North Atlantic Smaller Companies Investment Trust plc Annual Report for the year ended 31 January 2010

North Atlantic Smaller Companies Investment Trust plc
Annual Report

for the year ended
31 January 2010

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contents

The cover depicts a painting by the artist Jacob Knyff (1638–1681) entitled "Dock scene at a British Port"

The Company is a member of the Association of Investment Companies

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION
If you are in any doubt as to the action you should take you should consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Market Act 2000 immediately

If you have sold or otherwise transferred all of your shares in North Atlantic Smaller Companies Investment Trust plc, please pass this document, together with the accompanying form of proxy, as soon as possible to the purchaser or transferee or to the stockbroker, bank, or other agent through whom the sale or transfer was or is being effected for transmission to the purchaser or transferee

objective of the company and financial highlights

The objective of the Company is to provide capital appreciation through investment in a portfolio of smaller companies principally based in countries bordering the North Atlantic Ocean

	2010	% change	2009	2008	2007	2006
revenue						
Gross income (£'000)	3,525	(17 7)	4,285	5,208	3,951	4,052
Net revenue after tax attributable to Shareholders of the Parent (£'000)	443	(17 7)	538	1,272	224	876
Basic return per Ordinary Share – revenue	2 99p	(17 9)	3 64p	8 86p	1 65p	6 66p
– capital	289 45p	177 7	(372 41)p	(21 05)p	229 52p	339 44p
assets						
Total assets less current liabilities (£'000)	219,613	23 2	178,284	238,166	250,549	221,122
Net asset value per 5p Ordinary Share						
Basic	1,480p	22 9	1,204p	1,611p	1,755p	1,597p
Diluted	1,169p	23 8	944p	1,209p	1,217p	1,063p
Mid-market price of the 5p Ordinary Shares at 31 January	814 0p	31 6	618 5p	1,025 0p	1,153 0p	1,022 5p
discount to diluted net asset value	30 4%	(4 1)	34 5%	15 2%	5 3%	3 8%
indices and exchange rates at 31 January						
Standard & Poor's 500 Composite Index	1,073 9	30 0	825 9	1,378 6	1,438 2	1,280 1
Russell 2000 Index	602 0	35 7	443 5	713 3	800 3	733 2
US Dollar/Sterling exchange rate	1 6024	11 1	1 4417	1 9880	1 9574	1 7774
Standard & Poor's 500 Composite – Sterling adjusted	671 8	18 3	568 0	693 4	734 8	720 2
Russell 2000 – Sterling adjusted	376 6	23 4	305 1	358 8	408 9	412 5
FTSE All-Share Index	2,660 5	28 0	2,078 9	3,000 1	3,211 8	2,928 6

corporate summary

introduction	North Atlantic Smaller Companies Investment Trust plc ("NASCIT") is an investment trust whose shares are listed on the London Stock Exchange
objective and investment strategy	The objective of the Company is to provide capital appreciation through investment in a portfolio of smaller companies principally based in countries bordering the North Atlantic Ocean The Company invests in both listed and unlisted companies
company's business	The Company is an investment company within the meaning of Section 833 of the Companies Act 2006 and its business is that of an investment trust The business of the Company's subsidiary undertaking is an investment dealing and holding company
risk	Investment in small companies is generally perceived to carry a greater risk than investment in large companies This is reasonable when comparing individual companies, but is much less so when comparing the volatility of returns from a diversified portfolio of small and large companies The Board believe that the Company's portfolio is diversified Since returns from large and small companies vary, there is an opportunity for investors to reduce overall risk by holding a portfolio containing both large and small companies together
	The Company has the ability to utilise gearing in the form of term loan facilities Gearing has the effect of accentuating market falls and gains Details of the Company's debt is shown in Note 12 to the financial statements
	The Company outsources all of its main operational activities to recognised third party providers
AIC	The Company is a member of the Association of Investment Companies ("AIC")
joint managers	The Joint Managers are Christopher Mills through Growth Financial Services Limited and North Atlantic Value LLP
company secretary	The Company Secretary is J O Hambro Capital Management Limited, Ground Floor, Ryder Court, 14 Ryder Street, London SW1Y 6QB
website	www navalue co uk

directors

*†#• The Honourable Peregrine D E M Moncreiffe, (Chairman), aged 59, joined the Board on 17 November 2008 (having previously been a Director of the Company from 1993 – 2006) He was appointed as Chairman of the Company at the June 2009 Annual General Meeting He has over the years worked in London, New York and the Far East, with Credit Suisse First Boston, Lehman Brothers and Buchanan Partners During the last five years, he has been a director of UA Group Plc and Moncreiffe & Co Plc

Christopher H B Mills, aged 57, is the Company's Chief Executive and Investment Manager and joined the Board in August 1984 (formerly Consolidated Venture Trust plc) He is currently a member and Chief Investment Officer of North Atlantic Value LLP In addition, he is a non-executive director of numerous UK companies which are either now or have in the past five years been publicly quoted, further details of which are included in note 19 of the financial statements

*†#• Kristian Siem (Norwegian), aged 61, joined the Board in April 2001 He is chairman of Siem Industries Inc , an industrial company which includes offshore oil and gas sub-sea construction and services vessels and marine transportation worldwide He is also a director of various companies in Norway, Sweden, Portugal and the Cayman Islands

*†#• Charles L A Irby, aged 64, joined the Board in December 2002 (Chairman of the Audit Committee) He is a non-executive director of Great Portland Estates PLC and QBE Insurance Group Limited and was chairman of Aberdeen Asset Management PLC from 1999 to January 2009 He was head of corporate finance of ING Barings from 1992 to 1999 and a managing director from 1995 to 1999 He was also a member of the Panel on Takeovers and Mergers from 1997 to 1998

*†#• Oliver R Grace Jr (USA), aged 56, joined the Board on 16 May 2006 He has been co-chairman of Associated Asset Management, Inc since 1987, a company incorporated in Delaware He was previously a director of Moscow Cablecom Corp, a Russian cable company and Redbus plc He was a director of Second London American Trust PLC (in members' voluntary liquidation) and is president of Grace Developments, Inc

*†#• Enrique Foster Gittes (USA), aged 70, joined the Board in 1992 and served as the Company's Chairman from July 1998 to June 2009 He is an American lawyer who was president of Hambro America in New York until 1983, responsible for venture capital investment and subsequently chairman of European Home Products PLC until 1988 and a director of Scholl PLC until 1994 He was a founder and a director of Denison International PLC until 1999 and is currently President of Bodega Foster SA, Mendoza, Argentina He was formerly a non-executive director of J O Hambro Capital Management (Bermuda) Limited and formerly a director of North Atlantic Value (General Partner) Limited (part of the same group as the Joint Manager)

*	Non-Executive
†	Independent
#	Member of the Audit Committee
•	Member of the Remuneration Committee

chairman's statement

It is pleasing to report that the diluted net asset value of the Company rose by 23 8% during the twelve months ended 31 January 2010 compared to a rise in the Sterling adjusted Standard & Poor's Composite Index of 18 3% over the same period The value of the Company's shares rose by 31 6%

The revenue account showed a profit after taxation of £443,000 (2009 £538,000) Consistent with the Company's long-standing policy, the Directors are not recommending the payment of a dividend (2009 nil)

During the year, the Company redeemed 250,000 units of Convertible Unsecured Loan Stock 2013 for cancellation at a discount to net asset value

A commentary on the quoted and unquoted portfolios can be found in the Investment Managers' Report on page 5 However, it would be remiss if I failed to point out that a significant part of the return for the year was achieved by specific actions of the Investment Manager, rather than through the recovery in the overall level of the stock market

outlook

In last year's outlook section of the Chairman's Statement penned by my predecessor, Enrique Foster Gittes, it was stated that equities were unlikely to perform well facing the twin headwinds of non-existent economic growth and a banking system which was effectively frozen Equity markets did however perform well as the combination of massive government stimulus and a return of the private investor to equity markets created a rebound despite degenerating economic fundamentals Notwithstanding these facts, there remain structural imbalances within the US and European economies which will not be easily resolved Quantitative easing, effectively the printing of money, is coming to an end Governments will be required to raise money on an unprecedented scale to fund deficits which are at unsustainable levels of National Income Consumer debt in the Anglo-Saxon nations is still too high and whilst GNP is now recovering, unemployment and business failures continue to climb

Thus, whilst I do not anticipate a collapse in the stock market during the coming fiscal year, it is likely that any further improvement will be constrained The Company continues to hold substantial net cash balances and is therefore well placed to benefit from opportunities as they present themselves

The Hon Peregrine Moncreiffe *Chairman*
25 May 2010

investment managers' report

quoted portfolio

The portfolio benefited from the recovery in the United Kingdom stock market which boosted a number of the quoted investments In particular, RPC, BBA, Castle Support Services and Inspired Gaming all performed well during the twelve month period Nationwide Accident was flat during the year and Communisis was disappointing, recording a significant fall

In the United States, Smith International and Sterling Construction both performed satisfactorily and were sold during the year

Fayrewood and Celsis were both taken over in transactions in which the Company participated, yielding profits of £0 5m and £1 9m respectively In both cases, these transactions are expected to produce further profits as the value of their assets is maximised

unquoted portfolio

The Company successfully acquired GNE Group as a cash shell which, once purchased, was liquidated yielding a profit of approximately £4 million Hampton Trust successfully realised an intangible asset, realising a profit of over £5 million, although this was partially offset by the need to write down part of the property portfolio The Company took an opportunity to further increase its holding in Bionostics, whilst our investment in AssetCo Abu Dhabi rose following the award of a major contract in Abu Dhabi, although this was offset by a write down in Payzone Finally, the valuation of Crendon was reduced to nil reflecting weakness in the industrial property market

It is expected that the unquoted portfolio will generate further profits in the current year with the investment in Hampton/Alba Investment Properties being slowly liquidated, Avanti bonds likely to be redeemed and Darby and Merchant Properties sold Finally, further investments held in Trident Private Equity II are likely to be liquidated The majority of new unquoted investments are likely to be made through Trident Private Equity III

Christopher H B Mills *Chief Executive & Investment Manager*
25 May 2010

sector analysis of investments at fair value

equities, convertible securities & loan stocks as a % of total portfolio valuation	United States 31 01 10 %	United Kingdom 31 01 10 %	Europe 31 01 10 %	Total 31 01 10 %	Total 31 01 09 %
General Industrials	1 8	16 1		17 9	13 8
Investment Companies	0 6	15 3		15 9	12 6
Manufacturing		10 4		10 4	5 7
Support Services	1 4	6 0	0 6	8 0	13 9
Real Estate		6 9	2 8	9 7	11 6
Health Care, Equipment & Services	2 6	4 2		6 8	3 4
Transport		5 1		5 1	2 7
Travel & Leisure		5 1		5 1	4 1
Industrial Engineering		4 5		4 5	5 4
Construction & Materials		4 3		4 3	3 0
Media		2 9		2 9	1 7
Communications		2 8		2 8	2 9
Technology Hardware & Equipment	1 4	0 6		2 0	5 3
Oil & Gas Producers	(0 3)*	0 9		0 6	2 0
General Financials		0 1		0 1	0 2
Food Producers		0 1		0 1	0 7
Aerospace and Defence					2 3
Electronic & Electrical Equipment					0 1
	7 5	85 3	3 4	96 2	91 4
treasury bills	3 8			3 8	8 6
total at 31 January 2010	11 3	85 3	3 4	100 0	
total at 31 January 2009	20 7	75 2	4 1		100 0

* unexpired put options

twenty largest investments

as at 31 January 2010

equities (including convertibles, loan stocks and related financing)		At fair value £'000
Castle Support Services PLC	UK Quoted on AIM	21,700
Bionostics Holdings Limited	UK Unquoted	19,074
Oryx International Growth Fund Limited*†	UK Listed	15,705
BBA Aviation Group	UK Listed	9,906
RPC Group PLC	UK Listed	9,600
Nationwide Accident Repair Services PLC	UK Quoted on AIM	9,000
Gleeson (MJ) Group	UK Listed	8,375
AssetCo Limited (Abu Dhabi)	UK Unquoted	8,252
Orthoproducts Limited	UK Unquoted	8,179
Inspired Gaming Group PLC	UK Quoted on AIM	6,890
ten largest investments		116,681
Trident Private Equity Fund II LP	Cayman Islands Unquoted	6,808
Hampton Trust Group	UK Unquoted	6,100
Chrysalis PLC	UK Listed	5,555
Avanti Communications Group PLC	UK Unquoted (loan notes)	5,531
Martley Limited	Jersey Unquoted	5,502
Trident Private Equity Fund III LP	UK Unquoted	5,266
Alba Investment Properties Limited	UK Unquoted (loan notes)	4,780
Nastor Investments Limited	UK Unquoted	4,084
Performance Chemicals	USA Unquoted	3,415
Glass America	USA Unquoted	2,735
twenty largest investments		166,457
Aggregate of other investments at fair value		21,429
		187,886
USA Treasury Bills		7,489
total value of investments and associates of the group		195,375

* incorporated in Guernsey

† Oryx is accounted for in the Group accounts as an Associate under the equity method of accounting. The valuation shown above is the Group's share of Oryx's net assets. All other investments are valued at fair value.

unlisted investments profile

as at 31 January 2010

	2010 At fair value £'000	Total assets %
Bionostics Holdings Limited (UK) *Cost £11,650,000*	19,074	8 4

Bionostics is a specialist developer of medical diagnostic products, principally liquid controls, that are used to test the accuracy of calibrated blood testing devices The company had a good year in 2009 beating both the previous year and the budget Despite the difficult economic environment, trading in the current year is again expected to be in line with the budget The last twelve months have seen an extraordinary increase in new long-term orders that will increase sales by over 50% over the next three years This will have a marked impact on profitability which should grow even faster than sales Bionostic's debt is less than 2 0x EBITDA with interest cover of circa 5 0x

Equity held	54 70%
Income recognised in the period	nil

Financial results per latest audited accounts

– Turnover	£17 2m
– EBIT	£4 1m

AssetCo Limited (Abu Dhabi) *Cost £6,500,000*	8,252	3 6

AssetCo is the leading company in the UK providing support services to the UK fire and rescue services AssetCo Abu Dhabi is a special purpose vehicle set up to exploit AssetCo's potential to gain significant revenues and profits in the Middle East The investment has a yield of 6% and carries significant warrants to acquire shares in AssetCo One contract has now been awarded and further contracts are expected to be announced

Equity held	9 20%
Income recognised in the period	£0 4m

Financial results per latest audited accounts

– Turnover	£79 7m
– EBIT	£17 4m

Carried forward	27,326

unlisted investments profile
as at 31 January 2010

	2010 At fair value £'000	Total assets %
Brought forward	27,326	
Orthoproducts Limited (UK) *Cost £5,027,000*	8,179	3 6

Orthoproducts is the sole shareholder and holding company of Orthoplastics Limited, one of only two companies in the world which manufactures premium-grade Ultra High Molecular Weight Polyethylene for the orthopaedics industry In addition, it manufactures components for orthopaedic devices The company, which has approximately 48% of the world market, had an outstanding year with EBITDA projected to rise by over 150% New capital was put into the business to significantly increase manufacturing capacity which became available in December 2009 The company also acquired a complementary business in orthopaedic metal components, LPE Medical Limited, which was largely funded with equity

Equity held	40 00%
Income recognised in the period	£0 2m

Financial results per latest audited accounts

– Turnover	£11 2m
– EBIT	£1 7m

Trident Private Equity Fund II LP (Cayman Islands) *Cost £0**	6,808	3 0

Trident Private Equity Fund II LP (TPE II) is a £64 million offshore private equity limited partnership The fund's investment objective is to generate high absolute returns by investing in a portfolio of unquoted investments in small to medium sized companies in the UK. The fund concentrates primarily on leveraged buyouts and similar transactions, including public-to-private and pre IPO investments At 31 January 2010, 100% of NASCIT's commitment, had been drawn down and invested in fifteen private equity transactions, of which six have been realised To date, the Company has received £2,728,000 in excess of costs in distributions from TPE II

*£10m received in distributions has been allocated against cost reducing this to nil

Equity held	15 60%
Income recognised in the period	£1 5m

Financial results per latest audited accounts

– Turnover	n/a
– EBIT	n/a

Carried forward	42,313

unlisted investments profile

as at 31 January 2010

	2010 At fair value £'000	Total assets %
Brought forward	42,313	
Hampton Trust Group (UK) *Cost £7,440,000*	6,100	2 7

Hampton completed the refinancing of its long-term senior debt facility during the course of the year This refinancing was possible because of the resilience of Hampton Group's underlying investment portfolio to the unprecedented market conditions witnessed in the real estate sector in the previous two years Occupancy levels have at all times remained at a level in excess of 90% and interest cover remains at a multiple of 4 3x, which is exceptional given the granular nature of certain elements of the portfolio Despite this however, a further write down was taken during the year to reflect the continued downward pressures on pricing

Equity held	72 00%
Income recognised in the period	£0 4m

Financial results per latest audited accounts

– Turnover	£2 4m
– EBIT	£0 9m

Avanti Communications Group PLC (UK) *Cost £5,499,000*	5,531	2 4

Avanti Communications supplies fixed satellite communications services to business, institutional and residential customers in the UK, Europe and the Middle East including broadband and data connectivity through satellite capacity leased from third parties During the year, the company raised over £100 million in new equity to support its business plans The company has made excellent progress in contracting with wholesale partners in Europe and has won several regional government projects whereby government funds the cost of installing a fixed number of rural customers The launch of the HYLAS satellite is now expected in 2010

Equity held	n/a
Income recognised in the period	£0 7m

Financial results per latest audited accounts

– Turnover	£8 0m
– EBIT	(£1 4m)

Carried forward	53,944

unlisted investments profile

as at 31 January 2010

		2010 At fair value £'000	Total assets %
Brought forward		53,944	
Martley Limited (Jersey) *Cost £4,812,000*		5,502	2 4

Martley Limited is a Jersey registered property company Through its Luxembourg subsidiary companies, it invests in commercial property in Europe The company part owns five properties within a Luxembourg based office park constructed in 2003 The gross lettable area totals approximately 21,500 square feet The properties are fully let and tenants include several blue chip international companies Since the investment was made, substantial amounts of debt have been repaid and the fund has begun returning money to investors

Equity held	30 77%
Income recognised in the period	£0 3m
Financial results per latest audited accounts	
– Turnover	£5 8m
– EBIT	(£9 5m)

Trident Private Equity Fund III LP (UK) *Cost £5,266,000*		5,266	2 3

The Company has made a £25 million commitment to TPE III with just over £5 million drawn down TPE III will continue the successful policy achieved by TPE II, investing in small UK-based buyouts To date one investment has been made

Equity held	52 70%
Income recognised in the period	–
Financial results per latest audited accounts	
– Turnover	n/a
– EBIT	n/a

Carried forward		64,712	

unlisted investments profile

as at 31 January 2010

		2010 At fair value £'000	Total assets %
Brought forward		64,712	
Alba Group (UK) *Cost £4,780,000*		4,780	2 1

Alba was formed to acquire a portfolio of 16 properties that were formerly owned by the WG Mitchell Group and had been placed into administration with Ernst & Young LLP The assets are largely based in Scotland and present a significant opportunity to deliver enhanced value and returns through proactive asset management and reinvestment The acquisition is effectively a joint venture with the Royal Bank of Scotland PLC

Equity held	–
Income recognised in the period	–
Financial results per latest audited accounts	
– Turnover	n/a
– EBIT	n/a

Nastor Investments Limited *Cost £4,188,000*		4,084	1 8

Nastor is the holding company for Celsis, which was acquired in September 2009 Celsis is a world leader in the rapid detection of pathogens in liquids Other divisions include providing products for pharmaceutical research and testing The company has performed better than expected since acquisition

Equity held	17 00%
Income recognised in the period	–
Financial results per latest audited accounts	
– Turnover	£36 3m
– EBIT	£9 2m

Ten largest unlisted investments		73,576	

unlisted investments profile

as at 31 January 2010

	2010 At fair value £'000
Brought forward	73,576
Performance Chemicals *Cost £3,703,000* The company was set up to consolidate three small businesses providing speciality chemicals to the oil and gas production industry in the USA Operating profits were initially disappointing but there has since been a recovery The company has no bank debt	3,415
Glass America (USA) *Cost £2,360,000* Glass America is a consolidator of automotive glass repair companies in the United States The company traded well in 2009 and further progress is expected in the current year	2,735
Telos Corporation (USA) *Cost £1,365,000* Telos is a provider of IT solutions to the US Federal government, the military, the intelligence community and commercial enterprises The company has continued to perform strongly and has virtually no debt It is expected that part of our investment in the preference shares will be redeemed this year The company intends to sell itself as and when market conditions improve	2,680
Merchant Properties Unit Trust (UK) *Cost £2,717,000* The Merchant Properties Unit Trust is a portfolio of 30 Travis Perkins trade counter units purchased for £32 5m and simultaneously let back to Travis Perkins on 25-year leases with fixed uplifts at 3% p a , reflecting an initial yield of 6% The shares were written up during the year reflecting a modest recovery in the property market	1,989
Indicant *Cost £812,000* The Company is the largest owner of snooker halls in the United Kingdom, trading under the Riley's brand name Although the business has been impacted by the recession, EBITDA and cash flow are substantially positive and are expected to improve further in the current year	1,904
Forefront Group (UK) *Cost £1,762,000* Forefront is a specialist civil engineering business focusing primarily on the gas supply industry The company undertakes gas mains replacement and repair and the laying of new mains and is one of only three UK companies with the necessary equipment and trained operatives to undertake the inhibition of gas flow whilst 'in situ' gas mains are replaced or repaired Forefront has a dominant position in eastern Greater London Performance in 2009 was good and we expect further progress in the current year which should lead to a liquidity event within the next eighteen months	1,762
Carried forward	88,061

unlisted investments profile

as at 31 January 2010

	2010 At fair value £'000
Brought forward	88,061
Browallia LLP (UK) *Cost £1,204,000* Browallia purchased Darby Glass Limited, the UK's largest independent supplier of insulating glass units and street furniture to both the commercial and domestic marketplace It has sold off operations and returned capital to the Company It is expected that the balance of the assets will be sold over the next few months yielding a profit above the current valuation	1,196
Letchworth Investments Limited (UK) *Cost £604,000* Letchworth is the holding company used to acquire Fayrewood The company is in the process of selling all of its assets and quantifying liabilities It is expected that the company will be liquidated over the next eighteen months	1,080
Kiln Lane, Immingham (UK) *Cost £862,000* This is a 53,000 square feet industrial unit on an 18 1 acre site at the Kiln Lane Industrial Estate The head lease holder has paid substantial sums for dilapidation whilst it is expected that Paragon Automotive Limited will shortly enter into a new ten year lease It is intended that when this occurs, the property will be sold The Company owns 88% of Kiln Lane, but the Board has chosen not to consolidate on the basis of non-materiality	626
Ramen Holdings Limited (UK) *Cost £418,000* Ramen is the holding company for Wagamama restaurants, which continues to grow and perform well At the end of 2009, there were 65 restaurants open in the UK, as well as 37 sites open under franchise outside the UK	200
Other unlisted investments	3,504
Total value of unlisted investments at fair value*	94,667

* Includes unlisted loan notes in these companies with a total value of £14,468,000

unlisted investments profile (AIM quoted)

as at 31 January 2010

	2010 At bid value £'000
Castle Support Services PLC *Cost £4,326,000*	21,700
Castle Support Services announced its results for the year ended 30 June 2009 and reported that revenue for the year had increased by approximately 8% to £25 5 million, whilst operating profit had improved by approximately 10% to £17 4 million Although UK operations have been impacted by the recession, overseas operations remain strong The company has no debt	
Nationwide Accident Repair Services PLC *Cost £2,582,000*	9,000
Nationwide provides automotive crash repair and accident administration services to the UK insurance industry With a national network of accident repair centres located across England, Scotland and Wales employing over 2,200 people, it is the largest dedicated provider of accident repair services in the UK The company recently announced a major long-term extension of its contract with Royal & Sun Alliance and trading results in line with expectations	
Inspired Gaming Group PLC *Cost £16,002,000*	6,890
Inspired Gaming Group is the leading player worldwide in the Open Server-Based Gaming (Open SBG™) market and is also the leading provider of analogue and Open SBG™ machines in the UK for the leisure and gaming markets The group provides Open SBG™ software systems and Open SBG™ digital and networked terminals in 10 countries The group's customer base includes bars, casinos, bingo halls, licensed betting offices, holiday parks and other out of home leisure venues Key customers include the major gaming companies such as Gala Coral Group, William Hill, Betfred, Bourne Leisure and Stanleybet Trading in the group is in line with expectations The group is currently in discussions with various parties regarding offers received for certain of its divisions and for the group as a whole	
Carried forward	37,590

unlisted investments profile (AIM quoted)

as at 31 January 2010

	2010 At bid value £'000
Brought forward	37,590
Essenden PLC *Cost £225,000*	1,080

Essenden is the UK's largest operator of ten pin bowling alleys and operates under the Tenpin brand name Although the business has been impacted by the recession in the UK, costs have been cut and the operating performance has been in line with market estimates A new management team led by Nick Basing has joined the company with a view to maximising shareholder value over the next three years Mr Basing previously ran Paramount which was a major success for NASCIT

AssetCo PLC *Cost £849,000**	511

AssetCo is the pioneering provider of integrated support services, vehicles and equipment to UK and overseas emergency services and homeland security organisations It is at the forefront of providing support for the emergency services and has pioneered the development of the UK's most extensive range of integrated support services AssetCo has established the UK's only Integrated Vehicle and Equipment Solution Centre and the UK's first dedicated Swift Water and Flood Rescue Centre It has also established dedicated centres for Technology and Communications and Technical Rescue Training

* See also AssetCo Limited (Abu Dhabi) on page 8

Other AIM quoted investments	2,531
Total value of AIM quoted investments at bid value	41,712

group report of the directors

for the year ended 31 January 2010

The Directors present their Report (incorporating the Business Review) and the financial statements for the year ended 31 January 2010

The corporate governance statement on pages 25 to 28 forms part of this Group Report of the Directors

business review

At 31 January 2010, the diluted net asset value ("NAV") per share was 1,169p (31 January 2009 944p), an increase of 23 8% during the year, compared to an increase of 18 3% during the year in the Standard & Poor's 500 Composite Index (Sterling adjusted) As stated in the Chairman's Statement on page 4, a significant part of the return for the year was achieved by specific actions taken by the Investment Manager, rather than through a recovery in the overall level of the stock market

A review of the performance of the Company's business during the year (as required by section 417 of the Companies Act 2006) is included in the Chairman's Statement and Investment Managers' Report incorporated into this Report by reference

The key performance indicators for the Company including NAV and share price information are detailed on page 18

The Company has no employees and accordingly this business review does not contain any information regarding employees As an investment trust, the Board do not believe that the Company's business has an impact on the environment and has not put into place any policies regarding social and community issues The Board does not believe that this will change in the near future but, if it were to do so, they would immediately review these matters

results and dividends

The total net profit after taxation for the financial year ended 31 January 2010 amounted to £43,313,000 (2009 total net deficit £54,532,000) The Board do not propose a final dividend (2009 nil)

investment policy

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

2 Gearing is limited to a maximum of 30% of net assets

3 The Company invests on both sides of the Atlantic, with the weighting varying from time to time

4 The Company will invest in unquoted securities as and when opportunities arise

investment approach

The Company invests in a diversified range of companies, both quoted and unquoted, on both sides of the Atlantic in accordance with the above Investment Policy

Christopher Mills, the Joint Investment Manager, is responsible for the construction of the portfolio and details of the principal investments are set out on pages 7 to 16 The top twenty largest investments are listed on page 7

When analysing a potential investment, the Managers will employ a number of valuation techniques depending on their relevance to the particular investment A key consideration when deciding on a potential investment is the sustainability and growth of long term cash flow

In respect of the unquoted portfolio, regular contact is maintained with the management of prospective and existing investments, as well as rigorous financial and business analysis of these companies It is recognised that different types of business perform better than others depending on economic cycles and market conditions and this is reflected within the range of investments in the portfolio

The Company's activities have not changed in the year ended 31 January 2010 and the Directors anticipate that the Company will continue to operate on the same basis during the current financial year

group report of the directors

for the year ended 31 January 2010

financial instruments

The financial instruments employed by the Company primarily comprise equity and loan stock investments, although it does hold cash and liquid resources and various items such as debtors and creditors that arise directly from its operations Further details of the Company's risk management objectives and policies relating to the use of financial instruments can be found in Note 18 to the financial statements on pages 68 to 78

key performance indicators

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

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

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

(iii) **performance against benchmark**

The performance of the Company's share price is measured against the Standard & Poor's 500 Composite Index and the Russell 2000 Index, the Company's benchmarks A graph comparing performance can be found in the Directors' Remuneration Report on page 32

group report of the directors
for the year ended 31 January 2010

future prospects

The Directors believe that the year ending January 2011 will see further progress, especially from the unquoted portfolio which continues to offer the potential for further significant appreciation

taxation status

In the opinion of the Directors, the Company has conducted its affairs so as to be able to seek approved investment trust status from Her Majesty's Revenue & Customs under Section 842 of the Income and Corporation Taxes Act 1988 for the accounting year ended 31 January 2010 Pursuant to arrangements between The Association of Investment Companies and Her Majesty's Revenue & Customs, who have agreed that written approval of investment trust status can be granted within the Corporation Tax Self Assessment Regime, written approval for all accounting years to 31 January 2009 has been granted

share capital

At 31 January 2010 the Company's issued share capital consisted of 14,824,227 Ordinary Shares of 5p nominal value each In April 2010, 100,000 Ordinary Shares were issued following the exercise of executive share options Therefore at the date of this report the Company's issued share capital consists of 14,924,227 Ordinary Shares of 5p nominal value each All shares hold equal rights with no restrictions and no shares carry special rights with regard to the control of the Company There are no special rights attached to the shares in the event that the Company is wound up

In addition, the Company has 3,587,825 units of Convertible Unsecured Loan Stock ("CULS") 2013 of 5p nominal value in issue Holders of CULS have the right to convert their stock into shares once a year and the Conversion Notice will be sent to the relevant holders with the Report & Accounts There are no voting rights attached to the CULS In the event of winding up, the holders of CULS may be entitled to repayment of the principal amount of the stock together with any accrued interest Full details are provided in the Trust Deed dated 26 November 1993

share valuations

On 31 January 2010, the middle market quotation and the diluted net asset value per 5p Ordinary Share were 814 0p and 1,169p respectively The comparable figures at 31 January 2009 were 618 5p and 944p respectively

donations

The Company does not make any political or charitable donations

substantial shareholders

At the date of this report, the following interests in the Ordinary Shares of the Company which exceed 3% of the issued share capital have been notified to the Company

	Number of Ordinary Shares	% of issued share capital
C H B Mills	2,959,932	19 83
Lloyds Banking Group Plc	1,582,203	10 60
Henderson Global Investors Limited	758,324	5 08
J O Hambro Investment Management Limited	730,629	4 90
Findlay Park US Smaller Companies Fund Plc	595,000	3 99
Legal & General Group Plc	581,816	3 90
CG Asset Management Limited	525,759	3 52

group report of the directors

for the year ended 31 January 2010

directors

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

In accordance with Article 55 of the Company's Articles of Association, Mr K Siem will retire by rotation at the forthcoming Annual General Meeting of the Company and, being eligible, offer himself for re-election

In accordance with Listing Rule 15 2 13A, which requires Directors or members of the Manager to be subject to annual election, Mr C H B Mills is subject to annual election as he is both Chief Executive and a member of the Joint Manager and, accordingly, a resolution to re-elect him as a Director is included in the Notice of Annual General Meeting on pages 83 and 84

The Chairman and other members of the Board recommend that the Directors retiring be re-elected The Chairman has confirmed that all Directors retiring have been subject to performance evaluation and as part of this evaluation the Chairman confirms that they continue to demonstrate commitment to their role and in his view continue to responsibly fulfil their functions

directors' interests

The interests of the Directors as notified to the Company (beneficial unless otherwise stated) in the Ordinary Shares and Convertible Unsecured Loan Stock (CULS) 2013 of the Company as at 31 January 2010 and 31 January 2009 were as follows

	31 January 2010		31 January 2009	
	5p Ordinary Shares	Units of CULS	5p Ordinary Shares	Units of CULS
The Hon P D Moncreiffe	303,130	–	278,130	–
C H B Mills	2,836,932	–	2,777,150	–
K Siem*	–	–	–	–
C L A Irby	25,000	–	25,000	–
O R Grace	280,429	321,135	280,429	321,135
E F Gittes	200,000	–	200,000	–

* Siem Capital International Limited, a company which is indirectly controlled by a trust of which Mr Siem and his family are potential beneficiaries, is ultimately interested in 145,000 Ordinary Shares and 2,000 units of CULS (2009 145,000 Ordinary Shares and 2,000 units of CULS)

Details of Directors' remuneration and interests in Share Options are described in the Directors' Remuneration Report on pages 29 to 32

Subsequent to the year end, on 23 March 2010, The Hon P D Moncreiffe purchased 90,000 units of CULS In addition, on 16 March 2010, Mr Mills purchased 210,000 units of CULS and on 6 April 2010 he purchased 23,000 Ordinary Shares

Save as disclosed below or in notes 4 and 19 to the financial statements, no Director was party to or had any interest in any contract or arrangement with the Company at any time during the year

risk profile

The Company's risk profile is set out in note 18 to the financial statements on pages 68 to 78 The principal risks to the Company and its Shareholders are investment risk, market price risk and foreign currency risk

group report of the directors
for the year ended 31 January 2010

investment management agreements

Pursuant to the Management, Administration and Custody Agreement dated 7 January 1993, as amended by the Amendment and Restatement Agreement on 19 March 2002 novated in November 2003 to North Atlantic Value LLP, the Joint Manager provides management and administration services to the Company

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

As part of this review, the Board has given consideration to the experience, skills and commitment of the Chief Executive in addition to the personnel, services and resources provided by the Joint Manager The Company's performance over the last year is described in the Chairman's Statement on page 4 The Board considers that the arrangements between the Chief Executive and the Joint Manager continue to work well

related party transactions

Mr Mills, the Chief Executive, is Chief Investment Officer and a member of North Atlantic Value LLP, Joint Manager to the Company Mr Mills makes day-to-day investment decisions for the Company in his capacity as its Chief Executive and this position is distinct from his position as Chief Investment Officer of the Joint Manager Mr Mills is a director and a substantial shareholder of J O Hambro Capital Management Group Limited, the holding company of the Corporate Company Secretary, J O Hambro Capital Management Limited and Designated Members of the Joint Manager Mr Mills is a director and the sole shareholder in Growth Financial Services Limited (GFS)

Pursuant to the Secondment Services Agreement between the Company, GFS and Mr Mills and the Management, Administration and Custody Agreement between the Company and North Atlantic Value LLP, Mr Mills is responsible for the day-to-day investment decisions in conjunction with the Joint Manager, North Atlantic Value LLP The Secondment Services Agreement continues until terminated by the Company or GFS on not less than twelve months' notice Details of the related party transactions and fees payable are disclosed in note 19 on pages 79 and 80 and in the Directors' Remuneration Report on pages 29 to 32 The Investment Management Fees are disclosed in note 4 on pages 52 and 53 The Performance Fee payable to GFS is disclosed in the Directors' Remuneration Report on pages 29 to 32 and note 4 of the financial statements on pages 52 and 53

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

institutional investors – use of voting rights

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

group report of the directors

for the year ended 31 January 2010

creditors' payment policy

It is the Company's policy to settle investment transactions according to the settlement periods operating for the relevant markets For other creditors, it is the Company's policy to pay amounts due to them as and when they become due All supplier invoices received by 31 January 2010 had been paid (31 January 2009 – all supplier invoices paid)

soft commission

The Joint Manager receives indirect benefits for certain investment services in the form of soft commission as a result of an agreement with a broker The value of services supplied may depend upon a minimum threshold of commissions or a percentage of such commissions arising on dealings in securities for all clients including the Company The practice of best execution is not compromised by this arrangement

auditors

A resolution to reappoint Grant Thornton UK LLP as the Company's Auditors will be proposed at the forthcoming Annual General Meeting

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

- The Company's capital structure and voting rights are summarised on page 19 and note 15,
- Details of the substantial shareholders in the Company are listed on page 19,
- The rules concerning the appointment and replacement of directors, are contained in the Company's Articles of Association and are discussed on page 25,
- Amendment of the Company's Articles of Association and powers to issue on a pre-emptive basis or buy back the Company's Shares requires a special resolution to be passed by the Shareholders,
- There are no restrictions concerning the transfer of securities in the Company, no special rights with regard to control attached to securities, no agreements between holders of securities regarding their transfer known to the Company, no agreements which the Company is party to that might affect its control following a takeover bid, and there are no agreements between the Company and its Directors concerning compensation for loss of office

explanatory notes for special business at the annual general meeting

The following resolutions (if passed) would allow the Board to issue Shares without first offering them to existing Shareholders Although the Directors have no current intention of exercising either of the authorities (if renewed) to allot Shares or disapply pre-emption rights, they reserve the right to allot Shares at any time

Resolution 6 – Ordinary Resolution - Renewal of Directors' authority to allot shares
The authority given to the Directors at the last Annual General Meeting to allot Shares expires at the conclusion of this year's meeting Resolution 6 will renew the authority to allot Shares of the Company on similar terms If Resolution 6 is passed the Directors will have the authority to allot Shares up to the aggregate nominal amount of £248,737 representing one third of the current issued share capital This authority will expire at the next Annual General Meeting of the Company or, if earlier, 15 months after the passing of this resolution

Resolution 7 – Special Resolution – Renewal of Directors' authority for the disapplication of pre-emption rights
The authority given to Directors to disapply pre-emption rights expires at the Annual General Meeting Resolution 7 will renew the disapplication of pre-emption rights thereby authorising the

group report of the directors

for the year ended 31 January 2010

Directors to allot equity securities for cash up to a maximum aggregate renewal amount of £37,311 representing 746,211 Ordinary Shares of 5p each, being equivalent to 5% of the current issued share capital, without first offering such securities to existing Shareholders

Resolution 8 – Special Resolution – Authority to purchase the Company's own shares

The authority given to Directors to purchase the Company's Ordinary Shares in the market expires at the forthcoming Annual General Meeting Resolution 8 seeks the authority of Shareholders to purchase a maximum of 1,492,423 Ordinary Shares representing 10% of the current issued share capital The Directors intend to exercise this authority only when, in the light of market conditions prevailing at the time and taking into account investment opportunities, appropriate gearing levels and the overall financial position, they believe that the effect of such purchases will be to increase the underlying value per Ordinary Share having regard to the interests of Shareholders generally Shares will not be bought at a price of less than 5 pence each being the nominal value of each share nor more than 5% above the average middle market quotation of the shares over the preceding five business days nor will they be purchased during periods when the Company would be prohibited from making such purchases Purchases will be made within guidelines set by the Board and using available reserves Ordinary Shares purchased will be cancelled and the number of shares in issue reduced accordingly

Resolution 9 – Special Resolution – Notice of general meetings

The authority given to Directors at last year's Annual General Meeting to call general meetings (other than an Annual General Meeting) on 14 days' notice will expire at the forthcoming Annual General Meeting Resolution 9 seeks such approval The approval will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed The Company will also need to meet the requirements for electronic voting under the Directive before it can call a general meeting on 14 days' notice

The above resolutions are contained in the Notice of Annual General Meeting on pages 83 and 84

Recommendation

The Board considers that resolutions 6 to 9 are likely to promote the success of the Company and are in the best interests of the Company and its shareholders as a whole The Directors therefore unanimously recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings which amount in aggregate to 3,768,491 shares representing 25 3% of the voting rights of the Company

By Order of the Board FOR AND ON BEHALF OF

J O Hambro Capital Management Limited
Company Secretary
Registered Office
Ground Floor
Ryder Court
14 Ryder Street
London SW1Y 6QB

Registered No 1091347
25 May 2010

directors' responsibilities in respect of the annual report & financial statements
for the year ended 31 January 2010

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

Company law requires the Directors to prepare financial statements for each financial year Under that law, the Directors have elected to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the European Union The financial statements are required by law to give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business

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

In so far as the Directors are aware

- there is no relevant audit information of which the Company's Auditors are unaware, and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Auditors are aware of that information

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

Responsibility Statement required by Disclosure and Transparency Rule (DTR) 4 1 12

(i) To the best of our knowledge and belief the financial statements for the year ended 31 January 2010, give a true and fair view of the assets, liabilities, financial position and profit of the Company and Group and except as detailed in note 2 to the financial statements regarding non-consolidation of certain investments, have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS)

(ii) The Report of the Directors includes a fair review of the development and performance of the business and the position of the Company and Group together with a description of the principal risks and uncertainties that they face

For and on behalf of the Board of North Atlantic Smaller Companies Investment Trust PLC

The Hon P D Moncreiffe
Chairman
25 May 2010

Peregrine Moncreiffe.

corporate governance

Statement of Compliance with The Provisions of the Combined Code on Corporate Governance 2008

This statement describes how the principles of the Combined Code on Corporate Governance (the Code), issued by the Financial Reporting Council in June 2008, have been applied to the affairs of the Company In applying the principles of the Code, the Directors have also taken account of the Code of Corporate Governance published by the Association of Investment Companies (the AIC Code), which established the framework of the best practice specifically for the Boards of investment trust companies This Corporate Governance Statement forms part of the Group Report of Directors that is set out on pages 17 to 23

directors

Brief biographical details of the Directors in office are set out on page 3 The Board consists of six Directors, five of whom are Non Executive and considered by the Board to be independent of the Company's Joint Manager for the purposes of the Code The Board considers that it has the appropriate balance of skills, experience, ages and length of service in the circumstances The majority of the Board is considered to be independent

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

The Board is a small Board and individual members have a wide range of qualifications and expertise to bring to any debate The Board normally meets four times a year and at other times as necessary The Directors have no service contracts The contract for Mr Mills' services as a Director is with Growth Financial Services Limited The Articles of Association provide that newly appointed Directors are required to submit themselves for election by Shareholders at the General Meeting following their appointment and for all Directors to be re-elected at least once every three years Your Board has considered the need to appoint a senior independent director but believes that this is not necessary as the majority of the Directors are independent The Board lays down guidelines within which the Chief Executive and the Joint Manager implement investment policy and has a Schedule of Matters reserved to it The Chief Executive and the Joint Manager are responsible for managing the Company and its portfolio of assets on a discretionary basis, subject to the supervision of the Board

The Chairman and other members of the Board recommend that the Directors retiring at the forthcoming Annual General Meeting be re-elected The Chairman has confirmed that all Directors retiring have been subject to performance evaluation and as part of this evaluation the Chairman confirms that they continue to demonstrate commitment to their role and in his view continue to responsibly fulfil their functions

board meetings

The Board has a schedule of matters reserved to it and sets down matters which require prior approval of the Board The Chief Executive and Joint Manager carry out day-to-day activities pursuant to the terms of the management arrangements in place In addition to scheduled Board Meetings, the Board may carry out certain urgent matters not requiring debate by way of delegation to a Committee of the Board or by resolution in writing of all Directors

corporate governance

Statement of Compliance with The Provisions of the Combined Code on Corporate Governance 2008

attendance at board meetings, audit and remuneration committees

	Total number in year 4 Board Meetings	Total number in year 2 Audit Committees	Total number in year 1 Remuneration Committee
The Hon P D Moncreiffe	4	1	1
C H B Mills	4	N/A	N/A
K Siem	4	2	1
C L A Irby	4	2	1
O R Grace	4	2	1
E F Gittes	4	2	1

remuneration committee

All of the Non-Executive Directors comprise the Remuneration Committee The Remuneration Committee reviews the remuneration paid to North Atlantic Value LLP and GFS pursuant to the Management Agreements The remuneration of GFS is disclosed in the Directors' Remuneration Report on pages 29 to 32 and also in note 4 on pages 52 and 53

audit committee

The Board is supported by an Audit Committee which comprises all of the Non-Executive Directors and is chaired by Mr Irby The Audit Committee meets representatives of the Joint Manager twice a year, who report on the proper conduct of business in accordance with the regulatory environment in which both the Company and the Joint Manager operate The Company's Auditors also attend the Audit Committee at its request, at least once a year and comment on their work procedures, the quality and effectiveness of the Company's accounting procedures and their findings in relation to the Company's statutory audit The responsibilities of the Audit Committee include a review of the risk analysis, effectiveness of the internal control environment, accounting policies and the terms of appointment of the Auditors The Audit Committee is authorised to take such independent professional advice (including legal advice) and to secure the attendance of any external advisers with relevant expertise as it considers necessary The Audit Committee is also responsible for the review of the annual and half-yearly Reports, the nature and scope of the external audit, their findings and the provision of any non-audit services The Audit Committee is satisfied that the Auditors are independent

The Board is satisfied that Grant Thornton UK LLP has adequate policies and safeguards in place to ensure that their objectivity and independence is maintained The Auditors provide some non-audit services to the Company, primarily in the provision of taxation advice The Audit Committee receive each year a report from the Auditors as to any matters the Auditors consider bear on their independence and which require disclosure to the Company

corporate governance

Statement of Compliance with The Provisions of the Combined Code on Corporate Governance 2008

The Committee's terms of reference are available from the Company Secretary The Audit Committee met twice during the year to review the half-yearly and annual financial statements and to review reports and hold discussions with the Chief Executive and Joint Manager In carrying out its duties during this review, the Audit Committee considered inter alia the annual budget, internal control reports, the risk management framework, the effectiveness of the external audit process, the independence and objectivity of the External Auditors, the Audit Plan, Audit Reports and Corporate Governance Report including the Code The Audit Committee has considered the need to take out separate insurance cover for Mr Mills The Audit Committee considers that the Committee as a whole has the relevant and recent financial experience required to carry out its duties and does not consider it appropriate to rely on any one member with financial expertise The Audit Committee is satisfied that the Auditors are independent and considers that the Auditors' objectivity and independence is not impaired by the performance by the Auditors of non audit services The Audit Committee does not consider that the appointment of a third party unfamiliar with the Company to carry out non audit services would benefit Shareholders since they would incur unnecessary additional expense

The Company carries out its activities using the services of third party service providers, it has no staff of its own

shareholder relations

The Company, through the Chief Executive and Joint Manager, has regular contact with its Institutional Shareholders The Board supports the principle that the Annual General Meeting be used to communicate with private Shareholders and encourages them to participate The Annual General Meeting is attended by the Chairman and the Chief Executive

The Notice of the Annual General Meeting sets out the business of the meeting and can be found on pages 83 and 84 The special business is also explained more fully in the Explanatory Notes on pages 85 and 86 Separate resolutions are proposed for each substantive issue

nominations committee

The Board is a small Board and as a whole fulfils the function of the Nominations Committee The Nominations Committee considers the leadership needs and succession of the Board when making decisions on new appointments Compatibility with each and every Director is considered a priority The Board considers that the current size of the Board is the optimum size and does not consider that there are any vacancies

the company secretary

The Board has direct access to the advice and services of the Corporate Company Secretary, J O Hambro Capital Management Limited, responsible for ensuring that the Board and Committee procedures are followed and that the applicable regulations are complied with The Corporate Company Secretary is also responsible to the Board for ensuring timely delivery of information and reports

accountability and audit

The Statement of Going Concern is given on the following page and the Board's responsibilities with regard to the financial statements are set out on page 24 The Report of the Independent Auditor is on pages 33 and 34

share capital

Shareholders' attention is drawn to the further information on page 22 which is disclosed in accordance with the Large and Medium-sized Companies and Groups (Account and Reports) Regulations 2008 and rule 7 2 6 of the Disclosure and Transparency rules

corporate governance

Statement of Compliance with The Provisions of the Combined Code on Corporate Governance 2008

internal control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness The Board has regularly reviewed the effectiveness of the system of internal control in place The Board believes that the key risks identified and implementation of the system to monitor and manage those risks are appropriate to the Company's business as an investment trust The ongoing risk assessment includes the monitoring of the financial, operational and compliance risks as well as an evaluation of the scope and quality of the system of internal control adopted by the third party service providers The Board regularly reviews the delegated services to ensure their continued competitiveness and effectiveness The system is designed to ensure regular communication of the results of monitoring by the third parties to the Board and the incidence of any significant control failings or weaknesses that have been identified and the extent to which they have resulted in unforeseen outcomes or contingencies that may have a material impact on the Group's performance or operations This review process was in place throughout the year under review and including the period to the date of the approval of the Annual Report The Board believes that, although robust, the Company's system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives Any system can provide only reasonable and not absolute assurance against material misstatement or loss The Company does not have an internal audit function as it uses third party service providers and does not employ any staff, nor does the Board consider it appropriate to do so

going concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operation for the foreseeable future They have, therefore, adopted the going concerns basis in preparing these financial statements

Throughout the year ended 31 January 2010, the Company has complied with the Code, except as follows

compliance statement

The Company did not comply with the following provisions at any time during the year ended 31 January 2010

A 1 3, A 3 3, A 4 6, A 6 1 - As the Board consists of five Non Executive Independent Directors and the Chief Executive, the Board do not consider it appropriate to comply with these Code provisions

A 7 2 – This provision is complied with, save that Non Executive Directors are not appointed for specific terms but their appointment is terminable on one month's notice

D 1 2 – This provision is not strictly complied with insofar as it is the Chief Executive and Joint Manager who has regular contact with major Shareholders All Directors attend the Annual General Meeting and are available to communicate with Shareholders

By order of the Board FOR AND ON BEHALF OF

J O Hambro Capital Management Limited
Company Secretary
Registered Office
Ground Floor
Ryder Court
14 Ryder Street
London SW1Y 6QB

25 May 2010

directors' remuneration report

for the year ended 31 January 2010

This Report has been prepared in accordance with the requirements of Company Law and the Listing Rules An ordinary resolution for the approval of this Report will be put to the Members at the forthcoming Annual General Meeting

The law requires your Company's Auditors to audit certain of the disclosures provided Where disclosures have been audited, they are indicated as such The Auditors' opinion in included in their report on pages 33 and 34

role and composition

The Remuneration Committee consists of the Chairman and the Independent Non Executive Directors

The Remuneration Committee is responsible for determining all aspects of Directors' remuneration No Director participates in discussions on his own remuneration The Committee takes independent professional advice where it considers this is appropriate No such advice has been received in the year

non-executive directors

The fees payable to Non Executive Directors are agreed by the Board following the recommendation of the Chairman of the Board and with the assistance of independent external advice on comparable organisations and appointments Non Executive Directors' fees are determined by the Board, or by a Committee authorised by the Board subject to the limits set out in the Company's Articles of Association

Non Executive Directors do not have service contracts nor do they have the benefit of termination payments, benefits in kind or option schemes

chief executive

The Chief Executive is responsible for the day-to-day investment decisions He has no service contract with the Company, his appointment is pursuant to the Secondment Services Agreement dated 7 January 1993 between the Company, the Chief Executive and Growth Financial Services Limited As stated in note 19 on pages 79 and 80, the Chief Executive is entitled to retain any fees received from investee companies in respect of his role as a non-executive director of these entities, such a role is considered to benefit Shareholders as it allows the Chief Executive to monitor the performance of the investee company more closely than would be possible under other circumstances

directors' remuneration report

for the year ended 31 January 2010

remuneration of directors (audited)

Chief Executive	2010	2009
	£	£
Fees	20,000	20,000
Investment Management and related fees	745,000	990,000
Performance Fee	1,102,000	–
Total (excluding irrecoverable VAT)	1,867,000	1,010,000

The total fees of £1,867,000, in respect of Mr Mills' services as a Director and Chief Executive are payable to Growth Financial Services Limited (GFS), as described on page 21 GFS receives, and is contractually entitled to receive, part of the Investment Management fees payable to North Atlantic Value LLP) in respect of the investment management activities of the Chief Executive pursuant to the Investment Management Agreements described on page 21 and in note 4 to the financial statements on pages 52 and 53

Mr Mills is the sole shareholder and director of GFS

The Performance Fee is a contractual entitlement pursuant to the Secondment Services Agreement dated 7 January 1993 as amended and is paid to GFS

No pension or other benefits are paid to the Chief Executive

Non-Executive Directors	2010	2009
	£	£
The Hon P D Moncreiffe (Chairman)*	–	–
K Siem	20,000	20,000
C I A Irby	20,000	20,000
O R Grace	20,000	20,000
E F Gittes (former Chairman)	24,000	24,000
P E Swinstead	–	19,140

* The Hon P D Moncreiffe is not receiving a fee in respect of his services as a Director of the Company

No Directors receive any benefits in kind

service contracts

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

directors' remuneration report

for the year ended 31 January 2010

interests in options (audited)

	No of options at 1 February 2009	Year of grant	Price	Exercised/ cancelled during the year	Grant of options during the year	Price	No of options at 31 January 2010
C H B Mills	100,000*	2000	677 57p	–	–	–	100,000
	300,000	2002	645 54p	–	–	–	300,000
	200,000	2003	663 80p	–	–	–	200,000
	300,000	2005	875 60p	–	–	–	300,000

* These Options were granted for nil consideration under the 1994 Executive Share Option Scheme and are exercisable at any time between 30 October 2003 and 30 October 2010

The Options granted in 2002, 2003 and 2005 were granted for nil consideration under the 2002 Executive Share Option Scheme which replaced the 1994 Scheme

The Options granted in 2002 are exercisable at any time between 6 December 2005 and 6 December 2012

The Options granted in 2003 are exercisable at any time between 25 September 2006 and 25 September 2013

The Options granted in 2005 are exercisable at any time between 9 June 2008 and 9 June 2015, subject to the criteria below being met

The 2002 Executive Share Option Scheme is designed to incentivise the Chief Executive and provide the Remuneration Committee with the flexibility to incentivise those individuals contributing to the performance of the Company to achieving exceptional results through stretching performance targets and to deliver success for Shareholders

The 2002 Executive Share Option Scheme permits options to be granted to a maximum of 5 per cent of the current issued Share Capital

The Share Option Scheme is an unapproved scheme Options will normally be exercisable between three and ten years from the date of grant Options granted under the 2002 Executive Share Option Scheme may only be exercisable if the fully diluted net asset value of the Company (ignoring dilution on the exercise of Share Options) has grown at a compound rate of five per cent per annum over a period of at least three years following the grant of options and has grown by a percentage at least equal to sixty per cent of the percentage increase in the Sterling adjusted Standard & Poor's 500 Composite Index in the three year period between the date of grant and the third anniversary of the date of the grant of Options The criteria for the 300,000 Options issued in 2002 and the 200,000 Options issued in 2003 have been met and they are, therefore, now exercisable at any time

The highest and lowest mid-market price of the Company's Ordinary Shares during the year was 848 0p and 397 5p respectively The mid-market price of the Company's Ordinary Shares at 31 January 2010 was 814 0p

Subsequent to the year end 100,000 options issued under the 1994 Scheme and granted in 2000 were exercised at the exercise price of 677 57p per share Following a review of the incentivisation scheme a majority of the option holders waived their rights to participate in the 2002 Executive Share Option Scheme Therefore at the date of this report there were 42,500 options granted in 2005 in issue

directors' remuneration report

for the year ended 31 January 2010

company's performance The following graph compares over a five year period the total Shareholder return on the Company's Shares with a hypothetical holding of Shares of the same kinds and number as those by reference to which a broad equity market index is calculated

Graph showing total Shareholder return over 5 years as compared to total Shareholder return of a broad equity market index over the last 5 years (Source Financial Data/Datastream)

The equity market indexes chosen are the Sterling adjusted Russell 2000 and the Sterling adjusted Standard & Poor's 500 Composite Index After consultation with major Shareholders, 60 per cent of the increase in this latter index was selected as the additional equity index-related benchmark to supplement the absolute five per cent per annum growth rate hurdle for the 2002 Executive Option Scheme The FTSE All-Share Index is also included for comparative purposes as the portfolio currently consists of UK incorporated companies as well as US companies

This Report was approved by the Board on 25 May 2010 and signed by The Hon P D Moncreiffe, Chairman

Peregrine Moncreiffe.

The Hon P D Moncreiffe
Chairman

25 May 2010

independent auditor's report

to the members of north atlantic smaller companies investment trust plc

We have audited the financial statements of North Atlantic Smaller Companies Investment Trust plc for the year ended 31 January 2010 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements 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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 24, 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 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 (APB's) Ethical Standards for Auditors

scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/UKP

qualified opinion on financial statements arising from disagreement on accounting treatment

As explained in note 2, the Directors have not consolidated the investment in Bionostics Holdings Limited on the grounds that the information necessary for the preparation of consolidated financial statements cannot be obtained without disproportionate expense In our opinion, the Company should consolidate its controlling investment in Bionostics Holdings Limited in accordance with International Accounting Standard 27 'Consolidated and Separate Financial Statements'

As also explained in note 2, the Directors have not consolidated the investment in TPE III on the grounds that the holding at year end was based on the first close of the fund and that subsequent closings have reduced NASCIT's holding to 48% In our opinion, the company should consolidate its controlling investment in TPE III as at the balance sheet date in accordance with International Accounting Standard 27 'Consolidated and Separate Financial Statements'

Except for the financial effect of not making the adjustments referred to in the preceding paragraphs, 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 31 January 2010 and of the Group's profit for the year then ended,
- the financial statements have been properly prepared in accordance with IFRS as adopted by the European Union, and

report of the independent auditor

to the members of north atlantic smaller companies investment trust plc

- the Parent Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

opinion on other matters 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 matters

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 Directors' statement, set out on page 28, in relation to going concern, and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review

Grant Thornton UK LLP

Julian Bartlett
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London, England
25 May 2010

consolidated statement of comprehensive income

for the year ended 31 January

	Notes	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000
Investment income	3	3,525	–	3,525	4,285	–	4,285
Net gains/(losses) on investments at fair value through profit or loss	10	–	38,531	38,531	–	(54,325)	(54,325)
Currency exchange gains	10	–	1,087	1,087	–	7,042	7,042
total income		3,525	39,618	43,143	4,285	(47,283)	(42,998)
Expenses							
Investment management fee *	4	(1,862)	(1,225)	(3,087)	(2,475)	(110)	(2,585)
Other expenses	5	(973)	–	(973)	(733)	–	(733)
Share based remuneration	6	–	–	–	(50)	–	(50)
Share of net return of associate	10	–	4,477	4,477	–	(7,677)	(7,677)
profit/(loss) before finance costs and taxation		690	42,870	43,560	1,027	(55,070)	(54,043)
Finance costs	7	(242)	–	(242)	(487)	–	(487)
profit/(loss) before taxation		448	42,870	43,318	540	(55,070)	(54,530)
Taxation	8	(5)	–	(5)	(2)	–	(2)
profit/(loss) for the year		443	42,870	43,313	538	(55,070)	(54,532)
other comprehensive income		–	–	–	–	–	–
total comprehensive income/(loss) for the year		443	42,870	43,313	538	(55,070)	(54,532)
basic earnings/(losses) per ordinary share	9	2 99p	289 45p	292 44p	3 64p	(372 41)p	(368 77)p
diluted earnings per ordinary share	9	2 49p	230 93p	233 42p	2 92p	N/A	N/A

All of the profit for the year and the total comprehensive income for the year is attributable to the owners of the Group

The total column of the statement is the Statement of Comprehensive Income of the Group The supplementary revenue and capital columns are presented for information purposes as recommended by the Statement of Recommended Practice issued by the Association of Investment Companies

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

*Net of VAT refund

The financial statements have been prepared in accordance with the accounting policies on pages 44 to 50

The notes on pages 44 to 81 form part of these financial statements

consolidated statement of changes in equity

for the year ended 31 January

group	Share capital £'000	CULS reserve £'000	Share options reserve £'000	Share premium account £'000	Capital reserve £'000
2010					
31 January 2009	740	29	1,348	629	177,766
Total comprehensive income for the year	–	–	–	–	42,870
Share Options expense	–	–	–	–	–
Exercise of Management Options	–	–	–	–	–
Premium paid on repurchase of CULS	–	–	–	–	(1,971)
Arising on conversion of CULS	1	(2)	–	–	–
31 January 2010	741	27	1,348	629	218,665

	Share capital £'000	CULS reserve £'000	Share options reserve £'000	Share premium account £'000	Capital reserve £'000
2009					
31 January 2008	739	34	1,341	629	238,161
Total comprehensive income for the year	–	–	–	–	(55,070)
Share Options expense	–	–	90	–	–
Exercise of Management Options	–	–	(83)	–	–
Premium paid on repurchase of CULS	–	–	–	–	(5,325)
Arising on conversion of CULS	1	(5)	–	–	–
31 January 2009	740	29	1,348	629	177,766

The financial statements have been prepared in accordance with the accounting policies on pages 44 to 50

The notes on pages 44 to 81 form part of these financial statements

consolidated statement of changes in equity

for the year ended 31 January

group

Revenue reserve £'000	Total £'000	
		2010
(2,392)	178,120	31 January 2009
443	43,313	Total comprehensive income for the year
–	–	Share Options expense
–	–	Exercise of Management Options
–	(1,971)	Premium paid on repurchase of CULS
–	(1)	Arising on conversion of CULS
(1,949)	219,461	31 January 2010

Revenue reserve £'000	Total £'000	
		2009
(2,930)	237,974	31 January 2008
538	(54,532)	Total comprehensive income for the year
–	90	Share Options expense
–	(83)	Exercise of Management Options
–	(5,325)	Premium paid on repurchase of CULS
–	(4)	Arising on conversion of CULS
(2,392)	178,120	31 January 2009

company statement of changes in equity

for the year ended 31 January

company	Share capital £'000	CULS reserve £'000	Share options reserve £'000	Share premium account £'000
2010				
31 January 2009	740	29	1,348	629
Total comprehensive income for the year	–	–	–	–
Share Options expense	–	–	–	–
Exercise of Management Options	–	–	–	–
Premium paid on repurchase of CULS	–	–	–	–
Arising on conversion of CULS	1	(2)	–	–
31 January 2010	741	27	1,348	629

	Share capital £'000	CULS reserve £'000	Share options reserve £'000	Share premium account £'000
2009				
31 January 2008	739	34	1,341	629
Total comprehensive income for the year	–	–	–	–
Share Options expense	–	–	90	–
Exercise of Management Options	–	–	(83)	–
Premium paid on repurchase of CULS	–	–	–	–
Arising on conversion of CULS	1	(5)	–	–
31 January 2009	740	29	1,348	629

The financial statements have been prepared in accordance with the accounting policies on pages 44 to 50

The notes on pages 44 to 81 form part of these financial statements

company statement of changes in equity

for the year ended 31 January

Capital reserve £'000	Revenue reserve £'000	Total £'000	company
			2010
177,388	(2,014)	178,120	31 January 2009
42,870	443	43,313	Total comprehensive income for the year
–	–	–	Share Options expense
–	–	–	Exercise of Management Options
(1,971)	–	(1,971)	Premium paid on repurchase of CULS
–	–	(1)	Arising on conversion of CULS
218,287	(1,571)	219,461	31 January 2010

Capital reserve £'000	Reserve revenue £'000	Total £'000	
			2009
237,783	(2,552)	237,974	31 January 2008
(55,070)	538	(54,532)	Total comprehensive income for the year
–	–	90	Share Options expense
–	–	(83)	Exercise of Management Options
(5,325)	–	(5,325)	Premium paid on repurchase of CULS
–	–	(4)	Arising on conversion of CULS
177,388	(2,014)	178,120	31 January 2009

consolidated and company balance sheets

as at 31 January

	Notes	Group 2010 £'000	Group 2009 £'000	Group 2008 £'000	Company 2010 £'000	Company 2009 £'000	Company 2008 £'000
non current assets							
Investments at fair value through profit or loss	10	179,670	147,505	231,820	195,375	158,733	250,748
Investments accounted for using the equity method	10	15,705	11,228	18,928	–	–	–
		195,375	158,733	250,748	195,375	158,733	250,748
current assets							
Investments held by subsidiary companies for trading		634	–	308	–	–	–
Trade and other receivables	11	2,018	3,989	4,169	2,702	4,005	4,477
Cash and cash equivalents		29,600	25,514	8,504	29,550	25,498	8,504
		32,252	29,503	12,981	32,252	29,503	12,981
total assets		227,627	188,236	263,729	227,627	188,236	263,729
current liabilities							
Bank loans and overdrafts	12	(5,864)	(7,874)	(9,356)	(5,864)	(7,874)	(9,356)
Investments held for trading – derivatives	10	(624)	(838)	(612)	(624)	(838)	(612)
Trade and other payables	13	(1,526)	(1,240)	(15,595)	(1,526)	(1,240)	(15,595)
		(8,014)	(9,952)	(25,563)	(8,014)	(9,952)	(25,563)
total assets less current liabilities		219,613	178,284	238,166	219,613	178,284	238,166
non current liabilities							
CULS	14	(152)	(164)	(192)	(152)	(164)	(192)
		(152)	(164)	(192)	(152)	(164)	(192)
total liabilities		(8,166)	(10,116)	(25,755)	(8,166)	(10,116)	(25,755)
net assets		219,461	178,120	237,974	219,461	178,120	237,974

The financial statements have been prepared in accordance with the accounting policies on pages 44 to 50

The notes on pages 44 to 81 form part of these financial statements

consolidated and company balance sheets

as at 31 January

	Notes	Group 2010 £'000	Group 2009 £'000	Group 2008 £'000	Company 2010 £'000	Company 2009 £'000	Company 2008 £'000
represented by							
Share capital	15	741	740	739	741	740	739
Equity component of CULS		27	29	34	27	29	34
Share options reserve		1,348	1,348	1,341	1,348	1,348	1,341
Share premium account		629	629	629	629	629	629
Capital reserve		218,665	177,766	238,161	218,287	177,388	237,783
Revenue reserve		(1,949)	(2,392)	(2,930)	(1,571)	(2,014)	(2,552)
total equity attributable to equity holders of the parent		219,461	178,120	237,974	219,461	178,120	237,974
net asset value per ordinary share							
Basic	9	1,480p	1,204p	1,611p			
Diluted	9	1,169p	944p	1,209p			

The financial statements have been prepared in accordance with the accounting policies on pages 44 to 50

The notes on pages 44 to 81 form part of these financial statements

These financial statements were approved by the Board of Directors on 25 May 2010 and signed on its behalf by

The Hon P D Moncreiffe, *Chairman*

Peregrine Moncreiffe.

consolidated cash flow statement
for the year ended 31 January

group	Notes	2010 £'000	2009 £'000
cash flows from operating activities			
Investment income received		2,191	3,202
Bank deposit interest received		136	376
Other income		392	100
Purchase of investments by dealing Subsidiary		(839)	–
Sale of investments by dealing Subsidiary		8	–
Investment Manager's fees paid		(2,188)	(3,626)
Other cash payments		(472)	(466)
cash expended on operations	16	(772)	(414)
Bank interest paid		(306)	(457)
CULS interest paid		(18)	(19)
net cash outflow from operating activities		(1,096)	(890)
cash flows from investing activities			
Purchases of investments		(120,767)	(153,593)
Sales of investments		128,383	172,624
net cash inflow from investing activities		7,616	19,031
cash flows from financing activities			
Repayment of fixed term borrowings		(1,884)	(2,777)
Repurchase of CULS for cancellation		(1,984)	(5,357)
Management Options exercised		–	(83)
net cash outflow from financing activities		(3,868)	(8,217)
increase in cash and cash equivalents for the year		2,652	9,924
cash and cash equivalents at the start of the year		25,514	8,504
Revaluation of foreign currency balances		1,434	7,086
cash and cash equivalents at the end of the year	17	29,600	25,514

The financial statements have been prepared in accordance with the accounting policies on pages 44 to 50

The notes on pages 44 to 81 form part of these financial statements

company cash flow statement

for the year ended 31 January

company	Note	2010 £'000	2009 £'000
cash flows from operating activities			
Investment income received		2,191	3,202
Bank deposit interest received		136	223
Other income		365	8
Investment Manager's fees paid		(2,188)	(3,626)
Other cash payments		(472)	(467)
cash received/(expended) from operations	16	32	(660)
Bank interest paid		(306)	(457)
CULS interest paid		(18)	(19)
net cash outflow from operating activities		(292)	(1,136)
cash flows from investing activities			
Purchases of investments		(120,767)	(153,593)
Sales of investments		128,383	172,624
net cash inflow from investing activities		7,616	19,031
cash flows from financing activities			
Repayment of fixed term borrowings		(1,884)	(2,777)
Repurchase of CULS for cancellation		(1,984)	(5,357)
Management Options exercised		–	(83)
Short-term loans net (advanced)/repaid by subsidiary		(838)	230
net cash outflow from financing activities		(4,706)	(7,987)
increase in cash and cash equivalents for the year		2,618	9,908
cash and cash equivalents at the start of the year		25,498	8,504
Revaluation of foreign currency balances		1,434	7,086
cash and cash equivalents at the end of the year	17	29,550	25,498

The financial statements have been prepared in accordance with the accounting policies on pages 44 to 50

The notes on pages 44 to 81 form part of these financial statements

notes to the financial statements

1 accounting policies

North Atlantic Smaller Companies Investment Trust plc ("NASCIT") is a Company incorporated in Great Britain and registered in England and Wales The consolidated Annual Report for the Group for the year ended 31 January 2010 comprises the results of the Company and its Subsidiary – Consolidated Venture Finance Limited (together referred to as the "Group")

new standards and interpretations

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009

- IAS 1 (as revised in 2007) Presentation of Financial Statements IAS 1 (2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements In addition, the revised Standard has required the presentation of a third balance sheet and relevant notes at 1 January 2008, because the Company has applied a new accounting policy retrospectively, being the restatement of capital reserves where the presentation has changed such that realised and unrealised reserves are now shown as one reserve

- Improving Disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments Disclosures) The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk In particular, the amendment requires disclosure of fair value measurements by level of a fair value hierarchy The adoption of the amendment results in additional disclosures but does not have an impact on the Group's financial position or performance The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments

standards, amendments and interpretations effective on 1 January 2009 but with no impact

- IAS 23 (amendment), 'Borrowing costs',
- IAS 39 and IFRIC 9 (amendments), 'Embedded derivatives' (effective for all periods ending on or after 30 June 2009),
- IAS 39 and IFRS 7 (amendments), 'Reclassification of financial assets',
- IFRS 1 (amendment), 'First-time adoption of IFRS', and IAS 27, 'Consolidated and separate financial statements',
- IFRS 2 (amendment), 'Share-based payment',
- IFRS 8, 'Operating segments', and
- IFRIC 15, 'Agreements for construction of real estates'

IASB and IFRIC have issued a number of standards and interpretations which are not effective for the year ended 31 January 2010 and are not relevant for the Group's operations The Directors have therefore chosen not to early adopt these standards and interpretations as they do not anticipate that they would have a material impact on the Group's financial statements

notes to the financial statements

1 accounting policies continued

standards, amendments and interpretations that are not yet effective and not relevant for the group's operations

- IAS 27 (revised), 'Consolidated and separate financial statements' (effective from 1 July 2009),
- IAS 39 (amendment), 'Financial instruments Recognition and measurement' (effective from 1 July 2009),
- IFRS 1 (amendments), 'Additional exemptions for first-time adopters' (effective from 1 January 2010),
- IFRS 2 (amendments), 'Group cash-settled share-based payment transactions' (effective from 1 January 2010),
- IFRS 3 (revised), 'Business combinations' (effective from 1 July 2009),
- IFRIC 17, 'Distributions of non-cash assets to owners' (effective from 1 July 2009), and
- IFRIC 18, 'Transfers of assets from customers' (effective from 1 July 2009)

Improvements to IFRS' were issued in May 2008 and April 2009 respectively and contain numerous amendments to IFRS, which the IASB consider non-urgent but necessary 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual standards Most of the amendments are effective for annual periods beginning on or after 1 January 2009 and 1 January 2010 respectively, with earlier application permitted No material changes to accounting policies are expected as a result of these amendments

(a) basis of preparation/statement of compliance

Except as disclosed in note 2, in relation to the non-consolidation of certain investments, the consolidated annual financial statements of the Group and the annual financial statements of the Company have been prepared in conformity with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Board and International Financial Accounting Standards and Standing Interpretation Committee, interpretations approved by the International Accounting Standards Committee that remain in effect and to the extent they have been adopted by the European Union They have also been prepared in accordance with applicable requirements of England and Wales company law and reflect the following policies which have been adopted and applied consistently The financial statements have also been prepared in accordance with the Statement of Recommended Practice ("SORP") for investment trust companies, except to any extent where it conflicts with IFRS

(b) convention

The financial statements are presented in Sterling rounded to the nearest thousand The financial statements have been prepared on a going concern basis under the historical cost convention, except for the measurement at fair value of investments and derivatives designated at fair value through profit or loss

notes to the financial statements

1 accounting policies continued

(c) basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its wholly owned Subsidiary undertaking, Consolidated Venture Finance Limited, drawn up to 31 January 2010 Certain investments which meet the definition of subsidiary undertakings at the balance sheet date have not been consolidated within the Group financial statements and this is explained further in note 2

Except as shown in (d) below, in accordance with IAS 28 (Investments in Associates), investments where the Company holds, directly or indirectly, more than 20% or more of the voting power of the investee, or otherwise has significant influence, are not accounted for as associates Instead they are accounted for in the same way as other investments designated as at fair value through profit or loss

In accordance with the exemptions given by s408 of the Companies Act 2006, the Company has not presented its own Statement of Comprehensive Income The amount of the Company's profit for the financial year dealt with in the accounts of the Group is £43,313,000 (2009 £54,532,000 loss)

(d) oryx

NASCIT is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of Oryx Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies Oryx has been accounted for as an associate as it is considered to be a long term holding of the Company

The results and assets and liabilities of Oryx are incorporated in the consolidated accounts using the equity method of accounting Oryx is carried in the Consolidated Balance Sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of Oryx

(e) segmental reporting

The Directors are of the opinion that the Group is engaged in a single segment of business, being investment business The Group invests in smaller companies principally based in countries bordering the North Atlantic Ocean Geographical analysis of the portfolio is shown on page 6

(f) investments

All non current investments held by the Group, other than the investment in Oryx, are designated at 'fair value through profit or loss' on initial acquisition Investments are initially recognised at fair value, being the value of the consideration given

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth This portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy and information about the portfolio is provided internally on that basis to the Company's Board of Directors and other key management personnel

After initial recognition, investments are measured at fair value, with investment holding gains and losses on investments recognised in the Statement of Comprehensive Income and (apart from those on current asset investments) allocated to capital Gains and losses on disposal are calculated as the difference between sales proceeds and cost

notes to the financial statements

1 accounting policies continued

(f) investments continued

Investments are included in the Balance Sheet on the following basis

(i) quoted at market value on a recognised stock exchange

Securities quoted on recognised stock exchanges are valued at the market bid price and exchange rates ruling at the balance sheet date With the exception of AIM quoted SETS stocks, which are valued using latest trade price, which is equivalent to the fair value

Unexpired traded put and call options are held in current liabilities as investments held for trading – derivatives and are revalued to the prevailing fair value at the balance sheet date

(ii) unlisted at market value

Treasury Bills are valued at fair value having been adjusted for movements in exchange rates between the dates of purchase and the year-end Accrued income arising from them is included in debtors

(iii) unquoted at directors' estimate of fair value

Unquoted investments, including the subsidiary, are valued in accordance with the International Private Equity and Venture Capital Association ("IPEVCA") guidelines Their valuation incorporates all factors that market participants would consider in setting a price The primary valuation techniques employed to value the unquoted investments are earnings multiples, recent transactions and the net asset basis Valuations in local currency are translated into Sterling at the exchange rate ruling on the balance sheet date

Included within the Statement of Comprehensive Income as at 31 January 2010, is a gain of £26,379,000 relative to the movement in the fair value of the unlisted investments valued using valuation techniques

(iv) current asset investments

Investments held by the Subsidiary undertaking are classified as 'held for trading' and are valued at fair value in accordance with the policies set out in 1(f)(i) and 1(f)(iii) above for quoted and unquoted holdings respectively

Profits or losses on investments in the Subsidiary are taken to revenue

(g) options

Where put and call option transactions are entered into for investment purposes, the premiums received are taken to the Statement of Comprehensive Income and included as capital and the gains or losses arising on the valuations to fair value are recognised in the Statement of Comprehensive Income and included as capital likewise

Premiums received and gains or losses on revaluation are taken to the Capital Reserve Where an option transaction is in profit at the year-end, the premium received on any open option is spread over the life of that option

notes to the financial statements

1 accounting policies continued

(h) foreign currency

The currency of the primary economic environment in which the Company operates (the "functional currency") is pounds Sterling (Sterling), which is also the presentational currency of the Group Transactions involving currencies other than Sterling are recorded at the exchange rate ruling on the transaction date At each balance sheet date, monetary items and non-monetary assets and liabilities that are fair valued, which are denominated in foreign currencies, are retranslated at the closing rates of exchange

Exchange differences arise on settlement of monetary items and from retranslating at the balance sheet date

- investments and other financial instruments measured at fair value through profit or loss, and
- other monetary items are included in the Statement of Comprehensive Income and allocated as capital if they are of a capital nature, or as revenue if they are of a revenue nature

Exchange differences allocated as capital are included in the transfer to Capital Reserve

(i) trade date accounting

All "regular way" purchases and sales of financial assets are recognised on the "trade date" i e the day that the entity commits to purchase or sell the asset Regular way purchases or sales are purchases or sales of financial assets that require delivery of the asset within a time frame generally established by regulation or convention in the market place

(j) income

Dividends receivable on quoted equity shares are taken into account on the ex-dividend date Where no ex-dividend date is quoted, they are brought into account when the Group's right to receive payment is established Other investment income and interest receivable are included in the financial statements on an accruals basis Dividends received from UK registered companies are accounted for net of imputed tax credits

(k) expenses

All expenses are accounted for on an accruals basis and are allocated wholly to revenue with the exception of Performance Fees which are allocated wholly to capital, as the fee is payable by reference to the capital performance of the Group and transaction costs which are also allocated to capital

(l) share based payments

In accordance with IFRS 2 Share Based Payments, an expense is recognised in the financial statements relating to the value of share options awarded under the 2002 Executive Share Option Scheme to the Chief Executive and employees of North Atlantic Value LLP

The accounting charge is based on the fair value of each grant, measured at the grant date and is spread over the vesting period The deemed expense is transferred to the Share Options Reserve

1 accounting policies continued

(m) cash and cash equivalents

Cash in hand and at banks and short-term deposits which are held to maturity are carried at cost Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value Bank overdrafts that are repayable on demand, which form an integral part of the Group's cash management, are included as a component of cash and cash equivalents for the purpose of the Cash Flow Statement

(n) bank loans and borrowings

All bank loans and borrowings are initially recognised at cost, being the fair value of the consideration received, less issue costs where applicable After initial recognition, all interest bearing loans and borrowings are subsequently measured at amortised cost Any difference between cost and redemption value has been recognised in the Statement of Comprehensive Income over the period of the borrowings on an effective interest rate basis

(o) convertible unsecured loan stock (CULS) 2013

The CULS comprise of an equity element and a debt element, rather than just being treated as debt The equity element was identified when the CULS were issued and reduces when the CULS are bought back A CULS Reserve has been created to recognise the equity component

(p) taxation

Tax on the profit or loss for the year comprises current and deferred tax Corporation tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in Equity, in which case it is recognised in Equity

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years The tax effect of different items of expenditure is allocated between revenue and capital on the same basis as the particular item to which it relates, using the Company's marginal method of tax, as applied to those items allocated to revenue, for the accounting period

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax basis of assets and liabilities and their carrying amount for financial reporting purposes Deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date

(q) share capital and reserves

Share Capital represents the nominal value of equity shares

Equity component of CULS represents the equity component of convertible unsecured loan stock issued

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

1 accounting policies continued

(q) share capital and reserves continued

Share Premium Account represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue

Capital Reserve represents realised and unrealised capital and exchange gains and losses on the disposal and revaluation of investments and of foreign currency items In addition, performance fee costs are allocated to the Capital Reserve

Revenue Reserve represents retained profits from the income derived from holding investment assets less the costs associated with running the Company

2 non-consolidation of investments

In accordance with International Accounting Standards (IAS 27), consolidated financial statements are required to include all subsidiaries of the parent

As at 31 January 2010 NASCIT held two portfolio investments in excess of 50%, Bionostics Holdings Limited (UK) ("Bionostics") and Trident Private Equity Fund III ("TPE III") Having carefully considered the implications your Board have concluded that in the context of an investment company and in view of the envisaged short term nature of control and recognising the resources available to the Company, they regard it as misleading and impracticable to consolidate these investments as required by IAS 27 As a consequence the Company's auditors have included a specific qualification in their report in respect of this issue

Brief details of the holdings and where appropriate a summary of the impact on NASCIT's accounts had the holdings been consolidated are included as follows

bionostics

Shortly before the year end NASCIT increased its holding in Bionostics to 54 7% Following the year end as a result of share issuance to employees of Bionostics, the Company's holding has reduced to 47 1%

Based upon the most recent audited financial statements of Bionostics, dated 30 August 2009, the principal effect of consolidating would be to alter the composition of assets and liabilities of the group balance sheet as follows

– to decrease

a) investments at fair value through profit or loss by £19 1m

– to increase

b) current assets by £6 3m

c) current liabilities by £3 0m

d) non current liabilities by £18 4m

– to include

e) intangible assets (goodwill) of £35 9m

f) non current tangible assets of £1 0m

g) minority interest of £2 7m

There would not be a material net effect on Net Assets or on the reported net asset value per share

2 non-consolidation of investments continued

Were the information available it would also be necessary to reflect 2 months of trading income and expenses in NASCIT's Statement of Comprehensive Income In the absence of the relevant information it is not possible to quantify the affect this would have on the profit for the year

TPE III

At the year end NASCIT held 52 7% of TPE III TPE III is a private equity fund which was launched in 2009 NASCIT's year end holding was based on the first closing of the fund, following subsequent closings NASCIT's partnership share now represents 48 0% of committed capital It is proposed that NASCIT will use this vehicle to invest in all future private equity investments from 31 January 2010 TPE III was not consolidated as the Directors consider it to be an investment and it was known that NASCIT's percentage holding would be reduced on the second closing

Based upon the latest management accounts of TPE III, the principal effect of consolidating would be to alter the composition of assets and liabilities in the group balance sheet as follows

– to increase

a) the total of non current assets by £5 3m

b) the total of current liabilities by £1 0m

c) minority interest by £4 3m

The trading activity of TPE III would not be material to the consolidated financial statements and there would be no material effect on the reported net asset value per share

3 income

	2010 £'000	2009 £'000
income from investments		
UK dividend income	1,661	2,066
Unfranked investment income		
– dividends	31	30
– interest	211	1,031
– interest reinvested	836	804
	2,739	3,931
other income		
Interest receivable	133	378
Dealing losses of Subsidiary	(263)	(125)
Indemnity fee for investee company	–	5
VAT reclaimed on investment management fee	525	–
Sundry income	391	96
	786	354
Total income	3,525	4,285

notes to the financial statements

3 income continued

	2010 £'000	2009 £'000
total income comprises		
Dividends	1,692	2,096
Interest	1,180	2,213
Other income	653	(24)
	3,525	4,285

	2010 £'000	2009 £'000
income from investments		
Listed UK	1,661	2,066
Unlisted UK	1,030	1,414
Unlisted other	48	451
	2,739	3,931

4 investment management fee

(i) Pursuant to the Secondment Services Agreement, described in the Group Report of the Directors on page 21 and the Directors' Remuneration Report on page 30, Growth Financial Services Limited ("GFS") provides the services of Mr Mills as Chief Executive of the Company, who is responsible for day-to-day investment decisions Mr Mills is the sole shareholder and a director of GFS GFS is entitled to receive part of the investment management and related fees payable to GFS and North Atlantic Value LLP as may be agreed between them from time to time

(ii) Pursuant to the terms of the Management, Administration and Custody Agreement, described on page 21 of the Group Report of the Directors, North Atlantic Value LLP is entitled to receive a fee (the Annual Fee) in respect of each financial period equal to the difference between (a) 1% of Shareholders' Funds (as defined) on 31 January each year and (b) the amount payable to GFS referred to in note 4(i) above This fee is payable quarterly in advance

As set out in note 19, no formal arrangements exist to avoid double charging on investments managed or advised by North Atlantic Value LLP

(iii) The Performance Fee, calculated annually to 31 January, is only payable if the investment portfolio outperforms the Sterling adjusted Standard & Poors' 500 Composite Index and is limited to a maximum payment of 0 5% of Shareholders' Funds The Performance Fee arrangements payable to GFS have been in place since 1984 when they were approved by Shareholders

(iv) In addition to the management fees disclosed in note 4(ii) above, North Atlantic Value LLP is also paid the following

– an activity fee of £225 per transaction as reimbursement of custodian and related transaction costs incurred on the Company's behalf (see note 5)

– an investment management related fee of £100,000 per annum (see note 5)

4 investment management fee continued

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

	2010			2009		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Annual fee	1,862	–	1,862	2,475	–	2,475
Performance Fee	–	1,102	1,102	–	110	110
Irrecoverable VAT thereon	–	123	123	–	–	–
	1,862	1,225	3,087	2,475	110	2,585

At 31 January 2010, £93,000 was payable to the Joint Manager in respect of outstanding management fees (2009 £124,000) At 31 January 2010, £1,102,000 plus VAT was payable to GFS in respect of outstanding performance fees (2009 £nil)

5 other expenses

	2010 £'000	2009 £'000
Auditor's remuneration (see below)	51	41
Directors' fees (see pages 29 to 32)	104	123
Investment management related fee (see note 4)	100	100
Activity fees (see note 4)	29	54
Other expenses	689	415
	973	733

Auditors' remuneration	2010 £'000	2009 £'000
Fees payable to the Company's Auditor for the audit of the financial statements	47	36
Fees payable to the Company's Auditor and its associates for other services		
– Audit of the financial statements of the Company's Subsidiary pursuant to legislation	1	1
– Other services relating to taxation	3	4
	51	41

Fees payable to the Company's Auditor, Grant Thornton UK LLP and its associates for non-audit services to the Company itself are not disclosed in the individual financial statements of the Company because the Company's Group financial statements are required by the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008, SI 2008 No 489, to disclose such fees on a consolidated basis

notes to the financial statements

6 share based remuneration

	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000
Charge for year per IFRS 2 (see note 1(l))	–	–	–	90	–	90
Cost of repurchasing management options (see below)	–	–	–	43	–	43
Exercised options	–	–	–	(83)	–	(83)
	–	–	–	50	–	50

A list of the Options in issue are shown below,

No of options at 1 February 2009	Year of grant	Price	Excercised/ cancelled during the year	Grant of options during the year	Price	No of Options at 31 January 2010
100,000	2000	677 57p	–	–	–	100,000
355,000	2002	645 54p	–	–	–	355,000
225,000	2003	663 80p	–	–	–	225,000
337,500	2005	875 60p	–	–	–	337,500

Further details of Options are disclosed on page 31 and in note 15 on page 66

During the year no Management Options were issued, repurchased or cancelled

Subsequent to the year end 100,000 options granted in 2000 were exercised at the exercise price of 677 57p per share Following a review of the remuneration scheme a majority of the option holders waived their rights to participate in the scheme Therefore at the date of this report there were 42,500 options granted in 2005 in issue

7 interest payable and similar charges

	2010 £'000	2009 £'000
On bank loans and overdrafts	224	468
Interest on CULS	18	19
	242	487

8 taxation on ordinary activities

	2010 £'000	2009 £'000
Overseas taxation	5	2
	5	2

8 taxation on ordinary activities continued

The current taxation charge for the year is different from the standard rate of corporation tax in the UK 28% (2009 28 33%) The differences are explained below

	2010 Total £'000	2009 Total £'000
Total return on ordinary activities before taxation	43,318	(54,530)
Theoretical tax at UK Corporation tax rate of 28% (2009 28 33%)	12,129	(15,450)
Effects of		
Non taxable capital return	(12,004)	15,602
UK dividends which are not taxable	(469)	(585)
Increase in tax losses, disallowable expenses and offshore income gains	344	433
Overseas tax which is not recoverable	5	2
Actual current tax charge	5	2

Factors that may affect future tax charges

The Group has tax losses of £19,107,000 (2009 £16,890,000) that are available to offset future taxable revenue A deferred tax asset has not been recognised in respect of those losses which will be recoverable only to the extent that the Group has sufficient future taxable revenue

Of the Group tax losses shown above, the Parent Company has tax losses of £19,107,000 (2009 £16,890,000) that are available to offset future taxable revenue A deferred tax asset has not been recognised in respect of those losses, which will be recoverable only to the extent that the Company has sufficient future taxable revenue

The Company carries out its activities as an investment trust and the intention is to continue meeting the conditions required to obtain approval in the foreseeable future Therefore, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments

notes to the financial statements

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

Consolidated return per Ordinary Share

	Revenue *Net return £'000	Revenue Ordinary Shares	Revenue Per Share pence	Capital *Net return £'000	Capital Ordinary Shares	Capital Per Share pence	Total *Net return £'000	Total Ordinary Shares	Total Per Share pence
2010									
Basic return per Share	443	14,810,713	2 99	42,870	14,810,713	289 45	43,313	14,810,713	292 44
Option conversion**	–	–		–	–		–	–	
CULS***	19	3,753,120		–	3,753,120		19	3,753,120	
Diluted return per Share	462	18,563,833	2 49	42,870	18,563,833	230 93	43,332	18,563,833	233 42

	Revenue *Net return £'000	Revenue Ordinary Shares	Revenue Per Share pence	Capital *Net return £'000	Capital Ordinary Shares	Capital Per Share pence	Total *Net return £'000	Total Ordinary Shares	Total Per Share pence
2009									
Basic return per Share	538	14,787,546	3 64	(55,070)	14,787,546	(372 41)	(54,532)	14,787,546	(368 77)
Option conversion**	–	201,023		–	201,023		–	201,023	
CULS***	21	4,173,720		–	4,173,720		21	4,173,720	
Diluted return per Share	559	19,162,289	2 92	(55,070)	19,162,289	n/a	(54,511)	19,162,289	n/a

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

* Profit for the year

** Excess of the total number of potential Shares on Option conversion over the number that could be issued at average market price, as calculated in accordance with IAS 33 Earnings per Share

*** CULS interest cost and excess of the total number of potential shares on CULS conversion over the number that could be issued at the average market price from the conversion proceeds, as calculated in accordance with IAS 33 Earnings per share

notes to the financial statements

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

Consolidated net asset value per Ordinary Share

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

	Net asset value per Share 2010	2009	2008
Ordinary Shares – Basic	1,480p	1,204p	1,611p
– Diluted	1,169p	944p	1,209p

The basic net asset value per Ordinary Share is based on net assets of £219,461,000 (2009 £178,120,000, 2008 £237,974,000) and on 14,824,227 Ordinary Shares (2009 14,795,548, 2008 14,775,208) being the number of Ordinary Shares in issue at the year end

The diluted net asset value per Ordinary Share is calculated on the assumption that the outstanding 2013 CULS are fully converted at par and that all 1,017,500 (2009 1,017,500, 2008 1,030,000) Share Options were exercised at the prevailing exercise prices, giving a total of 19,429,552 issued Ordinary Shares (2009 19,679,552, 2008 20,322,052)

10 investments

a Investments at fair value through profit or loss

	Group 2010 £'000	Group 2009 £'000	Group 2008 £'000	Company 2010 £'000	Company 2009 £'000	Company 2008 £'000
Quoted at fair value						
United Kingdom	75,328	65,967	103,173	91,033	77,195	122,101
Overseas	2,186	6,870	13,982	2,186	6,870	13,982
Total quoted investments	77,514	72,837	117,155	93,219	84,065	136,083
Treasury bills at fair value	7,489	13,865	20,336	7,489	13,865	20,336
Unlisted at fair value	94,667	60,803	94,329	94,667	60,803	94,329
Total investments at fair value	179,670	147,505	231,820	195,375	158,733	250,748

notes to the financial statements

10 investments continued

group – 2010	Listed equities £'000	AIM quoted £'000	Unlisted equities £'000	Loan stocks £'000	Treasury Bills £'000	Total £'000
analysis of investment portfolio movements						
Opening bookcost as at 1 February 2009	61,447	48,422	43,117	7,514	14,561	175,061
Opening holding (losses)/gains	(24,156)	(12,876)	10,703	(531)	(696)	(27,556)
opening valuation as at 1 February 2009	37,291	35,546	53,820	6,983	13,865	147,505
Movements in year						
Transfers	(604)	–	604	–	–	–
Purchases at cost	4,701	2,804	71,065	11,679	30,452	120,701
Sales – proceeds	(22,527)	(8,290)	(57,807)	(1,345)	(36,128)	(126,097)
– gains/(losses) on disposal	8,530	(13,610)	2,279	(1,200)	(1,587)	(5,588)
Increase/(decrease) in holding gains	8,411	25,262	10,238	(1,649)	887	43,149
closing valuation as at 31 January 2010	35,802	41,712	80,199	14,468	7,489	179,670
Closing bookcost as at 31 January 2010	51,547	29,326	59,258	16,648	7,298	164,077
Closing holding (losses)/gains	(15,745)	12,386	20,941	(2,180)	191	15,593
	35,802	41,712	80,199	14,468	7,489	179,670

company – 2010						
analysis of investment portfolio movements						
Opening bookcost as at 1 February 2009	71,928	48,422	43,184	7,514	14,561	185,609
Opening holding (losses)/gains	(23,409)	(12,876)	10,636	(531)	(696)	(26,876)
opening valuation as at 1 February 2009	48,519	35,546	53,820	6,983	13,865	158,733
Movement in year						
Transfers	(604)	–	604	–	–	–
Purchases at cost	4,701	2,804	71,065	11,679	30,452	120,701
Sales – proceeds	(22,527)	(8,290)	(57,807)	(1,345)	(36,128)	(126,097)
– gains/(losses) on disposal	8,530	(13,610)	2,279	(1,200)	(1,587)	(5,588)
Increase/(decrease) in holding gains	12,888	25,262	10,238	(1,649)	887	47,626
closing valuation as at 31 January 2010	51,507	41,712	80,199	14,468	7,489	195,375
Closing bookcost as at 31 January 2010	62,028	29,326	59,325	16,648	7,298	174,625
Closing holding (losses)/gains	(10,521)	12,386	20,874	(2,180)	191	20,750
	51,507	41,712	80,199	14,468	7,489	195,375

notes to the financial statements

10 investments continued

group – 2009	Listed equities £'000	AIM quoted £'000	Unlisted equities £'000	Loan stocks £'000	Treasury Bills £'000	Total £'000
analysis of investment portfolio movements						
Opening bookcost as at 1 February 2008	59,371	33,109	54,173	14,244	19,863	180,760
Opening holding gains/(losses)	529	24,146	26,780	(868)	473	51,060
opening valuation as at 1 February 2008	59,900	57,255	80,953	13,376	20,336	231,820
Movements in year						
Transfers	–	–	–	–	–	–
Purchases at cost	32,040	15,833	14,111	14,366	71,799	148,149
Sales – proceeds	(39,233)	(821)	(36,847)	(20,748)	(79,172)	(176,821)
– gains/(losses) on disposal	9,269	301	11,680	(348)	2,071	22,973
(Decrease)/increase in holding gains/(losses)	(24,685)	(37,022)	(16,077)	337	(1,169)	(78,616)
closing valuation as at 31 January 2009	37,291	35,546	53,820	6,983	13,865	147,505
Closing bookcost as at 31 January 2009	61,447	48,422	43,117	7,514	14,561	175,061
Closing holding (losses)/gains	(24,156)	(12,876)	10,703	(531)	(696)	(27,556)
	37,291	35,546	53,820	6,983	13,865	147,505

company – 2009	Listed equities £'000	AIM quoted £'000	Unlisted equities £'000	Loan stocks £'000	Treasury Bills £'000	Total £'000
analysis of investment portfolio movements						
Opening bookcost as at 1 February 2008	69,866	33,109	54,240	14,244	19,863	191,322
Opening holding gains/(losses)	8,962	24,146	26,713	(868)	473	59,426
opening valuation as at 1 February 2008	78,828	57,255	80,953	13,376	20,336	250,748
Movement in year						
Transfers	–	–	–	–	–	–
Purchases at cost	32,040	15,833	14,111	14,366	71,799	148,149
Sales – proceeds	(39,256)	(821)	(36,847)	(20,748)	(79,172)	(176,844)
– gains/(losses) on disposal	9,278	301	11,680	(348)	2,071	22,982
(Decrease)/increase in holding gains/(losses)	(32,371)	(37,022)	(16,077)	337	(1,169)	(86,302)
closing valuation as at 31 January 2009	48,519	35,546	53,820	6,983	13,865	158,733
Closing bookcost as at 31 January 2009	71,928	48,422	43,184	7,514	14,561	185,609
Closing holding (losses)/gains	(23,409)	(12,876)	10,636	(531)	(696)	(26,876)
	48,519	35,546	53,820	6,983	13,865	158,733

10 investments continued

group – 2008	Listed equities £'000	AIM quoted £'000	Unlisted equities £'000	Loan stocks £'000	Treasury Bills £'000	Total £'000
analysis of investment portfolio movements						
Opening bookcost as at 1 February 2007	55,192	28,534	52,517	12,322	16,949	165,514
Opening holding gains/(losses)	24,373	21,038	16,422	(1,889)	186	60,130
opening valuation as at 1 February 2007	79,565	49,572	68,939	10,433	17,135	225,644
Movements in year						
Transfers	2,712	2,456	115	(5,283)	–	–
Purchases at cost	38,562	8,773	25,499	11,430	98,046	182,310
Sales – proceeds	(25,482)	(6,987)	(23,447)	(4,166)	(90,689)	(150,771)
– gains/(losses) on disposal	6,375	1,096	(511)	(59)	(957)	5,944
Transfer to equity accounted investments						
– bookcost	(11,285)	–	–	–	–	(11,285)
– holding gains	(12,721)	–	–	–	–	(12,721)
On deconsolidation of AOT						
– bookcost	(6,703)	(763)	–	–	(3,486)	(10,952)
– holding gains/(losses)	5,959	(87)	–	–	–	5,872
(Decrease)/increase in holding gains/(losses)	(17,082)	3,195	10,358	1,021	287	(2,221)
closing valuation as at 31 January 2008	59,900	57,255	80,953	13,376	20,336	231,820
Closing bookcost as at 31 January 2008	59,371	33,109	54,173	14,244	19,863	180,760
Closing holding gains/(losses)	529	24,146	26,780	(868)	473	51,060
	59,900	57,255	80,953	13,376	20,336	231,820

company – 2008	Listed equities £'000	AIM quoted £'000	Unlisted equities £'000	Loan stocks £'000	Treasury Bills £'000	Total £'000
analysis of investment portfolio movements						
Opening bookcost as at 1 February 2007	47,968	27,771	52,560	12,322	16,949	157,570
Opening holding gains/(losses)	30,770	20,976	16,379	(1,889)	186	66,422
opening valuation as at 1 February 2007	78,738	48,747	68,939	10,433	17,135	223,992
Movement in year						
Transfers	2,712	2,456	115	(5,283)	–	–
Purchases at cost	38,543	8,773	25,524	11,430	94,559	178,829
Sales – proceeds	(25,719)	(6,987)	(23,447)	(4,166)	(90,689)	(151,008)
– gains/(losses) on disposal	6,362	1,096	(512)	(59)	(956)	5,931
(Decrease)/increase in holding gains/(losses)	(21,808)	3,170	10,334	1,021	287	(6,996)
closing valuation as at 31 January 2008	78,828	57,255	80,953	13,376	20,336	250,748
Closing bookcost as at 31 January 2008	69,866	33,109	54,240	14,244	19,863	191,322
Closing holding gains/(losses)	8,962	24,146	26,713	(868)	473	59,426
	78,828	57,255	80,953	13,376	20,336	250,748

notes to the financial statements

10 investments continued

	2010 £'000	2009 £'000	2008 £'000
analysis of capital gains and losses			
(Losses)/gains on disposals	(5,588)	22,973	5,944
Holding gains dealt with last year	–	–	(1,906)
	(5,588)	22,973	4,038
Additional holding gains/(losses)	43,149	(78,616)	(315)
	37,561	(55,643)	3,723
Net premiums on sale of options held for trading	900	1,504	141
Movement in valuation of unexpired put options	78	(78)	(587)
Losses on loan repayment	(19)	(79)	(13)
Movement in valuation of escrow	11	(29)	36
gains/(losses) on investments	38,531	(54,325)	3,300
Gains on disposals	–	9	65
Holding gains/(losses)	4,477	(7,686)	(4,288)
gains/(losses) on equity accounted investments	4,477	(7,677)	(4,223)

	2010 £'000	2009 £'000	2008 £'000
Exchange (losses)/gains on capital items	(371)	670	(67)
Exchange gains/(losses) on escrow	448	(43)	–
Exchange holding gains/(losses) on capital items and currency	1,010	6,415	(473)
exchange differences	1,087	7,042	(540)

	2010 £'000	2009 £'000	2008 £'000
portfolio analysis			
Equity shares	131,685	101,336	182,215
Convertible preference securities	26,028	25,321	15,893
Fixed interest securities	14,468	6,983	13,376
Treasury Bills	7,489	13,865	20,336
	179,670	147,505	231,820

10 investments continued

b Subsidiary undertaking

At 31 January 2010 the Company has the following Subsidiary

Subsidiary	Principal activity	% equity held	Country of registration
Consolidated Venture Finance Limited*	Security trading	100 00%	England and Wales

This Subsidiary was active during the year

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

c Associates

In the Group accounts Oryx is recognised as an Associate and the results of that Company have been accounted for in the Group accounts as an Associate under the equity method of accounting and valued using the latest Net Asset Value of that Company Oryx is a separately quoted company and has a financial year end date of 31 March, therefore the statutory accounts are not available to consolidate

At 31 March 2010, the Company held 7,106,284 Ordinary shares representing 31 5% of the total voting rights in Oryx

The carrying value of the investment in associate in the Consolidated Balance Sheet using the equity method is as follows

	2010 £'000	2009 £'000	2008 £'000
Cost			
Opening share of net assets at 1 February	11,228	18,928	24,006
Sales – proceeds	–	(23)	(855)
– gains on disposals	–	9	65
Share of profit/(loss) for the year	4,477	(7,686)	(4,288)
Closing share of net assets at 31 January	15,705	11,228	18,928

10 investments continued

c Associates continued

The following financial information for Oryx has been extracted from its unaudited interim results for the six months ended 30 September 2009

	£'000
Net assets	49,250
Income and gains from investments	11,652
Net profit for the period	10,854

Oryx is traded on the London Stock Exchange The value at bid price at 31 January 2010 was £13,076,000, based on the holding of 7,106,284 Ordinary shares priced at 184p per share

d Significant holdings

At the year-end, the Group and Company held 20% or over of the aggregate nominal value of voting equity of the following companies, all of which are incorporated and registered in England and Wales, unless stated

		31 January 2010 %	31 January 2009 %	31 January 2008 %
Forefront Group	– Ordinary Shares	21 4	21 4	21 4
Castle Support Services PLC	– Ordinary Shares	24 6	24 6	24 6
Hampton Trust Group	– Units	72 0	72 0	72 0
Jaffer Holdings Corporation (USA)	– Common Stock	n/a	n/a	33 0
Jarvis Porter Group PLC	– Ordinary Shares	n/a	n/a	27 6
Kiln Lane, Immingham*	– Ordinary Shares	88 0	88 0	88 0
Martley Limited (Jersey)	– Ordinary Shares	30 8	30 8	30 8
Motherwell Bridge Limited	– Ordinary Shares	n/a	n/a	33 3
Nationwide Accident Repair Services PLC	– Ordinary Shares	23 2	23 2	23 2
North America Bank Fund Limited	– Ordinary Shares	21 1	n/a	n/a
Bionostics Limited	– Ordinary Shares	55 3	21 8	37 2
Orthoproducts Limited (holding previously was Orthoplastics Limited)	– Ordinary Shares	40 0	40 0	40 0
Oryx International Growth Fund Limited (incorporated in Guernsey)	– Ordinary Shares	31 5	29 5	28 7
Worldport Communications Inc (USA)	– Common Stock	n/a	n/a	45 9
Browallia LLP	– Ordinary Shares	95 0	42 5	n/a

* The Board has chosen not to consolidate this holding on the basis of non-materiality

10 investments continued

e Investments held for trading – derivatives

	Group 2010 £'000	Group 2009 £'000	Group 2008 £'000	Company 2010 £'000	Company 2009 £'000	Company 2008 £'000
Valuation of unexpired put options	(612)	(690)	(612)	(612)	(690)	(612)
Unrealised loss on unexpired put options	(12)	(148)	–	(12)	(148)	–
	(624)	(838)	(612)	(624)	(838)	(612)

f Investments deposited as collateral

Where US Treasury Bills or investments are required in accordance with United States SEC regulations to be deposited with brokers as cover for option transactions, these may be held to the order of these brokers until the relevant option positions are closed At 31 January 2010, US Treasury Bills with a market value of £7,489,000 were deposited with brokers (2009 £13,865,000)

g Transaction costs

During the year, the Group incurred total transaction costs of £67,000 (2009 £264,000) comprising £38,000 (2009 £240,000) and £29,000 (2009 £24,000) on purchases and sales of investments respectively These amounts are included in gains on investments as disclosed in the Consolidated Statement of Comprehensive Income

11 trade and other receivables

	Group 2010 £'000	Group 2009 £'000	Group 2008 £'000	Company 2010 £'000	Company 2009 £'000	Company 2008 £'000
Amounts owed by Subsidiary	–	–	–	1,281	679	789
Accrued income	129	429	486	129	429	486
Other debtors	1,889	3,560	3,683	1,292	2,897	3,202
	2,018	3,989	4,169	2,702	4,005	4,477

notes to the financial statements

12 bank loans and overdrafts falling due in less than one year

	Group 2010 £'000	Group 2009 £'000	Group 2008 £'000	Company 2010 £'000	Company 2009 £'000	Company 2008 £'000
Canadian $2 million term bank loan	–	1,119	998	–	1,119	998
Euro €6 8 million term bank loan 25/02/10	5,864	6,755	5,958	5,864	6,755	5,958
Sterling £2 4 million term bank loan	–	–	2,400	–	–	2,400
	5,864	7,874	9,356	5,864	7,874	9,356

During the year repayments totalling Sterling £1 9m were made

The Euro loan of €6 8m was due for repayment on 25 February 2010, at which point it was rolled until 25 May 2010

The Canadian loan of $2m was was repaid in full on 15 September 2009

13 trade and other payables

	Group 2010 £'000	Group 2009 £'000	Group 2008 £'000	Company 2010 £'000	Company 2009 £'000	Company 2008 £'000
Amounts received in advance	–	–	5,000	–	–	5,000
Amounts due to brokers	–	895	8,883	–	895	8,883
Other creditors and accruals	1,526	345	1,712	1,526	345	1,712
	1,526	1,240	15,595	1,526	1,240	15,595

14 debenture loan – convertible unsecured loan stock (CULS) 2013

	2010 No of units	2010 £'000	2009 No of units	2009 £'000	2008 No of units	2008 £'000
group and company						
Balance at beginning of year	3,866,504	164	4,516,844	192	5,711,107	243
Converted during the year	(28,679)	(1)	(20,340)	(1)	(994,263)	(41)
Bought back in year	(250,000)	(11)	(630,000)	(27)	(200,000)	(10)
Balance at end of year	3,587,825	152	3,866,504	164	4,516,844	192

The CULS include an equity component as well as debt As explained in note 1 (o), the equity component is shown in the CULS Reserve

14 debenture loan – convertible unsecured loan stock (CULS) 2013 continued

The CULS were issued in units of 5p The CULS units are redeemable at par on 31 May 2013, unless previously redeemed, purchased by the Company or converted at the option of the holder

During the year ended 31 January 2010, 28,679 (2009 20,340) CULS units were converted into Ordinary Shares of 5p each at the rate of one 5p Ordinary Share for every unit of 5p

Also during the year ended 31 January 2010, 250,000 (2009 630,000) CULS units were purchased for cancellation at an average rate of 794p per unit (2009 850p)

The remaining CULS units are convertible into Ordinary Shares of 5p each at the rate of one 5p Ordinary Share for every unit of 5p one month after despatch of the audited accounts in each of the years 2008 to 2013 inclusive Interest at the rate of 0 5p gross per 5p unit per annum is payable on 31 January each year

15 share capital

	2010 Number	2010 £'000	2009 Number	2009 £'000	2008 Number	2008 £'000
– authorised						
As at 31 January						
Ordinary Shares of 5p	27,000,000	1,350	27,000,000	1,350	27,000,000	1,350
– issued and fully paid						
Ordinary Shares of 5p						
Balance at beginning of year	14,795,548	740	14,775,208	739	13,780,945	689
Conversion of CULS	28,679	1	20,340	1	994,263	50
Balance at end of year	14,824,227	741	14,795,548	740	14,775,208	739

During the year, 28,679 (2009 20,340) CULS units were converted into Ordinary Shares of 5p as detailed in note 14

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

(i) 1994 Executive Share Option Scheme 100,000 Ordinary Shares at 677 57p per share exercisable at any time between 30 October 2003 and 30 October 2010, and

(ii) 2002 Executive Share Option Scheme (a) 355,000 Ordinary Shares at 645 54p per share exercisable at any time between 6 December 2005 and 6 December 2012, (b) 237,500 options were granted at 663 80p exercisable at any time between 25 September 2006 and 25 September 2013, (c) 337,500 Ordinary Shares at 875 60p per share exercisable at any time between 9 June 2008 and 9 June 2015

The exercise of Options under the 2002 Executive Share Option Scheme is subject to certain performance criteria as detailed in the Director's Remuneration Report on page 31 At the date of this report, both the criteria for the 355,000 Options exercisable at 645 54p per Share and for the 237,500 Options exercisable at 663 80p per Share had been met 12,500 of the 237,500 options at 663 80p were repurchased on 1 December 2008

These Options totalling 1,017,500 (2009 1,017,500), include those granted to the Chief Executive, details of which are given on page 31 in the Directors' Remuneration Report The balance of the Options have been granted to investment management employees of the Joint Manager

notes to the financial statements

16 reconciliation of total return from ordinary activities before finance costs and taxation to cash (expended)/received from operations

	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Total gains/(losses) from ordinary activities before finance costs and taxation	43,560	(54,043)	43,560	(54,043)
(Gains)/losses on investments	(39,618)	47,283	(44,095)	54,960
Share based remuneration	-	90	–	90
Share of net return of associate	(4,477)	7,677	–	–
Provision/(reverse) provision for Subsidiary	–	–	236	(120)
Dividends and interest reinvested	(837)	(804)	(837)	(804)
(Increase)/decrease in debtors and accrued income	(90)	636	(90)	636
Changes relating to investments of dealing Subsidiary	(568)	126	–	–
Increase/(decrease) in creditors and accruals	1,263	(1,377)	1,263	(1,377)
Tax on investment income	(5)	(2)	(5)	(2)
Cash (expended)/received from operations	(772)	(414)	32	(660)

17 analysis of net cash and net debt

net cash	At 1 February 2009 £'000	Cash flow £'000	Exchange movement £'000	At 31 January 2010 £'000
Group				
Cash and cash equivalents	25,514	2,652	1,434	29,600
Company				
Cash and cash equivalents	25,498	2,618	1,434	29,550

net debt	At 1 February 2009 £'000	Cash flow £'000	Exchange movement £'000	At 31 January 2010 £'000
Group				
Loans falling due in less than one year	7,874	(1,884)	(126)	5,864
Company				
Loans falling due in less than one year	7,874	(1,884)	(126)	5,864

18 financial instruments and risk profile

An explanation of the Group's financial risk management objectives, policies and strategy can be found in the Group Report of the Directors on pages 17 to 23

The Group's financial instruments comprise its investment portfolio, cash balances, derivatives contracts, borrowing facilities, loan stock and trade receivables and trade payables that arise directly from its operations Note 1 (on pages 44 to 50) sets out the accounting policies, including criteria for recognition and the basis for measurement, applied to significant financial instruments (excluding cash at bank and bank loans) which are carried at fair value Note 1 also includes the basis on which income and expenses arising from financial assets and liabilities are recognised

To support its investment in unquoted companies, the Group may periodically agree to guarantee all or part of the borrowings of investee companies Provision is made for any costs that may be incurred when the Directors consider it likely that the guarantee will crystallise Further details are shown under commitments giving rise to credit risk on page 74

The main risks arising from the Group's financial instruments are

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

(ii) liquidity risk, and

(iii) credit risk

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

(i) market price risk

The fair value or future cash flows of a financial instrument held by the Group may fluctuate because of changes in market prices This market risk comprises currency risk, interest rate risk and other price risk The Board of Directors reviews and agrees policies for managing these risks, which policies have remained substantially unchanged from those applying in the year ended 31 January 2009 The Joint Managers assess the exposure to market risk when making each investment decision and monitor the overall level of market risk on the whole of the investment portfolio on an ongoing basis

The Company owns written put options, therefore there is a cap on the extent of any gains, but there is no cap on the extent of any losses

currency risk

The functional and presentational currency of the Group is Sterling and, therefore, the Group's principal exposure to foreign currency risk comprises investments priced in other currencies, principally US Dollars The Joint Managers monitor the Group's exposure to foreign currencies on a daily basis and reports to the Board on a regular basis The Joint Managers measure the risk to the Group of the foreign currency exposure by considering the effect on the net asset value and income of a movement in the rates of exchange to which the Group's assets, liabilities, income and expenses are exposed

notes to the financial statements

18 financial instruments and risk profile continued

Foreign currency borrowings and forward currency contracts are used to limit the Group's exposure to anticipated future changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments Where appropriate, they are used also to achieve the portfolio characteristics that assist the Group in meeting its investment objectives These borrowings and contracts are limited to currencies and amounts commensurate with the asset exposure to those currencies At 31 January 2010, the Group had no open forward currency contracts (2009 none)

Income denominated in foreign currencies is converted to Sterling on receipt The Group does not use financial instruments to mitigate the currency exposure in the period between the time that income is included in the financial statements and its receipt

The Group's financial assets comprise equity investments, fixed interest securities, derivatives, trade receivables and cash balances

The Group finances its investment activities through the Group's Ordinary Share Capital, Reserves, derivatives and borrowings The Group's financial liabilities comprise its multi-currency loan facility, bank overdraft, CULS, derivatives and trade payables

At 31 January 2010, the currency cash flow profile of those financial assets and liabilities was

group and company

	US Dollar £'000	Canadian Dollar £'000	Euro £'000
Non current investments at fair value through profit or loss	39,920	–	6,597
Trade and other receivables	1,401	–	–
Cash and cash equivalents	22,971	–	–
Multi-currency loan facility	–	–	(5,864)
Trade and other payables	–	–	(1)
Put options on investments	(624)	–	–
Total net foreign currency exposure	63,668	–	732

At 31 January 2009, the currency cash flow profile of those financial assets and liabilities was

group and company

	US Dollar £'000	Canadian Dollar £'000	Euro £'000
Non current investments at fair value through profit or loss	34,611	–	5,590
Trade and other receivables	1,897	1,551	–
Cash and cash equivalents	24,812	1	–
Multi-currency loan facility	–	(1,119)	(6,755)
Trade and other payables	–	(20)	(63)
Put options on investments	(838)	–	–
Total net foreign currency exposure	60,482	413	(1,228)

18 financial instruments and risk profile continued

Sensitivity analysis is based on the Group's monetary foreign currency financial instruments held at each balance sheet date and takes account of forward currency contracts that offset the effects of changes in currency exchange rates

If Sterling had weakened against the US Dollar by 10%, this would have increased the net assets by £7,074,000 (2009 £6,720,000)

If Sterling had strengthened against the US Dollar by 10%, this would have decreased the net assets by £5,788,000 (2009 decrease of £5,498,000)

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

interest rate risk

Interest rate movements may affect,

- the fair value of the investments in fixed interest rate securities (including unquoted loans),
- the level of income receivable on cash deposits,
- the fair value of the Company's issued CULS, and
- the interest payable on the Group's variable rate borrowings
- the loan guarantee, and any amounts payable should the guarantee be called upon

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions and borrowing under the multi-currency loan facility

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

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

Derivative contracts are not used to hedge against the exposure to interest rate risk.

At 31 January 2010 the Company has investments with exposure to variable rate interest rate risk totalling £14,468,000 (2009 £6,983,000) and investments with exposure to floating rate interest rate risk totalling £7,489,000 (2009 £13,865,000)

The Company also has borrowings with exposure to fixed rate interest rate risk totalling £5,864,000 (2009 £7,874,000)

18 financial instruments and risk profile continued

loans and borrowings

group and company	Effective interest rate	Maturity	31 January 2010 £'000	31 January 2009 £'000
current				
Bank overdraft	5 15%	On demand	–	–
Term loan – Canadian $nil (2009 $2 million)	n/a	13 February 2009	–	1,119
Term loan – Euro €6 8 million (2009 €7 6 million)	2 89%	25 February 2010	5,864	6,755
non current				
CULS	5 00%	31 May 2013	152	164
			6,016	8,038

	Maturity	31 January 2010 £'000	31 January 2009 £'000
Maturity dates of financial liabilities			
Principal amounts payable on maturity			
Term loan – Canadian $nil (2009 $2 million)	–	–	1,119
Term loan – Euro €6 8 million (2009 €7 6 million)	25 February 2010	5,864	6,755
CULS	31 May 2013	152	164
Interest payable on maturity			
Term loan – Canadian $nil (2009 $2 million)	–	–	20
Term loan – Euro €6 8 million (2009 €7 6 million)	25 February 2010	13	63
CULS *	31 May 2013	60	84

* Gross amounts payable, split annually for each payment anniversary of 31 January, based on the outstanding principal at year end over the remaining term as at 31 January 2010 of 3 33 years (2009 4 33 years) Assumes no further redemptions

18 financial instruments and risk profile continued

CULS

The Convertible Loan Stock 2013 (CULS) were issued in units of 5p each The units are redeemable at par on 31 May 2013, unless previously redeemed, purchased by the Company, or converted at the option of the holder

During the year ended 31 January 2010, 28,679 (2009 20,340) units of CULS were converted into Ordinary Shares of 5p each at the rate of one 5p Ordinary Share for every unit of 5p Also during the year ended 31 January 2010, the Company purchased 250,000 (2009 630,000) units of CULS for cancellation at a total cost of £1,984,000 (2009 £5,330,000)

The CULS units are convertible into Ordinary Shares of 5p each at a rate of one Ordinary Share for every 5p unit, one month after despatch of the audited accounts in each of the years 2008 to 2013 inclusive

Interest is payable to holders of the CULS at a rate of 0 5p gross per 5p unit per annum on 31 January each year

The amount included in the table above of £152,000 (2009 £164,000) is the fair value of the financial liability element of the CULS as of its date of issue, as adjusted for the effective rate of interest, less interest paid to the unit holders and less the amount of CULS that has been purchased for cancellation or converted into Ordinary Shares

term bank loans

As at 31 January 2010, the Company had a multi-currency loan Revolving Credit Facility of up to £9 million (which expires on 31 July 2010) All loan drawdowns are repayable in full on maturity, unless rolled over for a further agreed period

Interest is payable on the loans on a quarterly basis and the rate is fixed for the duration of the drawdown

Both the interest due and the principal are payable in the relevant currency of the drawdown

Further information on the financial liabilities is given in note 12 (multi currency loan facility and bank overdraft) and note 14 (CULS)

Sensitivity analysis is based on the Group's and Company's monetary financial instruments held at each balance sheet date with all other variables held constant

If interest rates rose by 100 basis points this would increase net assets by £237,000 (2009 increase by £176,000)

If interest rates fell by 100 basis points this would decrease net assets by £237,000 (2009 decrease by £176,000)

In the opinion of the Directors, the above sensitivity analyses are not representative of the year as a whole, since the level of exposure changes frequently as borrowings are drawn down and repaid during the year

18 financial instruments and risk profile continued

other price risk

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

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

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

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

The Group's exposure to other changes in market prices at 31 January 2010 on its quoted and unquoted investments and options on investments was as follows

	Group 2010 £'000	Company 2010 £'000	Group 2009 £'000	Company 2009 £'000
Financial assets at fair value through profit or loss				
– Non current investments at fair value through profit or loss	179,670	195,375	147,505	158,733
Financial assets at fair value through profit or loss and held for trading				
– Current asset investments	634	634	–	–
Current liabilities				
– Put options on investments	(612)	(612)	(838)	(838)

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

	2010		2009	
	Increase in fair value £'000	Decrease in fair value £'000	Increase in fair value £'000	Decrease in fair value £'000
Increase/(decrease) in net assets	17,967	(17,967)	14,751	(14,751)

18 financial instruments and risk profile continued

(ii) liquidity risk

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

The Group has investments totalling £35 8 million in equities and other investments that are readily realisable It has derivative liabilities of £0 6 million as shown in note 10(e) The Group had a multi-currency loan facility of £9 0 million and an overdraft facility of US$15 6 million as at 31 January 2010 Details of contractual maturities of the financial liabilities together with contractual amounts of interest payable are shown on page 71

(iii) credit risk

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

The maximum exposure of the financial assets to credit risk at the balance sheet date was as follows

	2010 Group £'000	2010 Company £'000	2009 Group £'000	2009 Company £'000	2008 Group £'000	2008 Company £'000
financial assets neither past due or impaired						
Fixed income securities	14,468	14,468	6,983	6,983	13,376	13,376
Preference shares	26,028	26,028	25,321	25,321	15,893	15,893
Treasury Bills	7,489	7,489	13,865	13,865	20,336	20,336
Accrued income and other debtors	1,593	996	3,957	3,294	3,401	2,920
Cash and cash equivalents	29,600	29,550	25,514	25,498	8,504	8,504
	79,178	78,531	75,640	74,961	61,510	61,029

The maximum credit exposure of financial assets represents the carrying amount

There are no financial assets that are past due or impaired

commitments giving rise to credit risk

Pursuant to an agreement dated 14 October 2009, the Company provided a guarantee to National Westminster Bank ("the bank") as a condition of lending to Hampton Investment Properties Limited ("HIPL") In support of the guarantee the Company was required to deposit a sum of £5 02 million in an account in the name of the Company, charged to the bank.

18 financial instruments and risk profile continued

fair value of financial assets and financial liabilities

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

	31 January 2010		31 January 2009		31 January 2008	
		Balance		Balance		Balance
	Fair value	sheet value	Fair value	sheet value	Fair value	sheet value
financial assets	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets at fair value through profit or loss						
– Non current assets	179,670	179,670	147,505	147,505	231,820	231,820
Financial assets at fair value through profit or loss and held for trading						
– Current asset investments	634	634	–	–	308	308
Loans and receivables						
– Cash and cash equivalents	29,600	29,600	25,514	25,514	8,504	8,504
	209,904	209,904	173,019	173,019	240,632	240,632

	31 January 2010		31 January 2009		31 January 2008	
		Balance		Balance		Balance
	Fair value	sheet value	Fair value	sheet value	Fair value	sheet value
financial liabilities	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets at fair value through profit or loss and held for trading						
– Put options on investments	(612)	(612)	(838)	(838)	(612)	(612)
Other financial liabilities						
– Multi-currency loan	(5,864)	(5,864)	(7,874)	(7,874)	(9,356)	(9,356)
– CULS	(29,115)	(152)	(25,036)	(164)	(45,259)	(192)
	(35,591)	(6,628)	(33,748)	(8,876)	(55,227)	(10,160)

fair values are derived as follows

- Where assets and liabilities are denominated in a foreign currency, they are converted into Sterling using year-end rates of exchange
- Financial assets (non current and held for trading) – as set out in the accounting policies on pages 44 to 50
- Cash and cash equivalents, bank overdraft and multi-currency loan – at face value of the account
- The Company's CULS – at the offer price at which they are quoted on the London Stock Exchange

18 financial instruments and risk profile continued

The Company has adopted the amendment to IFRS 7, effective 1 January 2009 This requires the Company to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements The fair value hierarchy consists of the following three levels

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

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

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

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

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

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

financial assets at fair value through profit or loss

At 31 January 2010

	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Equity investments	157,713	77,514	–	80,199
Fixed interest investments	21,957	7,489	–	14,468
Total	179,670	85,003	–	94,667

18 financial instruments and risk profile continued

financial liabilities at fair value through profit or loss

At 31 January 2010

	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Derivatives	(612)	–	(612)	–
Total	(612)	–	(612)	–

There have been no transfers during the year between Levels 1 and 2 A reconciliation of fair value measurements in Level 3 is set out below

level 3 financial assets at fair value through profit or loss

At 31 January 2010

	Equity investments £'000	Fixed interest investments £'000	Total £'000
Opening balance	53,820	6,983	60,803
Purchases	71,065	11,679	82,744
Sales	(57,807)	(1,345)	(59,152)
Transfers into Level 3	604	–	604
Total gains or losses included in gains on investments in the statement of comprehensive income			
– on assets sold	2,279	(1,200)	1,079
– on assets held at the end of the year	10,238	(1,649)	8,589
Closing balance	80,199	14,468	94,667

Transfers into Level 3 relate to holdings that were listed in the prior year but became unlisted during the year to 31 January 2010

notes to the financial statements

18 financial instruments and risk profile continued

capital management policies and procedures

The Company's capital management objectives are

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

The Company's capital at 31 January comprises

	2010 £'000	2009 £'000	2008 £'000
Debt			
Borrowings under the multi-currency loan facility	5,864	7,874	9,356
CULS	152	164	192
Equity			
Equity share capital	741	740	739
Retained earnings and other reserves	218,720	177,380	237,235
	225,477	186,158	247,522
Debt as a % of net assets	2 7%	4 5%	4 0%

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

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

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

The Company is subject to several externally imposed capital requirements, including

- the bank borrowings under the multi-currency loan facility are not to exceed 35% of the adjusted net asset value and the minimum adjusted net asset value is £135m

These requirements are unchanged since last year, and the Company has complied with them

19 related party transactions

The Joint Manager, North Atlantic Value LLP, is regarded as a related party of the Company and acts as Investment Manager or Investment Adviser of the following companies in which the Company has an investment and from which companies the Joint Manager receives fees or other incentives for its services The amounts payable to the Joint Manager are disclosed in note 4 The relationships between the Company, its Directors and the Joint Managers are disclosed in the Group Report of the Directors on pages 17 to 23

The relevant companies and the annual fees receivable as derived from the last audited accounts are

	Services	Fees
Oryx International Growth Fund Limited	Investment Advisory	£551,000
Trident Private Equity LP	Investment Advisory	Nil
Trident Private Equity II LP	Investment Advisory	£659,000
Trident Private Equity III LP	Investment Advisory	£479,000

J O Hambro Capital Management Limited (the Corporate Company Secretary) is a Designated Member of North Atlantic Value LLP

Christopher Mills is Chief Investment Officer and a member of North Atlantic Value LLP He is also a substantial shareholder of J O Hambro Capital Management Group Limited (one of the two Designated Members of North Atlantic Value LLP) and the holding company of the Corporate Company Secretary

disclosure of interests

Christopher Mills, the Chief Executive and Investment Manager is also a director of Oryx International Growth Fund Limited (Oryx)

North Atlantic Value LLP is investment manager to Oryx and investment adviser to Trident Private Equity II LP and Trident Private Equity III LP and receives fees from them

Christopher Mills is also a director of the following companies in which the Company has an investment or may have had in the year and/or from which he may receive fees or hold options or shares Castle Support Services PLC, Catalyst Media Group PLC, Sunlink Health Systems Inc, Crucible Equity Limited, Bionostics Limited, Hampton Trust Group, GEI Group Limited, Izodia PLC, Jarvis Porter Group PLC, Mid-States PLC, Paramount Restaurants Limited, Second London American Trust PLC (in members' voluntary liquidation), Prime Focus London PLC, Trident North Atlantic Fund, Oryx International Growth Fund Limited, Worldport Communications, Inc, Glass America, Inc, Sterling Construction, Inc, Progeny, Inc, Inspired Gaming Group PLC, Cross Border Limited and MJ Gleeson PLC Employees of the Joint Manager may hold options over shares in investee companies A total of £142,000 in directors fees from these companies was received by Christopher Mills during the year under review

No formal arrangements exist to avoid double charging on investments held by the Company which are also managed or advised by Christopher Mills (Chief Executive) and/or the Joint Manager Members and private clients of the Joint Manager (excluding Christopher Mills and the Chairman) hold 82,050 shares in the Company (2009 82,050)

notes to the financial statements

19 related party transactions continued

Members and employees of the Joint Manager, and institutional and private clients of the Joint Manager, North Atlantic Value LLP may co-invest in the same investments as the Company

The Hon P D Moncreiffe is a director of Crendon Industrial in which the Company has an interest

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

Oliver Grace was a director of Second London American Trust PLC (in members' voluntary liquidation) and Oliver Grace and his associates hold 21,238,447 shares in Second London American Trust PLC (in members' voluntary liquidation)

transaction with other companies in the group

At 31 January 2010 amounts due from the wholly owned subsidiary Consolidated Venture Finance Limited (CVF) were £1,281,000 (2009 £679,000)

20 commitments and contingent liabilities

(i) At the year-end, there were no unexpired call options (2009 none), giving the holder at any time prior to expiry, the right to purchase investments from the Group at the stated exercise price As set out in note 1(g), the premiums received for writing such options and the movements in valuation of call options unexpired at the balance sheet date are recognised in the Capital reserve The maximum potential liability to which the Group was exposed at the balance sheet date, in respect of call options, totalled £nil (2009 £nil)

(ii) At the year-end, there was one unexpired put option (2009 one), giving the holders at any time prior to expiry, the right to require the Group to purchase investments at the stated exercise price As set out in note 1(g), the premiums received for writing such options and the movements in valuation of put options unexpired at the balance sheet date are recognised in the Capital reserve At 31 January 2010, changes in the put option valuations showed a net gain of £184,000 (2009 £183,000 loss) The maximum potential liability to which the Group was exposed at the balance sheet date, in respect of put options, totalled £3,744,000 (2009 £2,081,000)

(iii) To support its investment in unquoted companies, the Group may periodically agree to guarantee all or part of the borrowings of investee companies At the date of this report the company had an agreement with National Westminster Bank in respect of a loan to Hampton Investment Properties Further information is shown under commitments giving rise to credit risk on page 74

(iv) Pursuant to an agreement executed in December 2009, the Company pledged its shares held in Glass America Inc for the benefit of Deerpath Funding LP as security against a term loan and revolving credit facility amounting to a total of $7,750,000 granted to Glass America The pledgers in turn receive the benefit of the credit facilities

(v) The Company has also committed to invest £19 7m in Trident Private Equity Fund III over the forthcoming months

21 post balance sheet events

Subsequent to the year end, 100,000 options issued under the 1994 Executive Share Option Scheme and granted in 2000 were exercised at the exercise price of 677 57p per share Furthermore, following a review of the remuneration scheme a majority of the option holders waived their rights to participate in the 2002 Executive Share Option Scheme Therefore at the date of this report there were 42,500 options granted in 2005 in issue

As part of the aforementioned review, it was agreed that, subject to the proceeds being reinvested in NASCIT shares and that those shares be held for a period of not less than two years, bonus payments totalling £3 6 million be paid to Mr Mills and to those eligible employees of NAV LLP

On 26 February 2010, the Group's investment in Ramen Holdings Limited was written up to £418,395 from £200,000 In addition, the Group's entire investment of £1,084,411 in Payzone was written off

directors and advisers

Directors
The Hon P D Moncreiffe (Chairman)
C H B Mills (Chief Executive)
K Siem
C L A Irby
O R Grace
E F Gittes

Joint Manager
North Atlantic Value LLP
(Authorised and regulated by the Financial Services Authority)
Ground Floor
Ryder Court
14 Ryder Street
London SW1Y 6QB
Telephone 020 7747 5678

Financial Adviser and Stockbroker
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Arbuthnot House
20 Ropemaker Street
London EC2Y 9AR

Company Secretary & Registered Office
J O Hambro Capital Management Limited
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Telephone 020 7747 5681

Registrars
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire HD8 0GA

Auditors
Grant Thornton UK LLP
30 Finsbury Square
London EC2P 2YU

Bankers
Allied Irish Bank, p l c
St Helen's
1 Undershaft
London EC3A 8AB

notice of annual general meeting

NOTICE IS GIVEN that the ANNUAL GENERAL MEETING of North Atlantic Smaller Companies Investment Trust PLC will be held on Tuesday 29 June 2010, at 12 noon in the Board Room, Ground Floor, Ryder Court, 14 Ryder Street, London SW1Y 6QB for the following purposes

ordinary business

1 To receive and approve the Group Report of the Directors and the audited financial statements for the year ended 31 January 2010

2 To approve the Directors' Remuneration Report

3 To re-elect Mr K Siem as a Director of the Company

4 To re-elect Mr C H B Mills as a Director of the Company

5 To re-appoint Grant Thornton UK LLP as Auditors and authorise the Directors to determine their remuneration, special notice having been given

special business

To consider the following resolutions of which resolutions 7, 8 and 9 will be proposed as special resolutions

6 **ordinary resolution – renewal of Directors' authority to allot shares**
THAT the Directors be generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities for the purposes of Section 551 of the Companies Act 2006 ("the Act") up to an aggregate nominal amount of £248,737 provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the date of the passing of this resolution, except that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred by this resolution had not expired and that this authority shall be in substitution for all previous authorities conferred upon the Directors pursuant to Section 551 of the Act but without prejudice to the allotment of any relevant securities already made or to be made pursuant to such authorities

7 **special resolution – renewal of Directors' authority for the disapplication of pre-emption rights**
THAT, subject to and conditional upon the passing of resolution number 6 above, the Directors be empowered, pursuant to Section 570 and 573 of the Act, to allot equity securities (as defined in Section 560 of the Act) for cash as if Section 561(1) of the Act did not apply to any such allotment provided that this power shall be limited to

(i) the allotment of equity securities in connection with a rights issue or other pro rata offer in favour of holders of ordinary shares where the equity securities respectively attributable to the interests of all the Ordinary shareholders are proportionate (as nearly as may be) to the respective number of equity securities held by them subject in each case to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal difficulties under the laws of any territory or the requirements of a regulatory body, and

(ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal amount of £37,311, and shall expire at the conclusion of the Annual General Meeting of the Company after the date of the passing of this resolution except that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred by this resolution had not expired

8 **special resolution – authority to make market purchases of Ordinary shares**
THAT the Company be and is hereby generally and unconditionally authorised, in accordance with the Company's articles of association and section 701 of the Act, to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 5p each in the capital of the Company ("Ordinary Shares") on such terms and in such manner as the Directors may from time to time determine provided that

(a) the maximum number of Ordinary Shares authorised to be purchased is 1,492,423,

(b) the minimum price which may be paid for an Ordinary Share is 5p (the nominal value) (exclusive of expenses (if any) payable by the Company),

(c) the maximum price which may be paid for an Ordinary Share purchased under this authority is an amount equal to the higher of (i) 105% of the average of the middle market quotations for an Ordinary Share derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary Share is purchased and (ii) the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003, (in each case exclusive of expenses (if any) payable by the Company), and

(d) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution except that the Company may before such expiry make a contract or contracts to purchase ordinary shares which will or may be completed or executed wholly or partly after such expiry

9 **special resolution – notice required for general meetings**
THAT a general meeting other than an annual general meeting may be called on no less than 14 clear days notice

Dated this 25th day of May 2010

By order of the Board

J O Hambro Capital Management Limited
Company Secretary

Registered Office
Ground Floor, Ryder Court
14 Ryder Street
London
SW1Y 6QB
Registered No 1091347

notice of annual general meeting

notes

1 Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder A proxy need not be a shareholder of the Company A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice To appoint more than one proxy you may photocopy this form Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which in aggregate should not exceed the number of shares held by you) Please indicate if the proxy instruction is one of multiple instructions being given All forms must be signed and should be returned together in the same envelope

2 To be valid any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at the Company's registrars, Capita Registrars, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than forty eight hours before the time fixed for the meeting

3 The return of a completed proxy form will not prevent a shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so

4 Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights

5 The statement of the rights of the shareholders in relation to the appointment of proxies in paragraphs 1 and 2 above does not apply to Nominated Persons The rights described in these paragraphs can only be exercised by shareholders of the Company

6 To be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company at noon on 25 June 2010 (or, in the event of any adjournment, 6 00pm on the date which is two days before the time of the adjourned meeting) Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting

7 As at 24 May 2010 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 14,924,227 ordinary shares, carrying one vote each Therefore, the total voting rights in the Company as at 21 May 2010 are 14,924,227

8 Shareholders should note that it is possible that, pursuant to requests made by shareholders of the Company under section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to (i) the audit of the Company's accounts (including the auditors' report and the conduct of the audit) that are to be laid before the Annual General Meeting, or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006 The Company may not require the shareholders who have requested any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006 Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditors not later than the time when it makes the statement available on the website The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website

9 In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the chairman of the meeting as its corporate representative to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions, and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www icsa org uk) for further details of this procedure The guidance includes a sample form of appointment letter if the chairman is being appointed as described in (i) above

shareholder information

financial calendar

Preliminary results	May
Annual Report	May
Annual General Meeting	June
Half-Yearly results announced	September
Half-Yearly Report posted	September

share price

The Company's mid-market share price is quoted daily in the Financial Times appearing under "Investment Companies"

It also appears on

Reuters	convertible Loan Stock NASp L
Bloomberg	NAS LN
SEAQ Ordinary Shares	NAS
Trustnet	www trustnet ltd uk

net asset value

The latest net asset value of the Company can be found on the North Atlantic Value LLP website www navalue co uk

share dealing

Investors wishing to purchase more Ordinary Shares or dispose of all or part of their holding may do so through a stockbroker Many banks also offer this service

The Company's registrars are Capita Registrars In the event of any queries regarding your holding of shares, please contact the registrars on 0870 458 4577, or by email on ssd@capitaregistrars com

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

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU