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THE INVESTMENT COMPANY PLC

REGISTERED No. 4205
ENGLAND AND WALES

Half-Yearly Report

for the six months ended 31 December 2017

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. Fixed income securities are expected to 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 are normally expected to 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 Manager may invest in unquoted fixed income securities from time to time subject to prior Board approval.

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 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 2017, 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. The Company holds no shares in Treasury.

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 £17.7 million and a NAV of 369.96p per ordinary share at 31 December 2017.

Manager

During the period, the Company's investments were managed by Miton Asset Management Limited ("Miton"). Miton is an independent fund management company quoted on AIM. 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. 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.

Gervais has extensive additional experience, including in the role of non-executive chairman of the Quoted Companies Alliance, a board member of the Investment Association, and as a panel member who advised the Chancellor of the Exchequer on his Patient Capital Review recently.

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 2017 (unaudited)	At 30 June 2017 (audited)	Change
Equity shareholders' funds	17,654,624	17,736,777	-0.5%
Number of ordinary shares in issue	4,772,049	4,772,049	—
NAV per ordinary share	369.96p	371.68p	-0.5%
Ordinary share price (mid)	332.50p	325.00p	+2.3%
Discount to NAV	10.13%	12.56%	

	6 months to 31 December 2017 (unaudited)	12 months to 30 June 2017 (audited)
Total return per ordinary share*	8.98p	36.31p
Return after taxation per ordinary share	9.11p	24.64p
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 2018.
February/March	Announcement of Half-Yearly Financial Report.
May	Payment of third interim dividend for the year ending 30 June 2018.
August	Payment of fourth interim dividend for the year ending 30 June 2018.
September/October	Announcement of Annual Results.
November	Payment of first interim dividend for the year ending 30 June 2019.
December	Annual General Meeting.

CHAIRMAN'S STATEMENT

Half-Year to 31 December 2017

This statement covers the half year ended 31 December 2017.

There was a pick-up in world growth over the six-month period, as the US FED chose to fund most US Government expenditure from its reserves in 2017 rather than bond issuance. Prospects for the UK were more constrained as retail prices rose a little faster than wages, after the devaluation of Sterling in 2016. Even so, the FTSE All Share Index rose 5.5% as oil and metal prices recovered. In contrast, the FTSE Actuaries UK Conventional Gilts All Stocks Index rose only 0.1% over the period, as the decades of bond yield reductions came to an end. The Company's NAV, which has a portfolio invested in both fixed income and equities, was 0.5% lower over the six-month period. Two dividends amounting to 10.7p were declared during the half-year.

Following the Company's reorganisation in June 2013, the strategy sought to fund a premium, and ultimately growing dividend to shareholders. The plan was to do this through investing a greater proportion of the portfolio in high-yielding Loan Stocks issued by quoted companies, which frequently carry a degree of participation in the issuer's share price growth if they perform strongly. A second advantage of the intended strategy was that the Company's return was not expected to be closely correlated with the movements of mainstream markets.

Since June 2013, there have been fewer Convertible Loan Notes issued than we had expected, which has constrained the full benefits anticipated from the change in portfolio mix. The Board believe this performance to be disappointing and following a review of alternatives, and shareholder approval of the continuation vote at the Annual General Meeting, the Board has appointed Fiske plc ("Fiske") as investment manager, subject to approval from the Financial Conduct Authority. This was announced on 1 February 2018.

Fiske is an independent stockbroking and investment management firm. It provides a range of services to private investors, trustees, charities, pension funds and institutional clients, looking after client assets totalling some £700million. Fiske is very familiar with the Company and its investment portfolio having provided administration and custodian services for a number of years prior to the move to Miton in 2013.

The Board notes that there has been and continues to be some overlap between Fiske and the Company. In addition, the Board has also made new arrangements for the administration and other aspects of running the Company with the aim of reducing costs.

Going forward, the absence of global productivity improvement will ultimately stifle dividend growth. Certainly, the ultra-low level of bond yields implies asset returns generally may be more modest over the coming ten years, with more numerous corporates vulnerable to disappointment. Therefore we believe that an actively managed strategy is all the more appropriate in future, since adding value is just as much about avoiding stocks and corporates that disappoint, as it is about backing those that have the most promising upside.

Sir David Thomson

Chairman

21 February 2018

MANAGER'S REPORT

Performance

The US dollar remained weak against several international currencies during 2017, which greatly reduced the currency pressure on many of the emerging market economies. As this pattern became more established during 2017, the improving economic trend gathered some momentum. At the end of the period, the trend has worked up into a recovery in world growth. The US dollar weakness has assisted Sterling too, which, in spite of the Brexit headwinds, has continued to perform better than many expected.

The synchronous pick up in world growth began to drive up commodity prices over the six month period. The improving trend in commodity and oil stocks boosted the FTSE 100 Index towards new highs in December 2017, with the FTSE All Share Index appreciating 5.5% over the six months.

Approximately half of the portfolio is invested in fixed income securities and the other half in equities. Stocks such as Anglo Pacific, Bilby, K3 Capital, SCS and Strix all increased by more than 30% over the half-year, with Strix, in particular, rising over 46% since its admission to the Exchange in early August. However these significant gains were offset when Bagir, a lowly valued international clothing business, suffered a slowdown in orders in July. We note that just after the end of the half-year, an industry leader in the textile sector bought into Bagir at a share price well above its previous market level but well below our initial purchase price.

Whilst the UK Gilt market was largely flat over the half year, some of the fixed income holdings in the portfolio have nevertheless appreciated. The Phoenix 7.25% Perpetual Notes continued to appreciate, whilst the REA Finance 9.5% Bonds matured at the end of the period. Meanwhile the Convertible Loan Stocks held by the Company are continuing to pay out generous yields, but at this stage the value of their conversion into the underlying equities has yet to come through.

Overall the NAV was down 0.5% in the half-year, which is disappointing when compared to the returns on the wider equity market. This NAV return includes the two dividends, which were declared in the half year, that amounted to 2.9% in aggregate.

Portfolio

The largest corporate exposure in the portfolio is to Phoenix Life through a 7.25% perpetual note together with a smaller holding of ordinary shares. Stobart Group, which performed strongly in previous periods, remains the largest equity holding in the Company.

Whilst there has been some ongoing issuance of Convertible Loan Notes over the period under review, we have continued to find few with sufficiently attractive risk/reward ratios. Therefore a large portion of the portfolio has largely remained invested in ordinary equities – including many smaller quoted companies – that have been selected on the basis that they tend to pay premium dividend yields. Generally smaller quoted companies tend to have greater growth potential, and we believe this factor will become more important to investors.

New holdings over the half-year were established in Strix, a kettle switch manufacturer with a global market position, and Sabre Insurance, a car insurance business that helps those that need non-standard policies. Both offer the prospect of an attractive dividend income, along with good opportunities for share price appreciation.

MANAGER'S REPORT

continued

Prospects

After many years of low levels of capital expenditure, we anticipate that the ongoing growth in corporate cashflow will ultimately disappoint. Less corporate cashflow ultimately leads to less tax take for governments, and lower safety margins on dividends. For now, corporates are bridging the cashflow shortage through taking on more debt, and skimping on wage rises for staff.

We make these points to highlight that the nature of investing in a multicap portfolio across both corporate notes and equities greatly differs from many other strategies. Specifically the portfolio has sought to invest in Convertible Loan Notes issued by companies with the prospect of an attractive cash payback over the coming years. If the projects succeed, the added cashflow funds dividend growth for shareholders, along with the prospect of some capital gain alongside.

However, over the last three years we have not found as many of these opportunities with acceptable risk parameters as we would have liked. Therefore, the Board has determined that it is imperative that the operational costs of the Company be reduced through taking on the role of the AIFM directly, and arranging for Fiske to oversee the management of the portfolio. Following shareholder approval of the continuation vote at the AGM in December, the Board has put in place arrangements to appoint Fiske as the new manager of the portfolio. We wish all shareholders and the Company well in the future.

Gervais Williams and Martin Turner

Miton Asset Management Limited

21 February 2018

TWENTY LARGEST INVESTMENTS

At 31 December 2017

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	550,011	3.42
7.281% perpetual notes (Bank of Scotland)	400,000	0.27	315,331	521,792	3.25
7.875% perpetual notes (LBG Capital)	362,000	0.05	245,997	440,174	2.74
			765,688	1,511,977	9.41
2. Phoenix Group Holdings					
7.25% perpetual notes	1,060,000	0.53	811,923	1,173,583	7.31
Ordinary €0.0001 [§]	35,758	0.01	266,195	279,628	1.74
			1,078,118	1,453,211	9.05
3. Stobart Group					
Ordinary 10p [§]	315,146	0.09	499,491	887,136	5.52
4. Royal Bank of Scotland Group					
9% series 'A' non-cum pref (NatWest)	500,000	0.36	362,920	851,250	5.30
5. Aggregated Micro Power					
8% conv loan notes 30/03/21	500,000	2.50	500,000	571,429	3.56
6. Newcastle Building Society					
6.625% sub notes 23/12/19	600,000	2.40	405,438	552,000	3.44
7. Charles Taylor					
Ordinary 1p [§]	192,198	0.28	334,592	546,803	3.40
8. The Fishguard & Rosslare Railways and Harbours Company					
3.5% guaranteed preferred stock	790,999	63.91	441,810	529,969	3.30
9. Randall & Quilter Investment Holdings					
Ordinary 2p [§]	401,884	0.32	423,246	522,449	3.25
10. 600 Group					
8% conv loan notes 14/02/20	500,000	5.88	500,000	500,000	3.11
11. Intercede Group					
8% conv loan notes 29/12/21	450,000	10.01	450,000	450,000	2.80
12. Amalgamated Metal Corporation					
5.4% cum pref £1	256,065	18.21	144,049	215,095	1.34
6% cum pref £1	213,510	23.72	103,844	194,294	1.21
			247,893	409,389	2.55
13. Direct Line Insurance Group					
Ordinary 10.909p [§]	105,621	0.01	354,049	403,155	2.51

TWENTY LARGEST INVESTMENTS

At 31 December 2017 continued

Stock	Number	Issue %	Book cost £	Market or Directors' valuation £	% of total portfolio
14. Investec Investment Trust					
3.5% cum pref £1	461,508	35.50	271,938	304,595	1.90
5% cum pref £1	104,043	30.12	<u>92,858</u>	<u>97,800</u>	<u>0.61</u>
			364,796	402,395	2.51
15. Aviva					
Ordinary 25p [§]	75,774	0.00	334,545	383,795	2.39
16. KCOM Group					
Ordinary 10p [§]	413,519	0.08	407,699	375,268	2.34
17. Liberty					
9.5% cum pref £1	199,708	34.58	146,996	213,688	1.33
6% cum non redeemable pref £1	250,225	64.99	<u>118,071</u>	<u>132,619</u>	<u>0.83</u>
			265,067	346,307	2.16
18. Renold Group					
6% cum pref £1	422,109	72.72	330,490	337,687	2.10
19. Coral Products					
Ordinary 1p [§]	2,500,000	3.03	500,000	306,250	1.91
20. Manx Telecom					
Ordinary 2p [§]	158,562	0.14	<u>236,585</u>	<u>302,853</u>	<u>1.89</u>
			<u>8,802,427</u>	<u>11,643,323</u>	<u>72.50</u>

§ Issues with unrestricted voting rights.

The Group has a total of 73 portfolio investment holdings in 58 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 pages 4 and the Manager's Report on pages 5 to 6.

The principal risks facing the Group are substantially unchanged since the date of the Report and Accounts for the year ended 30 June 2017 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, and 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 2017.

There have been no significant changes in 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 21 February 2018 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 2017

	Notes	6 months to 31 December 2017 (unaudited)			6 months to 31 December 2016 (unaudited)			Year ended 30 June 2017 (audited)		
		Revenue £	Capital £	Total £	Revenue £	Capital £	Total £	Revenue £	Capital £	Total £
Realised gains/(losses) on investments		–	294,710	294,710	–	(390,907)	(390,907)	–	(659,326)	(659,326)
Unrealised gains on investments held at fair value through profit or loss		–	9,754	9,754	–	38,010	38,010	–	1,018,729	1,018,729
Movement in impairment provision on investments held as available for sale		–	14,295	14,295	–	286,177	286,177	–	339,395	339,395
Exchange losses on capital items		–	(862)	(862)	–	(1,387)	(1,387)	–	(8,892)	(8,892)
Unrealised losses on derivative financial instruments		–	(59,770)	(59,770)	–	–	–	–	(276,213)	(276,213)
Investment income	2	403,632	–	403,632	621,024	–	621,024	1,199,285	–	1,199,285
Investment management fee		(45,007)	–	(45,007)	(86,710)	–	(86,710)	(160,723)	–	(160,723)
Other administrative expenses		(178,206)	–	(178,206)	(112,373)	–	(112,373)	(279,629)	–	(279,629)
Return before finance costs and taxation		180,419	258,127	438,546	421,941	(68,107)	353,834	758,933	413,693	1,172,626
Finance costs		–	–	–	–	–	–	(9)	–	(9)
Return before taxation		180,419	258,127	438,546	421,941	(68,107)	353,834	758,924	413,693	1,172,617
Taxation		(3,693)	–	(3,693)	(673)	–	(673)	3,241	–	3,241
Return after taxation		176,726	258,128	434,853	421,268	(68,107)	353,161	762,165	413,693	1,175,858
Other comprehensive income										
Movement in unrealised appreciation on investments held as available for sale		–	342,148	342,148	–	307,824	307,824	–	575,730	575,730
Recognised in equity		–	342,148	342,148	–	307,824	307,824	–	575,730	575,730
Recognised in return after taxation		–	(348,545)	(348,545)	–	–	–	–	(18,637)	(18,637)
Other comprehensive income after taxation		–	(6,397)	(6,397)	–	307,824	307,824	–	557,093	557,093
Total comprehensive income after taxation		176,726	251,730	428,456	421,268	239,717	660,985	762,165	970,786	1,732,951
Statutory return after taxation per 50p ordinary share										
Basic and diluted	3	3.70p	5.41p	9.11p	8.83p	(1.43)p	7.40p	15.97p	8.67p	24.64p
Return on total comprehensive income per 50p ordinary share										
Basic and diluted	3	<u>3.70p</u>	<u>5.28p</u>	<u>8.98p</u>	<u>8.83p</u>	<u>5.02p</u>	<u>13.85p</u>	<u>15.97p</u>	<u>20.34p</u>	<u>36.31p</u>

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 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 14 to 18 form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2017

	Ordinary share capital £	Share premium £	Capital redemption reserve £	Revaluation reserve £	Capital reserve £	Revenue account £	Total £
Balance at 1 July 2017	2,386,025	4,453,903	2,408,820	2,557,941	6,569,061	(638,973)	17,736,777
Total comprehensive income							
Net return for the period	–	–	–	–	258,127	176,726	434,853
Movement in unrealised appreciation on investments held as available for sale:							
– Recognised in equity	–	–	–	342,148	–	–	342,148
– Recognised in return after taxation	–	–	–	(348,545)	–	–	(348,545)
Transactions with shareholders recorded directly to equity							
Ordinary dividends paid	–	–	–	–	–	(510,609)	(510,609)
Balance at 31 December 2017	<u>2,386,025</u>	<u>4,453,903</u>	<u>2,408,820</u>	<u>2,551,544</u>	<u>6,827,188</u>	<u>(972,856)</u>	<u>17,654,624</u>
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	<u>2,386,025</u>	<u>4,453,903</u>	<u>2,408,820</u>	<u>2,308,672</u>	<u>6,087,261</u>	<u>(502,666)</u>	<u>17,142,015</u>
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	–	–	–	–	413,693	762,165	1,175,858
Movement in unrealised appreciation on investments held as available for sale:							
– Recognised in equity	–	–	–	575,730	–	–	575,730
– Recognised in return after taxation	–	–	–	(18,637)	–	–	(18,637)
Transactions with shareholders recorded directly to equity							
Ordinary dividends paid	–	–	–	–	–	(987,813)	(987,813)
Balance at 30 June 2017	<u>2,386,025</u>	<u>4,453,903</u>	<u>2,408,820</u>	<u>2,557,941</u>	<u>6,569,061</u>	<u>(638,973)</u>	<u>17,736,777</u>

The notes on pages 14 to 18 form part of these financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2017

	Note	31 December 2017 (unaudited) £	31 December 2016 (unaudited) £	30 June 2017 (audited) £
Non-current assets				
Investments		<u>16,062,961</u>	<u>16,290,888</u>	<u>16,289,129</u>
Current assets				
Derivative financial instruments		3,870	–	63,640
Trade and other receivables		479,302	172,147	211,300
Investments held for trading		3,451	2,193	2,265
Cash and bank balances		<u>1,184,295</u>	<u>801,200</u>	<u>1,267,244</u>
		<u>1,670,918</u>	<u>975,540</u>	<u>1,544,449</u>
Current liabilities				
Trade and other payables		<u>79,255</u>	<u>124,413</u>	<u>96,801</u>
Net current assets		<u>1,591,663</u>	<u>851,127</u>	<u>1,447,648</u>
Net assets		<u>17,654,624</u>	<u>17,142,015</u>	<u>17,736,777</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		2,551,544	2,308,672	2,557,941
Capital reserve		6,827,188	6,087,261	6,569,061
Revenue reserve		<u>(972,856)</u>	<u>(502,666)</u>	<u>(638,973)</u>
Shareholders' funds		<u>17,654,624</u>	<u>17,142,015</u>	<u>17,736,777</u>
NAV per 50p ordinary share	7	<u>369.96p</u>	<u>359.22p</u>	<u>371.68p</u>

The notes on pages 14 to 18 form part of these financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December 2017

	6 months to 31 December 2017 (unaudited) £	6 months to 31 December 2016 (unaudited) £	Year ended 30 June 2017 (audited) £
Cash flows from operating activities			
Cash received from investments	449,975	636,736	1,179,839
Interest received	84	–	312
Sundry income	–	2,520	–
Investment management fees paid	(28,513)	(49,863)	(160,694)
Cash paid to and on behalf of employees	(7,280)	(18,543)	(26,939)
Other cash payments	(205,757)	(177,638)	(328,439)
Withholding tax paid	–	(673)	–
Net cash inflow from operating activities	208,509	392,539	666,599
Cash flows from financing activities			
Sale of Treasury shares	–	117,384	117,384
Dividends paid on ordinary shares	(510,609)	(510,609)	(987,813)
Net cash outflow from financing activities	(510,609)	(393,225)	(870,429)
Cash flows from investing activities			
Purchase of investments	(353,178)	(1,636,401)	(2,216,355)
Sale of investments	573,191	1,773,702	3,361,689
Purchase of derivative financial instruments	–	–	(339,853)
Net cash inflow from investing activities	220,013	137,301	805,481
Net (decrease)/increase in cash and cash equivalents	(82,087)	136,615	601,651
Reconciliation of net cash flow to movement in net cash			
(Decrease)/increase in cash	(82,087)	136,615	601,651
Exchange rate movements	(862)	(274)	734
(Decrease)/increase in net cash	(82,949)	136,341	602,385
Net cash at start of period	1,267,244	664,859	664,859
Net cash at end of period	1,184,295	801,200	1,267,244

The notes on pages 14 to 18 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 2017.

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 2017 and 31 December 2016 have not been audited or reviewed by the Company’s Auditor. The figures and financial information for the year ended 30 June 2017 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 2017 (unaudited) £	6 months to 31 December 2016 (unaudited) £	Year ended 30 June 2017 (audited) £
Income from investments			
UK dividends	154,586	240,166	536,956
Unfranked dividend income	59,023	185,351	230,447
Fixed interest	185,931	173,146	407,272
	<u>399,540</u>	<u>598,663</u>	<u>1,174,675</u>
Other income			
Bank deposit interest	84	—	312
Underwriting commission	—	2,520	2,520
Net dealing gains of subsidiaries	4,008	19,841	21,778
Total income	<u>403,632</u>	<u>621,024</u>	<u>1,199,285</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 2017 (unaudited)		6 months to 31 December 2016 (unaudited)		Year ended 30 June 2017 (audited)	
	Net return £	Per share pence	Net return £	Per share pence	Net return £	Per share pence
Return on total comprehensive income						
Revenue	176,726	3.70	421,268	8.83	762,165	15.97
Capital	251,730	5.28	239,717	5.02	970,786	20.34
Total comprehensive income	<u>428,456</u>	<u>8.98</u>	<u>660,985</u>	<u>13.85</u>	<u>1,732,951</u>	<u>36.31</u>
Weighted average number of ordinary shares	<u>4,772,049</u>		<u>4,772,049</u>		<u>4,772,049</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 2017 (unaudited) £	6 months to 31 December 2016 (unaudited) £	Year ended 30 June 2017 (audited) £
Ordinary shares			
Prior year fourth interim dividend of 5.70p paid on 19 August 2016	—	272,007	272,007
Prior year first interim dividend of 5.00p paid on 18 November 2016	—	238,602	238,602
Prior year second interim dividend of 5.00p paid on 17 February 2017	—	—	238,602
Prior year third interim dividend of 5.00p paid on 19 May 2017	—	—	238,602
Prior year fourth interim dividend of 5.70p paid on 18 August 2017	272,007	—	—
Current year first interim dividend of 5.00p paid on 17 November 2017	238,602	—	—
Total dividends	<u>510,609</u>	<u>510,609</u>	<u>987,813</u>

The Board declared a second interim dividend of 5.00p per ordinary share, which was paid on 16 February 2018 to shareholders registered at the close of business on 26 January 2018. This dividend has not been included as a liability in these financial statements.

5. Issued ordinary share capital

	6 months to 31 December 2017 (unaudited)		6 months to 31 December 2016 (unaudited)		Year ended 30 June 2017 (audited)	
	Number	£	Number	£	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 2017 (31 December 2016: Nil and 30 June 2017: 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 2016: 4,772,049 and 30 June 2017: 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.

At 31 December 2017 an amount of £11,889 (31 December 2016: £44,102 and 30 June 2017: £7,284) was outstanding and due to the AIFM.

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 2017, by the level in the fair value hierarchy into which the fair value measurement is categorised.

At 31 December 2017	Level 1 £	Level 2 £	Level 3 £	Total £
Fixed asset investments held by the Company	10,483,677	428,913	5,150,371	16,062,961
Current asset investments held by a trading subsidiary	3,364	87	–	3,451
Derivative financial instruments	3,870	–	–	3,870
	<u>10,490,911</u>	<u>429,000</u>	<u>5,150,371</u>	<u>16,070,282</u>

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 30 June 2017	Level 1 £	Level 2 £	Level 3 £	Total £
Fixed asset investments held by the Company	10,392,613	415,248	5,481,268	16,289,129
Current asset investments held by a trading subsidiary	2,176	89	–	2,265
Derivative financial instruments	63,640	–	–	63,640
	<u>10,458,429</u>	<u>415,337</u>	<u>5,481,268</u>	<u>16,355,034</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 2017 (unaudited) £	6 months ended 31 December 2016 (unaudited) £	Year ended 30 June 2017 (audited) £
Opening balance	5,481,268	4,705,125	4,705,125
Movement in impairment provision on investments available for sale	14,512	321,392	379,611
Movement in unrealised appreciation on investments available for sale recognised in equity	95,702	95,184	140,645
Movement in unrealised appreciation on investments available for sale recognised in return after taxation	-	-	-
Purchase at cost	-	-	450,000
Movement in unrealised (losses)/gains on investments at fair value through profit or loss	(142,857)	129,278	402,989
Realised gains/(losses)	1,746	(266,693)	(266,693)
Sale proceeds	(300,000)	(300,983)	(330,409)
Closing balance	<u>5,150,371</u>	<u>4,683,303</u>	<u>5,481,268</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

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Administrator

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The Registry

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Company Website

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

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