

FOUNDED
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THE INVESTMENT COMPANY PLC

REGISTERED No. 4205
ENGLAND AND WALES

Half-Yearly Report

for the six months ended 31 December 2015

CORPORATE SUMMARY

Investment Objective

The Company's investment objective is to provide shareholders with an attractive level of dividends coupled with capital growth over the long term, through investment in a portfolio of equities, preference shares, loan stocks, debentures and convertibles.

Summary of Investment Policy

The Company invests primarily in the equity securities of quoted UK companies with a wide range of market capitalisations many of which are, or are expected to be, dividend paying, with anticipated dividend growth in the long term. The Company will also make investments in preference shares, loan stocks, debentures, convertibles and related instruments of quoted UK companies.

Risk diversification

Portfolio risk is mitigated by investing in a diversified spread of investments. Investments in any one company shall not, at the time of acquisition, exceed 15% of the value of the Company's investment portfolio. In the long term, it is expected that the Company's investments will generally be a portfolio of between 40 and 60 securities, most of which will represent individually no more than 3% of the value of the Company's total investment portfolio, as at the time of acquisition.

Unquoted investments

The Company may invest in unquoted companies from time to time subject to prior Board approval.

Investments in unquoted companies in aggregate will not exceed 5% of the value of the Company's investment portfolio as at the time of investment.

Borrowing and gearing policy

The Company may use gearing, including bank borrowings and the use of derivative instruments such as contracts for differences. The Company may borrow up to 15% of net asset value ("NAV").

Investment strategy

The Manager uses a bottom-up investment approach for the portfolio, with a diversified portfolio of securities of various market capitalisation sizes. There will be a bias towards dividend paying smaller companies.

The investment approach can be described as active and universal, as the Company will not seek to replicate any benchmark. Potential investments are assessed against the key criteria including, inter alia, their yield, growth prospects, market positions, calibre of management and risk and cash resources.

A copy of the complete investment policy can be found in the Company's Annual Report and Accounts for the year ended 30 June 2015.

Dividend Policy

The dividend policy has been adjusted to make it more sustainable, taking the dividend in the first year after reorganisation, being the year ended 30 June 2014, which amounted to 20.7p and seeking to gradually grow it going forward. Any growth in the dividend beyond 20.7p will be reflected in the quantum of the fourth interim dividend.

CORPORATE SUMMARY

continued

Capital Structure

As at 31 December 2015, and the date of this report, the Company has in issue 4,772,049 ordinary shares of 50p each, of which 32,500 shares are held in treasury. In addition, there are 1,717,565 fixed rate preference shares of 50p in issue, all of which are held by a wholly owned subsidiary of the Company.

At general meetings of the Company, holders of ordinary shares are entitled to one vote on a show of hands and on a poll, to one vote for every share held. Fixed rate preference shares are non-voting.

Total Assets and Net Asset Value

The Group had total assets of £17.9 million and a NAV of 377.8p per ordinary share at 31 December 2015.

Website

Further detail is available from www.mitongroup.com/tic.

The Company has a Manager with a distinctive philosophy

- Miton is an independent fund management company quoted on AIM with an extensive shareholder base of major institutions and a particularly robust balance sheet.
- Miton is distinctive from most other fund managers in that many of its funds do not use traditional benchmarks since they can bring unintentional risks that can impede the day-to-day managers' ability to maximise absolute return in unsettled markets.
- Through anticipating post-credit boom trends, Miton proposes investment strategies that are set up with forthcoming trends in mind, rather than slavishly following the consensus.
- Many of Miton's funds have greater scope to manage volatility more closely than others, with an aim better to sustain its clients' assets through market cycles.

Miton asks more of its managers

Miton believes that able fund managers are better placed to deliver for clients if they have wide ranging flexibility. Limiting the investment universe to a short list of benchmark stocks can be demotivating since the risk/reward ratio of the portfolio could be constrained unnecessarily. The best managers can take advantage of this wider flexibility better to moderate portfolio risk, as well as enhancing their clients' returns through selecting the best from a wider range of potential investments.

In addition, Miton also places great emphasis on its fund managers doing their own analysis, since it believes this ensures that they have greater conviction in subsequent investment decisions, and are less vulnerable to becoming panicky sellers when a share price moves adversely.

Details of the Manager

Miton has a team of five fund managers researching the full universe of quoted UK stocks. These include George Godber and Georgina Hamilton, who principally seek stocks which are intrinsically cheap with regard to their tangible assets, or where the scale of the underlying cash flow is underappreciated. Eric Moore principally concentrates on identifying mid and larger companies which have the best opportunities to grow their dividends over time.

CORPORATE SUMMARY

continued

The day-to-day management of the portfolio is carried out by Gervais Williams and Martin Turner, who research all quoted companies, but have a particular focus on many of the smaller quoted stocks.

Gervais Williams

Gervais joined Miton in March 2011 as Managing Director of the group. He has been an equity portfolio manager since 1985, including 17 years as Head of UK Smaller Companies and Irish Equities at Gartmore. He won the Grant Thornton Investor of the Year Award in 2009 and 2010, and was awarded Fund Manager of the Year 2014 by What Investment? last year.

Martin Turner

Martin joined Miton in May 2011. Martin and Gervais have had a close working relationship since 2004, and their complementary expertise and skills led to a series of successful companies being backed. Martin qualified as a Chartered Accountant with Arthur Andersen and also has extensive experience at Rothschild, Merrill Lynch and Collins Stewart, where as Head of Small/Mid Cap Equities his role covered their research, sales and trading activities.

SUMMARY OF RESULTS

	At 31 December 2015 (unaudited)	At 30 June 2015 (audited)	Change
Equity shareholders' funds	17,906,923	18,452,970	−3.0%
Number of ordinary shares in issue*	4,739,549	4,739,549	0.0%
Net asset value per ordinary share	377.82p	389.34p	−3.0%
Ordinary share price (mid)	385.00p	375.00p	+2.7%
Premium/(discount) to net asset value	1.90%	(3.82)%	

* Excluding shares held in treasury

	6 months to 31 December 2015 (unaudited)	12 months to 30 June 2015 (audited)
Total return per ordinary share**	0.58p	16.91p
Return after taxation per ordinary share	(0.78)p	17.62p
Dividends paid per ordinary share	10.00p	23.60p

** The total return per ordinary share is based on total comprehensive income as detailed in the Consolidated Statement of Comprehensive Income.

FINANCIAL CALENDAR

February	Payment of second interim dividend for the year ending 30 June 2016.
February/March	Announcement of Half-Yearly Financial Report.
May	Payment of third interim dividend for the year ending 30 June 2016.
August	Payment of fourth interim dividend for the year ending 30 June 2016.
September/October	Announcement of Annual Results.
November	Payment of first interim dividend for the year ending 30 June 2017.
December	Annual General Meeting.

CHAIRMAN'S STATEMENT

Half-year to 31 December 2015

This statement covers the half year ended 31 December 2015.

Equity markets have been volatile over the half year, with the FTSE All-Share Index falling 3.5%. The market returns on UK Gilts remained modest too, with the FTSE Actuaries UK Conventional Gilts All Stocks ("FTSE UK Gilts") Index up only 0.25% in the half year. Quoted smaller companies' returns were more resilient than mainstream stocks, with the FTSE SmallCap (excluding Investment Trusts) Index down 0.3% and the FTSE AIM All-Share Index 2.2% lower. The NAV of the Company fell from 389.34p to 377.82p, which is a reduction of 3.0% in the half year. (All figures have been stated in capital gain terms, excluding dividend income over the six month period.)

At the Annual General Meeting in December 2015, Resolution 8 (Disapplication of Pre-emption Rights) was stated in error within the Notice of Annual General Meeting as an ordinary resolution, when in fact it should have been proposed as a special resolution. Despite sufficient shareholder support, the result of this resolution would have been invalid if it had been proposed and as such it was withdrawn. To remedy this, the Company held a General Meeting (at no cost to the Company) on 28 January 2016 where the resolution was passed on a show of hands. The Company is therefore in a position to issue further stock to new investors to build up its scale.

The Company invests in both large and smaller quoted companies, but a key area of difference is the fact that the Manager can choose between holding either ordinary equity or the fixed income securities of these businesses. The mix of these assets means that the NAV of the Company has been notably less volatile than equity markets over recent quarters.

The potentially lower NAV volatility of the Company, together with the attractive level of yield via four dividends annually, is likely to be of increasing interest to investors and drive the future growth of the Company.

Sir David Thomson

Chairman

9 February 2016

MANAGER'S REPORT

Markets

Equity markets have been volatile during 2015 and over the six month period under review the FTSE All-Share Index fell 3.5%. Often, bonds tend to rise at times when equity markets are unsettled but, with government bond yields already being so low, bond prices hardly moved in the period. The FTSE UK Gilts Index rose just 0.25% in the half year.

Although mainstream equity markets have been unsettled around the world, many of the smallest stocks have held up rather better in the period. Being small often means being more vibrant and, at a time when world growth has become subdued, this factor has become more important to investors. This explains in part why the FTSE SmallCap (excluding Investment Trusts) Index fell only 0.3% and the FTSE AIM All-Share Index was down only 2.2% in the six months to December 2015.

Portfolio

Approximately half of the portfolio is invested in a range of preference shares, loan stocks, debentures and notes. Although our largest single investment is the Phoenix Life 7.25% perpetual note, there are over 40 issues from different corporates in the portfolio. It is difficult to purchase more of these issues because there are almost no significant sellers in the market given their obvious yield attractions.

The other half of the portfolio is invested in a number of equities, mainly smaller quoted companies that are often paying premium dividend yields. Small companies tend to have greater growth potential and, as world growth has moderated, this is becoming more important to investors. Most institutions have very few smaller companies in their portfolios given they are, by their nature, naturally diminutive in scale and under-researched. But prior to the credit boom, institutional portfolios were fully weighted in smaller companies, given that as a group they tend to have better growth potential even at times of economic austerity. We are now seeing early evidence that institutions are once again increasing their holdings of smaller quoted equities given their current light weightings.

We therefore anticipate that the growing allocation of capital will be matched by a growing flow of smaller company fund raisings, and also extra convertible loan stock and convertible preference share issues in time. These instruments offer the new investor a regular income at a premium yield, along with the right to convert into the quoted shares if the relevant share price appreciates significantly. Such issues have been relatively rare over recent years but were more popular prior to the credit boom. We have been reviewing an increasing number of such issues over the last eighteen months. In the period under review, the Company invested in a Convertible Loan Stock issued by Gable Holdings, an insurance underwriter that has grown rapidly but became short of risk capital after two larger claims against their immature insurance reserves. The portfolio already had a holding in the Gable equity. The Convertible Loan Stock has an 8% yield and is convertible into Gable equity at a depressed share price that had fallen on their trading setback. Convertible issues like this have an attractive risk/reward ratio in our view.

The holding in Quantum Pharmaceutical was sold at a reasonable profit in the period and some other holdings were trimmed. A new holding was purchased in Phoenix Holdings after some of our other insurance holdings had exited the portfolio on takeovers and an investment was made in Hostelworld, a promising internet business that helps customers book hostel rooms around the world.

MANAGER'S REPORT

continued

Criteria for selecting new investments for the portfolio

There are five criteria that the managers use to determine the scope for the business to deliver good and growing dividends in the longer term:

The prospect of turnover growth – If a business is to sustain and grow its dividend, then the portfolio needs to invest in companies that will generate more cash in the coming years. Without decent turnover growth this is near-impossible to achieve over time.

Sustained or improving margins – A business needs to deliver significant value to its customer base if it is to sustain decent margins. Unexpected cost increases cannot be charged on to customers if they are anything less than delighted with their suppliers. Turnover growth will not lead to improved cash generation if declining margins offset it.

A forward-looking management team – Businesses often need to make commercial decisions on incomplete information. A thoughtful and forward-looking team has a better chance of making better decisions.

Robust balance sheet – There are disproportionate advantages to having the independence of a strong balance sheet in a period of elevated economic and political risks. Conversely, corporates with imprudent borrowings can risk the total loss of shareholders' capital.

Low expectation valuation – Many of the most exciting stocks enjoy higher stock market valuations but almost none can consistently beat the high expectations baked into their share prices. Those with low expectations tend to be less vulnerable to disappointment, but conversely can enjoy excellent share price rises if they surprise on the upside.

Companies that best meet these criteria on a prospective basis are believed to be best positioned to deliver attractive returns to shareholders, as well as offering moderated risk.

These criteria, used in reverse, can also be useful in determining the timing of portfolio holdings that should be considered for divestment. So for example, a business in danger of suffering turnover declines would naturally be expected to generate less cash flow in future years and thereby struggle to sustain a good dividend payment over time, let alone grow it. Clearly these decisions need to be taken in conjunction with consideration of their market prices at the time.

Performance

Over the half year most of the fixed income holdings have hardly changed in price, in spite of sizeable equity market fluctuations. However, the share prices of companies that suffered setbacks were particularly vulnerable. For example, the price of Gable Holdings fell back sharply given their unexpected need for additional capital early in the period. In addition, holdings in Entu and Juridica also disappointed in the period and this resulted in their share prices falling back substantially. These were offset to a degree by the 20%+ rises of the holdings in Charles Taylor, Safestyle UK, KCOM Group, Direct Line Group and Hiscox. Overall, the NAV of the Company fell 3.0% in the six month period, with the appreciation of some holdings being more than offset by the falls of others. Greater detail of the portfolio at the half year is outlined on pages 9 and 10 of this report.

MANAGER'S REPORT

continued

Prospects

Although world growth has moderated, we believe there are still encouraging prospects for some income growth from many of the equities in the portfolio. In addition, the very low yields currently on most Government Bonds should lead to the prices of both high yielding fixed income securities and higher yielding equities generally remaining relatively firm in the current markets. So whilst it is anticipated that the economic headwinds could inhibit the appreciation of markets generally, we are hopeful that a portfolio with good participation in both the ordinary shares of smaller quoted businesses and those paying a fixed level of premium income will be more resilient and will generate an element of capital gain over time.

During the period, the Company continued to hold the FTSE 100 Put option which was purchased last year as a means to preserve capital in the event of a market sell-off. Subsequent to year end, some of the value of the Put option was crystallised as market levels fell.

We believe the outlook for the Company remains favourable.

Gervais Williams and Martin Turner

Miton Asset Management Limited

9 February 2016

TWENTY LARGEST INVESTMENTS

At 31 December 2015

Stock	Number	Issue %	Book cost £	Market valuation £	% of total portfolio
1. Lloyds Banking Group					
7.625% Perpetual (LBG Capital)	478,000	0.03	204,360	500,418	
7.281% Perpetual (Bank of Scotland)	400,000	0.27	315,331	469,640	
7.875% Perpetual (LBG Capital)	362,000	0.05	245,997	382,815	
7.5884% ECN 12/05/20 (LBG Capital)	300,000	0.04	<u>136,323</u>	<u>304,440</u>	
			902,011	1,657,313	9.59
2. Phoenix Life					
7.25% Perpetual	1,060,000	0.53	811,923	1,115,862	6.45
3. Royal Bank of Scotland Group					
9% series 'A' non-cum pref (NatWest)	500,000	0.36	362,920	685,000	
Sponsored ADR each rep pref C (NatWest)	20,000	0.20	<u>55,473</u>	<u>351,313</u>	
			418,393	1,036,313	5.99
4. Charles Taylor					
Ordinary 1p [§]	328,571	0.49	572,000	854,285	4.94
5. Manx Telecom					
Ordinary 0.2p [§]	274,274	0.24	409,235	570,490	3.30
6. Aviva					
Ordinary 25p [§]	107,878	0.00	476,285	556,650	3.22
7. Fairpoint Group					
Ordinary 1p [§]	400,000	0.88	442,261	540,000	3.12
8. Newcastle Building Society					
6.625% sub notes 23/12/19	600,000	2.40	405,438	540,000	3.12
9. Fishguard & Rosslare					
3.5% Preference Stock	790,999	60.68	441,810	529,969	3.07
10. Safestyle UK					
Ordinary 1p [§]	206,856	0.26	206,856	522,311	3.02
11. Esure Group					
Ordinary 0.08333p [§]	201,217	0.05	545,776	509,481	2.95
12. 600 Group					
8% Convertible Loan Notes 14/02/20	500,000	5.88	500,000	500,000	2.89
13. KCOM Group					
Ordinary 10p [§]	413,519	0.08	407,699	477,614	2.76

TWENTY LARGEST INVESTMENTS

At 31 December 2015 continued

Stock	Number	Issue %	Book cost £	Market valuation £	% of total portfolio
14. Direct Line Group					
Ordinary 10.909p [§]	105,621	0.01	354,049	430,406	2.49
15. Investec Investment Trust					
3.5% cum pref £1	461,508	35.50	271,938	295,365	
5% cum pref £1	104,043	30.12	<u>92,858</u>	<u>93,639</u>	
			364,796	389,004	2.25
16. Conygar Investment Company					
Ordinary 5p [§]	220,478	0.27	279,653	377,017	2.18
17. Amalgamated Metal Corporation					
5.4% cum pref £1	256,065	18.21	144,049	189,488	
6% cum pref £1	213,510	23.72	<u>103,844</u>	<u>172,943</u>	
			247,893	362,431	2.10
18. REA Holdings					
9.5% Loan Notes 31/12/17	300,000	2.00	298,254	291,000	
7.5% US Dollar Loan Notes 30/06/17	150,000	0.44	<u>76,740</u>	<u>71,240</u>	
			374,994	362,240	2.10
19. Randall & Quilter Investment Holdings					
Ordinary 2p [§]	387,000	0.54	470,223	359,910	2.08
20. Hiscox					
Ordinary 6.5p [§]	34,146	0.01	<u>283,257</u>	<u>359,899</u>	<u>2.08</u>
			<u>8,914,552</u>	<u>12,051,195</u>	<u>69.70</u>

§ Issues with unrestricted voting rights.

The Group has a total of 76 portfolio investment holdings in 61 companies.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2015

		6 months to 31 December 2015 (unaudited)			6 months to 31 December 2014 (unaudited)			Year ended 30 June 2015 (audited)		
	Notes	Revenue £	Capital £	Total £	Revenue £	Capital £	Total £	Revenue £	Capital £	Total £
Realised gains/(losses) on investments		–	129,097	129,097	–	(1,922,345)	(1,922,345)	–	(596,101)	(596,101)
Unrealised losses on investments held at fair value through profit or loss		–	(362,029)	(362,029)	–	(419,172)	(419,172)	–	(863,664)	(863,664)
Movement in impairment provision on investments held as available for sale		–	(45,585)	(45,585)	–	1,780,314	1,780,314	–	1,530,422	1,530,422
Exchange gains on capital items		–	388	388	–	5,748	5,748	–	2,934	2,934
Investment income		473,739	–	473,739	647,801	–	647,801	1,248,030	–	1,248,030
Investment management fee		(70,499)	–	(70,499)	(71,559)	–	(71,559)	(163,607)	–	(163,607)
Other administrative expenses		(161,389)	–	(161,389)	(164,531)	–	(164,531)	(309,824)	–	(309,824)
Return before finance costs and taxation		241,851	(278,129)	(36,278)	411,711	(555,455)	(143,744)	774,599	73,591	848,190
Finance costs										
Loan note interest		–	–	–	(9,218)	–	(9,218)	(12,474)	–	(12,474)
Return before taxation		241,851	(278,129)	(36,278)	402,493	(555,455)	(152,962)	762,125	73,591	835,716
Taxation		(551)	–	(551)	(486)	–	(486)	(486)	–	(486)
Return after taxation		241,300	(278,129)	(36,829)	402,007	(555,455)	(153,448)	761,639	73,591	835,230
Other comprehensive income										
Movement in unrealised appreciation on investments held as available for sale		–	64,267	64,267	–	385,779	385,779	–	282,377	282,377
Recognised in equity		–	–	–	–	(11,429)	(11,429)	–	(316,308)	(316,308)
Recognised in return after taxation		–	–	–	–	–	–	–	–	–
Other comprehensive income after taxation		–	64,267	64,267	–	374,350	374,350	–	(33,931)	(33,931)
Total comprehensive income after taxation		241,300	(213,862)	27,438	402,007	(181,105)	220,902	761,639	39,660	801,299
Return after taxation per 50p ordinary share										
Basic and diluted	5	5.09p	(5.87)p	(0.78)p	8.48p	(11.72)p	(3.24)p	16.07p	1.55p	17.62p
Return on total comprehensive income per 50p ordinary share										
Basic and diluted	5	5.09p	(4.51)p	0.58p	8.48p	(3.82)p	4.66p	16.07p	0.84p	16.91p

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

All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued during the period.

The notes on pages 15 to 19 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2015

	Issued capital £	Share premium £	Capital redemption reserve £	Revaluation reserve £	Capital reserve £	Revenue reserve £	Total £
Balance at 1 July 2015*	2,386,025	4,453,903	2,408,820	2,340,947	6,858,154	5,121	18,452,970
Total comprehensive income							
Net return for the period	–	–	–	–	(278,129)	241,300	(36,829)
Movement in unrealised appreciation on investments held as available for sale:							
– Recognised in equity	–	–	–	64,267	–	–	64,267
– Recognised in return after taxation	–	–	–	–	–	–	–
Transactions with shareholders recorded directly to equity							
Ordinary dividends paid	–	–	–	–	–	(573,485)	(573,485)
Balance at 31 December 2015	<u>2,386,025</u>	<u>4,453,903</u>	<u>2,408,820</u>	<u>2,405,214</u>	<u>6,580,025</u>	<u>(327,064)</u>	<u>17,906,923</u>
Balance at 1 July 2014*	2,386,025	4,453,903	2,408,820	2,374,878	6,784,563	285,104	18,693,293
Total comprehensive income							
Net return for the period	–	–	–	–	(555,455)	402,007	(153,448)
Movement in unrealised appreciation on investments held as available for sale:							
– Recognised in equity	–	–	–	385,779	–	–	385,779
– Recognised in return after taxation	–	–	–	(11,429)	–	–	(11,429)
Transactions with shareholders recorded directly to equity							
Ordinary dividends paid	–	–	–	–	–	(531,777)	(531,777)
Unclaimed ordinary dividends written back	–	–	–	–	–	11,506	11,506
Balance at 31 December 2014	<u>2,386,025</u>	<u>4,453,903</u>	<u>2,408,820</u>	<u>2,749,228</u>	<u>6,229,108</u>	<u>166,840</u>	<u>18,393,924</u>
Balance at 1 July 2014*	2,386,025	4,453,903	2,408,820	2,374,878	6,784,563	285,104	18,693,293
Total comprehensive income							
Net return for the period	–	–	–	–	73,591	761,639	835,230
Movement in unrealised appreciation on investments held as available for sale:							
– Recognised in equity	–	–	–	282,377	–	–	282,377
– Recognised in return after taxation	–	–	–	(316,308)	–	–	(316,308)
Transactions with shareholders recorded directly to equity							
Ordinary dividends paid	–	–	–	–	–	(1,053,128)	(1,053,128)
Unclaimed ordinary dividends written back	–	–	–	–	–	11,506	11,506
Balance at 30 June 2015*	<u>2,386,025</u>	<u>4,453,903</u>	<u>2,408,820</u>	<u>2,340,947</u>	<u>6,858,154</u>	<u>5,121</u>	<u>18,452,970</u>

* Audited.

CONSOLIDATED BALANCE SHEET

As at 31 December 2015

	Note	31 December 2015 (unaudited) £	31 December 2014 (unaudited) £	30 June 2015 (audited) £
Non-current assets				
Investments		17,288,218	16,916,824	17,820,229
Current assets				
Trade and other receivables		172,304	280,143	308,741
Investments held for trading		1,933	1,569	1,662
Cash and bank balances		607,284	1,770,227	512,856
		<u>781,521</u>	<u>2,051,939</u>	<u>823,259</u>
Current liabilities				
Trade and other payables		162,816	209,139	190,518
5% loan notes maturing 2015		—	365,700	—
		<u>162,816</u>	<u>574,839</u>	<u>190,518</u>
Net current assets		<u>618,705</u>	<u>1,477,100</u>	<u>632,741</u>
Net assets		<u>17,906,923</u>	<u>18,393,924</u>	<u>18,452,970</u>
Capital and reserves				
Issued capital		2,386,025	2,386,025	2,386,025
Share premium		4,453,903	4,453,903	4,453,903
Capital redemption reserve		2,408,820	2,408,820	2,408,820
Revaluation reserve		2,405,214	2,749,228	2,340,947
Capital reserve		6,580,025	6,229,108	6,858,154
Revenue reserve		(327,064)	166,840	5,121
Shareholders' funds		<u>17,906,923</u>	<u>18,393,924</u>	<u>18,452,970</u>
Net asset value per 50p ordinary share	6	<u>377.82p</u>	<u>388.09p</u>	<u>389.34p</u>

The notes on pages 15 to 19 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December 2015

	6 months to 31 December 2015 (unaudited) £	6 months to 31 December 2014 (unaudited) £	Year ended 30 June 2015 (audited) £
Cash flows from operating activities			
Cash received from investments	491,850	469,662	1,145,391
Interest received	–	17	154
Sundry income	–	70,748	72,274
Investment management fees paid	(76,377)	(182,068)	(265,255)
Cash paid to and on behalf of employees	(17,934)	(17,616)	(35,466)
Other cash payments	(165,224)	(197,430)	(310,345)
Withholding tax paid	(551)	(486)	(486)
Net cash inflow from operating activities	231,764	142,827	606,267
Cash flows from financing activities			
Loan note interest paid	–	(9,168)	(17,033)
Loan notes redeemed	–	–	(365,700)
Dividends paid on ordinary shares	(573,485)	(531,777)	(1,053,128)
Unclaimed dividends written back	–	11,506	–
Net cash outflow from financing activities	(573,485)	(529,439)	(1,435,861)
Cash flows from investing activities			
Purchase of investments	(852,977)	(527,933)	(3,152,010)
Sale of investments	1,288,738	924,709	2,737,210
Net cash inflow/(outflow) from investing activities	435,761	396,776	(414,800)
Net increase/(decrease) in cash and cash equivalents	94,040	10,164	(1,244,394)
Reconciliation of net cash flow to movement in net cash			
Increase/(decrease) in cash	94,040	10,164	(1,244,394)
Exchange rate movements	388	5,748	2,935
Loan notes redeemed	–	–	365,700
Increase/(decrease) in net cash	94,428	15,912	(875,759)
Net cash at start of period	512,856	1,388,615	1,388,615
Net cash at end of period	607,284	1,404,527	512,856
Analysis of net cash			
Cash and bank balances	607,284	1,770,227	512,856
5% loan notes due within one year	–	(365,700)	–
	607,284	1,404,527	512,856

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Financial information

The Investment Company plc is a public limited company incorporated and registered in England and Wales.

The consolidated financial statements, which comprise the unaudited results of the Company and its wholly owned subsidiaries, Abport Limited and New Centurion Trust Limited, together referred to as the “Group”, for the half year to 31 December 2015, have been prepared under the historical cost basis, except for the measurement at fair value of investments, and in accordance with IFRS, as adopted by the European Union.

Where guidance set out in the AIC SORP is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

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

The financial information contained in this half-yearly financial report does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The financial information for the half years ended 31 December 2015 and 31 December 2014 has been neither audited nor reviewed by the auditors.

The figures and financial information for the year ended 30 June 2015 are extracted from the latest published audited financial statements of the Company and do not constitute the statutory accounts for that year. The audited financial statements for the year ended 30 June 2015 have been filed with the Registrar of Companies. The report of the independent auditors on those accounts contained no qualification or statement under section 498(2) or section 498(3) of the Companies Act 2006.

Except as described below, the Group has applied consistent accounting policies in preparing the half-yearly financial statements for the six months ended 31 December 2015, the comparative information for the six months ended 31 December 2014 and the financial statements for the year ended 30 June 2015.

The Directors consider that it is appropriate to adopt the going concern basis in preparing the financial statements. Cash flow projections have been reviewed and show that the Company has sufficient funds to meet both its contracted expenditure and its discretionary cash outflows in the form of the dividend policy. After making enquiries, and bearing in mind the nature of the Company’s business and assets, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. In arriving at this conclusion, the Directors have considered the liquidity of the portfolio and the Company’s ability to meet obligations as they fall due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

2. Accounting policies

The Company seeks to conduct its affairs in a manner consistent with continuing to receive approval from HM Revenue & Customs as an investment trust under s1158/1159 of the Corporation Tax Act 2010. The Company's policies set out in note 1 of the Annual Report and Financial Statements for the year ended 30 June 2015 have remained substantially unchanged except for the following:

a) Valuation of investments

Investments are recognised and derecognised on the trade date where a purchase or sale is under a contract whose terms require delivery within the timeframe established by the market concerned, and are initially measured at fair value.

All investments held by the Company are classified as at "fair value through profit or loss". Investments are initially recognised at cost, being the fair value of the consideration given. After initial recognition, investments are measured at fair value, with unrealised gains and losses on investments and impairment of investments recognised in the Consolidated Statement of Comprehensive Income and allocated to capital.

For investments actively traded in organised financial markets, fair value is generally determined by reference to quoted market bid prices or closing prices for SETS (London Stock Exchange's electronic trading service) stocks sourced from the London Stock Exchange on the Balance Sheet date, without adjustment for transaction costs necessary to realise the asset.

After initial recognition, unlisted stocks are reviewed and valued by the Board on a regular basis.

b) Reserves

Capital reserve

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- net movement arising from changes in the fair value of investments that can be readily converted to cash without accepting adverse terms;
- net movement from changes in the fair value of derivative financial instruments; and
- expenses, together with related taxation effect, charged to this account in accordance with the above policies.

Revaluation reserve

The revaluation reserve represents the accumulated unrealised gains on the Company's available-for-sale investments. Following investment trust status being granted to the Company, and in order better to reflect the requirements of investment companies in accordance with the AIC SORP, all such movements in unrealised gains and losses will be accounted for in the capital reserve as described above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3. Management fee

Under the terms of the Management Agreement, the Manager is entitled to receive from the Company or any member of the Group in respect of its services provided under this Agreement, a management fee payable monthly in arrears equal to one-twelfth of 1% per calendar month of the NAV of the Company. For these purposes, the NAV shall be calculated as at the last Business Day of each month and is subject to the ongoing charges ratio of the Company not exceeding 2.5% per annum in respect of any completed financial year.

4. Dividends

	6 months to 31 December 2015 (unaudited) £	6 months to 31 December 2014 (unaudited) £	Year ended 30 June 2015 (audited) £
Ordinary shares			
Prior year interim dividend of 5.72p paid on 22 August 2014	—	271,102	271,102
Prior year interim dividend of 5.50p paid on 21 November 2014	—	260,675	260,676
Prior year interim dividend of 5.50p paid on 20 February 2015	—	—	260,675
Prior year interim dividend of 5.50p paid on 22 May 2015	—	—	260,675
Prior year interim dividend of 7.10p paid on 21 August 2015	336,508	—	—
Current year first interim dividend of 5.00p paid on 20 November 2015	236,977	—	—
Total dividends	<u>573,485</u>	<u>531,777</u>	<u>1,053,128</u>

The Board has declared a second interim dividend of 5.00p per ordinary share, which is due to be paid on 19 February 2016 to shareholders registered at the close of business on 29 January 2016. This dividend has not been included as a liability in these financial statements.

5. Return per ordinary share

	6 months to 31 December 2015 (unaudited)		6 months to 31 December 2014 (unaudited)		Year ended 30 June 2015 (audited)	
Weighted average number of ordinary shares in issue	<u>4,739,549</u>		<u>4,739,549</u>		<u>4,739,549</u>	
	£	Per share pence	£	Per share pence	£	Per share pence
Revenue return						
Net return after taxation attributable to ordinary shareholders	241,300	5.09	402,007	8.48	761,639	16.07
Capital return						
Net investment (losses)/gains after tax	(278,129)	(5.87)	(555,455)	(11.72)	73,591	1.55
Total return	<u>(36,829)</u>	<u>(0.78)</u>	<u>(153,448)</u>	<u>(3.24)</u>	<u>835,230</u>	<u>17.62</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

6. Net asset value per ordinary share

Net asset value per ordinary share is based on net assets at the period end and 4,739,549 (31 December 2014: 4,739,549 and 30 June 2015: 4,739,549) ordinary shares, being in each case the number of ordinary shares in issue at the period end less 32,500 shares held in treasury.

7. Principal risks and uncertainties

The principal risks facing the Group are unchanged since the date of the Annual Report for the year ended 30 June 2015 and continue to be as set out in that report. Risks faced by the Group include, but are not limited to, investment decisions, investment valuations and macro-economic environment for preference shares and prior charge securities, market price risk, interest rate risk and liquidity risk.

8. Fair value hierarchy

IFRS 13 requires classification of financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair values.

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset as follows:

Level 1 – valued using quoted prices, unadjusted in active markets for identical assets and liabilities.

Level 2 – valued by reference to valuation techniques using observable inputs for the asset or liability other than quoted prices included in Level 1.

Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data or the asset or liability.

The table below sets out fair value measurement of financial instruments as at 31 December 2015, by the level in the fair value hierarchy into which the fair value measurement is categorised.

At 31 December 2015 (unaudited)	Level 1 £	Level 2 £	Level 3 £	Total £
Fixed asset investments held by the Company	12,409,715	398,883	4,479,620	17,288,218
Current asset investments held by a trading subsidiary	1,933	–	–	1,933
	<u>12,411,648</u>	<u>398,883</u>	<u>4,479,620</u>	<u>17,290,151</u>

At 31 December 2014 (unaudited)	Level 1 £	Level 2 £	Level 3 £	Total £
Fixed asset investments held by the Company	12,165,301	379,508	4,372,015	16,916,824
Current asset investments held by a trading subsidiary	1,569	–	–	1,569
	<u>12,166,870</u>	<u>379,508</u>	<u>4,372,015</u>	<u>16,918,393</u>

At 30 June 2015 (audited)	Level 1 £	Level 2 £	Level 3 £	Total £
Fixed asset investments held by the Company	12,648,728	398,853	4,772,648	17,820,229
Current asset investments held by a trading subsidiary	1,662	–	–	1,662
	<u>12,650,390</u>	<u>398,853</u>	<u>4,772,648</u>	<u>17,821,891</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

Where significant inputs are not based on observable market data, the instrument is included in Level 3. The table below presents the movement in Level 3 investments for the period ending 31 December 2015.

	31 December 2015 (unaudited) £	31 December 2014 (unaudited) £	30 June 2015 (audited) £
Opening balance	4,772,648	3,225,201	3,225,201
Transfers from Level 1	–	698,500	698,500
Movement in impairment provision on investments available for sale	(5,193)	(1,219)	145,038
Movement in unrealised appreciation on investments available for sale recognised in equity	44,457	90,493	67,357
Movement in unrealised appreciation on investments available for sale recognised in return after taxation	–	–	28,211
Purchase at cost	104,305	225,987	813,065
Movement in unrealised (losses)/gains on investments at fair value through profit or loss	(71,229)	133,053	(106,511)
Realised gain	56	–	72,718
Sale proceeds	(365,424)	–	(170,931)
Closing balance	<u>4,479,620</u>	<u>4,372,015</u>	<u>4,772,648</u>

9. Responsibility statement

The Directors confirm that to the best of their knowledge:

- the condensed set of financial statements has been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as adopted by the European Union; and gives a true and fair view of the assets, liabilities and financial position of the Group; and
- this Half-Yearly Financial Report includes a fair review of the information required by:
 - DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Group during that period; and any changes in the related party transactions that could do so.

This Half-Yearly Financial Report was approved by the Board of Directors on 9 February 2016 and the above responsibility statement was signed on its behalf by Sir David Thomson, Chairman.

DIRECTORS AND ADVISERS

DIRECTORS (all non-executive)

Sir David Thomson Bt. (Chairman)

S.J. Cockburn

P. S. Allen

M. H. W. Perrin (Audit Committee Chairman)

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An investment company as defined under Section 833 of the Companies Act 2006.

