Manchester & London Investment Trust PLC

Annual Report & Financial Statements

Year ended 31st July 2013

The Front Cover:

We are taught not to judge a book by its cover but actually we feel our front cover gives a good indication of what we are.

The front cover shows the fund's top ten holdings in columns at the end of 2013, 2012 and 2011 respectively (moving from left to right).

In the main, we hold blue chip, well established, growth based, quality equity investments in a focused portfolio with the top ten holdings representing 103.8 per cent of Net Asset Value as at the 2013 year end.

As you can see by the lack of changes to the constituents, we are patient and long term investors.

"*All of humanity's problems stem from man's inability to sit quietly in a room alone.*"

Blaise Pascal
(1623-1662).

Notes:

1. We are still holding Rio Tinto plc, BP plc and Burberry Group plc.

2. The image of a mobile telephone represents our holding in Vodafone Group plc who did not wish to supply an image.

Contents

If you are in any doubt about the contents of this document or the action you should take, you are recommended to immediately seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other financial adviser authorised under the Financial Services and Markets Act 2000 (as amended).

Financial Summary

Total Return

	Year to 31st July 2013	Year to 31st July 2012	Percentage (decrease)/ increase
Total return (£'000)	2,522	(19,945)	
Return per 25p ordinary share – fully diluted	11.2p	(88.8)p	
Total revenue return per 25p ordinary share	13.8p	14.3p	(3.5)
Cash dividend per 25p ordinary share	13.75p	13.0p	5.8

Capital

	At 31st July 2013	At 31st July 2012	Percentage (decrease)/ increase
Net assets attributable to equity shareholders (£'000)	75,050	75,515	(0.6)
Net asset value per 25p ordinary share – fully diluted	334.2p	336.3p	(0.6)
Benchmark performance			19.9
Performance versus benchmark			(20.5)

Ongoing Charges

	Year to 31st July 2013	Year to 31st July 2012
Ongoing charges as a percentage of average net assets	0.89%	0.86%

Financial Calendar

Year ended:	31st July 2013
Results announced:	25th October 2013
Report and Accounts made available to shareholders:	25th October 2013
Annual General Meeting to be held in Manchester:	2nd December 2013
Expected final dividend payment:	6th December 2013

Directors

[1]**P H A Stanley** (80) joined the Board in November 1997 and was appointed Chairman in November 2000. Mr Stanley was Chairman of BWD Securities plc (1995-2000) and has extensive experience in Stock Market related matters.

B S Sheppard (79) is a founder Director of Manchester & London Investment Trust plc and was Chairman until November 2000. Mr Sheppard resigned from the board on 30th August 2013.

[1]**D Harris** (63) was appointed to the board on 26th May 2009 following the acquisition of OSP Limited (formerly Osprey Smaller Companies Income Fund Limited). Mr Harris is also the Chief Executive of InvaTrust Consultancy.

[2]**B Miller** (45) was appointed to the board on 30th August 2013 following the resignation of Mr Sheppard. Mr Miller is also an executive director of Damille Partners Limited, Damille Investments Limited and Damille Investments II Limited.

[1]Member of Nomination, Remuneration, Management and Audit Committees.

[2]Member of Nomination, Remuneration and Audit Committees only.

Advisers & Administration

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Arthur House
Chorlton Street
Manchester M1 3FH
Tel: 0161 228 1709
Fax: 0161 228 2510

Country of Incorporation
Registered in England & Wales
Number: 01009550

Company website
www.manchesterandlondon.co.uk

Investment Manager & Stockbroker
Midas Investment Management Limited
2nd Floor
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Chorlton Street
Manchester M1 3FH
Tel: 0161 228 1709
Fax: 0161 228 2510

Secretary
M K Camp (appointed 8th October 2013)
2nd Floor
Arthur House
Chorlton Street
Manchester M1 3FH

Registrar
Computershare Investor Services plc
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH
Tel: 0870 702 0003
Fax: 0870 703 6114

Bank
National Westminster Bank plc
11 Spring Gardens
Manchester M60 2DB

Auditor
CLB Coopers
Ship Canal House
98 King Street
Manchester M2 4WU

Administrator
M&M Investment Services
2nd Floor
Arthur House
Chorlton Street
Manchester M1 3FH

Chairman's Statement

Results for the year ended 31st July 2013

Our 2013 financial year was a year marked by strong performances across equity markets but unfortunately for the second year running, it has been a disappointing period for the fund. The majority of the fund is exposed to the cyclical sectors such as Mining, Oil & Gas and Industrial Engineering that have continued to perform badly and hence we remained somewhat static as the market moved ahead of us. We are encouraged that our holdings saw their underlying earnings increase, but the market derated these earnings over the course of the year. More details regarding our performance can be found in the Investment Manager's report. Plenty of issues remain ahead of us in 2014. The problems in the Eurozone remain unresolved and are healing only slowly, the Federal Reserve appears fearful of retracting quantitative easing and there are an abundance of geo-political tensions throughout the globe as the balance of power shifts following the 2008 crisis.

In time, and with patience, we believe investors will be drawn back to globally exposed, well established, cash generative growth stocks which is where we are positioned. As a board, we have some sympathy with the investment manager as the cash generative nature of our holdings can be evidenced by the fact that our total dividend last year represented such a material dividend yield premium to the investment trust sector. The fund's long term strategy is to be positioned to gain advantage from the benefits of global population growth, productivity gains, urbanisation and the growth of the middle classes. This strategy used to be popular but it has gone dramatically out of favour and may well not regain popularity for some time. Nonetheless, we will remain patient in our faith that, in the medium term, the future earnings power of the developed markets will be overtaken by the developing markets.

Over the last financial year, Manchester & London's net asset per share decreased by 0.6 per cent, which is an underperformance against our benchmark, which generated an increase of 19.9 per cent. The Directors are proposing a final dividend of 8.25p, making a total of 13.75p per share for the year, an increase of 5.8 per cent for the year. This total payment compares with the Total revenue return per ordinary share for the year of 13.8p. The discount between the share price and the net asset value per share has remained in line with its medium term historic level.

Post the year end, the founder of the company, Mr Brian Sheppard, retired from the board of directors as the representative of the Sheppard family's shareholding. Brian started the company in 1972 with capital of £100,000 and has done an exceptional job of turning that capital into the £98.3m it reached at our year end in 2011. Between the two dates, the compound annual return has been 19.0 per cent compared with our benchmark which has returned 7.2 per cent per year. We wish Brian well in his retirement.

Whilst Mark Sheppard remains the lead manager of the fund there will no longer be a Sheppard on the board of the company. Hence, we also welcomed Mr Brett Miller to the board on 30th August 2013. Brett works directly as executive director and co-manager of the Damille series of closed end funds so offers the board some further financial markets experience.

Annual General Meeting

I look forward to welcoming shareholders to our forty first Annual General Meeting to be held at a new venue, being St. Ann's Church, St. Ann Street, Manchester M2 7LF, at 1.05 pm on Monday, 2nd December 2013.

Mr P H A Stanley.
Chairman

Investments

As at 31st July 2013

Listed investments	Sector	Valuation £'000	% of Net Assets
PZ Cussons plc	Personal Goods	**17,725**	23.6
Weir Group plc	Industrial Engineering	**9,392**	12.5
Vodafone Group plc	Mobile Telecommunications	**6,962**	9.3
Diageo plc	Beverages	**6,735**	9.0
Smith & Nephew plc	Healthcare Services	**6,613**	8.8
Glencore Xstrata plc	Mining	**6,557**	8.7
Standard Chartered plc	Banking	**6,411**	8.5
Syngenta AG[1]	Chemicals	**6,160**	8.2
Unilever plc	Food Producers	**5,699**	7.6
BG Group plc	Oil & Gas Producers	**5,618**	7.5
BP plc	Oil & Gas Producers	**5,545**	7.4
Rio Tinto plc	Mining	**5,503**	7.3
Burberry Group plc	Personal Goods	**5,083**	6.8
Afren plc	Oil & Gas Producers	**4,628**	6.2
Jardine Matheson Holdings Ltd[2]	General Industrial	**4,384**	5.8
Smiths Group plc	General Industrial	**3,365**	4.5
Hang Seng 50 Index Longs[3]	Index Long Position	**2,682**	3.6
Vedanta Resources plc	Mining	**2,326**	3.1
Rolls-Royce Holdings plc	Aerospace & Defence	**2,209**	2.9
Echo Entertainment Group Ltd[4]	Travel & Leisure	**1,802**	2.4
Etablissements Maurel et Prom S.A.[5]	Oil & Gas Producers	**1,718**	2.3
Trinity Exploration & Production plc	Oil & Gas Producers	**1,419**	1.9
HMS Hydraulic Machines & Systems Group plc[2]	Industrial Engineering	**1,385**	1.8
Lloyds Banking Group plc	Banking	**1,118**	1.5
Millennium & Copthorne Hotels plc	Travel & Leisure	**1,062**	1.4
Northern Petroleum plc	Oil & Gas Producers	**789**	1.0
Deere & Company[2]	General Industrial	**652**	0.9
Joy Global Inc[2]	Mining	**504**	0.7
Heritage Oil plc	Oil & Gas Producers	**276**	0.4
Walter Energy Inc[2]	Mining	**273**	0.4
Associated British Foods plc	Food Producers	**265**	0.3
Fortune Oil plc	Oil & Gas Producers	**119**	0.2
Sundance Resources Ltd[4]	Mining	**43**	0.1
Listed investments		**125,022**	166.6
Unlisted at Director's valuation		**124**	0.2
Total Long Positions		**125,146**	166.8
FTSE 100 Index Shorts		**(4,834)**	(6.4)
S&P 500 Index Shorts[2]		**(48,076)**	(64.1)
Cash and net current assets/(liabilities)		**2,814**	3.7
Net assets		**75,050**	100.0

All investments listed above are equities (unless otherwise stated), denominated in Sterling (except [1]CHF, [2]USD, [3]HKD, [4]AUD and [5]Euro) that have been issued by companies registered in England (save for Glencore Xstrata, Syngenta, Jardine Matheson, Hang Seng 50 Index Longs, Echo Entertainment, Establissements Maurel et Prom, HMS Hydraulic Machines & Systems, Deere & Company, Joy Global, Heritage Oil, Walter Energy, Sundance Resources and S&P 500 Index Shorts that are registered in Jersey, Switzerland, Bermuda, Hong Kong, Australia, France, Cyprus, USA, USA, Jersey, USA, Australia and USA respectively).

Portfolio Sector Analysis

As at 31st July 2013

Sector	% of Net Assets
Personal Goods	30.4
Oil & Gas Producers	26.8
Mining	20.3
Industrial Engineering	14.4
General Industrial	11.2
Banking	10.0
Mobile Telecommunications	9.3
Beverages	9.0
Healthcare Services	8.8
Chemicals	8.2
Food Producers	7.9
Travel & Leisure	3.8
Index Long Positions	3.6
Aerospace & Defence	2.9
Unlisted Investments	0.2
Short Positions, Cash and net current assets/(liabilities)	(66.8)
Net Assets	**100.0**

Investment Objective and Policy

Investment objective

The investment objective of the Company is to achieve capital appreciation together with a reasonable level of income.

Investment policy

Asset allocation and risk diversification

The Company's investment objective is sought to be achieved through a policy of actively investing in a diversified portfolio, comprising UK and overseas equities and fixed interest securities. The Company seeks to invest in companies whose shares are admitted to trading on a regulated market. However, it may invest in a small number of equities and fixed interest securities of companies whose capital is not admitted to trading on a regulated market. Investment in overseas equities is utilised by the Company to increase the risk diversification of the Company's portfolio and to reduce dependence on the UK economy in addressing the growth and income elements of the Company's investment objective. There are no maximum exposure limits to any one particular classification of equity or fixed interest security. The Company's investments are not limited to any one industry sector and its current investment portfolio is spread across a range of sectors. The Company has no specific criteria regarding market capitalisation or credit ratings in respect of investee companies.

The Company intends to maintain a relatively focused portfolio, seeking capital growth by investing in approximately 20 to 40 securities. The Company will not invest more than 15 per cent of the gross assets of the Company at the time of investment in any one security. However, the Company may invest up to 50 per cent of the gross assets of the Company at the time of investment in an investment company subsidiary, subject always to other restrictions set out in this investment policy and the Listing Rules.

The Company intends to be fully invested whenever possible. However, during periods in which changes in economic conditions or other factors so warrant, the Investment Manager may reduce the Company's exposure to one or more asset classes and increase the Company's position in cash and/or money market instruments.

The Company may invest in derivatives, money market instruments and currency instruments including contracts for differences ("CFDs"), futures, forwards and options. These investments may be used for hedging positions against movements in, for example, equity markets, currencies and interest rates. In addition, these instruments will only be used for efficient portfolio management purposes. For the avoidance of doubt, the use of such instruments to engage in trading transactions is strictly against the Company's investment policy. Any trading transactions will be carried out through dealing subsidiaries of the Company. The Company would not maintain derivative positions should the total underlying exposure of these positions exceed one times the adjusted total capital and reserves.

Gearing

The Company may borrow to gear the Company's returns when the Investment Manager believes it is in shareholders' interests to do so. The Company's investment policy and the Articles permit the Company to incur borrowing up to a sum equal to two times the adjusted total of capital and reserves. Any change to the Company's borrowing policy will only be made with the approval of shareholders by special resolution.

In addition to the above, the Company will observe the investment restrictions imposed from time to time by the Listing Rules which are applicable to investment companies with shares listed on the Official List of the UKLA under Chapter 15.

In accordance with the Listing Rules, the Company will manage and invest its assets in accordance with the Company's investment policy. Any material changes in the principal investment policies and restrictions (as set out above) of the Company will only be made with the approval of shareholders by ordinary resolution.

In the event of any breach of the investment restrictions applicable to the Company, shareholders will be informed of the remedial actions to be taken by the Board and the Investment Manager by an announcement issued through a Regulatory Information Service approved by the FCA.

Investment Manager's Review

An explanation of our core investment style in more detail.

We are seeking to invest in stocks for our core portfolio that are characterised by the following attributes:

1. well established, with a strategy that we believe has a future;
2. quality operations with competitive advantages (exhibiting attractive returns on investment);
3. cash generative business models;
4. have the ability to capture the potential for growth; and
5. are trading at reasonable valuations.

In periods when low Return on Invested Capital (“ROIC”) stocks outperform high ROIC stocks, we are very rarely interested in “dashing for trash”. If quality is going to underperform, then so be it. We would rather travel up with the market capturing only a proportion of its returns in the knowledge that we do so with holdings that have the resilience to take a few knocks.

Please note our investment style for generating our trading income is somewhat less restrictive and is more event driven.

It is important to note that potentially we have three structural advantages over a vanilla open-ended fund, we take a longer-term investment horizon of ten years (due to our ownership structure), we are able to adapt gearing levels to our comfort levels with the market’s valuation (a benefit of closed end funds) and we should be able to have a lower cost structure (another historic benefit of closed end funds).

What we hope to achieve in any investment period.

Our job is multi-fold and we will discuss below how the year under review has progressed.

1. Controlling costs and generating trading income.

Austerity, bonuses and costs are the favourite topics for journalists. One hears constant criticism of fund managers with regard to their fee levels. We think it’s important to make the following points regarding our fees:

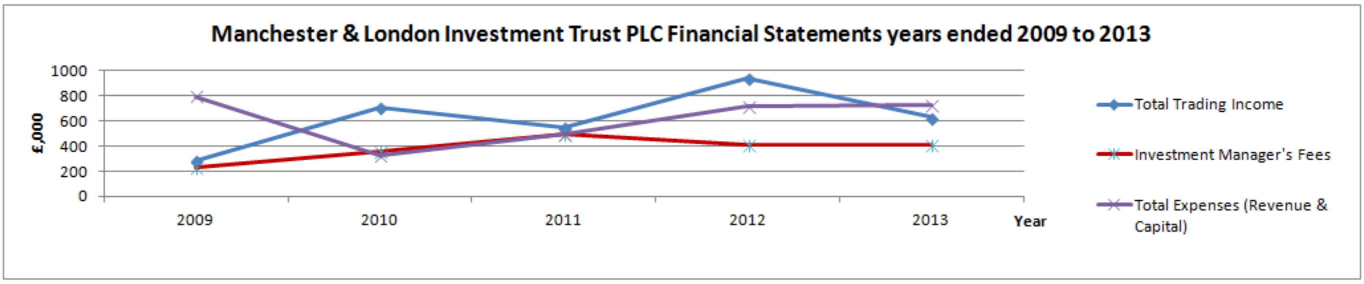
a. We do not charge a performance fee, yet 62 per cent of investment trusts do. (Source: The Financial Times, August 2013)

b. Our investment management fee structure is 0.5 per cent per annum whereas the AIC average is 1.2 per cent per annum. (Source: The AIC, July 2013)

c. If you analyse Chart 1 below, you will see that for the last five years the trading income we have generated has exceeded our investment management fees hence, to use an old stockbroking expression, “we have washed our face”. In addition, in three of the last five years, trading income has actually covered all the non-finance expenses of the Company.

2013 was another year of positive results for trading income.

Chart 1:



Source: MNL Financial Statements, years ended 2009 - 2013

Investment Manager's Review (continued)

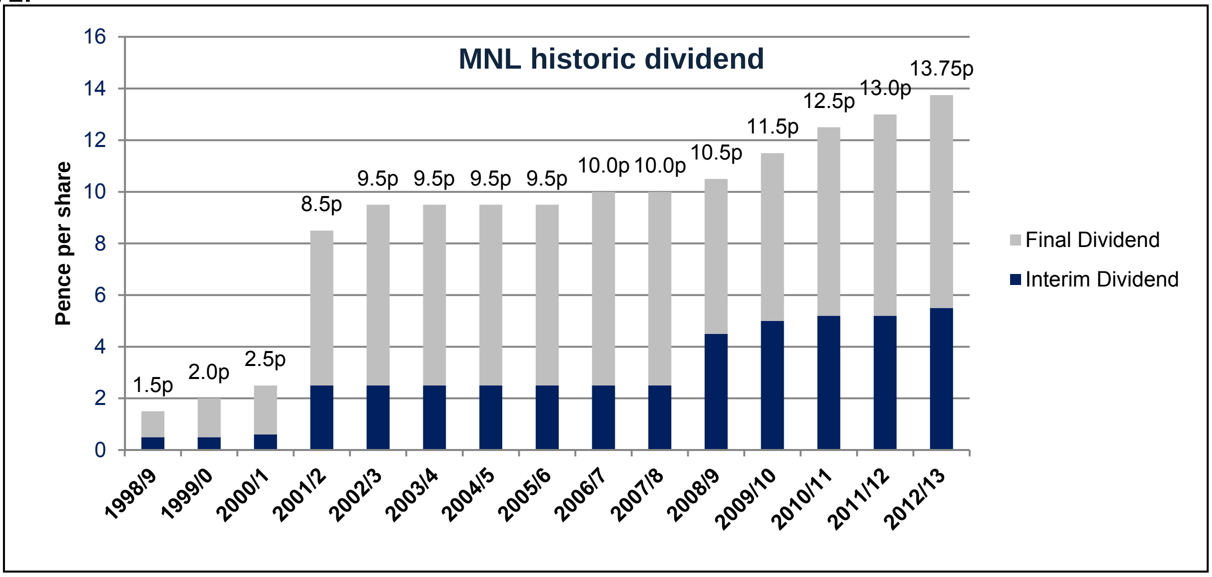
2. Paying our shareholders a dividend.

We are in the era of the reach for yield. In 2013, we have increased the total annual dividend per share by 5.8 per cent which is slightly more than the UK benchmark which increased its equivalent dividend per share by 5.6 per cent. Chart 2 below shows that we have followed a progressive dividend policy and we are fully aware that this is what our shareholders want.

Many shareholders may have seen the point that some journalists have been making regarding investment trusts not actually covering all their costs when paying a dividend. We have some sympathy with this point of view so this year we have charged 100 per cent of the cost of our investment management fee to revenue. Previously, we had annually apportioned up to 65 per cent of our investment management fee to capital.

Our 2013 dividend yield (using the mid price at the year end) was 4.6 per cent which is materially higher than the 2.4 per cent of the investment trust sector benchmark.

Chart 2:



Source: MNL Financial Statements, years ended 1999 - 2013

3. Generating capital returns.

We aim to ensure that our total return is positive and preferably exceeds the return on cash. In 2013, we achieved this objective with a total return of 3.3 per cent. However, ideally, we would also like our Net Asset Value per share to increase in line with the stock market.

2013

This year was another depressingly disappointing year for capital returns. We underperformed our benchmark by 20.5 per cent. The constituents of this underperformance are broken down as follows:

Underperformance due to maintaining our Net Long materially lower than our Net Assets	5.5%
Underperformance of Oil & Gas investments	5.4%
Underperformance of Mining investments	4.9%
Underperformance of Consumer Goods investments	2.2%
Underperformance of Capital Goods investments	1.3%
Underperformance of Financial Sector investments	1.1%
Other elements of underperformance	0.1%
Total underperformance	20.5%

Source: MNL

Investment Manager's Review (continued)

Is there a chance matters may improve?

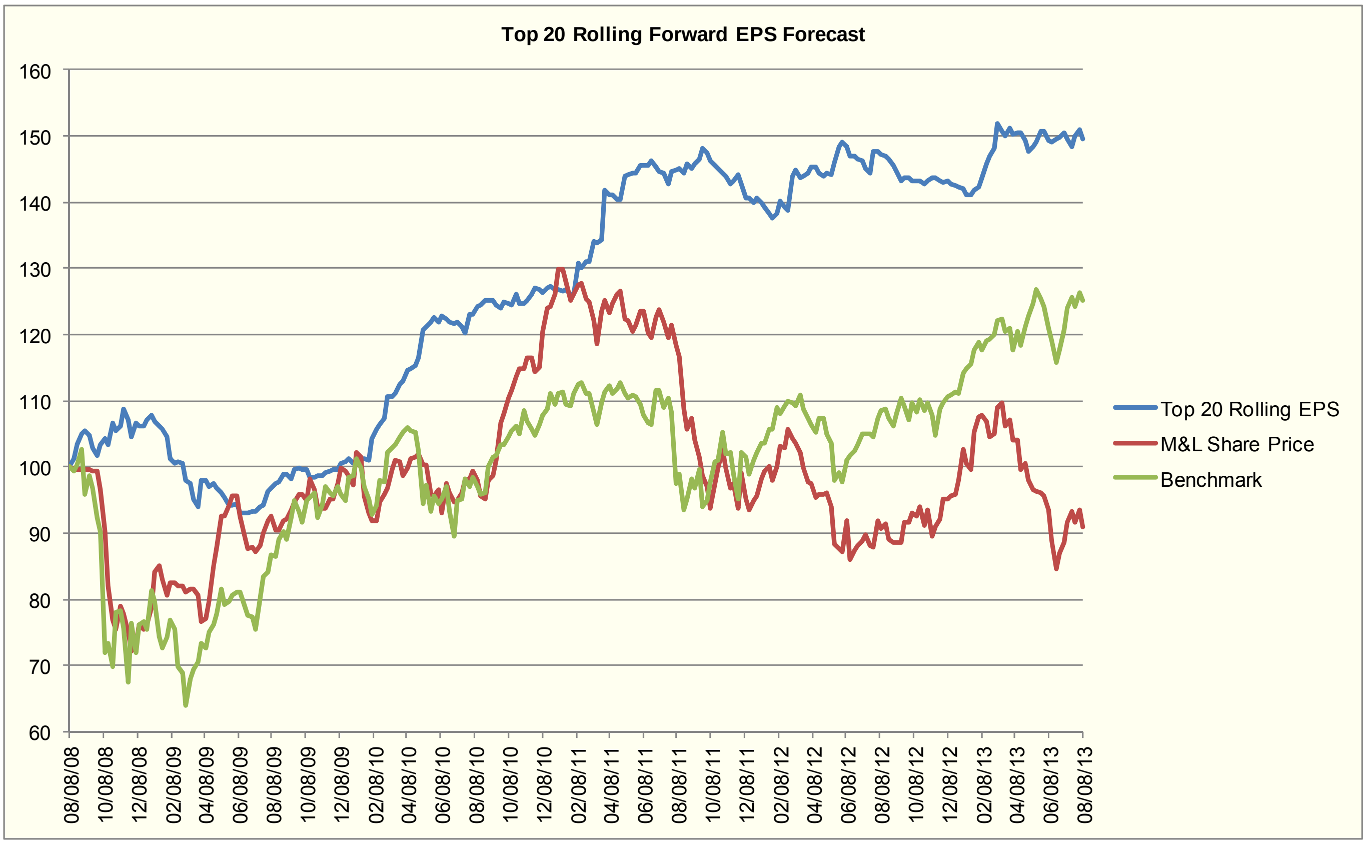
The best way to exceed market returns is to ensure that we buy stocks that:

1. increase their earnings equal to, or faster than, the market; and
2. are reasonably valued in relation to the market.

Chart 3 below shows that the underlying forecast earnings per share of our top twenty holdings increased at a greater rate over the last five year period than our benchmark. More importantly, the chart shows that since the middle of 2011, the underlying earnings of Manchester and London Investment Trust's ("MLIT") holdings have increased whilst our Net Asset Value per share has declined. Hence, since mid 2011, our problem has not been that our holdings have lost their earnings power it is that the valuation multiples of our holdings have de-rated. In other words, we actually did achieve point 1 above as we held stocks that increased their earnings faster than the market when one considers that over the relevant time period the market's valuation has also re-rated upwards.

Please note it is too difficult to graph the underlying earnings of the exact portfolio throughout the whole period, so we have used our top twenty holdings as at the year end. Many would be correct to criticise this methodology for being skewed by a survivorship bias but it provides a good illustrative example. Forecast earnings per share are used for the year in advance of the year of data capture. It is important to note that our top twenty holdings represented more than 100 per cent of our Net Asset Value as at the year end.

Chart 3:



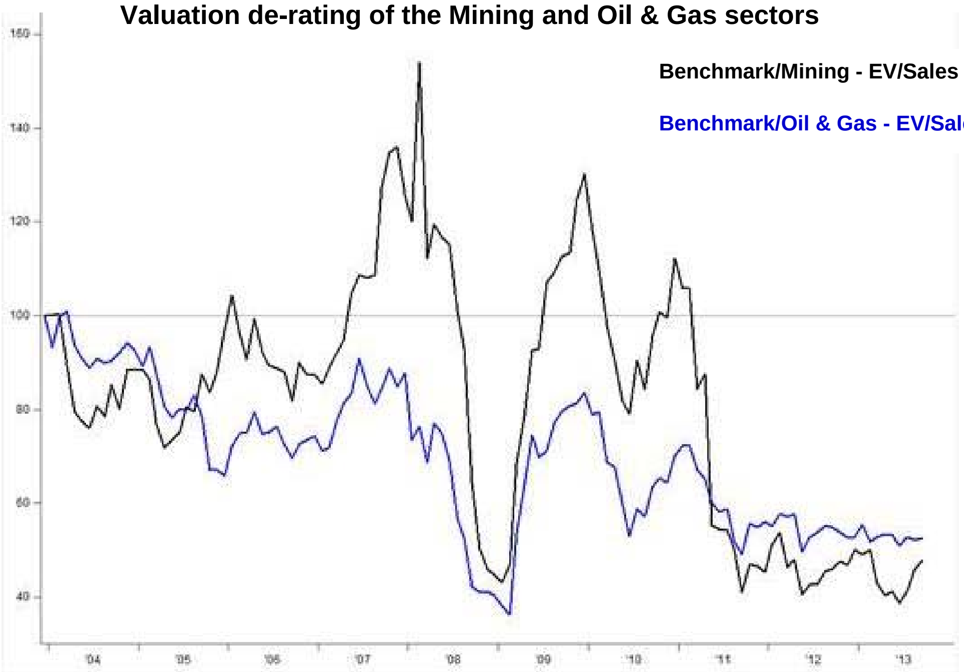
Source: FactSet Research Systems Inc.

Our problem remains the same as in 2012. Although, we do not believe our holdings were overvalued to start with, they have continued to de-rate for the last two years.

The sectors that have felt this most acutely are the Mining and the Oil & Gas sectors. Chart 4 below shows the material valuation de-rating of both these sectors over the last two years to 31st July 2013. Please note that as at the year end, we held a combined 47.1 per cent of our Net Asset Value in these combined sectors.

Investment Manager's Review (continued)

Chart 4:



Source: FactSet Research Systems Inc.

More on the Mining sector

We note from recent fund managers' surveys that there are now extreme underweight positions in the Mining sector with sector relative performance now at the lows of 2008. We understand investors' views on the end of the "super cycle" and the concern that management teams are just "big hole junkies".

However, we are not so sure and we believe that the management team of Glencore Xstrata are driving a revolution of attitude in the industry with cost cuts, lower speculative capital spend and innovative JV ideas. Having recently attended (with thanks) the DB Consumer Goods conference, investors were salivating at the future prospects of global consumer goods companies who were all presenting that the key drivers of their future growth would occur through the urbanisation of developing markets and the swelling of the middle classes. If these factors are drivers for consumer goods companies, why aren't they drivers for the miners too?

The answer may lie in the rate of change, but we believe that dividend yields at around 4 per cent and valuations sub-book value are attractive. We see current dividends as defensible and we believe there is material upside potential if commodity prices stabilise, capex drops off and costs continue to be cut. In conclusion, very few funds buy the Mining sector as its constituents move with sickening volatility and within that lies opportunity.

More on the Oil & Gas sector

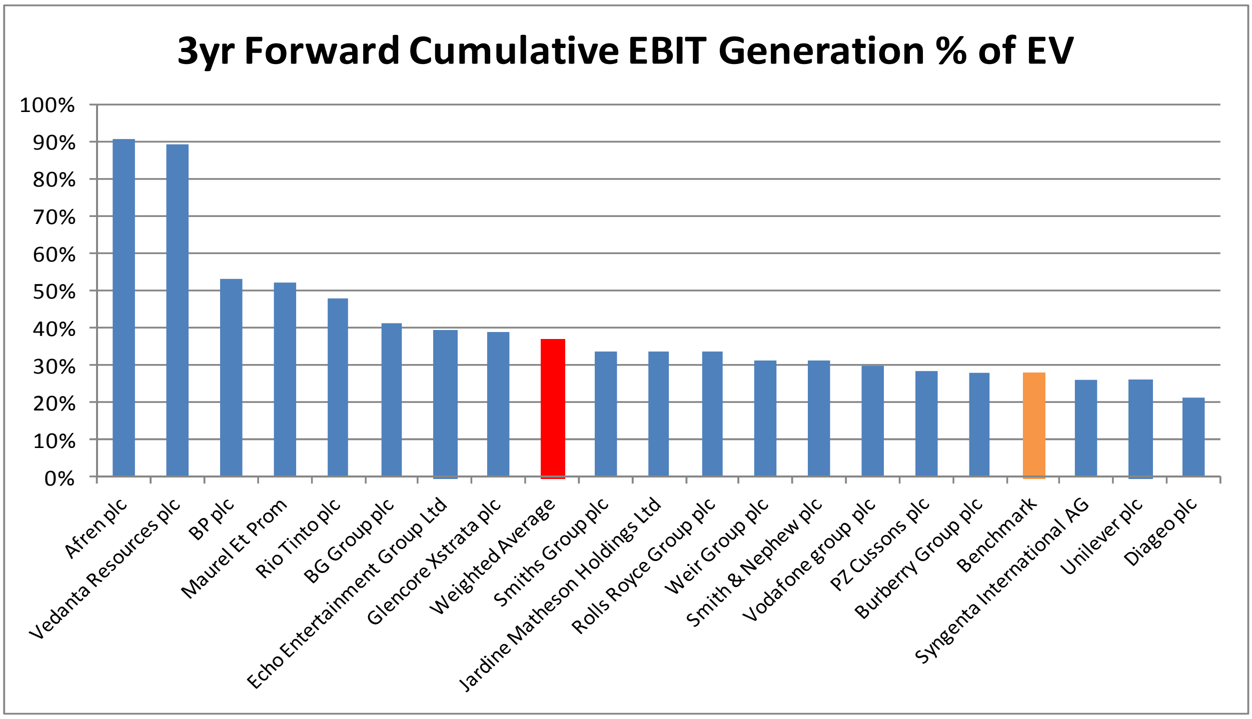
Many of the points we have made above are also pertinent for the Oil & Gas sector. In general, Oil & Gas stocks are trading at material discounts to consensus NAVs and are now paying attractive dividends. It must be remembered that over the last 30 years, the Oil & Gas sector has been the third most successful in total shareholder return terms. This is partly because it is volatile, nauseating and risky, and that means many avoid it.

Why we think our other stocks are relatively under valued

Chart 5 below shows the expected cumulative operating profit that our top twenty holdings may generate over the next three years as a percentage of their total market value (based largely on consensus forecasts).
EBIT can be used as a reasonable proxy for normalised free cash flow before taxation and interest (assuming capex equals depreciation). It can clearly be seen that our portfolio weighted average valuation (shown by the red bar) is materially less expensive than the UK market and, in the case of some of our stocks, significantly so.

Investment Manager's Review (continued)

Chart 5:



Source: FactSet Research Systems Inc., UBS, Midas Investment Management Ltd

The year ahead

There are numerous reasons why we are not convinced that markets should be trading at such high multiples:

- **Markets are correlated to productivity** - US productivity has been weak and materially below the +2.2 per cent average over the last 20 years.
- **Global debt** - many countries are still highly leveraged with Japan of particular concern. It is possible that Japan can not sustain these debt levels if trade surpluses were to switch to deficits consistently. It is possible that other Asian exporters will not tolerate the continuing devaluation of the Yen.
- **Europe** - whilst some progress has been made, the periphery still has debt, competitiveness and banking leverage problems. Despite being several years into the "Euro Crisis" we are yet to see a credible plan that would ensure the viability of the bloc in the long-term. Either the periphery leave, or the Germans pay for the weaker nations or the pain and unemployment continue.
- **Demographics in developed markets** - in Japan 32 per cent of the population is over 60, in the UK it is 23 per cent and the US 19 per cent. This demographic shift is expected to continue and could be a significant drag on equity markets in the longer term.
- **Inflation** - whist the unprecedented level of QE has yet to materially feed into consumer prices or commodities, it would be premature to write this off as a future risk, particularly if the emerging markets decide their own QE is the best way to respond to the aggressive printing in Japan.
- **China** - whilst we remain positive in the long term on the prospects for Asia and do not see a hard landing as the base case in the short term, we would be remiss not to consider the potentially challenging rebalancing China is undergoing as a risk to the global economy.
- **Bond Bubble** - when a 30 year bull market in bonds culminates in Rwanda getting 10 year debt away under 7 per cent one has to be concerned about a bubble in the debt markets. After all, the US 10 year yield was above this level as recently as 1995. Since then, Rwanda's yield has jumped to over 8 per cent, and US yields have also increased to over 2.5 per cent. With the average US ten year yield over the last 100 years close to 5 per cent, we could still be far from a normalised discount rate level, particularly once the QE taper has been unpaused.

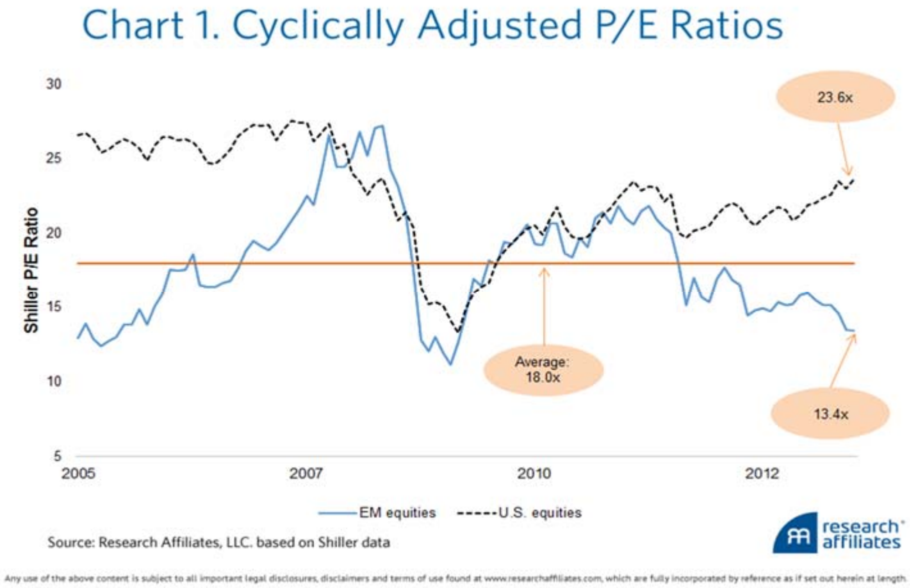
Investment Manager's Review (continued)

- **Geopolitical tensions** - geopolitical risks remain high with continuing unrest in the Middle East, and tensions between China and Japan, and North Korea always on the radar. There are risks of a total breakdown in Sunni and Shia relations in the Middle East, which apart from causing human conflict, could lead to an oil price shock.

What about prospects for the USA?

- **US debt situation** - whilst the headline debt figures look manageable at 105 per cent of GDP, once the sizeable unfunded liabilities of Social Security, Medicare and Medicaid are included, total net liabilities soar to 600 per cent of GDP or nearly $100tr. This is a material burden for future tax payers (and bond holders), unless serious policy changes are made.
- **Households** - whilst total household balance sheets are healthy with net assets of $70tr, there is a big disparity around the spread of wealth. The mean US household has over $500k in net assets, but the latest data from the US Census Bureau for 2011 shows a median net worth of just $68k, or $17k excluding home equity. For those in the lowest quintile the situation was even worse, with a net worth of just under $5k. For this group of consumers, the impact of rising mortgage rates could be significant.
- **US valuations** - the S&P 500 is on ~17x PE (FT) which is a 1.2 per cent premium to its long run fair value of 16.4x (DB). More importantly, the current multiple represents a 66 per cent premium to the Hang Seng (FT), a 27 per cent premium to the Singapore Market (FT) and a 134 per cent premium to the Chinese Market (FT). The relative level of the S&P vs the Hang Seng is now at its highest level since 2006.

Chart 6:



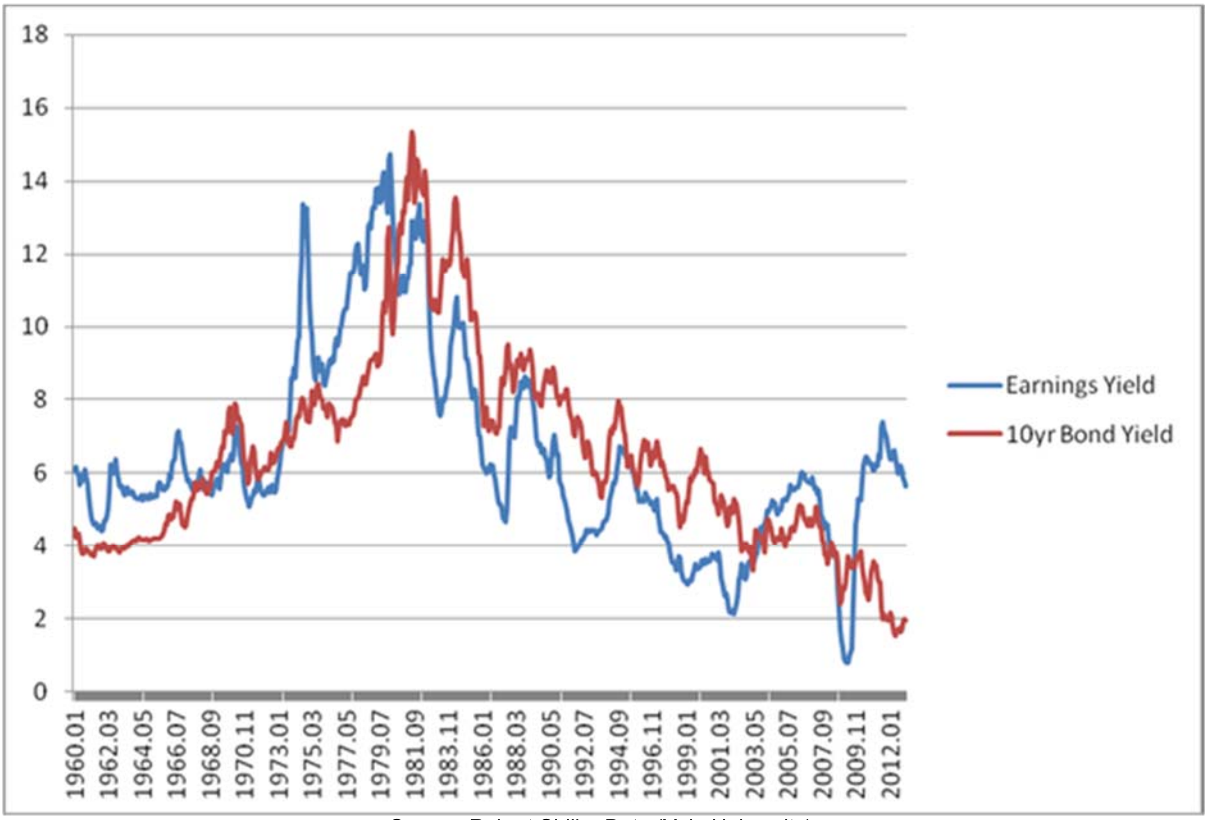
- **Shale is not a game changer** - whilst lower energy prices have certainly helped, the benefit is not sufficient to close the competiveness gap to emerging markets. In addition, faster than expected shale decline rates are a material risk. Gas exports could improve the US trade balance over the next few years, but the US cannot have its cake and eat it, it must choose between energy exports or lower prices.

Where do we think the S&P should be?

- Whilst we are not overall bears on the global market, we do think the US is overvalued relative to its own fundamentals and overvalued compared with emerging market equities.
- The QE led moves into defensive equity sectors over the last few years has highlighted the key importance of the US bond yield in equity valuations. This is intuitively understandable as on a theoretical level the value of any stock is the discounted value of all future dividends. Therefore the discount rate - which is commonly related to the bond yield - and assumptions regarding future growth are the two key drivers of valuation.
- Going back to 1960, the monthly correlation between the Earnings Yield (inverse P/E) and the US 10 year bond yield is 0.7 per cent.

Investment Manager's Review (continued)

Chart 7:



Source: Robert Shiller Data (Yale University)

- If US 10 year bond yields were to increase to 4 per cent (which is below the long run average) and equity risk premiums increase to the long run average of 4.2 per cent (New York University) then the implied fair value earnings yield becomes 8.2 per cent. That equity earnings yield derives a PE of 12.2x resulting through a 2013 consensus EPS of $109.5 (Source: Factset) to an implied S&P level of ~1335. Clearly, this is materially below the current level so we are not suggesting this is a realistic target, but it is illustrative of the downside risks.

Conclusion

It seems logical that if QE has pumped the market upwards then its removal may at least lead to some volatility. Hence, although we remain substantially invested into the equity market, we are by no means fully invested. This could be a grave error but we would rather play the situation somewhat more defensively and suffer the ensuing underperformance if we are proved wrong.

In the meantime, we will strive every day to seek trading income opportunities to ensure we are able to continue to reward our loyal shareholders with an above-market, covered dividend yield and to ensure our core portfolio is focused on growing, cash generative, well established quality operators at inexpensive valuations.

We have little option but to learn the virtues (tediousness) of patience.

Investment Manager
Midas Investment Management Ltd.

Principal Portfolio Holdings

PZ Cussons plc ("PZ Cussons")

PZ Cussons is a global personal goods manufacturer, with a portfolio of more than 30 brands, including Imperial Leather, Carex, Cussons Baby and Morning Fresh. The company operates in the UK, Africa, Asia, Central Europe and Australia. PZ Cussons has a five year compound earnings per share ("EPS") growth rate of 9.0 per cent.

PZ Cussons is exposed to developing markets and the volatility that incurs. We believe medium term prospects are encouraging and we have no intention of reducing our stake in the short term. PZ Cussons' geographic footprints and distribution network should be attractive to a major.

Weir Group plc ("Weir")

Weir is a global leader in the manufacture of specialised pumps. The group is well-established in each of their three main markets; Mining, Power and Oil & Gas, and generates more than half of their revenues from aftermarket products and services. Weir has a five year compound EPS growth rate of 30.5 per cent.

Weir is a quality British engineer exposed to growth markets that should attract the majors in a consolidating market.

Vodafone Group plc ("Vodafone")

Vodafone is a leading global telecommunications company. While the potential sale of its Verizon Wireless stake was the key driver for our investment, and we were pleased to see a deal on attractive terms, the valuation of the remaining assets remains too low in our opinion. We now see the potential for a takeover by a larger competitor such as AT&T, which has indicated it is looking for European assets.

Though the attractive dividend yield and defensive nature of this stock are welcome in the short term, this is primarily an event driven investment part of which has been disposed of since the year end.

Diageo plc ("Diageo")

Diageo is a global alcoholic beverages company, and the world's largest producer of premium spirits. The company holds an enviable portfolio of iconic brands such as Johnnie Walker, Smirnoff, Baileys and Guinness.

Diageo continues to benefit from the growth of the middle classes in emerging economies and their increasing demand for premium brands. The company has targeted medium-term organic sales growth of 6 per cent per annum and has a five year compound EPS growth rate of 11.4 per cent.

We believe Diageo is starting to look fully valued however, and this holding may be reduced in the medium term.

Smith & Nephew plc ("Smith & Nephew")

Smith & Nephew is a global medical devices company focusing on orthopaedics, endoscopy and advanced wound management. The company has distribution channels in over 90 countries and generates annual sales of over $4 billion. Smith & Nephew has a five year compound EPS growth rate of 7.8 per cent.

Smith & Nephew remains attractively placed to benefit from the changing demographics and personal activity levels across the world. The stock is inexpensive against its historic trading multiples and with further consolidation expected in the sector, it is a takeover candidate.

Principal Portfolio Holdings (continued)

Glencore Xstrata plc (“Glencore Xstrata”)

Glencore Xstrata is a leading global mining & trading group, covering a wide range of essential commodities from copper to oil to grain. The recently merged group is undergoing a transformational period, with production ramp up at owned mines, post merger synergies and capex run-off expected to result in material free cash flow generation over the next few years.

As a result, we believe Glencore Xstrata is materially undervalued, but we would reduce this overweight holding should valuations become more realistic.

Standard Chartered plc (“Standard Chartered”)

Standard Chartered is engaged in consumer and wholesale banking globally and has a strong focus on the Asia-Pacific, Middle East and African regions, which provide approximately 90 per cent of the group's profit. The bank has been a strong historic performer and has delivered 10 successive years of record profits, with a five year compound growth rate of 11.5 per cent.

Standard Chartered is exposed to developing markets and the volatility that incurs. The current valuation of <1.5x book value seems an undeserved discount to its historic average of around 2.5x. In the longer term, we believe the attractions of Standard Chartered’s footprint will be attractive to one of the top 5 global mega-banks.

Syngenta AG (“Syngenta”)

Syngenta is a global agri-science business engaged in crop protection and seeds. Urbanisation and changing dietary preferences across the middle classes of the developing nations is forcing the agricultural industry to increase yields.

The strong sector outlook, the group's technological edge and their enviable product pipeline suggest the shares are attractively valued, particularly if Syngenta achieve their target to increase sales in key crop areas to $25bn by the end of the decade. Syngenta has a five year compound EPS growth rate of 14.3 per cent. Syngenta appears to have many years of growth before it so it is viewed as a core holding for the medium term.

Unilever plc (“Unilever”)

Unilever is a multinational consumer goods champion, with universally recognisable brands in personal goods (Dove, Sure, Tresemme, VO5), household goods (Persil, Domestos, Surf) and food (Ben & Jerry's, Flora, PG Tips). It has a high exposure to fast growing emerging markets, driving compound annual revenue growth of 5 per cent over the last 5 years. Despite this, it trades at a discount to pure-play specialists such as L'Oreal. However, Unilever has been slowly divesting non core food brands and over time we look for further non-core disposals to drive a re-rating towards valuations more appropriate for a quality pure-play personal goods company. It is possible that we will then divest our holding at this time.

BG Group plc (“BG”)

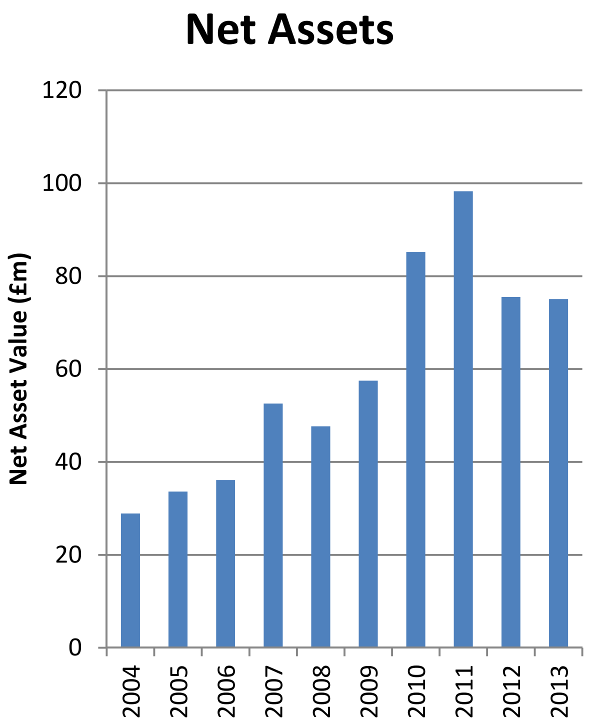
BG is a global diversified oil & gas E&P company, with top tier assets in the Santos Basin (Brazil), Australia and the North Sea. The group also has an LNG arm, capitalising on global price differences by transporting gas in liquid form from producing nations to high demand regions such as Asia.

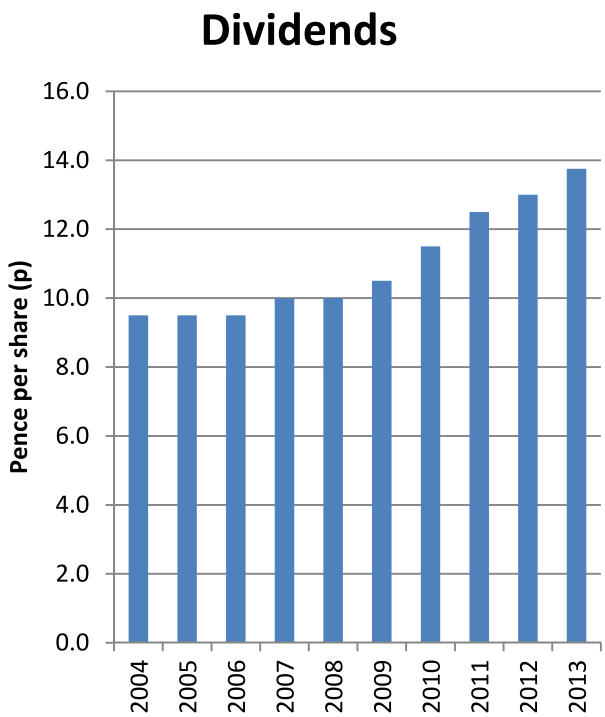
BG has a five year compound EPS growth rate of 5.2 per cent and trades at a significant discount to its NAV. As production in Brazil and Australia ramps up, we would anticipate this discount closing in time, given the material shift this should mean to the group's cash flow profile and capacity for shareholder returns.

Investment Record of the Last Ten Years

Year ended	Total Return	Return per ordinary share Basic	Return per ordinary share Fully diluted	Dividend per ordinary share	Total assets less liabilities	Net Asset Value per 25p share Basic	Net Asset Value per 25p share Fully diluted
	£'000	p	p	p	£'000	p	p
31st July 2004	5,512	73.49	53.15	9.50	28,901	385.35	282.39
31st July 2005	5,426	72.35	52.33	9.50	33,611	448.15	327.34
31st July 2006	3,206	42.75	31.14	9.50	36,107	481.43	351.17
31st July 2007	5,799	41.58	41.58	10.00	52,554	376.80	376.80
31st July 2008	(3,490)	(25.02)	(25.02)	10.00	47,669	341.80	341.80
31st July 2009	645	4.43	4.43	10.50	57,495	328.44	328.44
31st July 2010	13,151	71.75	71.75	11.50	85,203	379.40	379.40
31st July 2011	15,691	69.87	69.87	12.50	98,267	437.60	437.60
31st July 2012	(19,945)	(88.81)	(88.81)	13.00	75,515	336.26	336.26
31st July 2013	**2,522**	**11.23**	**11.23**	**13.75**	**75,050**	**334.19**	**334.19**

In 2006, the Company adopted International Financial Reporting Standards ("IFRS"). As a result, the data has been restated to reflect the change to IFRS.





In the period from 1981 to 2003, total assets less liabilities increased from £241,000 to £24,200,000. Net Assets per share increased from 24.1p to 323.2p.

Statement of Corporate Governance

Application of Association of Investment Companies Code Principles

The Directors attach great importance to ensuring that the Company operates to high ethical and compliance standards. Accordingly, the Board has put in place a framework for Corporate Governance which it believes appropriate for an investment trust and which seeks to observe the principles set out in the Code of Corporate Governance, as published by the Association of Investment Companies (the "AIC Code"), established specifically for investment trust companies and endorsed by the Financial Reporting Council ("FRC"). A copy of the AIC's Code of Governance is available on their website, www.theaic.co.uk.

The AIC Code provides a guide to best practice in certain areas of governance where the specific characteristics of investment trusts suggest that alternative approaches to those set out in the UK Corporate Governance Code may be preferable.

The Board considers that the Company has complied with the provisions set out in the UK Corporate Governance Code throughout the year to 31st July 2013 except as referred to below. The following statement describes how the Company has applied the relevant principles of Corporate Governance.

The Board and Committees

The Board currently comprises three non-executive Directors, all of whom are considered to be independent of the Company's Investment Manager. Although Mr P H A Stanley has been a member of the Board for more than nine years (which is suggested as a benchmark for independence by the AIC Code), the Board believes Mr P H A Stanley has a wealth of experience and consistently acts in all shareholder's best interests and so is considered independent. Nonetheless, to accord with best corporate governance, Mr D Harris is the nominated senior independent director. As the Board is composed entirely of non-executive Directors and executive responsibility for investment management has been delegated to the Company's Investment Manager, there is no Chief Executive Officer.

The Board regularly reviews the independence of its members and considers all the current Directors to be independent in character and judgement within the meaning set out in the Code, having examined each Director against the independence criteria described in the Code.

All the Directors of the Company are resident in the UK and their biographical details on page 5 of this report demonstrate the wide range of skills and experience that they bring to the Board. Non-executive Directors are not appointed for a specific term, as the Board believes that long service does not detract from their independence and that a detailed knowledge of the business has a beneficial impact on the running of the Company. All Directors are subject to re-election by rotation, one-third of their number each year, and their re-election is subject to shareholders' approval. All non-executive Directors stand for election at the Annual General Meeting following their appointment. No Director has been in office for more than three years without having offered himself for re-election.

The Board has procedures in place to deal with a situation where a Director has a conflict of interest, as required by the provisions of the Companies Act 2006. As part of this process, the Directors prepare a list of other positions held and all other conflict situations that may need authorising either in relation to the Director concerned or his or her connected persons. The Board considers each Director's situation and decides whether to approve any conflict, taking into consideration what is in the best interests of the Company and whether the Director's ability to act in accordance with his or her wider duties is affected.

Each Director is required to notify the Company Secretary of any potential or actual conflict situations which will require authorisation by the Board. Authorisations given by the Board will be reviewed at each Board meeting.

The Board has established both a nominations and a remuneration committee, comprising the entire Board. The nominations committee is responsible for considering the appointment of new directors, agents and advisers, and evaluating the overall composition of the Board. In considering appointments to the Board these are based on merit. The Nomination Committee also takes into account the ongoing requirements of the Company and the need to have within the Board a balance of skills, experience, independence and diversity, including gender and knowledge of the Company. There are procedures for a new Director to receive relevant information on the Company together with appropriate induction. The remuneration committee is responsible for considering all material elements of remuneration policy which is set out in the Directors' Remuneration Report on page 33. Mr P H A Stanley is Chairman of both committees.

Statement of Corporate Governance (continued)

It is the responsibility of the full Board to ensure that there is effective stewardship of the Company's affairs and that the Company meets its obligations to shareholders. Strategic issues and all operational matters of a material nature are determined by the Board and in order to enable them to discharge their responsibilities, all Directors have full and timely access to relevant information. The Board meets regularly and at each meeting reviews investment performance and financial results and monitors compliance with the Company's objectives.

A management engagement committee has been established, comprising of Mr P H A Stanley (Chairman of the committee) and Mr D Harris. This management engagement committee is responsible for ensuring that the Investment Manager of the Company complies with the terms of the management agreement entered into with the Company, and that the provisions of the management agreement follow industry practice and remain competitive and in the best interests of shareholders. The Directors maintain regular contact with the Investment Manager.

The Board has established a procedure whereby Directors, in the furtherance of their duties, may take independent professional advice at the expense of the Company. The Board also ensures that all Directors continually update the skills and knowledge required to fulfil their role both on the Board and on Board committees. The Directors have access to the advice and services of the Company Secretary who is responsible to the Board for ensuring that established Board procedures and applicable rules and regulations are complied with. The performance of individual Directors and of the committees is evaluated on a regular basis by the Board as a whole.

The Audit Committee, which consists of Mr P H A Stanley, Mr B Miller (appointed 30th August 2013) and Mr D Harris, and is chaired by Mr D Harris, has specific terms of reference. Its primary role is to review the accounting policies and the contents of the Annual Report, the adequacy and scope of the external audit and compliance with regulatory and financial reporting requirements. The Audit Committee regularly monitors and reviews the auditor's independence (including the provision of non-audit services), objectivity and effectiveness. The Audit Committee is also responsible to the Board for making recommendations in relation to the appointment of the external auditor. All committee members are regarded as having recent and relevant financial experience. The Audit Committee has direct access to the external auditor and they are invited to attend the Board Meeting at which the Annual Reports and Financial Statements are approved. All reports received from the auditor are given full consideration.

The rotation of the senior statutory auditor is at least every five years and, if the auditor becomes aware of any situation which might potentially compromise their independence, the Board expects the auditor to bring that situation to their attention at the earliest opportunity. The audit committee assessed the independence of the external auditors and concluded CLB Coopers, the Company's auditor to be independent of the Company.

The Administrator is responsible for the internal audit function and ensuring that adequate internal controls are in place.

Directors Meetings

Attendance and frequency details of Board and Committee meetings held during the year are as follows:

	Board Meetings	Nomination Committee	Remuneration Committee	Management Committee	Audit Committee
Number of meetings during the year	4	2	1	1	3
P H A Stanley	4	2	1	1	3
B S Sheppard	3	2	1	N/A	N/A
D Harris	4	2	1	1	3
Membership summary:					
P H A Stanley		●	●	●	●
B S Sheppard		●[1]	●		
D Harris		●	●	●	●
B Miller		●	●		●

[1]Mr B S Sheppard (resigned effective 30th August 2013) being the only non-independent Director of the board is not included in any decisions when appointing any new independent director.

Statement of Corporate Governance (continued)

Accountability and Audit

The Directors' Responsibilities Statement in respect of the financial statements is set out on page 32. The Report of the Independent Auditor is on pages 34 to 35.

The Directors acknowledge that their responsibility to present a balanced and understandable assessment extends to interim and other price sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements.

Alternative Investment Fund Managers Directive ("AIFMD")

The AIFMD came into force in the UK on 22nd July 2013 and compliance is required for investment trusts by 22nd July 2014. The Group is making progress on implementation and expects to be compliant before that deadline.

Internal Financial Control

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process is subject to regular review by the Board and is in accordance with the FRC guidance. The process was fully in place throughout the year and up to the date of approval of the financial statements.

The Board is responsible for ensuring that the Company has in place an effective system of internal financial controls designed to ensure the maintenance of proper accounting records and the safeguarding of the Company's assets. These systems are designed to provide reasonable, but not absolute, assurance against material mis-statement or loss. The Board recognises its responsibility for regular review of all aspects of internal financial control.

The Board has established a series of parameters which are designed to limit the inherent risk in managing a portfolio of investments and the Board receives regular reports from the Investment Manager and Administrator which are reviewed in detail.

The Board has contractually delegated responsibility for management of the investment portfolio and the provision of accounting services to external agencies. This is after full and proper consideration by the Board of the quality and cost of services offered including the financial control systems in operation insofar as they relate to the affairs of the Company. The internal audit function is undertaken by the Administrator, which is a standalone unit which reports to the Board.

The key procedures, which have been established to provide effective internal control, are as follows:

- Investment management is provided by Midas Investment Management Limited ("Midas"). The Board is responsible for setting the overall investment policy and monitors the activity of the Investment Manager at regular Board meetings. The Investment Manager provides reports at these meetings, which cover investment performance and compliance issues.
- M&M Investment Services is responsible for the provision of administration, internal audit and risk management duties. M&M Investment Services is a standalone unit which reports to the Board on risk control issues for the Company as a whole.
- Custody and safekeeping of assets is undertaken by Pershing Securities Limited.
- The duties of investment management and custody of assets are segregated. The procedures of the individual parties are designed to complement one another.
- Where assets of the fund are utilised as collateral or under special arrangement with the above custodian, such assets are held in separately denominated accounts and all the benefit of such arrangements accrues to the fund.
- The non-executive Directors of the Company clearly define the duties and responsibilities of their agents and advisers in terms of their contracts. The appointment of agents and advisers is conducted by the Nominations Committee after consideration of the quality of the parties involved and the Board monitors their ongoing performance and contractual arrangements.

Statement of Corporate Governance (continued)

- Mandates for authorisation of investment transactions and expenses payments are set by the Board and monitored by the Administrator.
- For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market prices at the close of business at the end of the reporting period. The Administrator produces all valuation reports independently for the Board based on the Company's valuation policy.
- Liquidity risk is minimised by investing in a portfolio of quoted companies that are readily realisable. The Administrator reports to the Board monthly on the liquidity profile of the fund.
- The Board reviews in detail the financial information produced by the Administrator, Investment Manager and Company Secretary on a regular basis.

The Board has carried out a review of the system of internal controls as undertaken by the Administrator as it has operated throughout the year. The Directors confirm that actions are taken, where appropriate, to remedy any significant failings or weaknesses identified.

Investment Manager

The Company has a management agreement with Midas under which the Investment Manager will manage the Company's portfolio in accordance with the investment policy determined by the Board. The management agreement has a termination period of three months. Details of the fee arrangements with Midas are disclosed in note 3 to the financial statements. Midas is authorised and regulated by the FCA.

In the year 31st July 2013 the total remuneration paid to the entire staff of Midas was £474,000, payable to an average staff number throughout the year of 10. Of the £1.7m turnover reported in the financial statements of Midas 34.3 per cent was derived from MLIT.

The investment management of MLIT is solely undertaken by Mr M Sheppard and Mr R Morgan, to whom a combined total of £215,000 was paid during the year.

Midas was paid no performance fee or carried interest in the Company. Of the salary paid to Mr R Morgan, £7,557 was paid in shares of the Company.

The remuneration policy of Midas is to pay fixed annual salaries, with non-guaranteed bonuses, dependent upon performance only. These bonuses are generally paid in MLIT stock, released over a three year period.

The fund requires that the fund manager does not give preferential treatment to any single or class of shareholder. To this end, all ordinary shares carry equal voting rights and are traded on a public market, the only exception being that shares held by the parent company and its related parties are not included in the annual draw for Wimbledon tickets. There are now no Sheppard family members on the board of MLIT.

The Board regularly considers the appointment of the Investment Manager and, in particular, reviews the long term investment performance and the quality of the personnel employed. The Directors consider that the continuing appointment of Midas on the agreed terms is in the interests of the shareholders as a whole.

Exercise of Voting Powers

The Company has approved a Corporate Governance voting policy which, in summary, is based on the governance recommendations of the Combined Code with the intention of voting in accordance with best practice whilst maintaining a primary focus on financial returns. The Investment Manager utilised the votes of the fund on twelve different occasions during the period predominantly to vote to reduce costs in the underlying investment.

Capital Structure

The Company's capital structure is summarised in note 16 to the financial statements.

Statement of Corporate Governance (continued)

Transfer of Securities

There are:

- no restrictions concerning the transfer of securities in the Company;
- no special rights with regard to control attached to securities;
- no agreements between holders of securities regarding their transfer known to the Company; and
- no agreements which the Company is party to that might affect its control following a takeover bid.

Going Concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Relations with Shareholders

Communications with shareholders are given a high priority, with information provided regularly in interim and annual financial statements. The information contained therein is supplemented by regular net asset value announcements and a monthly fact sheet available on the Company's website. In addition, any issues of concern can be addressed to the Board by any shareholder via emailing the Company Secretary at kurt@midasim.co.uk. The Investment Manager can be contacted at mark@midasim.co.uk.

All shareholders are encouraged to attend the Annual General Meeting, where they are given an opportunity to question the Chairman, the Board and the Investment Manager. Separate resolutions are proposed on each issue including a resolution to adopt the annual report and accounts. The Company ensures that all proxy votes are counted and announces the level of proxies lodged on each resolution.

Social, Ethical and Environmental Policy

As an investment trust, the Company has no direct social, environmental or community responsibilities. Its ethical policy is focused on ensuring that the Company's resources are properly managed and invested within the guidelines approved by the Board.

The Directors, through the Company's Investment Manager, ensure that investments are made in companies that it considers to be well managed and subject to appropriate corporate governance. A well-managed company is considered to be one which complies with all the relevant legislation and which meets the environmental, social, community and ethical requirements of the country in which it operates. It is important to recognise that local laws and requirements of some markets do not necessarily equate with those of developed countries.

The Investment Manager performs extensive investment analysis, in assessing both the risk and return of targeted investments for the Company. The depth of its research provides comprehensive insights into the many factors that affect the value of an investment, which also include environmental, social and governance issues. This analysis is monitored by the Administrator and reported to the Board.

The Company's ultimate objective however is to maximise investment return for its shareholders. Accordingly, the Manager will seek to favour companies that pursue best practice in governance, but this must not be to the detriment of the return on the investment portfolio.

We are committed to caring for our environment and ensuring that our carbon footprint is minimised. One of our main policies to achieve this is the encouragement of the use of electronic communication with shareholders, in order to save paper, printing consumables and energy. The Fund Manager predominantly uses public transport to attend meetings.

Report of the Directors

The Directors present their report and financial statements for the year ended 31st July 2013.

The Chairman's Statement on page 6 forms part of the report of the Directors.

Business Review

The purpose of the business review is to provide an overview of the business of the Company by:

- Analysing development and performance using appropriate key performance indicators ("KPIs").
- Outlining the principal risks and uncertainties affecting the Company.
- Describing how the Company manages these risks.
- Explaining the future business plan of the Company.
- Providing information about persons with whom the Company has contractual or other arrangements which are essential to the business of the Company.
- Outlining the main trends and factors likely to affect the future development, performance and position of the Company's business.

Status

The Company is an Investment Company as defined by Section 833 of the Companies Act 2006 and operated as an Investment Trust in accordance with Section 1158 of the Corporation Tax Act 2010.

The Company is also governed by the Listing Rules and Disclosure and Transparency Rules of the Financial Conduct Authority and is listed on the main market of the London Stock Exchange under the epic code "MNL".

The close company provisions of the Corporation Tax Act 2010 do not apply to the Company.

Company registered number: 01009550.

Principal activities

The Company carries on business as an Investment Company. A review of investment activities for the year ended 31st July 2013 and the outlook for the coming year is given by the Investment Manager on pages 10 to 16.

The Company's subsidiaries, OSP Limited (formerly Osprey Smaller Companies Income Fund Limited) ("OSP") and Stakeholders' Momentum Investment Limited (formerly Stakeholders' Momentum Investment Trust plc) ("SMIL") carried on business as a dealing subsidiary and as an investment subsidiary, respectively.

OSP, a company incorporated in Guernsey, is the sole branch outside of the United Kingdom.

Performance and key performance indicators

The key measures by which the Board judges the success of the Company are the share price, the net asset value per share and the ongoing charges measure.

The Board considers the most important key performance indicator to be the comparison with its benchmark index. This is referred to in the Financial Summary on page 4.

Total net assets at 31st July 2013 amounted to £75,050,000 compared with £75,515,000 at 31st July 2012, a decrease of 0.6 per cent, whilst the fully diluted net asset value per ordinary share decreased to 334.2p from 336.3p. This decrease of 0.6 per cent compared with an increase over the period of 19.9 per cent by our benchmark index, equated to an underperformance by the Group of 20.5 per cent.

Report of the Directors (continued)

Group net revenue after taxation for the year was £3,089,000, a decrease of 4.1 per cent.

The share price during the period under review has been quoted at discounts to net asset value of 7.8 to 19.2 per cent which the Directors consider to be satisfactory in the context of the discounts applicable to other investment trusts and was achieved without using the Company's powers to acquire its own shares in the market.

Ongoing charges set out on page 4 is a measure of the total expenses (including those charged to capital) expressed as a percentage of the average net assets over the year. The Board regularly reviews the ongoing charges measure and monitors Group expenses.

Principal risks and uncertainties associated with the Company

An investment in the Company is only suitable for financially sophisticated investors who are capable of evaluating the risks and merits of such an investment, or other investors who have been professionally advised with regard to investment and who have sufficient resources to bear any loss which might result from such an investment. There can be no guarantee that investors will recover their initial investment. The investment may employ gearing and may be subject to sudden and large falls in value. Investors should be aware that movements in the price of the Company may be more volatile than movements in the price of the underlying investments and that there is a risk that investors may lose all their invested money. Investors considering an investment should consult their stockbroker, bank manager, solicitor, accountant and/or other independent financial adviser.

In respect of some of the companies in which the Company may invest:

- the company may be undergoing significant change, or be exposed to the volatility of emerging or developing markets;
- they may have less mature businesses, a more restricted depth of management and accordingly a higher risk profile;
- the quality of the investments' management may have been overestimated;
- the market value of, and income derived from, such shares can fluctuate; and
- there may not be a liquid market for their shares. The fact that a share is traded on a market does not guarantee its liquidity. Accordingly, such shares may be difficult to realise at quoted market prices.

Any change in the tax treatment of dividends paid, or income received by the Company, may reduce the level of yield received by shareholders. Any change in the Company's tax status, or in legislation, could affect the value of the investments held by the Company and its performance.

Investment in the Company should be regarded as long-term in nature. There can be no guarantee that any appreciation in the value of the Company's investments will occur and investors may not get back the full value of their investment. There can be no guarantee that the investment objective of the Company will be met.

The Company is exposed to a range of economic and market risks, liquidity, interest rates, exchange rates and general financial risks.

The market capitalisation of the Company will make the market of the ordinary shares less liquid than would be the case for a larger company.

Whilst the use of borrowings by the Company should enhance the net asset value of the ordinary shares when the value of the Company's underlying assets is rising, it will have the opposite effect when the underlying asset value is falling. Furthermore, should any fall in the underlying assets' values result in the Company breaching the financial covenants applicable to the borrowings, the Company may be required to repay such borrowing in whole or in part together with any attendant costs. In order to repay such borrowings, the Company may have to sell assets at less than their quoted market values. A positive net asset value for the ordinary shares will be dependent upon the Company's assets being sufficient to meet any debt.

Report of the Directors (continued)

On a winding-up of the Company, the ordinary shares rank for repayment of capital after repayment of all other creditors of the Company. Ordinary shares are only appropriate for investors who understand that they may receive an amount less than their original investment.

Risk management

The risks with regards to financial instruments, and the Company's policies for management of these risks, are detailed in note 18 to the financial statements - "Risks – Contracts for differences, derivatives, other financial instruments and other risks". The Company manages the risks inherent in portfolio management by investing in approximately 20 to 40 securities of companies operating in a range of industrial sectors and varying the extent of cash holdings or gearing in relation to the Investment Manager's assessment of overall market conditions.

The Company does not have any employees and consequently relies upon the services provided by a number of third parties. The Board therefore relies on the control procedures of these third parties which include the Company's Investment Manager, Registrar, Custodian and Broker. This type of operational structure is not uncommon with Investment Trust companies.

The Board via reports from the Administrator reviews the internal control procedures of its third party service providers and assesses the reliability of these procedures as part of its risk management strategy. The Risk Management function is a responsibility of the Administrator, M & M Investment Services, which is a division of Manchester & Metropolitan Investment Limited and operates as a standalone unit, comprised of individuals who are not members of the Board or the Sheppard family. Further details with regards to the Board's risk management procedures are detailed in the "Internal Financial Control" section of the Statement of Corporate Governance.

Gearing

The company operates a Flexible Revolving Loan Facility with a limit of £11m with Pershing Securities Limited, a subsidiary of The Bank of New York Mellon Corporation. No arrangement fee is payable on this facility and interest is charged at the Bank of England Base Rate plus three per cent per annum on drawdowns.

By the year end the portfolio had been geared, using this facility and CFDs, to a level whereby gross long investments represented 166.8 per cent of net assets and the net long position represented 96.3 per cent of net assets. In addition, the weighted average percentage of gearing (calculated as net debt divided by market capitalisation) held by our top 20 portfolio holdings (excluding banks) on their own balance sheets was 16 per cent. (Sources: FactSet Research Systems Inc. plus other.)

Management

Details of the Company's management agreement with Midas Investment Management Limited ("the Investment Manager" or "Midas") are contained in note 3 to the financial statements.

Future development

A commentary on the trends and factors likely to affect the future development, performance and position of the Company, which includes an assessment of market sentiment and the effectiveness of government intervention, is set out in the Chairman's Statement and the Investment Manager's Report and is also released monthly in a fund factsheet published via the Company's website.

Report of the Directors (continued)

Investment objective and policy

The Group's investment objective and policy, stated on page 9, has not changed during the year under review.

Results

The Group's total comprehensive profit for the year, after taxation, amounted to £2,522,000 (2012: £19,945,000 total comprehensive loss).

Total net assets at 31st July 2013 amounted to £75,050,000 compared with £75,515,000 at 31st July 2012, whilst the fully diluted net asset value per ordinary share decreased to 334.2p from 336.3p.

Ordinary dividends

An interim dividend of 5.5p per ordinary share was paid on 29th April 2013 (2012: 5.2p) and the Directors are recommending a final dividend of 8.25p per ordinary share (2012: 7.8p), a total for the year of 13.75p per ordinary share (2012: 13.0p).

Subject to shareholders' approval at the Annual General Meeting, the final dividend will be paid on 6th December 2013 to shareholders registered on 15th November 2013. The shares will be declared ex-dividend on 13th November 2013.

Share valuations

On 31st July 2013, the middle market quotation and the net asset value per ordinary 25p share were 299.9p and 334.2p, respectively. This indicates that the discount on the Company's shares was 10.3 per cent. This is not uncommon as the share prices of closed-end funds are often traded at a discount to their net asset values.

Events after the reporting period

There have been no significant events since the end of the reporting period.

Substantial holdings in the Company

At 23rd October 2013, the Company had been notified of the following beneficial interests of 3 per cent and over in the Company's ordinary share capital carrying unrestricted voting rights:

	Number	**%**
Pershing Nominees Limited	12,989,358*	57.8
Rathbone Nominees Limited	1,187,406	5.3
The Bank of New York (Nominees) Limited	1,057,519	4.7
N W Brown Nominees Limited	933,291	4.2

** This holding includes 11,325,630 (50.4%) shares of which Manchester & Metropolitan Investment Limited is the beneficial owner.*

Manchester & Metropolitan Investment Limited is controlled by Mr M Sheppard.

Report of the Directors (continued)

Directors

The members of the Board who served during the year to 31st July 2013, together with their biographical details, are listed on page 5.

Mr P H A Stanley, in accordance with the recommendations of the AIC Corporate Code of Governance regarding directors with service in excess of 9 years, retires and being eligible, offers himself for re-election.

Mr D Harris, who was re-elected to the Board in November 2012 will remain on the Board and does not offer himself for re-election, which is in accordance with the AIC recommended Code.

Mr B Miller, being newly appointed and eligible, offers himself for election.

Mr B S Sheppard a founding member of the Company, resigned as a Director on 30th August 2013.

Directors' interests

The interests of the Directors in the ordinary shares of the Company are:

	31st July 2013 Ordinary shares of 25p	31st July 2012 Ordinary shares of 25p
Beneficial interests		
Mr P H A Stanley (Chairman)	13,250	8,250
Mr B S Sheppard (resigned 30th August 2013)	9,686	9,000
Mr D Harris	-	-
Non-beneficial interests		
Mr B S Sheppard	243,117	243,117

No other changes in the above interests occurred between 31st July 2013 and 23rd October 2013.

The interests of Mr B S Sheppard in Manchester & Metropolitan Investment Limited are detailed in the financial statements and report of that company.

Disclosable interests

Details of contracts of significance during the year in which Mr B S Sheppard had a material interest are disclosed in notes 3 and 19 to the financial statements.

Supplier terms

It is the Group's policy to obtain the best terms for all business, including purchases of investments and to abide by those agreed terms.

The Group had trade payables of £99,000 (2012: £106,000) at the year end. Trade payables are settled by the due date for payment. Payables in respect of investment purchases are settled in accordance with Stock Exchange regulations.

Report of the Directors (continued)

Explanation of the Annual General Meeting Special Resolutions

The resolutions stated below are important and require your immediate attention. If you are in any doubt as to what action you should take, you should consult an appropriate independent adviser.

If you have sold or otherwise transferred all of your shares in MLIT you should pass this document to the person through whom the sale or transfer was effected for transmission to the purchaser or transferee.

There are three items of special business to be considered at the forthcoming Annual General Meeting:

- to seek a renewal of the authority of the Company to issue shares;
- to seek a renewal of the authority to authorise the Directors to allot new shares for cash without offering them first to shareholders in proportion to their existing holdings of shares; and
- to seek a renewal of the authority of the Company to purchase its own shares.

Resolution 7 Authority to issue shares

Resolution 7, which will be put as a special resolution would, if passed, permit the Company to allot up to 6,737,113 ordinary shares, which is an authority to allot up to approximately 30 per cent of the total ordinary share capital in issue at the date of this report. The allotment limit proposed for the current year follows the guidelines of the Association of British Insurers.

The Directors consider it to be in the Company's best interests that they would have the authority to be able to issue new ordinary shares as consideration should investment opportunities arise. The power to allot shares would only be used by the Directors if they believe that to do so would be advantageous to the Company.

The Directors have no present intention of using the authority. Shareholders should note that UK Listing Rules require that the issue of further shares at a price which is at a discount to the net asset value per share would require a further approval from shareholders.

Resolution 8 Authority to issue shares

Resolution 8, which will be put as a special resolution would, if passed, permit the Directors to allot up to 1,122,852 of such shares (a nominal amount of £280,713) for cash without offering them first to shareholders in proportion to their existing holdings of shares ("Section 561 Authority") which would be an authority for up to 5 per cent of the total ordinary share capital in issue at the date of this report.

The proposed level of Section 561 Authority is within Investor Protection Committee guidelines. The Section 561 Authority would also permit the Directors to sell treasury shares for cash without first offering them to existing shareholders in proportion to their holding.

The power to allot shares for cash on a non pre-emptive basis would only be used by the Directors if they believe that to do so would be advantageous to the Company. The Directors have no present intention of using the authority.

The authority contained in resolution 8 will continue, if granted, until the next Annual General Meeting of the Company after the passing of this resolution or for 15 months, whichever is the sooner, when the Directors intend seeking further renewal of the authority.

Report of the Directors (continued)

Explanation of the Annual General Meeting Special Resolutions (continued).

Resolution 9 Renewal of authority for the Company to purchase its own shares

The Directors are seeking shareholders' authority to be able to purchase up to 3,366,310 of the Company's own ordinary shares (representing 14.99 per cent of the issued ordinary share capital at the date of this report) in the market at a minimum price of 25p and a maximum price (exclusive of expenses) of the higher of: 5 per cent above the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange daily official list) for the 5 business days before the relevant purchase was made and; the price of the last independent trade and the highest current independent bid for an ordinary share on the London Stock Exchange prior to the purchase.

This authority will, if granted, expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, or 15 months from the date of this resolution, whichever is earlier.

The Directors would use this authority with the objective of enhancing shareholder value. Purchases would only be made, within guidelines established from time to time by the Board, through the market for cash, at prices below the prevailing net asset value per ordinary share. The main purpose of any share buy-back would be to enhance the net asset value of the remaining ordinary shares.

The Directors' current intention would be to hold any bought back shares in treasury. If the Company subsequently wished to sell such treasury shares for cash, special resolution number 8 would permit the disapplication of pre-emption rights on such shares up to the limits referred to in that resolution. Last year, no use was made of this authority.

The Directors consider that it would be advantageous to shareholders that they have the authority to make such purchases as and when they consider the timing to be favourable. However, use of this authority, if given, would depend upon market conditions and the Board's judgement as to its likely effectiveness in increasing net asset value per share and/or reducing the discount.

It is proposed that any purchase of ordinary shares would be funded from the Company's own cash resources or, if appropriate, from short term borrowings.

Directors' responsibilities in relation to the Company's Auditor

The Directors who held office at the date of approval of this Report of the Directors confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken steps that ought to have been taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

By Order of the Board
Mr M K Camp
Secretary

23rd October 2013

Directors' Responsibilities in Relation to the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report, the Directors Remuneration Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union and Article 4 of the EU IAS Regulation. Under Company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of the affairs of the Company and the Group and of the profit or loss of the Company and Group for that period.

In preparing those financial statements, the Directors are required to:

- properly select suitable accounting policies and apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements and accounting estimates that are reasonable;
- provide additional disclosure when compliance with the specific requirements of IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Company's financial position and financial performance;
- state that the Group and Company financial statements have been prepared in accordance with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- make an assessment of the ability of the Group and Company to continue on a going concern basis.

The Directors are responsible for keeping adequate accounting records that show and explain the Group and Company's transactions and disclose with reasonable accuracy, at any time, the financial position of the Company and of the Group and to enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

To the best of the knowledge of each of the Directors, whose names are set out on page 5:

(a) the financial statements, prepared in accordance with the IFRS adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

(b) the Directors' Report includes a fair review of the development and performance of the fund and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Each of the Directors accepts responsibility accordingly.

On behalf of the Board of Directors
Mr P H A Stanley
Chairman

23rd October 2013

Directors' Remuneration Report

This report has been prepared by the Board in accordance with the requirements of the Companies Act 2006 in respect of the year ended 31st July 2013. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

Company law requires the Company's Auditor to audit certain information set out in this report. Where information has been audited it is indicated as such. The Auditor's opinion is included in their report on pages 34 to 35.

Remuneration policy

The Board as a whole reviews and sets the level of remuneration payable to each Director annually.

The Company's Articles of Association limit the aggregate fees payable to the Directors to a total of £200,000 per annum. Subject to this overall limit, it is the Board's policy that the remuneration of Directors should be set at a level that is commensurate with the duties and responsibilities of the role. The Board also takes into account remuneration levels elsewhere in the investment trust industry and all other relevant information when considering Directors' fees. The Board considers that the current policy to remunerate the Directors by way of fixed fees is appropriate to the Company's present circumstances and there are no plans to introduce any alternative remuneration schemes.

Non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

Terms of Directors' Appointment

All Directors hold ongoing, non-fixed term service contracts with the Company requiring six months' notice of termination (under normal circumstances).

There are no agreements between the Company and its Directors concerning compensation for loss of office.

Directors' emoluments for the year (audited)

The Directors who served during the year received the following emoluments in the form of fees:

	Fees 2013 £	Fees 2012 £
Mr P H A Stanley (Chairman, Appointed 25th November 1997)	18,000	18,000
Mr B S Sheppard (Resigned 30th August 2013)	12,000	12,000
Mr D Harris (Appointed 28th May 2009)	15,000	15,000
	45,000	45,000

Approval

The Directors' Remuneration Report was approved by the Board of Directors on 23rd October 2013 and signed on its behalf by:

Mr P H A Stanley
Chairman

Independent Auditor's Report To The Members of Manchester & London Investment Trust plc

We have audited the financial statements of Manchester & London Investment Trust plc for the year ended 31st July 2013 which comprise the Group Statement of Comprehensive Income, the Group and Parent Company Statement of Financial Position, the Group and Parent Company Statement of Cash Flows, the Group and Parent Company Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This Report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this Report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

As explained more fully in the Director's responsibilities statement set out on page 32, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31st July 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Independent Auditor's Report To The Members of Manchester & London Investment Trust plc (continued)

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and

- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

- certain disclosures of directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Director's Statement, set out on page 24 in relation to going concern;

- the part of the Statement of Corporate Governance relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and

- certain elements of the Directors' Remuneration Report.

Graham Rigby (Senior Statutory Auditor)
For and on behalf of
CLB Coopers
Statutory Auditor
Manchester

24th October 2013

Consolidated Statement of Comprehensive Income

For the year ended 31st July 2013

	Note	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000
Gains							
Losses on investments at fair value through profit or loss	**10**	-	(240)	(240)	-	(22,448)	(22,488)
Trading income	**2**	627	-	627	934	-	934
Investment income	**2**	3,189	-	3,189	2,690	-	2,690
Gross return		3,816	(240)	3,576	3,624	(22,488)	(18,864)
Expenses							
Investment management fee	**3**	(411)	-	(411)	(145)	(268)	(413)
Cost of investment transactions		(82)	-	(82)	(8)	(43)	(51)
Other operating expenses	**4**	(232)	-	(232)	(250)	-	(250)
Total expenses		(725)	-	(725)	(403)	(311)	(714)
Return before finance costs and tax		3,091	(240)	2,851	3,221	(22,799)	(19,578)
Finance costs	**6**	(2)	(327)	(329)	-	(367)	(367)
Return on ordinary activities before tax		3,089	(567)	2,522	3,221	(23,166)	(19,945)
Tax expense	**7**	-	-	-	-	-	-
Return on ordinary activities after tax		3,089	(567)	2,522	3,221	(23,166)	(19,945)
Earnings per ordinary share (pence)							
Basic	**9**	13.76	(2.53)	11.23	14.34	(103.15)	(88.81)
Fully diluted	**9**	13.76	(2.53)	11.23	14.34	(103.15)	(88.81)

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

The Group does not have any Other Comprehensive Income and hence the return on ordinary activities after tax, as disclosed above, is the same as the Group's Total Comprehensive Income/(Loss).

All items in the above statement derive from continuing operations.

The notes on pages 42 to 55 form part of these financial statements.

Consolidated and Company Statements of Changes in Equity

For the year ended 31st July 2013

Group

	Share capital £'000	Share premium £'000	Other reserves £'000	Capital reserve (unrealised) £'000	Capital reserve (realised) £'000	Retained earnings £'000	Total £'000
Balance at 1st August 2011	5,614	35,132	(79)	27,171	27,057	3,372	98,267
Changes in equity for 2012							
Total comprehensive loss	-	-	-	-	-	(19,945)	(19,945)
Transfer of capital loss	-	-	-	(19,025)	(4,141)	23,166	-
Ordinary dividend paid (note 8)	-	-	-	-	-	(2,807)	(2,807)
Balance at 31st July 2012	5,614	35,132	(79)	8,146	22,916	3,786	75,515
Changes in equity for 2013							
Total comprehensive income	-	-	-	-	-	2,522	2,522
Transfer of capital loss	-	-	-	(2,550)	1,983	567	-
Ordinary dividend paid (note 8)	-	-	-	-	-	(2,987)	(2,987)
Balance at 31st July 2013	5,614	35,132	(79)	5,596	24,899	3,888	75,050

Company

	Share capital £'000	Share premium £'000	Other reserves £'000	Capital reserve (unrealised) £'000	Capital reserve (realised) £'000	Retained earnings £'000	Total £'000
Balance at 1st August 2011	5,614	35,295	(79)	27,171	3,256	26,581	97,838
Changes in equity for 2012							
Total comprehensive loss	-	-	-	-	-	(19,851)	(19,851)
Transfer of capital loss	-	-	-	(19,092)	(4,145)	23,237	-
Ordinary dividend paid (note 8)	-	-	-	-	-	(2,807)	(2,807)
Balance at 31st July 2012	5,614	35,295	(79)	8,079	(889)	27,160	75,180
Changes in equity for 2013							
Total comprehensive income	-	-	-	-	-	2,865	2,865
Transfer of capital loss	-	-	-	(2,483)	2,419	64	-
Ordinary dividend paid (note 8)	-	-	-	-	-	(2,987)	(2,987)
Balance at 31st July 2013	5,614	35,295	(79)	5,596	1,530	27,102	75,058

The notes on pages 42 to 55 form part of these financial statements.

Consolidated Statement of Financial Position

At 31st July 2013

	Note	2013 £'000	2013 £'000	2012 £'000	2012 £'000
Non-current assets					
Investments at fair value through profit or loss	10		75,689		79,966
Contracts for differences – longs	18		49,457		23,443
			125,146		**103,409**
Current assets					
Trade and other receivables	12	190		81	
Contracts for differences – shorts	18	55,673		34,637	
Cash and cash equivalents	13	21,802		11,432	
			77,665		46,150
Gross Assets			**202,811**		**149,559**
Current liabilities					
Borrowings	14		(10,967)		(9,899)
Trade and other payables	15		(1,863)		(2,052)
Contracts for differences - liability	18		(114,931)		(62,093)
Net assets			**75,050**		**75,515**
Equity attributable to equity holders					
Ordinary share capital	16		5,614		5,614
Share premium			35,132		35,132
Other reserves					
Capital reserve – realised			24,899		22,916
Capital reserve – unrealised			5,596		8,146
Goodwill reserve			(79)		(79)
Retained earnings			3,888		3,786
Total equity			**75,050**		**75,515**
Net asset value per share					
Ordinary shares – basic	17		**334.2p**		**336.3p**
Ordinary shares – fully diluted	17		**334.2p**		**336.3p**

The financial statements on pages 36 to 55 were approved by the Board of Directors and authorised for issue on 23rd October 2013 and are signed on their behalf by:

Mr P H A Stanley (Chairman)
Mr D Harris

Directors

The notes on pages 42 to 55 form part of these financial statements.

Company Statement of Financial Position

At 31st July 2013

	Note	2013 £'000	2013 £'000	2012 £'000	2012 £'000
Non-current assets					
Investments at fair value through profit or loss	**10**		75,689		79,009
Contracts for differences – longs	**18**		31,027		23,443
Investment in subsidiaries	**11**		17		2,180
			106,733		**104,632**
Current assets					
Trade and other receivables	**12**	2,761		83	
Contracts for differences – shorts	**18**	34,180		34,637	
Cash and cash equivalents	**13**	14,134		11,336	
			51,075		46,056
Gross Assets			**157,808**		**150,688**
Current liabilities					
Borrowings	**14**		(10,967)		(9,899)
Trade and other payables	**15**		(1,880)		(3,516)
Contracts for differences - liability	**18**		(69,903)		(62,093)
Net assets			**75,058**		**75,180**
Equity attributable to equity holders					
Ordinary share capital	**16**		5,614		5,614
Share premium			35,295		35,295
Other reserves					
Capital reserve – realised			1,530		(889)
Capital reserve – unrealised			5,596		8,079
Goodwill reserve			(79)		(79)
Retained earnings			27,102		27,160
Total equity			**75,058**		**75,180**

The financial statements on pages 36 to 55 were approved by the Board of Directors and authorised for issue on 23rd October 2013 and are signed on their behalf by:

Mr P H A Stanley (Chairman)
Mr D Harris

Directors

The notes on pages 42 to 55 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31st July 2013

	2013 £'000	2012 £'000
Cash flow from operating activities		
Return on operating activities before taxation	2,522	(19,945)
Interest paid	329	367
(Profit)/loss on investments	(9,106)	17,288
(Increase)/decrease in receivables	(109)	122
(Decrease)/increase in payables	(189)	1,829
Decrease in contracts for differences	5,788	3,371
Net cash (used in)/generated from operating activities	(765)	3,032
Cash flow from investing activities		
Purchase of investments	(16,548)	(6,759)
Sale of investments	29,931	11,703
Net cash generated from investing activities	13,383	4,944
Cash flow from financing activities		
Equity dividends paid	(2,987)	(2,807)
Drawn from/(Repaid to) loan facility	1,068	(969)
Interest paid	(329)	(367)
Net cash used in financing activities	(2,248)	(4,143)
Net increase in cash and cash equivalents	10,370	3,833
Cash and cash equivalents at beginning of year	11,432	7,599
Cash and cash equivalents at end of year	**21,802**	**11,432**

The notes on pages 42 to 55 form part of these financial statements.

Company Statement of Cash Flows

For the year ended 31st July 2013

	2013 £'000	2012 £'000
Cash flow from operating activities		
Return on operating activities before taxation	2,865	(19,851)
Interest paid	329	367
(Profit)/loss on investments	(9,605)	17,596
(Increase)/decrease in receivables	(2,678)	1,350
(Decrease)/increase in payables	1,162	1,964
Decrease in contracts for differences	683	3,637
Net cash generated from operating activities	(7,244)	5,063
Cash flow from investing activities		
Purchase of investments	(16,368)	(4,353)
Sale of investments	28,658	9,946
Net cash generated from investing activities	12,290	5,593
Cash flow from financing activities		
Equity dividends paid	(2,987)	(2,807)
Drawn from/(Repaid to) loan facility	1,068	(969)
Interest paid	(329)	(367)
Net cash used in financing activities	(2,248)	(4,143)
Net increase in cash and cash equivalents	2,798	6,513
Cash and cash equivalents at beginning of year	11,336	4,823
Cash and cash equivalents at end of year	**14,134**	**11,336**

The notes on pages 42 to 55 form part of these financial statements.

Notes Forming Part of the Financial Statements

For the year ended 31st July 2013

1. Accounting policies

A summary of the principal accounting policies is set out below.

Manchester & London Investment Trust plc ("MLIT") is a public limited company, which is listed on the London Stock Exchange and is incorporated and domiciled in the United Kingdom. The consolidated financial statements of the Company for the year ended 31st July 2013 comprise the Company and its subsidiaries (together referred to as the 'Group' and individually as 'Group entities').

a) Basis of preparation and statement of compliance

In accordance with European Union regulations, these financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board ("IASB"), as adopted for use in the EU effective at 31st July 2013.

The financial statements have been prepared on the historical cost basis except where IFRS require an alternative treatment.

To the extent that presentational guidance set out in the Statement of Recommended Practice ("SORP") for investment trusts revised by the Association of Investment Companies ("AIC") is inconsistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

The Group's principal accounting policies are set out below. These accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31st July each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intra-group balances are eliminated on consolidation.

As permitted by Section 408 of the Companies Act 2006, the parent Company's statement of comprehensive income has not been included in these financial statements. The parent Company's comprehensive profit after tax for the year was £2,865,000 (2012: £19,851,000 comprehensive loss).

The results of subsidiaries or businesses acquired or disposed of during the year are included in the consolidated Statement of Comprehensive Income from the effective date of acquisition or up to the effective date of disposal as appropriate.

c) Presentation of Statement of Comprehensive Income

In order to reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the statement of comprehensive income between items of a revenue and capital nature has been presented alongside the statement of comprehensive income. The updated Investment Trusts (Approved Company) (Tax) Regulations 2011, has removed the previous Section 833 restriction of the Companies Act 2006 that prohibited the distribution of dividends from net capital returns. However, the net revenue is also the measure the Directors believe appropriate in assessing the Group's compliance with certain requirements set out in Section 1159 Corporation Tax Act 2010.

d) Intangible assets - goodwill

Goodwill arising on consolidation prior to 1st August 1998 has been written off against reserves on acquisition as a matter of accounting policy.

Notes Forming Part of the Financial Statements (continued)

For the year ended 31st July 2013

e) Valuation of investments

Investments held at fair value through profit or loss are initially recognised at fair value, being the consideration given and excluding transaction or other dealing costs associated with the investment.

After initial recognition, investments, which are classified as at fair value through profit or loss, are measured at fair value. Gains or losses on investments designated as at fair value through profit or loss are recognised as a capital item. For investments that are actively traded in organised financial markets, fair value for longs/shorts are determined by reference to Stock Exchange quoted market bid/offer prices respectively, as at the close of business at the end of the reporting period.

Unlisted investments are valued at the Directors' estimate of fair value by reference to the following valuation guidelines – asset values, earnings, dividends, last trade value and any other relevant factors.

All purchases and sales of investments are recognised on the trade date i.e. the date that the Group commits to purchase or sell an asset.

Investments in subsidiaries are valued at cost in accordance with IAS 27 and reviewed annually for impairment.

f) Revenue recognition

Revenue is recognised when it is probable that economic benefits associated with a transaction will flow to the Company and the revenue can be reliably measured.

Income from trading activity includes gains and losses on the trading of options, futures and contracts for differences, net of commissions, interest and other costs expensed.

A position is deemed to be trading activity rather than investment if the position has been opened and closed and the duration that the position was open is less than twelve months. Changes to core holdings will not be classified as trading activities regardless of their duration. Positions opened but not yet closed are deemed to be investments in nature until closed at which point their duration determines if they are classified as trading rather than investment.

Following the implementation of HM Treasury’s enactment of the Investment Trusts (Approved Company) (Tax) Regulations 2011 (SI 2011/2999) (“the Regulations”) as well as the amendment in 2012 of Sections 1158 and 1159 of the Corporation Tax Act 2010, the Company is no longer required to use a trading subsidiary for undertaking trading transactions.

The group marks to market all open sold call options that are extant at any period end and provides for these as a liability in accruals. The movement in this liability is set against any trading profits for the period from trading in options that the group has undertaken.

Dividend income from investments is recognised when the shareholders' right to receive payment has been established, normally the ex-dividend date. Special dividends representing a return of capital are credited to capital reserves.

Fixed returns on non-equity shares are recognised on a time apportionment basis so as to reflect the effective yield on the shares.

Where the Group has elected to receive its dividends in the form of additional shares rather than cash, the amount of cash dividend foregone is recognised as income. Any excess in the value of shares received over the amount of cash dividend foregone is recognised in capital reserves.

g) Contracts for differences

Contracts for differences for long/short positions are valued with reference to the investment’s underlying bid/offer price respectively, as at the end of the reporting period and are held at fair value through profit or loss. Interest and commissions incurred in the operation of contracts for differences accounts, other than those that relate to trading activity, are charged to capital in the statement of comprehensive income.

Notes Forming Part of the Financial Statements (continued)

For the year ended 31st July 2013

h) Expenses

All expenses are accounted for on the accruals basis.

Subsequent to a review of the expense policy by the Directors, Group policy, with effect from 1st August 2012, has been amended to charge all expenses, other than capital interest, to revenue.

For the comparative period, the Group expense policy in respect of the analysis between revenue and capital items within the statement of comprehensive income, presented all expenses as revenue items except as follows:

- material transaction costs which were incurred on the purchase or sale of an investment designated as fair value through profit or loss were expensed and included in the capital column of the statement of comprehensive income; and
- expenses were split and presented partly as capital items where a connection with the maintenance or enhancement of the value of the investments could be demonstrated. In this respect, the investment management charge and related costs had been allocated 35 per cent to revenue and 65 per cent to capital reserve-realised in order to reflect the Directors' long-term view of the nature of the expected investment returns.

This policy amendment reflects the Directors' aim to fund all operating costs from revenue only.

i) Finance costs

Finance costs on the revolving loan facility are accrued at the effective interest rate.

j) Taxation

The tax charge represents the sum of the tax currently payable and any deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from return on operating activities before tax as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax balances are not discounted.

Investment Trusts which have approval under Section 1158 Corporation Tax Act 2010 are not liable for taxation on capital or revenue gains.

The carrying amount of deferred tax assets is reviewed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited through profit and loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

k) Dividends payable to shareholders

No equity dividend is accrued unless the shareholders' right to receive payment is established in the period. Dividends proposed after the end of the reporting period are disclosed in note 8.

Notes Forming Part of the Financial Statements (continued)

For the year ended 31st July 2013

l) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank, short-term deposits with an original maturity of three months or less and cash held in highly liquid investment accounts.

m) Capital reserve

Capital reserve - realised

The following are accounted for in this reserve:

- gains and losses on the realisation of investments; and
- expenses and finance costs, together with the related taxation effect, are charged to this reserve in accordance with the above policies.

Capital reserve - unrealised

The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year end.

n) Foreign currencies

In preparing the financial statements, transactions in currencies other than pounds sterling are recorded at the actual rate of exchange prevailing on the dates of the transactions. At each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the end of the reporting period.

Foreign exchange gains and losses arising from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities in foreign currencies are recognised through profit or loss or capital dependent upon their duration.

o) Derivatives

Derivatives are futures, options and a combination of these. Derivatives are measured at fair value and any gains or losses are included in the statement of comprehensive income. Fair values are based on quoted market prices in an active market.

p) New standards and interpretations not applied

The IASB and IFRIC have issued the following standards and interpretations with a date of adoption for annual periods beginning on or after the effective date shown:

Accounting Standards		***Effective date***
IFRS 7	Financial Instruments: Disclosures	1st January 2013
IFRS 9	Financial Instruments: Classification and Measurement	1st January 2015
IFRS 10	Consolidated Financial Statements	1st January 2013
IFRS 12	Disclosure of Interest in Other Entities	1st January 2013
IFRS 13	Fair Value Measurement	1st January 2013
IAS 1	Presentation of Financial Statements	1st January 2013
IAS 19	Employee Benefits	1st January 2013
IAS 27	Consolidated and Separate Financial Statements	1st January 2013
IAS 32	Financial Instruments: Presentation	1st January 2013
IAS 34	Interim Financial Reporting	1st January 2013
IAS 36	Impairment of Assets	1st January 2014
IAS 39	Financial Instruments: Recognition and Measurement	1st January 2014

The Directors have chosen not to early adopt the above standards and interpretations and they do not anticipate that they would have a material impact on the Company's financial statements in the period of initial application.

Notes Forming Part of the Financial Statements (continued)
For the year ended 31st July 2013

2. Income

	2013 £'000	2012 £'000
Trading income	627	934
Income from investments		
Dividend income	3,181	2,681
Other income		
Deposit interest	8	9
Investment income	3,189	2,690
Total income	3,816	3,624
Total income comprises		
Trading income	627	934
Dividends	3,181	2,681
Interest	8	9
	3,816	3,624
Income from investments		
Listed	3,181	2,681
	3,181	2,681

3. Investment management fee

	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000
Investment management fee	411	-	411	145	268	413

Midas provides investment services to the Company under a management agreement with a termination period of three months. The annual fee is 0.5 per cent of the total portfolio value including cash and short term deposits, payable quarterly in arrears. The fee is not subject to Value Added Tax ("VAT"). Transactions with Midas during the year are disclosed in note 19.

The investment management fee is chargeable 100 per cent to revenue (2012: 35 per cent to revenue and 65 per cent to capital) as detailed in note 1h.

Notes Forming Part of the Financial Statements (continued)

For the year ended 31st July 2013

4. Other operating expenses

	2013 £'000	2012 £'000
Directors' fees	57	70
Staff costs (note 5)	-	-
Auditors' remuneration - audit	28	28
Registrar fees	10	9
Exchange rate variances	3	4
Other expenses	134	139
	232	250
Directors' fees – Subsidiaries	12	25
Directors' fees – Company	45	45
	57	70
Fees payable to the Company's auditor for the audit of the parent company and consolidated financial statements	25	25
Fees payable to the Company's auditor for other services:		
• the audit of the Company's subsidiaries pursuant to legislation	3	3
• other services relating to taxation	7	8
	35	36

Other operating expenses include irrecoverable VAT where appropriate.

5. Staff numbers and costs

Excluding Directors, the Group employs no members of staff.

Included in Directors' fees above (note 4) are the emoluments paid to the Chairman as follows:

	2013 £'000	2012 £'000
P H A Stanley (Chairman)	18	18

6. Finance costs of flexible revolving loan facility

	2013 £'000	2012 £'000
Charged to revenue	2	-
Charged to capital	327	367
	329	367

Notes Forming Part of the Financial Statements (continued)

For the year ended 31st July 2013

7. Taxation

	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000
Current UK corporation tax	-	-	-	-	-	-

The charge for the year can be reconciled to the profit per the income statement as follows:

	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000
Profit/(loss) before tax	3,089	(567)	2,522	3,221	(23,166)	(19,945)
Tax at the UK corporation tax rate of 23.67% (2012: 24%)	731	(134)	597	773	(5,560)	(4,787)
Tax effect of non-taxable dividends/unrealised profits	(727)	-	(727)	(643)	-	(643)
Income not subject to UK corporation tax	(32)	-	(32)	(213)	-	(213)
Brought forward losses utilised during the period	-	(30)	(30)	(1)	-	(1)
Losses on investments not relieved	-	165	165	-	5,495	5,495
Other non-taxable income less expenses not deductible for tax	(112)	-	(112)	-	-	-
Excess management expenses	140	(1)	139	84	65	149
Current year tax charge	-	-	-	-	-	-

The Company's taxable income exceeded its management expenses, which include the capital and revenue elements of the management fee. The Company has surplus management expenses at 31st July 2013 of £2,538,000 (2012: £1,951,000).

At 31st July 2013, there is an unrecognised deferred tax asset, measured at the standard rate of 23 per cent, of £584,000 (2012: £468,000). This deferred tax asset relates to surplus management expenses. It is unlikely that the Group will generate sufficient taxable profits in the future to recover these amounts and therefore the asset has not been recognised in the year, or in prior years.

As at 31st July 2013, the Company has unrelieved capital losses of £9,330,000 (2012: £9,330,000). There is therefore, a related unrecognised deferred tax asset, measured at the standard rate of 23 per cent, of £2,146,000 (2012: £2,239,000). These capital losses can only be utilised to the extent that the Company does not qualify as an investment trust in the future and, as such, the asset has not been recognised.

Notes Forming Part of the Financial Statements (continued)

For the year ended 31st July 2013

8. Dividends

	2013 £'000	2012 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31st July 2012 of 7.8p (2011: 7.3p) per share	1,752	1,639
Interim dividend for the year ended 31st July 2013 of 5.5p (2012: 5.2p) per share	1,235	1,168
	2,987	2,807

A final dividend in respect of 2013 of 8.25p per share which, together with the interim dividend, amounts to a total dividend of £3,087,843 is to be proposed at the Annual General Meeting on 2nd December 2013 and has been excluded as a liability in these financial statements in accordance with IFRS.

We also set out below the total dividend payable in respect of the financial year, which is the basis on which the requirements of section 1158 of the Corporation Tax Act 2010 are considered.

	2013 £'000	2012 £'000
Interim dividend for the year ended 31st July 2013 of 5.5p (2012: 5.2p) per share	1,235	1,168
Proposed final dividend for the year ended 31st July 2013 of 8.25p (2012: 7.8p) per share	1,853	1,752
	3,088	2,920

9. Return per ordinary share

The calculation of the basic and fully diluted earnings per ordinary share is based on the following:

	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000
Return:						
Basic and fully diluted	3,089	(567)	2,522	3,221	(23,166)	(19,945)

Basic revenue, capital and total return per ordinary share is based on the net revenue, capital and total return for the period and on the weighted average number of ordinary shares in issue of 22,457,042 (2012: 22,457,042).

Notes Forming Part of the Financial Statements (continued)

For the year ended 31st July 2013

10. Investments at fair value through profit or loss

	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Investments as below	75,689	79,966	75,689	79,009

	Group Listed £'000	Group Unlisted £'000	Group Total £'000	Company Listed £'000	Company Unlisted £'000	Company Total £'000
Opening cost at 1st August	67,751	56	67,807	66,861	56	66,917
Opening unrealised appreciation at 1st August	12,089	70	12,159	12,022	70	12,092
Opening fair value at 1st August	79,840	126	79,966	78,883	126	79,009
Purchases at cost	16,548	-	16,548	16,368	-	16,368
Sales proceeds	(29,931)	-	(29,931)	(28,658)	-	(28,658)
Realised profit on sales	5,761	-	5,761	5,558	-	5,558
Increase/(decrease) in unrealised appreciation	3,347	(2)	3,345	3,414	(2)	3,412
Closing fair value at 31st July	75,565	124	75,689	75,565	124	75,689
Closing cost at 31st July	60,129	56	60,185	60,129	56	60,185
Closing unrealised appreciation at 31st July	15,436	68	15,504	15,436	68	15,504
Closing fair value at 31st July	75,565	124	75,689	75,565	124	75,689

Gross capital return

	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Realised gains/(losses) on sale of investments	1,859	(2,726)	1,656	(2,967)
Transfer of investments to contracts for differences	3,902	450	3,902	450
Realised profit on sales and transfers of investments	5,761	(2,276)	5,558	(2,517)
Realised gains on short duration investment holdings	(289)	(231)	(284)	-
Realised gain on subsidiaries	-	-	635	-
Increase/(decrease) in unrealised appreciation	3,238	(15,012)	3,304	(15,079)
Contracts for differences movement excluding trading income	(8,950)	(4,969)	(8,950)	(4,969)
	(240)	(22,488)	263	(22,565)

Notes Forming Part of the Financial Statements (continued)

For the year ended 31st July 2013

11. Subsidiary undertakings

	Company	
	2013 £'000	**2012 £'000**
Opening cost at 1st August	2,180	2,180
Subsidiaries purchase of own shares	(2,163)	-
Closing cost at 31st July	17	2,180

The Company has investments in the following subsidiary undertakings:

Name of undertaking	Principal Activity	Country of incorporation and operation	% of shares held Ordinary shares	Preference shares
OSP Limited	Trading Company	Guernsey	100	-
Stakeholders' Momentum Investment Limited	Investment Company	England	100	-
Manchester & London Securities Limited	Dormant	England	100	-
Saintclose Limited	Dormant	England	100	-
Beacontree Plaza Limited	Dormant	England	100	100
Beaconbranch Limited	Dormant	England	100*	-
Darethrift Limited	Dormant	England	100	-
Fileglow Limited	Dormant	England	100	-
Zealgate Limited	Dormant	England	100	-

All these subsidiary undertakings are included in the consolidation.

*Beaconbranch Limited is 100 per cent owned by Beacontree Plaza Limited.

On 15th February 2013 Stakeholders' Momentum Investment Limited implemented a buyback of its own shares.

Under the terms of the buyback agreement SMIL bought and cancelled, via a capital reduction, 5,727,693 of its issued ordinary 25 pence shares for a consideration of £1,626,000. This was settled via a corresponding reduction in the SMIL loan balance due from MLIT.

On 11th July 2013 OSP implemented a buyback of its own shares.

Under the terms of the buyback agreement OSP bought and cancelled, via a capital reduction, 1,156,202 of its issued ordinary 10 pence shares for a consideration of £1,172,000. This was settled via a corresponding reduction in the OSP loan balance due from MLIT.

In the opinion of the Directors, there is no material difference between the book value and fair value of these investments.

12. Trade and other receivables

	Group		Company	
	2013 £'000	**2012 £'000**	**2013 £'000**	**2012 £'000**
Receivables from subsidiary undertakings	-	-	2,571	8
Dividend receivables	49	61	49	61
Other receivables	133	6	133	-
Prepayments	8	14	8	14
	190	81	2,761	83

Notes Forming Part of the Financial Statements (continued)

For the year ended 31st July 2013

13. Cash and cash equivalents

	Group		Company	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Cash & cash equivalents	21,802	11,432	14,134	11,336

14. Borrowings

The Company operates a Flexible Revolving Loan Facility with a limit of £11m with Pershing Securities Limited ("Pershing"), a subsidiary of The Bank of New York Mellon Corporation. No arrangement fee is payable on this facility and interest is charged at the Bank of England Base Rate plus three per cent per annum on drawdowns. This facility is secured against the Company's investments.

In respect of this loan Pershing have a floating charge on the assets it holds for the group in custody alongside any margin requirements in respect of group investments.

As at 31st July 2013, the balance on the facility was £10,967,000 (2012: £9,899,000).

15. Trade and other payables

	Group		Company	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Trade payables	99	106	99	106
Payables to subsidiary undertakings	-	-	17	3,345
Accruals	1,764	1,946	1,764	65
	1,863	2,052	1,880	3,516

16. Share Capital

Ordinary share capital		2013		2012
	No. ('000)	£'000	No. ('000)	£'000
Authorised				
Ordinary shares of 25p each	28,000	7,000	28,000	7,000
Non-voting Convertible Preference shares of £1 each	1,000	1,000	1,000	1,000
Ordinary shares of 25p each issued and fully paid				
Balance as at 1st August	22,457	5,614	22,457	5,614
Balance as at 31st July	22,457	5,614	22,457	5,614

Each ordinary share carries the right to one vote in any circumstances and the right to dividends paid.

Notes Forming Part of the Financial Statements (continued)

For the year ended 31st July 2013

17. Net asset value per share

	Net asset value per share		Net assets attributable	
	2013	2012	2013	2012
	p	p	£'000	£'000
Ordinary shares: basic and fully diluted	334.2	336.3	75,050	75,515

The basic net asset value per ordinary share is based on net assets at the year end and 22,457,042 (2012: 22,457,042) ordinary shares in issue, adjusted for any shares held in treasury.

18. Risks – Contracts for differences, derivatives, other financial instruments and other risks

In order to manage its portfolio efficiently and to enable the Investment Manager to pursue the investment objectives as set out on page 9, the Group holds contracts for differences, derivatives and other financial instruments. All contracts for differences, derivative transactions and financial instruments are accounted for at fair value and comprise securities, cash balances, trade receivables and trade payables arising directly from financial operations.

The main risk arising from the Group's investment strategy is market price risk. There is also exposure to liquidity risk, interest rate risk and currency rate risk.

The Board regularly reviews and agrees policies for managing these risks, which are monitored by the Administrator, as summarised below.

Market price risk

Market price risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Group might suffer through holding market positions in the face of price movements. Both the Investment Manager and the Administrator actively monitor market prices throughout the year and report to the Board which meets regularly to review investment strategy.

Details of the investments held at 31st July 2013 are shown on page 7.

If the price of these investments and the contracts for differences had increased by 3 per cent at the reporting date with all other variables remaining constant, the capital return in the statement of comprehensive income and the net assets attributable to equity holders of the Group would increase by £2,081,000.

A 3 per cent decrease in share prices would have resulted in an equal and opposite effect of £2,081,000, on the basis that all other variables remain constant.

At the year end the Group's assets exposed to market price risk were as follows:

	Group		Company	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Non-current assets				
Investments held in equity form	75,689	79,966	75,706	81,189
Contracts for differences – longs	49,457	23,443	31,027	23,443
Current assets				
Contracts for differences – shorts	55,673	34,637	34,180	34,637
	180,819	138,046	140,913	139,269

During the year the Group transacted in contracts for differences and derivative investments.

Notes Forming Part of the Financial Statements (continued)
For the year ended 31st July 2013

Contracts for differences, derivatives and other financial instruments (continued)

The positions held in CFDs as at the year end are as follows:

	Group		Company	
	2013	**2012**	**2013**	**2012**
	£'000	**£'000**	**£'000**	**£'000**
Non-current assets				
Contracts for differences – longs	49,457	23,443	31,027	23,443
Current assets				
Contracts for differences – shorts	55,673	34,637	34,180	34,637
Current liabilities				
Contracts for differences - liability	(114,931)	(62,093)	(69,903)	(62,093)
	(9,801)	(4,013)	(4,696)	(4,013)

Interest rate risk

Interest rate risk arises from uncertainty over the interest rates charged by financial institutions. It represents the potential increased costs of financing for the Group. The Investment Manager actively monitors interest rates and the Group's ability to meet its financing requirements throughout the year and reports to the Board.

At 31st July 2013, there is a flexible loan facility within the Group.

See note 14 for further details.

Liquidity risk

The Directors have minimised liquidity risk by investing in a portfolio of quoted companies that are readily realisable.

The Group's un-invested funds are held almost entirely with the Custodian or on interest bearing deposits with UK banking institutions.

As at 31st July 2013 the financial liabilities comprised:

	Group		Company	
	2013	**2012**	**2013**	**2012**
	£'000	**£'000**	**£'000**	**£'000**
Contracts for differences - liability	114,931	62,093	69,903	62,093
Loan facility	10,967	9,899	10,967	9,899
Trade payables and accruals	1,863	2,052	1,880	3,516
	127,761	74,044	82,750	75,508

	Group		Company	
	2013	**2012**	**2013**	**2012**
	£'000	**£'000**	**£'000**	**£'000**
Of the above liabilities the following are due within one month	126,081	72,168	81,070	75,508

All the above liabilities are stated at fair value.

The Group manages liquidity risk through constant monitoring of the Group's gearing position to ensure the Group is able to satisfy any and all debts within the agreed credit terms.

Notes Forming Part of the Financial Statements (continued)

For the year ended 31st July 2013

Currency rate risk

The only material foreign currency holdings are S&P 500 Index shorts, Jardine Matheson stock and HMS Hydraulics stock with market values of £48,076,000, £4,384,000 and £1,385,000 respectively, denominated in US Dollars, Echo Entertainment stock with market value of £1,802,000, denominated in Australian Dollars, Etablissements Maurel et Prom stock with market value of £1,718,000 denominated in Euro and Syngenta stock with a market value of £6,160,000, denominated in Swiss Francs.

The Group constantly monitors currency rate risk to ensure balances wherever possible are translated at rates favourable to the group.

19. Related party transactions

The Investment Manager of the Company is Midas Investment Management Limited ("Midas"), a Company controlled by Mr M Sheppard. Midas receives a quarterly investment management fee for these services which in the year under review amounted to a total of £411,000 (2012: £413,000) excluding VAT, together with a corporate fee for acting as financial adviser amounting to £30,000 (2012: £30,000) excluding VAT to the Company and commission fees of £141,000 (2012: £100,000) excluding VAT to the Group. The balance owing to Midas at 31st July 2013 was £96,000 (2012: £102,000).

The Company's subsidiaries are listed in note 11, along with details of loan reductions in SMIL and OSP.

To support revenue recognition in line with accounting policy, during the year positions of £2,563,000 were transferred from MLIT into OSP (2012: £2,430,000 transferred from OSP into MLIT). In addition dividends of £Nil (2012: £1,050,000) were paid from subsidiaries.

As at 31st July 2013, the Company had the following outstanding interest free loans:

i. £2,563,000 due from OSP Limited (2012: £2,837,000 due to OSP Limited).

ii. £Nil due to Stakeholders' Momentum Investment Limited (2012: £491,000).

iii. £10,000 due to Saintclose Limited (2012: £10,000).

iv. £8,000 due from Manchester & London Securities Limited (2012: £8,000).

v. £7,000 due to Beacontree Plaza Limited (2012: £7,000).

20. Capital Management

There are no externally imposed capital requirements. The capital managed is noted in the Statements of Changes in Equity on page 37 and managed in accordance with the Investment Policies and Objectives on page 9.

21. Ultimate control

The holding company and ultimate parent throughout the year and the previous year was Manchester & Metropolitan Investment Limited, a company incorporated in England and Wales. This company was controlled throughout the year and the previous year by Mr M Sheppard and his immediate family.

A copy of the consolidated financial statements of Manchester & Metropolitan Investment Limited can be obtained by writing to The Company Secretary, 2nd Floor, Arthur House, Chorlton Street, Manchester M1 3FH.

Shareholder Benefits

All shareholders with 2,500 shares (excluding the officers of the Company) are qualified to participate in a draw undertaken by the Directors before the Annual General Meeting in respect of The All England Lawn Tennis Ground Ltd Debentures listed below. Once a party's holding exceeds 2,500 shares, the probability of success in this draw will increase for every additional share held. The investment policy of the Company may result in some or all of the Debentures being sold in which event the benefit would cease.

Centre Court

The Company owns two Debentures entitling it to two Centre Court seats (together with two badges admitting entry to the Debentures Holders' Lounge) for the thirteen days play of the Championships. There will be thirteen draws, each draw entitling the successful shareholder to one pair of adjacent seats for one day's play.

The Sheppard family remove their shares from the draw to manage conflicts of interest hence your probability of success more than doubles.

Ways of Investing in Manchester & London Investment Trust plc

The shares of the Company are listed on the Official List and traded on the London Stock Exchange. Private investors can buy or sell shares by placing an order either directly with a stockbroker or through an Independent Financial Adviser. Alternatively, investments can be made through the Company's Share Savings Plan or the MLIT Individual Savings Account ("ISA"). Details of these can be found at www.manchesterandlondon.co.uk.

1. THE MLIT INVESTMENT PLAN

MLIT operates a zero-charge Savings Plan and all cash (whether from subscriptions or dividends) is reinvested in the Company's shares on the earliest dealing day. Investors have the option of making a lump sum payment to the Plan or regular payments, on a monthly or quarterly basis, whichever is preferred. The Plan can be held jointly or be set up for the benefit of children and there is no upper limit on the amount which can be invested.

2. THE MLIT ISA

Like the Savings Plan, the MLIT zero-charge ISA consists solely of MLIT shares and all cash (whether from subscriptions or dividends) is reinvested in the Company's shares on the earliest dealing day. There are no commissions or annual administration charges on the ISA. Subscriptions may be made either by lump sum or by either monthly or quarterly payments, whichever is preferred. The current lump sum minimum payment is £1,500 and the maximum subscription for the current tax year is £11,520.

3. THE TRANSFER OF OTHER ISAs INTO THE MLIT ISA

Equity ISAs and cash ISAs which are currently held by other managers may be transferred into an MLIT ISA free of charge. The costs of selling the existing holdings and purchasing the MLIT shares will also be free of charge.

DISPOSAL OF OTHER SHAREHOLDINGS

MLIT offers a facility whereby holders may sell any of their existing shares without incurring any stockbroking costs as long as the full proceeds are reinvested into MLIT shares. The purchases will also be undertaken free of commission.

Please contact Midas on 0161 228 1709 should you require further details on these savings plans and for our full terms and conditions.

Shareholders Notes