value this is recognised immediately.

m) taxation

The charge for taxation is based on the net revenue for the year and takes into account taxation deferred or accelerated because of temporary differences between the treatment of certain items for accounting and taxation purposes.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes at the reporting date. Deferred tax assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of timing differences can be deducted. In line with recommendations of the SORP, the allocation method used to calculate the tax relief expenses charged to capital is the 'marginal' basis. Under this basis, if taxable income is capable of being offset entirely by expenses charged through the revenue account, then no tax relief is transferred to the capital account.

n) dividends payable to shareholders

Dividends to shareholders are recognised as a liability in the period in which they are paid or approved in general meetings and are taken to the Statement of Changes in Equity. Dividends declared and approved by the Company after the Balance Sheet date have not been recognised as a liability of the Company at the Balance Sheet date.

1 accounting policies continued

o) share capital and reserves

Share Capital: Represents the nominal value of equity shares.

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

Share Premium Account: The account represents the accumulated premium paid for shares issued in previous periods above their nominal value less issue expenses.

Capital Reserve: The following items are taken to this reserve:

- realised and unrealised capital and exchange gains and losses on the disposal and revaluation of investments and of foreign currency items;
- performance fee costs; and
- Ordinary Shares repurchased for cancellation.

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

Revenue reserves: Represents the surplus of accumulated revenue profits being the excess of income derived from holding investments less the costs associated with running the Company. This reserve may be distributed by way of dividends.

notes to the financial statements

2 income

	2019 £'000	2018 £'000
income from investments		
Dividend income	5,646	4,426
Unfranked investment income		
– interest	2,476	3,077
– interest reinvested	3,500	2,450
	11,622	9,953
other income		
Interest receivable	15	5
Net return from Subsidiary	7	82
Realised gains on income	1	–
Sundry income received	–	75
	23	162
Total income	11,645	10,115
total income comprises		
Dividends	5,646	4,426
Interest	5,991	5,532
Other income	8	157
	11,645	10,115
income from investments		
Listed UK	5,646	4,350
Other listed	–	76
Other unquoted	5,976	5,527
	11,622	9,953

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 23 and the Directors' Remuneration Report on page 35, GFS provides the services of Christopher Mills as Chief Executive of the Company, who is responsible for day-to-day investment decisions. Christopher Mills is a director of GFS. GFS is entitled to receive part of the investment management and related fees payable to GFS and Harwood Capital LLP as may be agreed between them from time to time.

(ii) Pursuant to the terms of the Sub Advisory, Administration and Transmission Services Agreement, described on page 23 of the Report of the Directors, Harwood Capital LLP is entitled to receive a fee (the Annual Fee) in respect of each financial period equal to the difference between (a) 1% of Shareholders' Funds (as defined) on 31 January each year and (b) the amount payable to GFS referred to in note 3(i) above. This fee is payable quarterly in advance.

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

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

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

	2019			2018		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Annual fee	**5,091**	**–**	**5,091**	4,380	–	4,380
Performance Fee	**–**	**1,743**	**1,743**	–	2,560	2,560
Irrecoverable VAT thereon	**–**	**45**	**45**	–	189	189
	5,091	**1,788**	**6,879**	4,380	2,749	7,129

At 31 January 2019, £255,000 was payable to Harwood Capital LLP in respect of outstanding management fees (2018: £219,000). At 31 January 2019, there was £1,743,000 payable to GFS in respect of outstanding performance fees (2018: £2,560,000) net of VAT.

4 other expenses

	2019 £'000	2018 £'000
Auditor's remuneration (see below)	**57**	53
Directors' fees (see page 34 and below)	**130**	130
Administration fee (see note 3)	**263**	243
Other expenses	**264**	160
	714	586

auditors' remuneration	2019 £'000	2018 £'000
Fees payable to Auditor for audit	**57**	53
	57	53

directors' remuneration	2019 £'000	2018 £'000
a) Directors Fees		
Peregrine Moncreiffe (Chairman)	**30**	30
Kristian Siem	**10**	25
Enrique Foster Gittes	**–**	21
Lord Howard of Rising	**25**	25
Christopher Mills	**25**	25
G Walter Loewenbaum	**25**	4
Christopher Wake	**15**	–
	130	130
b) Other fees		
Performance fee (net of VAT)*	**1,743**	2,560
Investment management and related fees*	**2,037**	1,752
	3,780	4,442

* Payable to GFS.

5 share based remuneration

A list of the Options in issue are shown below;

No. of options at 1 February 2018	Year of grant	Discharged during the year	Grant of options during the year	Price	No. of Options at 31 January 2019
10,000	**2011**	**nil**	**nil**	**1,467.71**	**10,000**
20,000	**2012**	**20,000**	**nil**	**1,396.24**	**nil**

Further details of Options are disclosed in note 11 on page 69.

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

On 9 July 2012, a further 30,000 options were granted to other eligible employees of Harwood Capital LLP at an exercise price of 1,396.24p. 10,000 options were discharged on 31 May 2015 with the remaining 20,000 options being discharged on 23 October 2018.

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

	2011 Options	2012 Options
Award date	14 July 2011	9 July 2012
Exercise price	1,467.71p	1,396.24p
Assumptions:	per annum	per annum
Future share price volatility	25.0%	20.0%
Future dividend yield	0.0%	0.0%
Future risk-free interest rate	1.2%	0.3%
Minimum gain threshold	33.0%	33.0%
Proportion of options exercised given minimum gain achieved	50.0%	50.0%
Share price^	1,097.00p	1,045.00p

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

5 share based remuneration continued

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

– the fair value of the 2011 options has been calculated as 22.1% of the face value of the awards (based on the share price of 1,097.00p) giving a total fair value of £1,042,000;

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

The accounting charge is based on the fair value of each grant, at the grant date and is spread over the vesting period, being 3 years from the date of grant assuming all necessary performance criteria are met. The deemed expense is transferred to the Share options reserve. As at 31 January 2019 and 2018 there was no accounting charge as the vesting period has expired.

At the date of this report there were a total of 10,000 options in issue with an estimated fair value at the date of grant of £24,000.

6 taxation on ordinary activities

	2019 Total £'000	2018 Total £'000
Withholding tax	**–**	11
	–	11

The current taxation charge for the year is different from the standard rate of corporation tax in the UK of 19%. The differences are explained below.

	2019 Total £'000	2018 Total £'000
Total return before taxation	**35,418**	70,828
Theoretical tax at UK Corporation tax rate of 19% (2018: 19.17%)	**6,729**	13,578
Effects of:		
Non taxable capital return	**(5,959)**	(13,118)
UK and overseas dividends which are not taxable	**(1,073)**	(848)
Subsidiary return which is not taxable	**(1)**	(16)
Withholding tax	**–**	11
Decrease in tax losses, disallowable expenses and excess management expenses	**340**	404
Actual current tax charge	**–**	11

6 taxation continued

Factors that may affect future tax charges:

As at 31 January 2019, the Company has tax losses of £60,540,000 (2018: £56,079,000) that are available to offset future taxable revenue, comprising excess management expenses of £51,545,000, a non-trade loan relationship deficit of £8,995,000 and a trade loss of £nil (2018: excess management expenses of £47,308,000, a non-trade loan relationship deficit of £8,771,000 and a trade loss of £nil). A deferred tax asset has not been recognised in respect of those losses as the Group is not expected to generate taxable income in the future in excess of the deductible expenses of future periods and, accordingly, it is unlikely that the Group will be able to reduce future tax liabilities through the use of those losses.

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

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

a) return per ordinary share:

	Net return £'000	Revenue Ordinary Shares	Per Share pence	Net return £'000	Capital Ordinary Shares	Per Share pence	Net return £'000	Total Ordinary Shares	Per Share pence
2019									
Basic return per Share	**5,840**	**14,388,359**	**40.59**	**29,578**	**14,388,359**	**205.57**	**35,418**	**14,388,359**	**246.16**
Share options*	**–**	**20,895**		**–**	**20,895**		**–**	**20,895**	
Diluted return per Share	**5,840**	**14,409,254**	**40.53**	**29,578**	**14,409,254**	**205.27**	**35,418**	**14,409,254**	**245.80**

	Net return £'000	Revenue Ordinary Shares	Per Share pence	Net return £'000	Capital Ordinary Shares	Per Share pence	Net return £'000	Total Ordinary Shares	Per Share pence
2018									
Basic return per Share	5,138	14,425,620	35.62	65,679	14,425,620	455.29	70,817	14,425,620	490.91
Share options*	–	3,324		–	3,324		–	3,324	
Diluted return per Share	5,138	14,428,944	35.61	65,679	14,428,944	455.19	70,817	14,428,944	490.80

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

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

notes to the financial statements

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

b) net asset value per ordinary share:

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

2019		Net assets £'000	Number of Ordinary Shares	Net asset value per Share
Ordinary Shares	**– Basic**	**531,425**	**14,325,620**	**3,710p**
	– Diluted	**531,572**	**14,335,620**	**3,708p**
Ordinary Shares*	**– Basic**	**540,920**	**14,325,620**	**3,776p**
	– Diluted	**541,067**	**14,335,620**	**3,774p**

2018		Net assets £'000	Number of Ordinary Shares	Net asset value per Share
Ordinary Shares	– Basic	499,423	14,425,620	3,462p
	– Diluted	499,849	14,455,620	3,458p
Ordinary Shares*	– Basic	509,128	14,425,620	3,529p
	– Diluted	509,554	14,455,620	3,525p

* Adjusted for Oryx using equity accounting.

The diluted net asset value per Ordinary Share is calculated on the assumption that the outstanding 10,000 (2018: 30,000) Share Options were exercised at the prevailing exercise prices, giving a total of 14,335,620 issued Ordinary Shares (2018: 14,455,620).

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

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

	2019 £'000	2018 £'000
Oryx at Fair value (traded price) using IFRS 10	**57,776**	55,663
Oryx value using Equity Accounting	**67,270**	65,368
Increase in net assets using Equity Accounting	**9,494**	9,705

notes to the financial statements

8 investments at fair value through profit or loss

a) investments at fair value through profit or loss

	2019 £'000	2018 £'000
Quoted at fair value:		
United Kingdom	**281,795**	283,171
Overseas	**15,677**	14,726
Total quoted investments	**297,472**	297,897
Treasury bills at fair value	**90,893**	95,612
Unquoted and loan stock at fair value	**112,331**	95,403
Investments at fair value through profit or loss	**500,696**	488,912

2019	Listed equities £'000	AIM quoted £'000	Unquoted equities £'000	Loan stocks £'000	Treasury Bills £'000	Total £'000
analysis of investment portfolio movements						
Opening bookcost as at 1 February 2018	67,505	88,368	35,815	33,447	100,480	325,615
Opening unrealised appreciation/(depreciation)	130,168	11,856	26,756	(615)	(4,868)	163,297
opening valuation as at 1 February 2018	197,673	100,224	62,571	32,832	95,612	488,912
Movements in year:						
Transfer	(2)	2	(3,584)	3,584	–	–
Purchases at cost	39,085	31,190	11,808	23,020	310,956	416,059
Sales – proceeds	(67,016)	(15,238)	(13,414)	(16,433)	(323,269)	(435,370)
– realised gains on sales	35,785	22	12,045	1,110	4,732	53,694
(Decrease)/increase in appreciation on assets held	(30,706)	6,453	(2,097)	889	2,862	(22,599)
closing valuation as at 31 January 2019	174,819	122,653	67,329	45,002	90,893	500,696
Closing bookcost as at 31 January 2019	75,357	104,344	42,670	44,728	92,899	359,998
Closing unrealised appreciation/(depreciation)	99,462	18,309	24,659	274	(2,006)	140,698
	174,819	122,653	67,329	45,002	90,893	500,696

8 investments at fair value through profit or loss continued

a) investments at fair value through profit or loss continued

2018	Listed equities £'000	AIM quoted £'000	Unquoted equities £'000	Loan stocks £'000	Treasury Bills £'000	Total £'000
analysis of investment portfolio movements						
Opening bookcost as at 1 February 2017	48,538	44,182	32,477	57,317	118,221	300,735
Opening unrealised appreciation/(depreciation)	68,675	7,087	37,505	2,090	(1,474)	113,883
opening valuation as at 1 February 2017	117,213	51,269	69,982	59,407	116,747	414,618
Movements in year:						
Transfer	1,922	–	5,338	(7,260)	–	–
Purchases at cost	37,252	56,565	16,371	12,430	327,985	450,603
Sales – proceeds	(44,087)	(19,632)	(14,840)	(29,067)	(337,880)	(445,506)
– realised gains/(losses) on sales	23,880	7,253	(3,531)	27	(7,846)	19,783
Increase/(decrease) in appreciation on assets held	61,493	4,769	(10,749)	(2,705)	(3,394)	49,414
closing valuation as at 31 January 2018	197,673	100,224	62,571	32,832	95,612	488,912
Closing bookcost as at 31 January 2018	67,505	88,368	35,815	33,447	100,480	325,615
Closing unrealised appreciation/(depreciation)	130,168	11,856	26,756	(615)	(4,868)	163,297
	197,673	100,224	62,571	32,832	95,612	488,912

	2019 £'000	2018 £'000
analysis of capital gains and losses		
Gains on sales	53,694	19,783
Unrealised (losses)/gains	(22,599)	49,414
gains on investments at fair value	31,095	69,197

	2019 £'000	2018 £'000
Exchange gains/(losses) on capital items	183	(293)
Exchange gains/(losses) on capital items and currency	88	(476)
exchange gains/(losses)	271	(769)

8 investments at fair value through profit or loss continued

a) investments at fair value through profit or loss continued

	2019 £'000	2018 £'000
portfolio analysis		
Equity shares	**360,368**	354,184
Convertible preference securities	**4,433**	6,284
Fixed interest securities	**45,002**	32,832
Treasury Bills	**90,893**	95,612
	500,696	488,912

b) subsidiary undertakings

At 31 January 2019 the Company has the following Subsidiaries:

Subsidiary	Principal activity	Equity held	Country of registration
Consolidated Venture Finance Limited*	Investment entity	100.0%	England and Wales
Hampton Investment Properties Limited	Property investment	70.8%	England and Wales
Harwood Leeds Property	Property investment	100.0%	England and Wales
Oryx International Growth Fund Limited	Investment company	51.9%	Guernsey
Performance Chemical Company	Oil field service company	53.1%	United States of America

These subsidiaries were active during the year.

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

assessment as an investment entity

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

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

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

8 investments at fair value through profit or loss continued

assessment as an investment entity continued

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

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

Bookcost: there would be a difference between the Company's carried forward bookcost of £359,998,000 with the Group's carried forward bookcost due to an historical sale from CVF to NASCIT. Had the accounts been consolidated the Group's carried forward bookcost would have been £359,956,000.

Capital and revenue reserves: there would be differences between the Company's carried forward capital and revenue reserves (£524,316,000 and £4,914,000, respectively) with the Group's carried forward capital and revenue reserves due to historical CVF transactions. Had the accounts been consolidated the Group's carried forward capital and revenue reserves would have been positive £524,669,000 and £4,516,000, respectively.

c) significant holdings

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

Company and address of principal business	Country of incorporation and registration	Year end	Capital and reserves £'000	Revenue reserves for the last financial year £'000	Company holding 31 January 2019 %	Company holding 31 January 2018 %
AssetCo plc Singleton Court Business Park, Wonastow Road, Monmouth, Monmouthshire NP25 5JA	England and Wales	30 September 2017	29,970,000	1,419,000	28.63	28.63
Consolidated Venture Finance Limited 6 Stratton Street, Mayfair, London W1J 8LD	England and Wales	31 January 2018	(745,000)	(745,000)	100.00	100.00
EKF Diagnostics Holdings plc Avon House, 19 Stanwell Road, Penarth, Cardiff CF64 2EZ	England and Wales	31 December 2017	81,380,000	10,299,000	21.58	21.42
Hampton Investment Properties Limited 6 Stratton Street, Mayfair, London W1J 8LD	England and Wales	31 December 2016	12,530,826	(644,891)	70.81	70.81
Harwood Leeds Property 6 Stratton Street, Mayfair, London W1J 8LD	England and Wales	31 August 2018	9,433,473	(82,499)	100.00	100.00

8 investments at fair value through profit or loss continued

c) significant holdings continued

Company and address of principal business	Country of incorporation and registration	Year end	Capital and reserves £'000	Revenue reserves for the last financial year £'000	Company holding 31 January 2019 %	Company holding 31 January 2018 %
Harwood Private Equity Fund IV LP 6 Stratton Street, Mayfair, London W1J 8LD	England and Wales	31 December 2017	109,184,284	1,382,625	26.28	26.23
Oryx International Growth Fund Limited BNP Paribas House, St Julian's Avenue, St Peter Port, Guernsey GY1 1WA	Guernsey	31 March 2017	125,241,513	10,530,176	51.86	50.28
Performance Chemical Company 9105 W Interstate 20 Midland TX 79706	United States of America	30 September 2017	$12,218,258	$347,503	53.12	53.10
Ten Entertainment Group Plc Head Office, Tenpin Ltd, Aragon House, Bedford, MK43 OEQ	England and Wales	31 December 2017	54,908,000	10,669,000	23.08	30.77
Trident Private Equity Fund III LP 6 Stratton Street, Mayfair, London W1J 8LD	England and Wales	31 December 2017	17,451,554	81,135	38.72	38.76

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

d) investments in US treasury bills

At 31 January 2019, the Company held US Treasury Bills with a market value of £90,893,000 (2018: £95,612,000).

e) transaction costs

During the year, the Company incurred total transaction costs of £226,000 (2018: £399,000) comprising £68,000 (2018: £271,000) and £158,000 (2018: £128,000) on purchases and sales of investments respectively. These amounts are included in gains on investments as disclosed in the Statement of Comprehensive Income.

8 investments at fair value through profit or loss continued

f) material disposals of unlisted investments in the year:

Security Name	Proceeds £'000	Bookcost £'000	Gain/(loss) £'000	Carrying value at 31 January 2018 £'000
Trident Private Equity Fund III	10,777	1,024	9,753	16,261
Jaguar Holdings, Loan Notes	4,742	4,737	5	4,219
Coventbridge Loan Notes	7,110	7,110	–	5,626
Sherwood Holdings PIK Loan Notes	1,966	1,966	–	n/a
Curtis Gilmore Equipment Loan Notes	5,225	4,121	1,104	4,306
Curtis Gilmore Equipment Common Stock	1,878	6	1,872	2,011
Curtis Gilmore Equipment Non-Div Redeemable Pref	407	339	68	365

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

9 trade and other receivables

	2019 £'000	2018 £'000
Amounts due from brokers	**17,103**	–
Amounts owed by Subsidiary	**89**	82
Accrued income	**542**	1,422
Other debtors	**959**	926
Recoverable withholding tax	**930**	1,513
	19,623	3,943

10 trade and other payables

	2019 £'000	2018 £'000
Investment Manager's fees	**255**	219
Performance fees	**2,091**	3,071
Amounts due to brokers	**16,988**	623
Other creditors and accruals	**229**	172
	19,563	4,085

notes to the financial statements

11 share capital

	2019 Number	2019 £'000	2018 Number	2018 £'000
– authorised:				
Ordinary Shares of 5p:	**27,000,000**	**1,350**	27,000,000	1,350
– issued and fully paid:				
Ordinary Shares of 5p:				
Balance at beginning of year	**14,425,620**	**721**	14,425,620	721
Cancellation of shares	**(100,000)**	**(5)**	–	–
Balance at end of year	**14,325,620**	**716**	14,425,620	721

Since 31 January 2019, no Ordinary Shares have been purchased by the Company for cancellation. As at the date of this report, the Company's issued share capital consists of 14,325,620 Ordinary Shares of 5p nominal value each.

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

There are Options totalling 10,000 (2018: 30,000) remaining, details of which are given in note 5 on page 59.

12 reconciliation of total return before taxation to cash generated from operations

	2019 £'000	2018 £'000
Total return before taxation	**35,418**	70,828
Gains on investments	**(31,366)**	(68,428)
Dividends and interest reinvested	**(3,500)**	(2,450)
Share option discharge	**(496)**	–
Movement in provision for subsidiary	**(7)**	(82)
Decrease/(increase) in debtors and accrued income	**847**	(804)
(Decrease)/increase in creditors and accruals	**(887)**	3,105
Cash generated from operations	**9**	2,169

notes to the financial statements

13 analysis of net cash and net debt

net cash

	At 1 February 2018 £'000	Cash flow £'000	Exchange movement £'000	**At 31 January 2019 £'000**
Cash and cash equivalents	10,653	19,928	88	**30,669**

14 financial instruments and risk profile

During the year, the Board has undertaken a review of the risks facing the Company. An explanation of the Company's financial risk management objectives, policies and strategy can be found in the Strategic Report on pages 2 to 20.

The Company's financial instruments comprise its investment portfolio, cash balances, loan stock and trade receivables and trade payables that arise directly from its operations. Note 1 (on pages 50 to 55) sets out the accounting policies, including criteria for recognition and the basis for measurement, applied to significant financial instruments (excluding cash at bank and bank loans) which are carried at fair value. Note 1 also includes the basis on which income and expenses arising from financial assets and liabilities are recognised.

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

(i) market price risk, including currency risk, interest rate risk and other price risk;

(ii) liquidity risk; and

(iii) credit risk

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

(i) market price risk

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

14 financial instruments and risk profile continued

currency risk

The Company's total return and net assets can be materially affected by currency translation movements as a significant proportion of the Company's assets are denominated in currencies other than Sterling, which is the Company's functional currency. It is not the Company's policy to hedge this risk on a continuing basis but the Company may, from time to time, match specific overseas investment with foreign currency borrowings. The Manager seeks, when deemed appropriate, to manage exposure to currency movements on borrowings by using forward foreign currency contracts as a hedge against potential foreign currency movements. At 31 January 2019, the Company had no open forward currency contracts (2018: none).

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

Foreign currency exposure by currency of denomination:

	31 January 2019			31 January 2018		
	Overseas investments £'000	**Net monetary assets £'000**	**Total currency exposure £'000**	Overseas investments £'000	Net monetary assets £'000	Total currency exposure £'000
US Dollar	**141,873**	**2,410**	**144,283**	150,273	4,614	154,887
Euro	**6,981**	**–**	**6,981**	–	–	–
	148,854	**2,410**	**151,264**	150,273	4,614	154,887

Sensitivity analysis is based on the Company's monetary foreign currency financial instruments held at each balance sheet date. If Sterling had moved by 10% against all currencies, with all other variables constant, net assets would have moved by the amounts shown below. The analysis is shown on the same basis for 2018.

	31 January 2019		31 January 2018	
	10% weakening £'000	**10% strengthening £'000**	10% weakening £'000	10% strengthening £'000
US Dollar	**16,031**	**(13,117)**	17,210	(14,081)
Euro	**776**	**(635)**	–	–
	16,807	**(13,752)**	17,210	(14,081)

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

14 financial instruments and risk profile continued

interest rate risk

Interest rate movements may affect;

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

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

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

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

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

other price risk

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

The Company's exposure to price risk comprises mainly movements in the value of the Company's investments. It should be noted that the prices of options tend to be more volatile than the prices of the underlying securities. As at the year-end, the spread of the Company's investment portfolio analysed by sector was as set out on page 6.

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

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

The Company's exposure to other changes in market prices at 31 January 2019 on its quoted and unquoted investments and options on investments was as follows:

	2019	2018
	£'000	£'000
Financial assets at fair value through profit or loss		
– Non current investments at fair value through profit or loss	**500,696**	488,912

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

14 financial instruments and risk profile continued

other price risk continued

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

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

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

The table below shows how the most significant unquoted investments have been valued as at 31 January 2019.

	Method of fair value valuation	2019 fair value GBP £'000	2018 fair value GBP £'000
Harwood Private Equity IV LP	Net Assets	31,569	14,503
Sherwood Holdings – Loan	Cost	17,131	15,165
Performance Chemical Company Ordinary	Valuation Multiple	13,815	12,776
Harwood Leeds Property	Fair Value	9,516	3,584
Coventbridge Group – Loan	Cost	7,604	5,626
Pelsis Holding (Hamsard 3468) – A1 Loan Notes	Cost	2,780	N/A
Pelsis Holding (Hamsard 3468) – A2 Loan Notes	Cost	4,169	N/A
Pelsis Holding (Hamsard 3468) – A4 Ordinary shares	Cost	32	N/A
Trident Private Equity Fund III LP	Net Assets	6,339	16,261
Jaguar Holdings – Preferred	Valuation Multiple	2,167	2,004
Jaguar Holdings – Ordinary	Valuation Multiple	3,042	422
Viking Investments	Cost	4,411	4,411
Utitec Holdings	Cost	3,802	3,516
GAJV Holdings – Ordinary shares	Valuation Multiple	–	215
GAJV Holdings – CD	Cost	1,142	250
GAJV Holdings – Preferred	Cost	404	2,650
WEP Superior Industrial Maintenance Co	Cost	1,521	N/A
Hampton Investment Properties Limited	Cost	995	995
		110,439	93,280

the valuation techniques applied are based on the following assumptions:

Unquoted investments are usually valued by reference to the valuation multiples of similar listed companies or from transactions of similar businesses. Where appropriate discounts are then applied to those comparable multiples to reflect difference in size and liquidity. These enterprise values are then adjusted for net debt to arrive at an equity valuation. Where companies are in compliance with the loan note terms these loans are generally held at par plus accrued interest (where applicable) unless the enterprise value suggests that the debt should be adjusted.

14 financial instruments and risk profile continued

other price risk continued

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

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

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

Performance Chemical Company – Ordinary Shares, Preferred Shares, Loan

The enterprise value is calculated based on an EBITDA multiple of 6.9x. A reduction in the multiple by a factor of 1x would reduce the carrying value of the total investment by US$3.0 million, or -16%. An increase in the multiple by a factor of 1x would increase the value of the total investment by US$3.0 million, or 16%. The preference shares are held at cost.

Coventbridge Group – Loan

The loan is held at par plus accrued interest.

Sherwood Holdings Limited – Loan

The loan is held at par plus accrued interest on a semi-annual basis.

Harwood Leeds Property

The investment has been valued at the equity cost (£9.45m) with the underlying properties valued by an independent valuer (Savills plc) at £17.25m. The valuation of the properties represents fair value taking into consideration the transaction cost, market conditions and the pricing risks. A 5% decrease in the market value of the properties would decrease the investment value by £0.8625m or 9%, once debt is deducted.

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

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

	2019		2018	
	Increase in fair value £'000	**Decrease in fair value £'000**	Increase in fair value £'000	Decrease in fair value £'000
Increase/(decrease) in net assets	**50,070**	**(50,070)**	48,891	(48,891)

14 financial instruments and risk profile continued

(ii) liquidity risk

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

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

The majority of the Company's cash is held in short-term Treasury Bills, which are highly liquid. As a consequence, the Company could access in excess of £91 million based on current exchange rates, within one week.

(iii) credit risk

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

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

	2019 £'000	2018 £'000
financial assets neither past due or impaired		
Fixed income securities	**45,002**	32,832
Preference shares	**4,433**	6,284
Treasury Bills	**90,893**	95,612
Accrued income and other debtors	**19,623**	3,943
Cash and cash equivalents	**30,669**	10,653
	190,620	149,324

The maximum credit exposure of financial assets represents the carrying amount.
There are no financial assets that are past due or impaired.

commitments giving rise to credit risk

There are no commitments giving rise to credit risk as at 31 January 2019.

14 financial instruments and risk profile continued

fair value of financial assets and financial liabilities

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

	31 January 2019 Fair value £'000	31 January 2019 Balance Sheet value £'000	31 January 2018 Fair value £'000	31 January 2018 Balance Sheet value £'000
financial assets				
Financial assets at fair value through profit or loss				
– Non current assets	**500,696**	**500,696**	488,912	488,912
Loans and receivables				
– Cash and cash equivalents	**30,669**	**30,669**	10,653	10,653
	531,365	**531,365**	499,565	499,565

There have been no financial liabilities in the financial year's ending 31 January 2019 and 31 January 2018.

fair values are derived as follows:

– Where assets and liabilities are denominated in a foreign currency, they are converted into Sterling using year-end rates of exchange.

– Non current financial assets (non current and held for trading) – as set out in the accounting policies on pages 50 to 55.

– Cash and cash equivalents, bank overdraft and bank loans – at face value of the account.

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

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

  An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume on an ongoing basis such that quoted prices reflect prices at which an orderly transaction would take place between market participants at the measurement date. Quoted prices provided by external pricing services, brokers and vendors are included in Level 1, if they reflect actual and regularly occurring market transactions on an arms length basis.

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). See note 1e) for details on how the value of level 3 investments are calculated.

14 financial instruments and risk profile continued

fair value of financial assets and financial liabilities continued

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

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

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

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

financial assets at fair value through profit or loss

At 31 January 2019

	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Equity investments	**364,801**	**297,472**	**–**	**67,329**
Fixed interest investments	**135,895**	**90,893**	**–**	**45,002**
Total	**500,696**	**388,365**	**–**	**112,331**

At 31 January 2018

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

14 financial instruments and risk profile continued

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

level 3 financial assets at fair value through profit or loss
group and company

At 31 January 2019

	Total £'000	Equity investments £'000	Fixed interest investments £'000
Opening Balance	95,403	62,571	32,832
Purchases	34,828	11,808	23,020
Sales	(29,847)	(13,414)	(16,433)
Transfer†	–	(3,584)	3,584
Total gains/(losses) included in gains on investments in the Statement of Comprehensive Income:			
– on assets sold	13,155	12,045	1,110
– on assets held at the end of the year	(1,208)	(2,097)	889
Closing balance	**112,331**	**67,329**	**45,002**

†Harwood Private Equity became a loan during the year.

capital management policies and procedures

The Company's capital management objectives are:

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

The Company's capital at 31 January comprises:

	2019 £'000	2018 £'000
Debt	–	–
Equity		
Equity share capital	716	721
Retained earnings and other reserves	530,709	498,702
	531,425	499,423
Debt as a % of net assets	**0.0%**	0.0%

14 financial instruments and risk profile continued

capital management policies and procedures

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

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

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

15 related party transactions

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

	Services	Fees
Oryx International Growth Fund Limited	Investment Advisory	£1,688,648
Trident Private Equity III LP	Investment Advisory	£200,348
Harwood Private Equity IV LP	Investment Advisory	£3,050,000

The amounts payable to the Manager are disclosed in note 3. The relationships between the Company, its Directors and the Manager are disclosed in the Report of the Directors on pages 22 to 27.

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

15 related party transactions continued

disclosure of interests

Christopher Mills is also a director of the following companies in which the Company has an investment or may have had in the year and/or from which he may receive fees or hold shares: AssetCo plc, Augean plc, Bigblu Broadbank plc, Bioquell plc, Curtis Gilmour Holding Company, Goals Soccer Centres plc, M J Gleeson Group plc, Oryx, Pelsis/Hamsard, Renalytix AI Plc, Sunlink Health Systems Inc and Ten Entertainment Group plc. Employees of the Manager may hold options over shares in investee companies. A total of £306,200 in directors fees was received by Christopher Mills during the year under review.

No formal arrangements exist to avoid double charging on investments held by the Company which are also managed or advised by Christopher Mills (Chief Executive) and/or Harwood Capital LLP. Members and certain private clients of Harwood Capital LLP, and its associates (excluding Christopher Mills and his family) hold 73,343 shares in the Company (2018: 40,843).

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

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

transactions with other companies

The Company owns 100% of the £1 Ordinary Shares in CVF, and as at 31 January 2019 amounts due from CVF were £nil (2018: £nil).

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

directors and advisers

Directors
Peregrine Moncreiffe (Chairman)
Christopher Mills (Chief Executive)
Lord Howard of Rising
G Walter Loewenbaum
Sir Charles Wake

Manager
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Registrars
Link Asset Services
34 Beckenham Road
Beckenham
Kent BR3 4TU

Auditors
KPMG LLP
15 Canada Square
London E14 5GL

Company Secretary
Derringtons Limited
Hyde Park House
5 Manfred Road
London SW15 2RS

advance notice of annual general meeting date

The Annual General Meeting of North Atlantic Smaller Companies Investment Trust plc will be held on 25 June 2019, at midday at 6 Stratton Street, Mayfair, London W1J 8LD and formal notice will be despatched to shareholders separately.

shareholder information

financial calendar	Announcement of results and Annual Report	May
	Annual General Meeting	June
	Half-Yearly results and report	September
	Half-Yearly report posted	September

share price

The Company's share price can be found on:

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 Harwood Capital LLP website : www.harwoodcapital.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 Link Asset Services. In the event of any queries regarding your holding of shares, please contact the registrars on: 0871 664 0300, or by email on enquiries@linkgroup.co.uk

Changes of name or address must be notified to the registrars in writing at:

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

notes

Front Cover: Nelson Forcing the Passage of the Sound, 30 March 1801, prior to the Battle of Copenhagen
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