

FOUNDED
1868

THE INVESTMENT COMPANY PLC

REGISTERED No. 4205
ENGLAND AND WALES

Half-Yearly Report

for the six months ended 31 December 2016

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.

Investment Policy

The Company invests in equities and fixed income securities. It is expected the fixed income securities would include preference shares, loan stocks, debentures, notes, convertibles and related instruments and be issued by UK-quoted companies with a wide range of market capitalisations. The conversion rights or equity warrants would normally convert into the underlying equity of the quoted company. The equity portion of the portfolio would principally invest in UK-quoted companies, with a wide range of market capitalisations, which are anticipated to pay a growing stream of dividends.

Any use of derivatives for investment purposes will be made on the basis of the same principles of risk spreading and diversification that apply to the Company's direct investments, as described below. The Company will not enter into uncovered short positions.

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 around 75 or more different companies, most of which will represent individually no more than 5% of the value of the Company's total investment portfolio, as at the time of acquisition.

The Company will not invest more than 10% of its gross assets, at the time of acquisition, in other listed closed-ended investment funds, whether managed by the Manager or not, except that this restriction shall not apply to investments in listed closed-ended investment funds which themselves have stated investment policies to invest no more than 15% of their gross assets in other listed closed-ended investment funds.

Unquoted investments

The Company does not intend to invest in unquoted equity securities. The Company may invest in unquoted fixed income securities from time to time subject to prior Board approval.

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 (through bank facilities and derivative instruments) up to 15% of net asset value ("NAV") (calculated at the time of borrowing).

Investment strategy

The Manager uses a bottom-up investment approach to selecting a diversified portfolio of equity and fixed income securities.

The investment approach can be described as active and universal, as the Company will not seek to replicate any benchmark and will target a significant proportion of issues from smaller quoted companies within an overall diversified portfolio. Potential investments are assessed against the key criteria, including yield along with an assessment of the prospects of underlying corporate growth prospects, market positions, calibre of management and risk and financial resilience.

CORPORATE SUMMARY

continued

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 grow it gradually going forward. Any growth in the dividend beyond 20.7p will be reflected in the quantum of the fourth interim dividend.

Capital Structure

As at 31 December 2016, and the date of this report, the Company has in issue 4,772,049 ordinary shares of 50p each. 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 net assets of £17.1 million and a NAV of 359.22p per ordinary share at 31 December 2016.

The Company has a Manager with a Distinctive Philosophy

- Miton Asset Management Limited (“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 fund managers researching the full universe of quoted UK stocks. These include Andrew Jackson and Eric Moore who principally concentrate on identifying mid and larger companies, including those that 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 who have a particular focus on many of the Company's smaller quoted stocks.

Gervais Williams

Gervais joined Miton in March 2011 as Managing Director of the Miton 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? Gervais became chairman of the Quoted Companies Alliance on 6 October 2016.

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 2016 (unaudited)	At 30 June 2016 (audited)	Change
Equity shareholders' funds	17,142,015	16,991,639	+0.9%
Number of ordinary shares in issue	4,772,049	4,772,049	-
NAV per ordinary share	359.22p	356.07p	+0.9%
Ordinary share price (mid)	345.00p	365.50p	-5.6%
(Discount)/premium to NAV	(3.96)%	2.65%	

	6 months to 31 December 2016 (unaudited)	12 months to 30 June 2016 (audited)
Total return per ordinary share*	13.85p	(11.21)p
Return after taxation per ordinary share	7.40p	(4.03)p
Dividends paid per ordinary share	10.70p	20.70p

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

FINANCIAL CALENDAR

February	Payment of second interim dividend for the year ending 30 June 2017.
February/March	Announcement of Half-Yearly Financial Report.
May	Payment of third interim dividend for the year ending 30 June 2017.
August	Payment of fourth interim dividend for the year ending 30 June 2017.
September/October	Announcement of Annual Results.
November	Payment of first interim dividend for the year ending 30 June 2018.
December	Annual General Meeting.

CHAIRMAN'S STATEMENT

Half Year to 31 December 2016

This statement covers the half year ended 31 December 2016.

After the UK's decision to leave the European Union, the stock market recovery was led by a limited number of companies with large index weightings that rose strongly. The share prices of those out of the limelight have generally not enjoyed such good returns. Therefore, over the half year to 31 December 2016, the NAV of the Company rose only slightly from 356.07p to 359.22p, which is an increase of 0.9%. The total return including the two interim dividends of 10.7p paid in the current year, was 3.9%.

In comparison, the FTSE All-Share Index enjoyed a total return of 12.0% over the six months to 31 December 2016. Smaller quoted indices, which were also dominated by the moves of a few of their largest weightings, recorded a total return of 18.0% on the FTSE Small Capitalisation Index¹ and 20.3% on the FTSE AIM All-Share Index. In contrast, the FTSE Actuaries UK Conventional Gilts All Stocks Index declined 1.2% over the same period.

The strategy of the Company is distinctive from many others in its potential participation in high-yield fixed income loan stocks and preference shares that sometimes carry scope for capital appreciation through equity conversion rights. Overall the aim is to deliver an attractive yield to investors, with a net asset value that is not too correlated with the movements of mainstream indices.

The capital structure of the Company was simplified in June 2013 and it was intended that an increasing portion of the additional capital raised at the time would be invested in these types of instruments. However, in the last three years the risk/reward ratio on most of these issues has not been compelling; therefore just under half of the portfolio has been held in ordinary shares that generally offer reasonable yields.

Recently, the issuance trend appears to have changed with a series of attractive convertible loan stocks being issued. If this trend persists, then the weighting of the portfolio in higher yielding convertibles will increase, enhancing the Company's underlying revenue, yet still leaving the Company with scope to generate longer-term capital gains as well.

Sir David Thomson

Chairman

20 February 2017

¹ (excluding Investment Companies)

MANAGER'S REPORT

There are indications that the long period of globalisation may be coming to an end. If this is the case then it will become more important than ever for investment strategies to be less correlated with equity markets generally, along with greater attention to their resilience. We believe that the Company's strategy has these advantages.

Markets

Equity indices rose considerably during the half year to 31 December 2016. However, index gains were often driven by a relatively limited number of stocks with large index weightings. By way of example HSBC, which had an average weighting of 6% of the FTSE 100 Index, rose 41.0% in the six month period. This stock alone contributed 2.2% to the overall return of the FTSE 100. There were similar examples in the FTSE Small Capitalisation Index² with Melrose Industries adding 1.4% to the overall return of that index. Within the FTSE AIM All-Share Index ASOS, Boohoo.com, GW Pharmaceuticals and Fevertree collectively added 4.3% to the index's return in the period.

In spite of the announcement of renewed Quantitative Easing by the Bank of England, UK Government bond prices generally fell back over the half year period in line with those of other developed markets, as investors became concerned about the risk of rising inflationary pressures. Over the half year, the FTSE Actuaries UK Conventional Gilts All Stocks Index fell 1.2%.

Portfolio

Approximately half of the portfolio is invested in a range of preference shares, loan stocks, debentures and notes. Although the largest corporate exposure in the portfolio is to Lloyds Banking Group through a series of perpetual notes, there are over 40 issuers 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 that, at current market prices, many of these continue to offer premium yields.

The other half of the portfolio is invested in ordinary 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, we believe this factor will become more important to investors.

Early in the period, the Company underwrote what we believed to be a low priced fundraising by Sepura, a phone supplier for use by the emergency services in Europe and the US. However, the CEO was subsequently injured in a motorbike accident, and the company reported a disappointing period of trading. The setback attracted speculative interest and the company received a takeover approach towards the end of the period.

A new holding was also purchased in Yu, a young and vibrant energy supplier to businesses. A new FTSE 100 Put option was purchased for the portfolio following the index rise ahead of the US election. This covers around one-third of the portfolio, with an exercise price of 6,000, and the cover extends to March 2018.

Towards the end of the period, a larger number of companies started considering issuing new, high-yielding convertible loan stocks. This is an encouraging trend, as it has the potential to expand the investment universe of the Company if it continues. Only one of these transactions was completed in the half-year period. Sirius Minerals raised additional finance to build a new Polyhalite mine in the UK, and in part funded this via a new convertible loan stock with an annual yield of 8.5%, and an option to convert into their equity if their share price rises over 25p.

During the half year, Esure, Hostelworld and Royal Mail were sold to fund these new purchases.

² (excluding Investment Companies)

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. 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

As noted above, many of the market indices recorded strong returns over the period, as some of their largest holdings performed strongly. The FTSE All-Share Index rose 12.0% in the half year, with the FTSE Small Capitalisation Index³ up 18.0% and the FTSE AIM All-Share Index up 20.3%. All these figures represent a total return including dividend payments.

In comparison, the total return of the Company at 3.9% looks very pedestrian. Unfortunately, a number of our holdings were caught out with unexpected setbacks in trading. The most notable was Fairpoint, a legal services company that offers low cost legal services at competitive prices. The company suffered a combination of slightly lower conveyancing volumes after Brexit, and then was impacted by a Government decision to move the remit of the Small Claims Court up from actions from £1,000 or less to £5,000 or less. We have retained our holding given the potential for its share price to recover.

³ (excluding Investment Companies)

MANAGER'S REPORT

continued

Bilby, an installation and servicer of gas appliances for social housing around London, also suffered a setback. Generally, Bilby works to a high standard of care, but it announced one of its largest customers had decided to take their work in-house. Its share price was further affected by a statement where the loss of the contract had raised concerns over how well it matched corporate costs with its revenues. Bilby finished the period announcing a number of new contracts and, again, has been retained for its recovery potential.

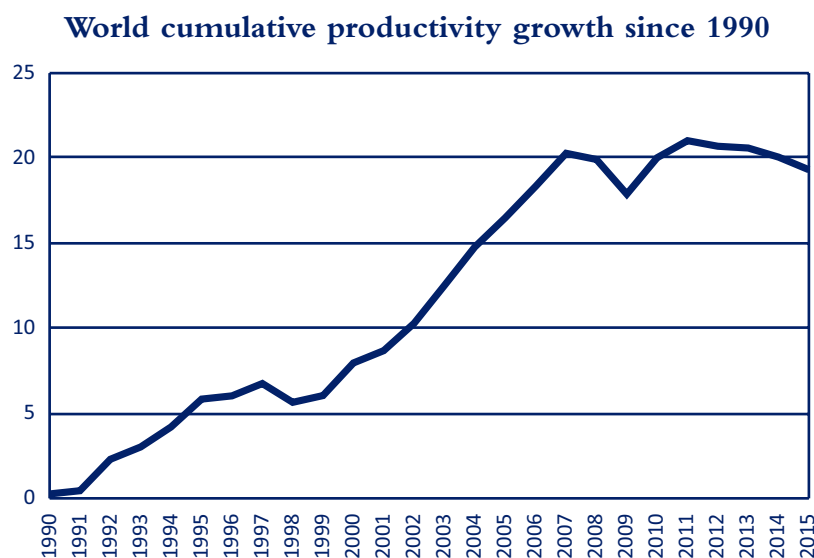
A third detractor to performance was the FTSE 100 Put option, as the general market rose towards the end of December 2016. The value of the Put has fallen since purchase, but has been retained to mitigate the impact on the net assets of the Company if markets were to fall.

The best performer in the portfolio was Anglo Pacific as energy prices recovered. It also pays a generous dividend. The share price of Randall & Quilter, an insurance service business which acquired some run-off assets cheaply, also increased strongly. Finally, in spite of the general reduction in bond yields in the UK, some of the fixed income securities also rose in price given their substantial yields. For example, the Lloyds Bank 7.625% and 7.875% perpetual notes rose 11.0% and 12.1% respectively.

However, we were disappointed with the overall performance of the portfolio in the half year.

Prospects

Over recent years, one of the principal drivers of equity market return has been the rise in valuations as Government bond yields have moved to ultra-low levels. Overall, this reflects the slowdown in world growth and interest rates being sustained for years at remarkably low levels. Productivity improvement, which is the long-term driver of wealth generation, has actually declined in the four years to the end of 2015, as shown in the chart below. The figures are not yet known for 2016.



Source: Macro Strategy Partnership, as at 1 December 2016.

We believe the Company's portfolio will be able to generate attractive returns in spite of these challenges. Specifically, the holdings in the portfolio have been selected as they are investing to generate an attractive cash payback for their shareholders. The new loan stocks tend to be issued with generous yields, but can still work out as inexpensive equity if their share prices rise as their businesses grow.

MANAGER'S REPORT

continued

Whilst it is anticipated that any material increase in government bond yields away from their ultra-low levels could inhibit the appreciation of markets generally, we are confident that the Company is in a good position to generate an attractive return for shareholders in the future.

The rationale for holding the FTSE 100 Put option

During September 2016, the Company invested around 1.8% of the portfolio to purchase a FTSE 100 Put option. This offers our investors some downside protection on markets, covering approximately one-third of the portfolio. Our view is that an option like this should only be purchased when its cost appears modest by historical standards. This tends to occur after markets have appreciated for some years, and at times when confidence in further appreciation is at a cyclical high.

The key advantage for shareholders of holding a Put option is that, should markets suffer a significant setback before the exercise date, which in this case is March 2018, then the market value of the Put option tends to rise. In part this is proportional to the scale of the market setback, and in part it is related to the duration of the remaining term of the option. It is possible that the market value of the option might be a multiple of its initial cost at such a time. The advantage for shareholders is that the option could then be sold to bring in additional capital in the Company at a time when share prices were depressed. The capital released could then be used to buy additional income stocks, at a time when their prices were abnormally low, on hopefully more attractive dividend yields. The effect would be to boost the dividend income generated by the Company, as well as increasing the portfolio's ability to participate in any subsequent market recovery.

The advantage of a FTSE 100 Put option is that it is regularly traded, so the weekly NAV fully reflects the market value of the option. In addition, being a popular instrument, the cost of a FTSE 100 Put option is much lower than a specialist instrument covering other indices such as the FTSE All-Share or the FTSE Small Capitalisation Indices. Furthermore, at times of market distress when the option might want to be sold, market volume in the FTSE 100 Put option tends to be better than other more obscure instruments.

However, despite the unsettled market conditions, we need to appreciate that it not usual for the FTSE 100 Index to fall back precipitously. That explains why Put options should only be purchased when the cost is relatively modest. In our case, the monthly running cost is only 0.07% over the period to March 2018 should the markets remain resilient and the Put option expired worthless.

Gervais Williams and Martin Turner

Miton Asset Management Limited

20 February 2017

TWENTY LARGEST INVESTMENTS

At 31 December 2016

Stock	Number	Issue %	Book cost £	Market or Directors' valuation £	% of total portfolio
1. Lloyds Banking Group					
7.625% perpetual notes (LBG Capital)	478,000	0.03	204,360	499,046	3.06
7.281% perpetual notes (Bank of Scotland)	400,000	0.27	315,331	473,200	2.90
7.875% perpetual notes (LBG Capital)	362,000	0.05	245,997	382,459	2.35
			<u>765,688</u>	<u>1,354,705</u>	<u>8.31</u>
2. Phoenix Group Holdings					
7.25% perpetual notes	1,060,000	0.53	811,923	1,072,056	6.58
Ordinary €0.0001 [§]	35,758	0.01	266,195	262,821	1.61
			<u>1,078,118</u>	<u>1,334,877</u>	<u>8.19</u>
3. Royal Bank of Scotland Group					
9% series 'A' non-cum pref (NatWest)	500,000	0.36	362,920	667,500	4.10
Sponsored ADR each rep pref C (NatWest)	20,000	0.20	55,473	415,004	2.55
			<u>418,393</u>	<u>1,082,504</u>	<u>6.65</u>
4. Stobart Group					
Ordinary 10p [§]	315,146	0.09	499,491	561,748	3.45
5. Anglo Pacific Group					
Ordinary 2p [§]	432,903	0.25	346,322	560,609	3.44
6. The Fishguard & Rosslare Railways and Harbours Company					
3.5% guaranteed preferred stock	790,999	63.91	441,810	522,059	3.20
7. Newcastle Building Society					
6.625% sub notes 23/12/19	600,000	2.40	405,438	510,000	3.13
8. Aggregated Micro Power					
8% conv loan notes 30/03/21	500,000	2.50	500,000	500,000	3.07
9. Randall & Quilter Investment Holdings					
Ordinary 2p [§]	387,000	0.54	437,715	495,360	3.04
10. Coral Products					
Ordinary 1p [§]	2,500,000	3.03	500,000	475,000	2.92
11. 600 Group					
8% conv loan notes 14/02/20	500,000	5.88	500,000	470,000	2.89
12. Charles Taylor					
Ordinary 1p [§]	192,198	0.29	334,592	466,320	2.86

TWENTY LARGEST INVESTMENTS

At 31 December 2016 continued

Stock	Number	Issue %	Book cost £	Market or Directors' valuation £	% of total portfolio
13. REA Holdings					
9.5% loan notes 31/12/17	300,000	2.00	298,254	297,000	1.82
7.5% US Dollar loan notes 30/06/17	150,000	0.44	76,740	112,896	0.69
			<u>374,994</u>	<u>409,896</u>	<u>2.51</u>
14. KCOM Group					
Ordinary 10p [§]	413,519	0.08	407,699	391,809	2.41
15. Direct Line Insurance Group					
Ordinary 10.909p [§]	105,261	0.01	354,049	390,164	2.39
16. Investec Investment Trust					
3.5% cum pref £1	461,508	35.50	271,938	286,135	1.76
5% cum pref £1	104,043	30.12	92,858	91,558	0.56
			<u>364,796</u>	<u>377,693</u>	<u>2.32</u>
17. Amalgamated Metal Corporation					
5.4% cum pref £1	256,065	18.21	144,049	194,609	1.19
6% cum pref £1	213,510	23.72	103,844	177,213	1.09
			<u>247,893</u>	<u>371,822</u>	<u>2.28</u>
18. Aviva					
Ordinary 25ps	75,774	0.00	334,545	368,565	2.26
19. Sirius Minerals Finance					
8.5% USD conv loan notes 28/11/23	400,000	0.10	321,156	330,191	2.03
20. Liberty					
9.5% cum pref	199,708	34.58	146,996	201,705	1.24
6% cum non redeemable pref £1	250,225	64.99	118,071	115,104	0.71
			<u>265,067</u>	<u>316,809</u>	<u>1.95</u>
			<u>8,897,766</u>	<u>11,290,131</u>	<u>69.30</u>

§ Issues with unrestricted voting rights.

The Group has a total of 78 portfolio investment holdings in 62 companies.

INTERIM MANAGEMENT REPORT AND DIRECTORS' RESPONSIBILITY STATEMENT

Interim Management Report

The important events that have occurred during the period under review, the key factors influencing the financial statements and the principal risks and uncertainties for the remaining six months of the financial year are set out in the Chairman's Statement on page 5 and the Manager's Report on pages 6 to 9.

The principal risks facing the Group are substantially unchanged since the date of the Report and Accounts for the year ended 30 June 2016 and continue to be as set out in that report.

Risks faced by the Group include, but are not limited to, market risk (which comprises market price risk, interest rate risk, liquidity risk, credit and counterparty risk). Details of the Company's management of these risks and exposure to them is set out in the Company's Report and Accounts for the year ended 30 June 2016.

There have been no significant changes to the related party disclosures set out in the Annual Report.

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, financial position and profit or loss of the Group; and
- this Half-Yearly Financial Report includes a fair review of the information required by:
 - a) DTR 4.2.7R of the Disclosure Guidance 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
 - b) DTR 4.2.8R of the Disclosure Guidance 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 20 February 2017 and the above responsibility statement was signed on its behalf by Sir David Thomson, Chairman.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2016

	Notes	6 months to 31 December 2016 (unaudited)			6 months to 31 December 2015 (unaudited)			Year ended 30 June 2016 (audited)		
		Revenue £	Capital £	Total £	Revenue £	Capital £	Total £	Revenue £	Capital £	Total £
Realised (losses)/gains on investments		–	(390,907)	(390,907)	–	129,097	129,097	–	528,892	528,892
Unrealised gains/(losses) on investments held at fair value through profit or loss		–	38,010	38,010	–	(362,029)	(362,029)	–	(1,278,227)	(1,278,227)
Movement in impairment provision on investments held as available for sale		–	286,177	286,177	–	(45,585)	(45,585)	–	(72,680)	(72,680)
Exchange (losses)/gains on capital items		–	(1,387)	(1,387)	–	388	388	–	1,845	1,845
Investment income	2	621,024	–	621,024	473,739	–	473,739	1,085,970	–	1,085,970
Investment management fee		(86,710)	–	(86,710)	(70,499)	–	(70,499)	(113,705)	–	(113,705)
Other administrative expenses		(112,373)	–	(112,373)	(161,389)	–	(161,389)	(342,277)	–	(342,277)
Return before finance costs and taxation		421,941	(68,107)	353,834	241,851	(278,129)	(36,278)	629,988	(820,170)	(190,182)
Return before taxation		421,941	(68,107)	353,834	241,851	(278,129)	(36,278)	629,988	(820,170)	(190,182)
Taxation		(673)	–	(673)	(551)	–	(551)	(995)	–	(995)
Return after taxation		421,268	(68,107)	353,161	241,300	(278,129)	(36,829)	628,993	(820,170)	(191,177)
Other comprehensive income										
Movement in unrealised appreciation on investments held as available for sale		–	307,824	307,824	–	64,267	64,267	–	(151,492)	(151,492)
Recognised in equity		–	–	–	–	–	–	–	(188,607)	(188,607)
Recognised in return after taxation		–	–	–	–	–	–	–	–	–
Other comprehensive income after taxation		–	307,824	307,824	–	64,267	64,267	–	(340,099)	(340,099)
Total comprehensive income after taxation		421,268	239,717	660,985	241,300	(213,862)	27,438	628,993	(1,160,269)	(531,276)
Statutory return after taxation per 50p ordinary share										
Basic and diluted	3	8.83p	(1.43)p	7.40p	5.09p	(5.87)p	(0.78)p	13.27p	(17.30)p	(4.03)p
Total comprehensive income return per 50p ordinary share										
Basic and diluted	3	8.83p	5.02p	13.85p	5.09p	(4.51)p	0.58p	13.27p	(24.48)p	(11.21)p

The total column of this statement is the Condensed Consolidated Statement of Total Comprehensive Income of the Group prepared in accordance with International Financial Reporting Standards (“IFRS”). The supplementary revenue and capital 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 17 to 21 form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2016

	Ordinary share capital £	Share premium £	Capital redemption reserve £	Revaluation reserve £	Capital reserve £	Revenue account £	Total £
Balance at 1 July 2016	2,386,025	4,453,903	2,408,820	2,000,848	6,155,368	(413,325)	16,991,639
Total comprehensive income							
Net return for the period	–	–	–	–	(68,107)	421,268	353,161
Movement in unrealised appreciation on investments held as available for sale:							
– Recognised in equity	–	–	–	307,824	–	–	307,824
Transactions with shareholders recorded directly to equity							
Ordinary dividends paid	–	–	–	–	–	(510,609)	(510,609)
Balance at 31 December 2016	2,386,025	4,453,903	2,408,820	2,308,672	6,087,261	(502,666)	17,142,015
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
Transactions with shareholders recorded directly to equity							
Ordinary dividends paid	–	–	–	–	–	(573,485)	(573,485)
Balance at 31 December 2015	2,386,025	4,453,903	2,408,820	2,405,214	6,580,025	(327,064)	17,906,923
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	–	–	–	–	(820,170)	628,993	(191,177)
Movement in unrealised appreciation on investments held as available for sale:							
– Recognised in equity	–	–	–	(151,492)	–	–	(151,492)
– Recognised in return after taxation	–	–	–	(188,607)	–	–	(188,607)
Transactions with shareholders recorded directly to equity							
Sale of Treasury shares	–	–	–	–	117,384	–	117,384
Ordinary dividends paid	–	–	–	–	–	(1,047,439)	(1,047,439)
Balance at 30 June 2016	2,386,025	4,453,903	2,408,820	2,000,848	6,155,368	(413,325)	16,991,639

The notes on pages 17 to 21 form part of these financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2016

	Note	31 December 2016 (unaudited) £	31 December 2015 (unaudited) £	30 June 2016 (audited) £
Non-current assets				
Investments		<u>16,290,888</u>	<u>17,288,218</u>	<u>16,410,045</u>
Current assets				
Trade and other receivables		172,147	172,304	425,351
Investments held for trading		2,193	1,933	1,952
Cash and bank balances		<u>801,200</u>	<u>607,284</u>	<u>664,859</u>
		<u>975,540</u>	<u>781,521</u>	<u>1,092,162</u>
Current liabilities				
Trade and other payables		<u>124,413</u>	<u>162,816</u>	<u>510,568</u>
Net current assets		<u>851,127</u>	<u>618,705</u>	<u>581,594</u>
Net assets		<u>17,142,015</u>	<u>17,906,923</u>	<u>16,991,639</u>
Capital and reserves				
Issued ordinary share capital	5	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		2,308,672	2,405,214	2,000,848
Capital reserve		6,087,261	6,580,025	6,155,368
Revenue reserve		<u>(502,666)</u>	<u>(327,064)</u>	<u>(413,325)</u>
Shareholders' funds		<u>17,142,015</u>	<u>17,906,923</u>	<u>16,991,639</u>
NAV per 50p ordinary share	7	<u>359.22p</u>	<u>377.82p</u>	<u>356.07p</u>

The notes on pages 17 to 21 form part of these financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December 2016

	6 months to 31 December 2016 (unaudited) £	6 months to 31 December 2015 (unaudited) £	Year ended 30 June 2016 (audited) £
Cash flows from operating activities			
Cash received from investments	636,736	491,850	1,087,015
Sundry income	2,520	–	627
Investment management fees paid	(49,863)	(76,377)	(121,053)
Cash paid to and on behalf of employees	(18,543)	(17,934)	(36,111)
Other cash payments	(177,638)	(165,224)	(319,804)
Withholding tax paid	(673)	(551)	(995)
Net cash inflow from operating activities	392,539	231,764	609,679
Cash flows from financing activities			
Sale of Treasury shares	117,384	–	–
Dividends paid on ordinary shares	(510,609)	(573,485)	(1,047,439)
Net cash outflow from financing activities	(393,225)	(573,485)	(1,047,439)
Cash flows from investing activities			
Purchase of investments	(1,636,401)	(852,977)	(2,252,996)
Sale of investments	1,773,702	1,288,738	2,840,914
Net cash inflow from investing activities	137,301	435,761	587,918
Net increase in cash and cash equivalents	136,615	94,040	150,158
Reconciliation of net cash flow to movement in net cash			
Increase in cash	136,615	94,040	150,158
Exchange rate movements	(274)	388	1,845
Increase in net cash	136,341	94,428	152,003
Net cash at start of period	664,859	512,856	512,856
Net cash at end of period	801,200	607,284	664,859

The notes on pages 17 to 21 form part of these financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Significant accounting policies

Basis of preparation

The condensed 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”, have been prepared in accordance with IFRS, as adopted by the European Union, and as applied in accordance with the provisions of the Companies Act 2006. The financial statements have been prepared in accordance with the AIC SORP, except to any extent where it is not consistent with the requirements of IFRS. The accounting policies are as set out in the Report and Accounts for the year ended 30 June 2016.

The half year financial statements have been prepared in accordance with IAS 34 “Interim Financial Reporting”.

The financial information contained in this half year financial report does not constitute statutory accounts as defined by the Companies Act 2006. The financial information for the periods ended 31 December 2016 and 31 December 2015 have not been audited or reviewed by the Company’s Auditors. The figures and financial information for the year ended 30 June 2016 are an extract from the latest published audited statements and do not constitute the statutory accounts for that year. Those accounts have been delivered to the Registrar of Companies and include a report of the Auditor, which was unqualified and did not contain a statement under either Section 498(2) or 498(3) of the Companies Act 2006.

Going concern

The Directors have made an assessment of the Group’s ability to continue as a going concern and are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future (being a period of 12 months from the date these financial statements were approved). Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Group’s ability to continue as a going concern, having taken into account the liquidity of the Group’s investment portfolio and the Group’s financial position in respect of its cash flows, borrowing facilities and investment commitments (of which there are none of significance). Therefore, the financial statements have been prepared on the going concern basis and on the basis that approval as an investment trust will continue to be met.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS continued

2. Income

	6 months to 31 December 2016 (unaudited) £	6 months to 31 December 2015 (unaudited) £	Year ended 30 June 2016 (audited) £
Income from investments			
UK dividends	240,166	244,862	547,381
Unfranked dividend income	185,351	64,101	171,642
Fixed interest	173,146	151,485	313,733
	<u>598,663</u>	<u>460,448</u>	<u>1,032,756</u>
Other income			
Underwriting commission	2,520	–	627
Net dealing gains of subsidiaries	19,841	13,291	52,587
Total income	<u>621,024</u>	<u>473,739</u>	<u>1,085,970</u>

3. Return per ordinary share

Returns per share are based on the weighted average number of shares in issue during the period. Normal and diluted return per share are the same as there are no dilutive elements on share capital.

	6 months to 31 December 2016 (unaudited)		6 months to 31 December 2015 (unaudited)		Year ended 30 June 2016 (audited)	
	Net return £	Per share pence	Net return £	Per share pence	Net return £	Per share pence
Return on total comprehensive income						
Revenue	421,268	8.83	241,300	5.09	628,993	13.27
Capital	239,717	5.02	(213,862)	(4.51)	(1,160,269)	(24.48)
Total comprehensive income	<u>660,985</u>	<u>13.85</u>	<u>27,438</u>	<u>0.58</u>	<u>(531,276)</u>	<u>(11.21)</u>
Weighted average number of ordinary shares		<u>4,772,049</u>		<u>4,739,549</u>		<u>4,739,727</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS continued

4. Dividends per ordinary share

Amounts recognised as distributions to equity holders in the period.

	6 months to 31 December 2016 (unaudited) £	6 months to 31 December 2015 (unaudited) £	Year ended 30 June 2016 (audited) £
Ordinary shares			
Prior year fourth interim dividend of 7.10p paid on 21 August 2015	—	336,508	336,508
Prior year first interim dividend of 5.00p paid on 20 November 2015	—	236,977	236,977
Prior year second interim dividend of 5.00p paid on 19 February 2016	—	—	236,977
Prior year third interim dividend of 5.00p paid on 20 May 2016	—	—	236,977
Prior year fourth interim dividend of 5.70p paid on 19 August 2016	272,007	—	—
Current year first interim dividend of 5.00p paid on 18 November 2016	238,602	—	—
Total dividends	<u>510,609</u>	<u>573,485</u>	<u>1,047,439</u>

The Board declared a second interim dividend of 5.00p per ordinary share, which was paid on 17 February 2017 to shareholders registered at the close of business on 27 January 2017. This dividend has not been included as a liability in these financial statements.

5. Issued ordinary share capital

	6 months to 31 December 2016 (unaudited) Number	£	6 months to 31 December 2015 (unaudited) Number	£	Year ended 30 June 2016 (audited) Number	£
Ordinary shares of 50p each	<u>4,772,049</u>	<u>2,386,025</u>	<u>4,772,049</u>	<u>2,386,025</u>	<u>4,772,049</u>	<u>2,386,025</u>

The Company does not hold any shares in Treasury as at 31 December 2016 (31 December 2015: 32,500 and 30 June 2016: Nil).

6. Issued preference share capital

The 1,717,565 fixed rate preference shares of 50p each are non-voting, entitled to receive a cumulative dividend of 0.01p per share per annum, and are entitled to receive their nominal value, 50p, on a distribution of assets or a winding up. These are a component of the equity of the Company. The whole of the issue is held by New Centurion Trust Limited, a wholly-owned subsidiary of the Company, which has no impact on the consolidated accounts, the Group NAV or the return per ordinary share.

7. Net asset value per ordinary share

Net asset value per ordinary share is based on net assets at the period end and 4,772,049 (31 December 2015: 4,739,549 and 30 June 2016: 4,772,049) ordinary shares in issue at the period end excluding shares held in Treasury.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS continued

8. 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.

9. Fair value hierarchy

The fair value is the amount at which an asset could be sold in an ordinary transaction between market participants, at the measurement date, other than a forced or liquidation sale. The Group measures fair values using the following hierarchy that reflects the significance of the inputs used in making the measurements.

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 for the asset or liability.

The table below sets out fair value measurement of financial instruments as at 31 December 2016, by the level in the fair value hierarchy into which the fair value measurement is categorised.

At 31 December 2016	Level 1 £	Level 2 £	Level 3 £	Total £
Fixed asset investments held by the Company	11,200,999	406,586	4,683,303	16,290,888
Current asset investments held by a trading subsidiary	2,105	88	-	2,193
	<u>11,203,104</u>	<u>406,674</u>	<u>4,683,303</u>	<u>16,293,081</u>

At 31 December 2015	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 30 June 2016	Level 1 £	Level 2 £	Level 3 £	Total £
Fixed asset investments held by the Company	11,309,018	395,902	4,705,125	16,410,045
Current asset investments held by a trading subsidiary	1,868	84	-	1,952
	<u>11,310,886</u>	<u>395,986</u>	<u>4,705,125</u>	<u>16,411,997</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS continued

9. Fair value hierarchy continued

The Company's subsidiary, Abport Limited, completes trading transactions. The value of the current asset investments held for trading is the expected price of realisation. The difference between the sale and purchase of assets is recognised as trading income in the Condensed Consolidated Statement of Comprehensive Income.

Reconciliation of Level 3 investments

The following table summarises Level 3 investments that were accounted for at fair value.

	6 months ended 31 December 2016 (unaudited) £	6 months ended 31 December 2015 (unaudited) £	Year ended 30 June 2016 (audited) £
Opening balance	4,705,125	4,772,648	4,772,648
Movement in impairment provision on investments available for sale	321,392	(5,193)	(47,788)
Movement in unrealised appreciation on investments available for sale recognised in equity	95,184	44,457	4,340
Movement in unrealised appreciation on investments available for sale recognised in return after taxation	-	-	930
Purchase at cost	-	104,305	604,305
Movement in unrealised gains/(losses) on investments at fair value through profit or loss	129,278	(71,229)	2,808
Realised (loss)/gain	(266,693)	56	(50,578)
Sale proceeds	(300,983)	(365,424)	(581,540)
Closing balance	<u>4,683,303</u>	<u>4,479,620</u>	<u>4,705,125</u>

10. Transactions with the Manager and related parties

As disclosed in note 8 a fee is paid to the Manager in respect of its service provided to the Company. There were no other identifiable related parties at the half year.

DIRECTORS AND ADVISERS

DIRECTORS (all non-executive)

Sir David Thomson Bt. (Chairman)

M. H. W. Perrin (Audit Committee Chairman and Senior Independent Director)

S. J. Cockburn

P. S. Allen

ADVISERS

Secretary and Registered Office

Capita Company Secretarial Services Limited
Beaufort House
51 New North Road
Exeter EX4 4EP

Telephone: 01392 477500

Manager

Miton Asset Management Limited
Paternoster House
65 St Paul's Churchyard
London EC4M 8AB

Telephone: 020 3714 1525

Website: www.mitongroup.com

Alternative Investment Fund Manager

Miton Trust Managers Limited
Paternoster House
65 St Paul's Churchyard
London EC4M 8AB

Administrator

Capita Sinclair Henderson Limited
Beaufort House
51 New North Road
Exeter EX4 4EP

Independent Auditors

Saffery Champness
71 Queen Victoria Street
London EC4V 4BE

Registrar

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

Company Website

www.mitongroup.com/tic

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

NOTES

NOTES

