



North Atlantic Smaller Companies Investment Trust plc
Annual Report
for the year ended 31 January 2011

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Company Registered Number:
1091347

The cover depicts a painting by the artist Mather Brown (1825) entitled "The Battle of the Nile: Destruction of 'L'Orient', 1 August 1798".

© National Maritime Museum, Greenwich, London.

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.

	2011	% change	2010	2009	2008	2007
revenue						
Gross income (£'000)	2,341	(33.6)	3,525	4,285	5,208	3,951
Net return after tax attributable to Shareholders of the Parent (£'000)	(849)	(291.6)	443	538	1,272	224
Basic return per Ordinary Share – revenue	(5.86)p	(296.0)	2.99p	3.64p	8.86p	1.65p
– capital	284.70p	(1.6)	289.45p	(372.41)p	(21.05)p	229.52p
assets						
Total assets less current liabilities (£'000)	233,980	6.5	219,613	178,284	238,166	250,549
Net asset value per 5p Ordinary Share:						
Basic	1,664p	12.4	1,480p	1,204p	1,611p	1,755p
Diluted	1,459p	24.8	1,169p	944p	1,209p	1,217p
Mid-market price of the 5p Ordinary Shares at 31 January	1,146.0p	40.8	814.0p	618.5p	1,025.0p	1,153.0p
discount to diluted net asset value	21.5%	8.9	30.4%	34.5%	15.2%	5.3%
indices and exchange rates at 31 January						
Standard & Poor's 500 Composite Index	1,286.1	19.8	1,073.9	825.9	1,378.6	1,438.2
Russell 2000 Index	781.3	29.8	602.0	443.5	713.3	800.3
US Dollar/Sterling exchange rate	1.6018	0.0	1.6024	1.4417	1.9880	1.9574
Standard & Poor's 500 Composite – Sterling adjusted	803.1	19.5	671.8	568.0	693.4	734.8
Russell 2000 – Sterling adjusted	487.9	29.6	376.6	305.1	358.8	408.9
FTSE All-Share Index	3,044.3	14.4	2,660.5	2,078.9	3,000.1	3,211.8

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	<p>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.</p> <p>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.</p> <p>The Company outsources all of its main operational activities to recognised third party providers.</p>
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, ¹²³ Non-Executive Chairman. Appointed 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.

Christopher H B Mills, Chief Executive and Investment Manager. Appointed August 1984. 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), ¹²³ Non-Executive Director. Appointed 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, ¹²³ Non-Executive Director and Chairman of the Audit Committee. Appointed December 2002. 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), ¹²³ Non-Executive Director. Appointed 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), ¹²³ Non-Executive Director. Appointed July 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).

¹ Independent

² Member of the Audit Committee

³ Member of the Remuneration Committee

chairman's statement

The Company's fully-diluted net asset value reached an all time high rising by 24.8% during the twelve months ended 31 January 2011. During the same period, the Sterling adjusted Standard & Poor's Composite Index rose by 19.8%. The Company's share price rose by 40.8%.

The revenue account showed a loss after tax of £849,000 (2010: profit of £443,000). Consistent with the Company's long-standing policy, the Directors are not recommending the payment of a dividend (2010: nil).

During the year, the Company purchased 1,110,000 units of Convertible Unsecured Loan Stock 2013 and 1,374,000 Ordinary Shares for cancellation. As these securities were purchased at a substantial discount to NAV, these purchases had a highly beneficial impact on the net asset value of the Company, whilst leaving adequate cash balances to fund a number of prospective investments. The Company will continue to consider the purchase of shares and CULS at a discount when appropriate.

A commentary on the quoted and unquoted investments can be found in the Investment Managers Report on page 5. Once again, while the strength in markets has provided some support for the value of the portfolio, most of the appreciation has been the result of corporate events and restructuring.

The expansion of liquidity supported by loose monetary policies in developed countries with weak financial sectors has underpinned the rise in share prices generally. While some developed economies, particularly in the US and northern Europe, continue to show signs of growth, domestic consumer spending will be constrained by continuing consumer deleveraging, rising energy costs and relatively high levels of unemployment. The Company continues to look for investments in sectors where margins and sales are unlikely to be squeezed by the combination of rising costs and competitive pricing environments.

The accommodative monetary policy adopted by the Fed is a response to its concern about the negative impact on consumption of rising oil prices, weak house prices, poorly capitalised banks and widespread deleveraging. This is in contrast to the emerging world where interest rates are mainly rising. With some European central banks in countries with healthy growth and relatively strong financial institutions also showing a tendency to move towards 'more normal' interest rates, the dollar is likely to remain under pressure. At the time of writing the Company has around 36% per cent of its portfolio in US dollar denominated assets.

We continue to see substantial deal flow and will focus on a small number of compelling investments as well as enhancements to our existing portfolio.

The Hon. Peregrine Moncreiffe Chairman

24 May 2011

investment managers' report**quoted portfolio**

The major achievement of the year was the successful sale of Castle Support Services for approximately £33m. This represented a profit of nearly £29m against our purchase price. Inspired Gaming was also taken over as was Chrysalis, the latter providing a 50% profit on our investment.

Our two major investments, BBA and RPC both performed well during the year with share prices rising by 38.5% and 40% respectively. To some extent, this was offset by the Gleeson and Nationwide Accident Repair share prices which were essentially unchanged.

Oryx International Growth Fund also had a good year outperforming its indices.

unquoted portfolio

It is pleasing to report that Bionostics, Celsis and Orthoproducts all had excellent results during the period and the outlook for these businesses remains encouraging. Hampton Investment Properties also had an excellent year. Avanti Communications' Loan Note was redeemed having achieved an IRR of nearly 20%. On the property side there was a good recovery in Merchant Properties, but a write down in value was required for Martley.

During the year we also bought out the other shareholders in North American Banks Fund and these investments are now reported to you on a direct basis. Two of these investments, Metropolitan Banc Group, Inc and First American Financial Holdings, Inc now appear in the Company's twenty largest investments so a commentary on them can be found on page 12.

No new investments were made during the period although Trident Private Equity III participated in the buyout of Inspired Gaming and it is pleasing to report that the investment is performing in line with expectations.

Further comment on the unquoted investments can be found on pages 8 to 15.

Christopher H B Mills *Chief Executive & Investment Manager*

24 May 2011

sector analysis of investments at fair value

	United States	United Kingdom	Europe	Total	Total
equities, convertible securities & loan stocks as a % of total portfolio valuation	31.01.11	31.01.11	31.01.11	31.01.11	31.01.10
	%	%	%	%	%
Investment Companies	0.6	17.0	-	17.6	15.9
Manufacturing	10.3	0.6	-	10.9	10.4
Real Estate	-	7.8	0.5	8.3	9.7
General Industrials	1.3	7.1	-	8.4	17.9
Health Care, Equipment & Services	4.6	3.6	-	8.2	6.8
Support Services	1.3	5.6	-	6.9	8.0
Transport	-	5.4	-	5.4	5.1
General Financials	5.0	0.1	-	5.1	0.1
Media	-	4.2	-	4.2	2.9
Industrial Engineering	-	4.0	-	4.0	4.5
Construction & Materials	-	3.6	-	3.6	4.3
Technology Hardware & Equipment	1.3	1.0	-	2.3	2.0
Travel & Leisure	-	1.5	-	1.5	5.1
Oil & Gas Producers	-	0.8	-	0.8	0.6
Food Producers	-	0.7	-	0.7	0.1
General Retailers	-	0.1	-	0.1	-
Communications	-	-	-	-	2.8
	<u>24.4</u>	<u>63.1</u>	<u>0.5</u>	<u>88.0</u>	<u>96.2</u>
treasury bills	12.0	-	-	12.0	3.8
total at 31 January 2011	36.4	63.1	0.5	100.0	
total at 31 January 2010	<u>11.3</u>	<u>85.3</u>	<u>3.4</u>		<u>100.0</u>

twenty largest investments*as at 31 January 2011*

equities (including convertibles, loan stocks and related financing)		At fair value £'000
Bionostics Holdings Limited	UK Unquoted	21,400
Oryx International Growth Fund Limited*†	UK Listed	20,324
RPC Group PLC	UK Listed	14,823
Hampton Investment Properties Limited	UK Unquoted	12,872
BBA Aviation Group PLC	UK Listed	11,150
Nationwide Accident Repair Services PLC	UK Quoted on AIM	9,900
Chrysalis PLC#	UK Unquoted	8,800
Celsis AG	UK/Swiss Unquoted	8,570
Orthoproducts Limited	UK Unquoted	7,453
MJ Gleeson Group PLC	UK Listed	7,438
ten largest investments		<u>122,730</u>
AssetCo (Abu Dhabi) Limited	UK Unquoted	7,371
Trident Private Equity Fund III LP	UK Unquoted	6,695
Trident Private Equity Fund II LP	Cayman Islands Unquoted	6,235
Essenden PLC	UK Unquoted and Quoted on AIM	3,080
Merchant Properties Unit Trust	UK Unquoted	2,785
Glass America LLC	USA Unquoted	2,736
Telos Corporation	USA Quoted and Unquoted	2,730
Performance Chemicals Company	USA Unquoted	2,641
Metropolitan Banc Group, Inc	USA Unquoted	2,025
First American Financial Holdings, Inc	USA Unquoted	2,025
twenty largest investments		<u>161,053</u>
Aggregate of other investments at fair value		<u>21,882</u>
		<u>182,935</u>
USA Treasury Bills		<u>24,836</u>
total value of investments and associates of the group		<u><u>207,771</u></u>

* 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.

Listing suspended at 5pm on 28 January 2011 and subsequently cancelled on 4 February 2011. Proceeds of £8,800,000 received on 18 February 2011 following a scheme of arrangement.

unlisted investments profile

as at 31 January 2011

		2011	
		At fair value	Total assets
		£'000	%
Bionostics Holdings Limited (UK) <i>Cost: £11,677,000</i>		21,400	8.9
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 2010 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 Company has won significant new business which will sustain its growth for the foreseeable future.			
Equity held	47.1%		
Income recognised in the period	nil		
Financial results per latest audited accounts			
– Turnover	£18.0m		
– EBIT	£13.4m		
Hampton Investment Properties Limited <i>Cost: £8,574,000</i>		12,872	5.3
The Hampton Group merged with the Alba Group as at 31 January 2011 to form the enlarged Hampton Investment Properties. Alba profitably disposed of the core of its portfolio during the year and delivered a satisfactory return to its joint venture party, The Royal Bank of Scotland. Alba has contributed ten assets to the core portfolio already held by Hampton which added to the geographical and sector spread of the merged group. This has also resulted in an enhanced quality of assets held.			
Following the amalgamation, a new long term debt facility was granted by NatWest, securing the Company's financing requirements for the next 5 years. Occupancy levels have remained resilient and this coupled with active asset management has meant a solid performance through the year.			
Equity held	62.12%		
Income recognised in the period	£1.5m		
Financial results per latest audited accounts			
– Turnover	n/a		
– EBIT	n/a		
Carried forward		<hr/> 34,272	

unlisted investments profile

as at 31 January 2011

	2011	
	At fair value	Total assets
	£'000	%
Brought forward	34,272	
Celsis AG <i>Cost: £5,813,000</i>	8,570	3.5
Celsis 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		18.60%
Income recognised in the period		–
Financial results per latest audited accounts		
– Turnover		£31.6m
– EBIT		£8.6m
Orthoproducts Limited (UK) <i>Cost: £3,739,000</i>	7,453	3.1
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 100%.		
Equity held		40.00%
Income recognised in the period		£0.2m
Financial results per latest audited accounts		
– Turnover		£14.4m
– EBIT		£1.4m
Carried forward	50,295	

unlisted investments profile

as at 31 January 2011

		2011	
		At fair value	Total assets
		£'000	%
Brought forward		50,295	
AssetCo (Abu Dhabi) Limited	<i>Cost: £6,500,000</i>	7,371	3.1
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%. Since the end of the period, the Company has raised substantial new capital and negotiations are underway to convert our preference shares into equity.			
Equity held	9.20%		
Income recognised in the period	£0.4m		
Financial results per latest audited accounts			
– Turnover	£45.2m		
– EBIT	£17.4m		
Trident Private Equity Fund III LP (UK)	<i>Cost: £5,369,000</i>	6,695	2.8
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 two investment have been made.			
Equity held	32.00%		
Income recognised in the period	–		
Financial results per latest audited accounts			
– Turnover	n/a		
– EBIT	n/a		
Carried forward		64,361	

unlisted investments profile

as at 31 January 2011

	2011	
	At fair value	Total assets
	£'000	%
Brought forward	64,361	
Trident Private Equity Fund II LP (Cayman Islands) Cost: £152,000*	6,235	2.6
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 2011, 100% of NASCIT's commitment, had been drawn down and invested in fifteen private equity transactions, of which seven have been realised. To date, the Company has received 117% of committed capital back in excess of costs in distributions from TPE II.		
*£10m received in distributions since holding this investment has been allocated against the original cost.		
Equity held	15.60%	
Income recognised in the period	£1.5m	
Financial results per latest audited accounts		
– Turnover	n/a	
– EBIT	n/a	
Merchant Properties Unit Trust (UK) Cost: £2,717,000	2,785	1.2
The Merchant Properties Unit Trust is a portfolio of 36 Travis Perkins trade counter units purchased for £39.7m and simultaneously leased 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 recovery in the property market. It is intended that this investment will be realised in the next twelve months.		
Carried forward	73,381	

unlisted investments profile

as at 31 January 2011

	2011	
	At fair value	Total assets
	£'000	%
Brought forward	73,381	
Glass America LLC (USA) Cost: £2,360,000	2,736	1.1
Glass America is a consolidator of automotive glass repair companies in the United States. The company traded reasonably well in 2010 and further progress is expected in the current year.		
Telos Corporation (USA) Cost: £1,365,000	2,730	1.1
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. The company intends to sell itself as and when market conditions improve.		
Performance Chemicals Company Cost: £2,942,000	2,641	1.1
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 have been disappointing but new management has returned the business to cost positive and the outlook for the business is good.		
Metropolitan Banc Group, Inc Cost: £549,000	2,025	0.8
Metropolitan Banc is a holding company with a definitive agreement to acquire Banc of the South. The bank will offer full service banking facilities to address the fragmented and underserved markets of Memphis, Tennessee and Jackson, Mississippi.		
First American Financial Holdings, Inc Cost: £610,000	2,025	0.8
This is a community bank headquartered in Nashville, Tennessee, focusing on real estate, middle market lending and the entertainment industry. The bank started trading in February 2007 and now has four branches open for business.		
Carried forward	85,538	

unlisted investments profile

as at 31 January 2011

	2011	
	At fair value £'000	Total assets %
Brought forward	85,538	
Letchworth Investments Limited (UK) Cost: £604,000	1,980	0.8
Letchworth is a cash shell. The company has sold all its assets. It is expected that the company will be liquidated over the next twelve months.		
Indicant Equity Limited Cost: £812,000	1,904	0.8
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.		
Forefront Group Limited (UK) Cost: £1,762,000	1,762	0.7
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 2010 was good and we expect further progress in the current year which should lead to a liquidity event within the next twelve months.		
Lion/Katsu Investments Limited (UK) Cost: £418,000	1,400	0.6
Lion/Katsu 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. Subsequent to the year end, this investment was sold at a small premium to the valuation.		
Browallia LLP (UK) Cost: £1,204,000	1,196	0.5
The LLP owns property in the north east of England. The assets are now for sale.		
Carried forward	<u>93,780</u>	

unlisted investments profile

as at 31 January 2011

	2011	
	At fair value	Total assets
	£'000	%
Brought forward	93,780	
Martley Limited (Jersey) Cost: £4,812,000	1,027	0.4
Martley Limited is a Jersey registered property company, which via its Luxembourg subsidiary companies 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 currently fully let to several blue chip tenants. Negotiations are currently underway with the tenants to renew their leases, following which it is hoped that valuation will recover. This investment was written down during the year to reflect some uncertainty regarding future lease renewals.		
Equity held	29.63%	
Income recognised in the period	Nil	
Financial results per latest audited accounts		
– Turnover	£5.6m	
– EBIT	(£5.1m)	
Kiln Lane Property Limited (UK) Cost: £676,000	544	0.2
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 89% of Kiln Lane, but the Board has chosen not to consolidate on the basis of non-materiality.		
Carried forward	95,351	
Other unlisted investments at fair value	19,815	
Total value of unlisted investments at fair value*	115,166	

* Includes unlisted loan notes in these companies with a total value of £3,319,000.

unlisted investments profile (AIM Quoted)

as at 31 January 2011

	2011	
	At fair value	Total assets
	£'000	%
Nationwide Accident Repair Services PLC <i>Cost: £2,582,000</i>	9,900	4.1
<p>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.</p>		
Essenden PLC <i>Cost: £468,000</i>	918	0.4
<p>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.</p>		
	10,818	
Other AIM quoted investments at bid value	1,321	
Total value of AIM quoted investments at bid value	<u>12,139</u>	

group report of the directors*for the year ended 31 January 2011*

The Directors present their Report (incorporating the Business Review) and the financial statements for the year ended 31 January 2011.

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

business review

At 31 January 2011, the diluted net asset value ("NAV") per share was 1,459p (31 January 2010: 1,169p), an increase of 24.8% during the year, compared to an increase of 19.5% during the year in the Standard & Poor's 500 Composite Index (Sterling adjusted). As stated in the Investment Manager's Report on page 5, a significant part of the return for the year was achieved through corporate events rather than as a result of movements in the stock markets.

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 Net Asset Value and share price information are detailed on page 1.

The Company has no employees and accordingly this business review does not contain any information regarding employees. As an investment trust, the Board does 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 return after taxation for the financial year ended 31 January 2011 amounted to £40,400,000 (2010: £43,313,000). The Board does not propose a final dividend (2010: 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 8 to 15. 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 cashflow.

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 2011 and the Directors anticipate that the Company will continue to operate on the same basis during the current financial year.

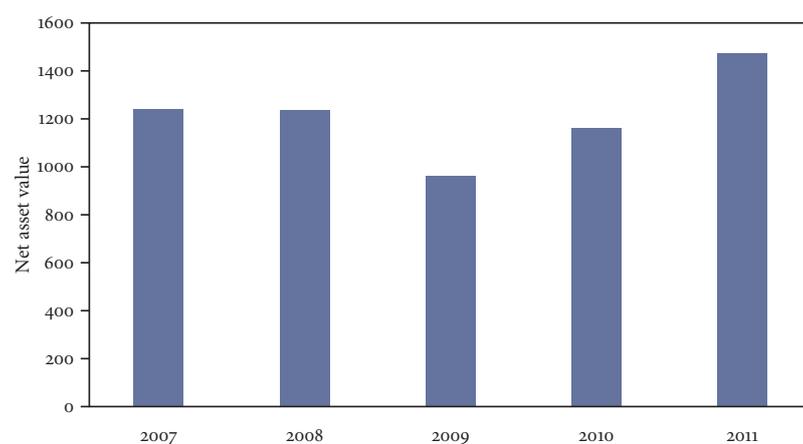
group report of the directors*for the year ended 31 January 2011***financial instruments**

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 77.

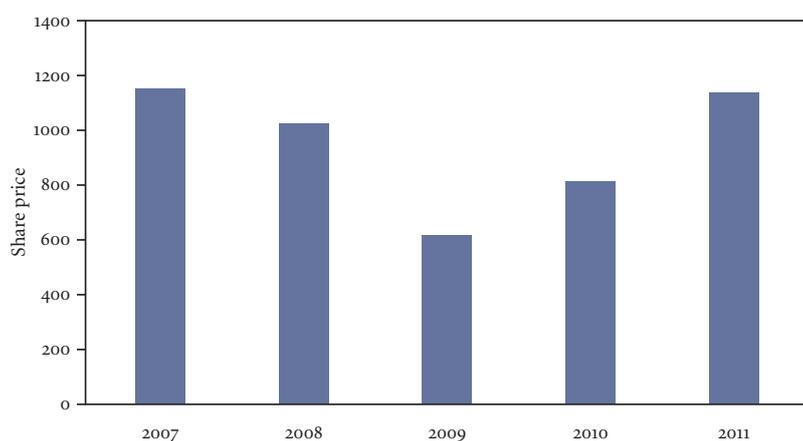
key performance indicators

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 2011***future prospects**

The Directors believe that the year ending January 2012 will see further progress, especially from the unquoted portfolio which continues to offer the potential for further significant appreciation.

taxation status

The Company operates as an investment trust company and is an investment company within the meaning of Section 833 of the Companies Act 2006 (the "Act"). The Company was approved by HM Revenue & Customs as an investment trust in accordance with the requirements of Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 31 January 2010. The Directors have continued to manage the business in such a way to ensure that the Company will continue to meet these requirements (which have been replaced by Section 1159 of the Corporation Tax Act 2010) and will seek such approval for the year ended 31 January 2011 and each subsequent year.

The Board has reviewed the Government's proposals for modernising the tax treatment of approved Investment Trust Companies (ITCs) which would provide ITCs with certainty regarding their tax status, allow for wider investment strategies, clarify the transactions which will be treated as investment transactions for tax purposes and reduce the administrative burdens currently imposed on ITCs. It is expected that the final legislation on these proposals will be contained in the 2011 Finance Bill but may not come into effect until 2012.

share capital

The Company's issued share capital as at 31 January 2011 consisted of 14,057,252 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.

Since the year end, 31 January 2011, the Company has purchased 115,000 Ordinary Shares for cancellation, leaving 13,942,252 Ordinary Shares in issue as at the date of this report.

In addition, as at 31 January 2011 the Company had 1,970,800 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 2011, the middle market quotation and the diluted net asset value per 5p Ordinary Share were 1,146p and 1,459p respectively. The comparable figures at 31 January 2010 were 814p and 1,169p 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 (includes 200,000 non-beneficial)	3,398,447	24.38
CG Asset Management Limited	1,009,859	7.18
Henderson Global Investors Limited	758,324	5.39
Findlay Park US Smaller Companies Fund Plc	595,000	4.23
Legal & General Group Plc	581,816	4.14
J O Hambro Investment Management Limited	443,567	3.16

group report of the directors*for the year ended 31 January 2011***directors**

The biographical details for Directors currently in office are shown on page 3. Mr E F Gittes will retire by rotation at the forthcoming Annual General Meeting of the Company and, being eligible, offers 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 81 to 83.

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 2011 and 31 January 2010 were as follows:

	31 January 2011		31 January 2010	
	5p Ordinary Shares	Units of CULS	5p Ordinary Shares	Units of CULS
The Hon. P D E M Moncreiffe	303,130	90,000	303,130	–
C H B Mills (beneficial)	3,198,447	–	2,836,932	–
C H B Mills (non-beneficial)	200,000	–	–	–
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	–

* 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 (2010: 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.

There have been no changes to the above interests between 31 January 2011 and the date of this report.

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 77. 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 2011***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 78 and 79 and in the Directors' Remuneration Report on pages 29 to 32. The Investment Management Fees are disclosed in note 4 on page 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 page 53.

Save as disclosed above or in note 19 to the financial statements, 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 2011*

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 2011 had been paid (31 January 2010 – 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 appoint KPMG Audit Plc as the Company's auditors will be proposed at the forthcoming Annual General Meeting, as they were appointed to fill a casual vacancy during the year.
additional disclosures	<p>The following further information is disclosed in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008:</p> <ul style="list-style-type: none"> • The Company's capital structure and voting rights are summarised on page 18 and note 15; • Details of the substantial shareholders in the Company are listed on page 18; • 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	<p>Resolutions 6 to 8 (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.</p> <p><i>Resolution 6 – Ordinary Resolution - Renewal of Directors' authority to allot Shares</i></p> <p>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 £232,370 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.</p>

group report of the directors*for the year ended 31 January 2011**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 Directors to allot equity securities for cash up to a maximum aggregate renewal amount of £34,855 representing 697,112 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 1,394,225 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 more than the amount stipulated by Article 5(i) of the Buyback and Stabilisation Regulation 2003. They will also not 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.

Resolutions 10 to 12 relate to the North Atlantic Smaller Companies Investment Trust plc 2011 Share Option Scheme (“the Scheme”).

Resolution 10 – Ordinary Resolution – Approval of the 2011 Share Option Scheme

The purpose of Resolution 10 is to seek shareholder approval of the Scheme. The Scheme is broadly the same as the 2002 Share Option Scheme which it replaces (see the Directors’ Remuneration Report on pages 29 to 32 for further details). A summary of the rules of the Scheme is contained in the Appendix to the Notice of Annual General Meeting on pages 86 to 88.

Resolution 11 – Ordinary Resolution – Directors’ authority to allot Shares in connection with the Scheme

Resolution 11 gives the Directors authority to grant options and allot Shares pursuant to the Scheme for a period of five years (which is the maximum period permitted under the Companies Act 2006). If passed, the Directors will have the authority to allot securities up to the aggregate nominal amount of £34,855 representing 5% of the current issued share capital.

group report of the directors

for the year ended 31 January 2011

Resolution 12 – Special Resolution – Directors' authority for the disapplication of pre-emption rights in connection with the Scheme

Resolution 12 will authorise the Directors to allot up to the number of securities referred to in Resolution 11 for the purposes of the Scheme without first offering such securities to existing Shareholders.

The above resolutions are contained in the Notice of Annual General Meeting on pages 81 to 83.

Recommendation

The Board considers that resolutions 6 to 12 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 3,807,006 shares representing 27.31% of the voting rights of the Company.

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

24 May 2011

statement of directors' responsibilities in respect of the annual report & financial statements

for the year ended 31 January 2011

The directors are responsible for preparing the Annual Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company 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 they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

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

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

Directors' responsibility statement under the Disclosure and Transparency Rules

The Directors confirm that, to the best of their knowledge and belief:

- the financial statements, prepared in accordance with IFRS, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation as a whole; and
- the annual financial report includes a fair review of the development and performance of the Company and the undertakings included in the consolidation as a whole, together with a description of the principal risks and uncertainties faced.

For and on behalf of the Board

The Hon. P D E M Moncreiffe

Chairman

24 May 2011

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 frame work of the best practice specifically for the Boards of investment trust companies.

The Board has reviewed the UK Corporate Governance Code 2010, which will replace the Code in respect of the financial year ended 31 January 2012, and while they do not consider that any major changes are required in the Company’s case, they will be ensuring compliance or explanation, wherever appropriate, in the coming year.

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 and believes that it is not necessary at present. 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 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	Total number in year	Total number in year
	4 Board Meetings	2 Audit Committees	2 Remuneration Committee
The Hon. P D E M Moncreiffe	4	2	2
C H B Mills	4	N/A	N/A
K Siem	4	2	2
C L A Irby	4	2	2
O R Grace	3	2	–
E F Gittes	4	2	2

In addition, there has been a number of meetings of Committees of the Board during the year to deal with matters on an adhoc basis.

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 page 53.

audit committee

The Board is supported by an Audit Committee which comprises all of the Non-Executive Directors. 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 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 KPMG Audit Plc, the Company's auditor, has adequate policies and safeguards in place to ensure that their objectivity and independence is maintained. The Auditors provide some non-audit services 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 has 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 81 to 83. The special business is also explained more fully in the Explanatory Notes on pages 21 to 23. Separate resolutions are proposed for each substantive issue.

nominations committee

The Board is a small Board and fulfils the function of the Nominations Committee as a whole. 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 21 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 contingences 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 concern basis in preparing these financial statements.

Throughout the year ended 31 January 2011, the Company has complied with the Code, except as follows:

The Company did not comply with the following provisions at any time during the year ended 31 January 2011.

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

J O Hambro Capital Management Limited

Company Secretary

Registered Office:

Ground Floor

Ryder Court

14 Ryder Street

London SW1Y 6QB

24 May 2011

directors' remuneration report*for the year ended 31 January 2011*

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 is 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 notice periods, 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. The Remuneration Committee has no plans to alter the remuneration structure for the Chief Executive. As stated in note 19 on pages 78 and 79, 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 2011***remuneration of directors (audited)**

Chief Executive	2011	2010
	£	£
Fees	20,000	20,000
Investment Management and related fees	902,000	745,000
Performance Fee	<u>1,176,000</u>	<u>1,102,000</u>
Total (excluding irrecoverable VAT)	<u>2,098,000</u>	<u>1,867,000</u>

The total fees of £2,098,000, in respect of Mr Mills' services as a Director and Chief Executive are payable to Growth Financial Services Limited (GFS), as described on page 20. 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 20 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	2011	2010
	£	£
The Hon. P D E M Moncreiffe (Chairman)*	—	—
K Siem	20,000	20,000
C L A Irby	20,000	20,000
O R Grace	20,000	20,000
E F Gittes	20,000	20,000

* 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 2011

interests in options (audited)

	No. of options at 1 February 2010	Year of grant	Price	Exercised/ cancelled during the year	Grant of options during the year	Price	No. of options at 31 January 2011
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 were exercisable at any time between 30 October 2003 and 30 October 2010.

On 15 March 2010, Mr C H B Mills exercised 100,000 share options granted in 2000 under the NASCIT 1994 Executive Share Option Scheme at an exercise price of 677.57p per share. With the approval of the Board, Mr Mills exercised these options at the strike price of 677.57p. Accordingly, application was made and accepted for 100,000 Ordinary Shares to be admitted to the Official List and be admitted to trading on the main market of the London Stock Exchange with effect from 15 April 2010.

Further to a review of the NASCIT 2002 Executive Share Option Scheme, a majority of the option holders agreed to cancel their existing options and waive their rights to future participation. As part of the review of the incentive scheme and pursuant to the terms of the Scheme, it was agreed that, subject to the proceeds being reinvested in the Company's shares and those shares being held for a period of not less than two years, an ex gratia payment totalling £3.9 million be paid to Mr Mills and to those eligible employees of North Atlantic Value LLP.

The 2002 Executive Share Option Scheme ("the Scheme") is an unapproved scheme. Options will normally be exercisable between three and ten years from the date of grant. Options granted under the 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. At the date of this report there were 20,000 options, granted in 2005, in issue.

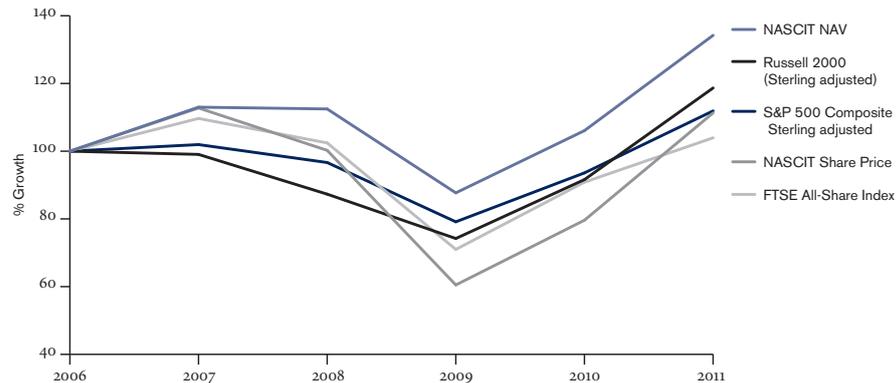
The highest and lowest mid-market price of the Company's Ordinary Shares during the year was 1,163p and 768p respectively. The mid-market price of the Company's Ordinary Shares at 31 January 2011 was 1,146p.

The 2002 Executive Share Option Scheme expires in 2012 and therefore Shareholders are being asked to approve the 2011 Share Option Scheme, a summary of which is set out at the back of this Annual Report. Other than changes to reflect legislation and market practice, the 2011 Share Option Scheme is the same as the 2002 Executive Share Option Scheme. The Remuneration Committee believes that it is in the interest of Shareholders that a new scheme is adopted so that those individuals who provide services to the Company are appropriately incentivised.

directors' remuneration report*for the year ended 31 January 2011***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% of 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 24 May 2011 and signed by The Hon. P D E M Moncreiffe, Chairman.

The Hon. P D E M Moncreiffe

Chairman

24 May 2011

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 2011 set out on pages 35 to 79. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU 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 auditors' 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 Statement of Directors' Responsibilities 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 and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (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 web-site at www.frc.org.uk/apb/scope/UKP.

basis for qualified opinion on financial statements

As stated in Note 2 to the financial statements, neither Hampton Investment Properties Limited (HIP), which was a subsidiary undertaking at 31 January 2011, nor Bionostics Holdings Limited, which was a subsidiary undertaking at 31 January 2010, have been consolidated into these financial statements on the basis that, in the Directors' opinion, their consolidation would give no additional benefits to the Shareholders and cause undue expense. There would not be a material effect on the Net Assets of the Company in respect of these adjustments. In our opinion, the Company should consolidate these entities into its consolidated financial statements from the date control is acquired up until the date control is lost, as required by IAS 27. Accordingly investments held at fair value through profit/loss should be reduced by £12.9m (2010: £19.1m), investment property should be increased by £40.5m (2010: £1.0m), current assets should be increased by £2.4m (2010: £6.3m), long term liabilities should be increased by £23.5m (2010: £18.4m), other liabilities should be increased by £1.7m (2010: £3.0m), intangible assets of £nil m (2010: £35.9m) and a Non controlling interest of £4.8m (2010: £2.7m) recognised.

The audit report on the consolidated financial statements for the year ended 31 January 2010 was qualified with regard to the same accounting treatment.

qualified opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the Parent Company's affairs as at 31 January 2011 and of the Group's profit for the year then ended
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006

report of the independent auditor*to the members of north atlantic smaller companies investment trust plc*

In our opinion, except for the effects of the matters described in the basis for qualified opinion on financial statements paragraph, the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 January 2011
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU; and
- the Group financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and 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;
- 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; and
- information given in the Corporate Governance Statement set out on pages 25 to 28 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

**matters on which we are
required to report
by exception**

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

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 2006 Combined Code specified for our review; and
- certain elements of the report to Shareholders by the Board on Directors' remuneration.

Salim Tharani (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

100 Temple Street

Bristol

BS1 6AG

24 May 2011

consolidated statement of comprehensive income
for the year ended 31 January

	Notes	2011			2010		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income*	3	2,341	–	2,341	3,525	–	3,525
Net gains on investments at fair value	10	–	37,868	37,868	–	38,531	38,531
Currency exchange (losses)/gains	10	–	(19)	(19)	–	1,087	1,087
total income		2,341	37,849	40,190	3,525	39,618	43,143
Expenses							
Investment management fee	4	(2,255)	(1,219)	(3,474)	(1,862)	(1,225)	(3,087)
Other expenses	5	(728)	–	(728)	(973)	–	(973)
Share of net return of associate	10	–	4,619	4,619	–	4,477	4,477
return before finance costs and taxation		(642)	41,249	40,607	690	42,870	43,560
Finance costs	7	(207)	–	(207)	(242)	–	(242)
return before taxation		(849)	41,249	40,400	448	42,870	43,318
Taxation	8	–	–	–	(5)	–	(5)
return for the year		(849)	41,249	40,400	443	42,870	43,313
basic earnings per ordinary share	9	(5.86p)	284.70p	278.84p	2.99p	289.45p	292.44p
diluted earnings per ordinary share	9	(4.90p)	241.70p	236.80p	2.49p	230.93p	233.42p

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

The Company does not have any income or expense that is not included in the return for the year, and therefore the “return for the year” is also the “Total comprehensive income for the year”, as defined in International Accounting Standard 1 (revised). All of the return and 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 reclaim in respect of Investment Management fee received during the year to 31 January 2010. No such refund has been received during the year to 31 January 2011.

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

The notes on pages 44 to 79 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
2011					
31 January 2010	741	27	1,348	629	218,665
Total comprehensive income for the year	–	–	–	–	41,249
New issue of ordinary shares	5	–	–	672	–
Shares purchased for cancellation	(69)	–	–	–	(13,029)
Premium paid on repurchase of CULS	–	(8)	–	–	(9,740)
Arising on conversion of CULS	26	(4)	–	–	–
Settlement of outstanding share options	–	–	–	–	(3,887)
Transfer between reserves	–	–	(1,119)	–	1,119
31 January 2011	<u>703</u>	<u>15</u>	<u>229</u>	<u>1,301</u>	<u>234,377</u>
	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
Premium paid on repurchase of CULS	–	–	–	–	(1,971)
Arising on conversion of CULS	1	(2)	–	–	–
31 January 2010	<u>741</u>	<u>27</u>	<u>1,348</u>	<u>629</u>	<u>218,665</u>

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

The notes on pages 44 to 79 form part of these financial statements.

consolidated statement of changes in equity
for the year ended 31 January

Capital redemption reserve £'000	Revenue reserve £'000	Total £'000	group
			2011
–	(1,949)	219,461	31 January 2010
–	(849)	40,400	Total comprehensive income for the year
–	–	677	New issue of ordinary shares
69	–	(13,029)	Shares purchased for cancellation
–	–	(9,748)	Premium paid on repurchase of CULS
–	–	22	Arising on conversion of CULS
–	–	(3,887)	Settlement of outstanding share options
–	–	–	Transfer between reserves
<u>69</u>	<u>(2,798)</u>	<u>233,896</u>	31 January 2011
			2010
			2010
–	(2,392)	178,120	31 January 2009
–	443	43,313	Total comprehensive income for the year
–	–	(1,971)	Premium paid on repurchase of CULS
–	–	(1)	Arising on conversion of CULS
–	(1,949)	219,461	31 January 2010

company statement of changes in equity
for the year ended 31 January

company	Share capital	CULS reserve	Share options reserve	Share premium account	Capital reserve
	£'000	£'000	£'000	£'000	£'000
2011					
31 January 2010	741	27	1,348	629	218,287
Total comprehensive income for the year	–	–	–	–	41,249
New issue of ordinary shares	5	–	–	672	–
Shares purchased for cancellation	(69)	–	–	–	(13,029)
Premium paid on repurchase of CULS	–	(8)	–	–	(9,740)
Arising on conversion of CULS	26	(4)	–	–	–
Settlement of outstanding share options	–	–	–	–	(3,887)
Transfer between reserves	–	–	(1,119)	–	1,119
31 January 2011	<u>703</u>	<u>15</u>	<u>229</u>	<u>1,301</u>	<u>233,999</u>
	Share capital	CULS reserve	Share options reserve	Share premium account	Capital reserve
	£'000	£'000	£'000	£'000	£'000
2010					
31 January 2009	740	29	1,348	629	177,388
Total comprehensive income for the year	–	–	–	–	42,870
Premium paid on repurchase of CULS	–	–	–	–	(1,971)
Arising on conversion of CULS	1	(2)	–	–	–
31 January 2010	<u>741</u>	<u>27</u>	<u>1,348</u>	<u>629</u>	<u>218,287</u>

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

The notes on pages 44 to 79 form part of these financial statements.

company statement of changes in equity
for the year ended 31 January

Capital redemption reserve £'000	Revenue reserve £'000	Total £'000	company
–	(1,571)	219,461	2011 31 January 2010
–	(849)	40,400	Total comprehensive income for the year
–	–	677	New issue of ordinary shares
69	–	(13,029)	Shares purchased for cancellation
–	–	(9,748)	Premium paid on repurchase of CULS
–	–	22	Arising on conversion of CULS
–	–	(3,887)	Settlement of outstanding share options
–	–	–	Transfer between reserves
<u>69</u>	<u>(2,420)</u>	<u>233,896</u>	31 January 2011
Capital redemption reserve £'000	Revenue reserve £'000	Total £'000	
–	(2,014)	178,120	2010 31 January 2009
–	443	43,313	Total comprehensive income for the year
–	–	(1,971)	Premium paid on repurchase of CULS
–	–	(1)	Arising on conversion of CULS
<u>–</u>	<u>(1,571)</u>	<u>219,461</u>	31 January 2010

consolidated and company balance sheets

as at 31 January

		Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
	Notes				
non current assets					
Investments at fair value through profit or loss	10	187,447	179,670	207,771	195,375
Investments accounted for using the equity method	10	20,324	15,705	–	–
		<u>207,771</u>	<u>195,375</u>	<u>207,771</u>	<u>195,375</u>
current assets					
Investments held by subsidiary companies for trading		550	634	–	–
Trade and other receivables	11	2,818	2,018	11,899	2,702
Cash and cash equivalents		30,343	29,600	21,812	29,550
		<u>33,711</u>	<u>32,252</u>	<u>33,711</u>	<u>32,252</u>
total assets		<u>241,482</u>	<u>227,627</u>	<u>241,482</u>	<u>227,627</u>
current liabilities					
Bank loans and overdrafts	12	(5,786)	(5,864)	(5,786)	(5,864)
Investments held for trading – derivatives	10	–	(624)	–	(624)
Trade and other payables	13	(1,716)	(1,526)	(1,716)	(1,526)
		<u>(7,502)</u>	<u>(8,014)</u>	<u>(7,502)</u>	<u>(8,014)</u>
total assets less current liabilities		<u>233,980</u>	<u>219,613</u>	<u>233,980</u>	<u>219,613</u>
non current liabilities					
CULS	14	(84)	(152)	(84)	(152)
		<u>(84)</u>	<u>(152)</u>	<u>(84)</u>	<u>(152)</u>
total liabilities		<u>(7,586)</u>	<u>(8,166)</u>	<u>(7,586)</u>	<u>(8,166)</u>
net assets		<u>233,896</u>	<u>219,461</u>	<u>233,896</u>	<u>219,461</u>

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

The notes on pages 44 to 79 form part of these financial statements.

consolidated and company balance sheets

as at 31 January

		Group	Group	Company	Company
		2011	2010	2011	2010
	Notes	£'000	£'000	£'000	£'000
represented by:					
Share capital	15	703	741	703	741
Equity component of CULS		15	27	15	27
Share options reserve		229	1,348	229	1,348
Share premium account		1,301	629	1,301	629
Capital reserve		234,377	218,665	233,999	218,287
Capital redemption reserve		69	–	69	–
Revenue reserve		(2,798)	(1,949)	(2,420)	(1,571)
total equity attributable to equity holders of the parent		<u>233,896</u>	<u>219,461</u>	<u>233,896</u>	<u>219,461</u>
net asset value per ordinary share:					
Basic	9	1,664p	1,480p		
Diluted	9	1,459p	1,169p		

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

The notes on pages 44 to 79 form part of these financial statements.

These financial statements were approved by the Board of Directors on 24 May 2011 and signed on its behalf by:

The Hon. P D E M Moncreiffe, *Chairman*

Company Registered Number:

1091347

consolidated cash flow statement*for the year ended 31 January*

	Notes	2011 £'000	2010 £'000
group			
cash flows from operating activities			
Investment income received		1,788	2,191
Bank deposit interest received		58	136
Other income		339	392
Purchase of investments by dealing Subsidiary		–	(839)
Sale of investments by dealing Subsidiary		–	8
Investment Manager's fees paid		(3,476)	(2,188)
Other cash payments		(5,742)	(472)
cash expended on operations	16	(7,033)	(772)
Bank interest paid		(179)	(306)
CULS interest paid		(10)	(18)
Loan renewal expenses		(9)	–
net cash outflow from operating activities		(7,231)	(1,096)
cash flows from investing activities			
Purchases of investments		(109,056)	(120,767)
Sales of investments		138,648	128,383
net cash inflow from investing activities		29,592	7,616
cash flows from financing activities			
Repayment of fixed term borrowings		–	(1,884)
Repurchase of CULS for cancellation		(9,795)	(1,984)
Repurchase of ordinary shares for cancellation		(13,029)	–
Issue of new shares		677	–
net cash outflow from financing activities		(22,147)	(3,868)
increase in cash and cash equivalents for the year		214	2,652
cash and cash equivalents at the start of the year		29,600	25,514
Revaluation of foreign currency balances		529	1,434
cash and cash equivalents at the end of the year	17	<u>30,343</u>	<u>29,600</u>

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

The notes on pages 44 to 79 form part of these financial statements.

company cash flow statement*for the year ended 31 January*

company	Note	2011 £'000	2010 £'000
cash flows from operating activities			
Investment income received		1,788	2,191
Bank deposit interest received		58	136
Other income		336	365
Investment Manager's fees paid		(3,476)	(2,188)
Other cash payments		(5,739)	(472)
		<u> </u>	<u> </u>
cash (expended)/received from operations	16	(7,033)	32
Bank interest paid		(179)	(306)
CULS interest paid		(10)	(18)
Loan renewal expenses		(9)	–
		<u> </u>	<u> </u>
net cash outflow from operating activities		(7,231)	(292)
		<u> </u>	<u> </u>
cash flows from investing activities			
Purchases of investments		(109,056)	(120,767)
Sales of investments		138,648	128,383
		<u> </u>	<u> </u>
net cash inflow from investing activities		29,592	7,616
		<u> </u>	<u> </u>
cash flows from financing activities			
Repayment of fixed term borrowings		–	(1,884)
Repurchase of CULS for cancellation		(9,795)	(1,984)
Repurchase of ordinary shares for cancellation		(13,029)	–
Issue of new shares		677	–
Short-term loans net advanced by subsidiary		(8,481)	(838)
		<u> </u>	<u> </u>
net cash outflow from financing activities		(30,628)	(4,706)
		<u> </u>	<u> </u>
(decrease)/increase in cash and cash equivalents for the year		(8,267)	2,618
		<u> </u>	<u> </u>
cash and cash equivalents at the start of the year		29,550	25,498
Revaluation of foreign currency balances		529	1,434
		<u> </u>	<u> </u>
cash and cash equivalents at the end of the year	17	<u>21,812</u>	<u>29,550</u>

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

The notes on pages 44 to 79 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 2011 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 2010.

standards, amendments and interpretations effective on 1 January 2010

- 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).

IASB and IFRIC have issued a number of standards and interpretations which are not effective for the year ended 31 January 2011 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

- IFRS 1, 'First-time Adoption of International Financial Reporting Standards' – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective from 1 July 2010)
- IFRS 1, 'First-time Adoption of International Financial Reporting Standards' – Amendments resulting from May 2010 Annual Improvements to IFRSs (effective from 1 January 2011)
- IFRS 1, 'First-time Adoption of International Financial Reporting Standards' – Replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs' (effective from 1 July 2011)
- IFRS 1, 'First-time Adoption of International Financial Reporting Standards' – Additional exemption for entities ceasing to suffer from severe hyperinflation (effective from 1 July 2011)
- IFRS 7, 'Financial Instruments': Disclosures – Amendments resulting from May 2010 Annual Improvements to IFRS (effective from 1 January 2011)
- IFRS 7, 'Financial Instruments': Disclosures – Amendments enhancing disclosures about transfers of financial assets (effective from 1 July 2011)
- IFRS 9, 'Financial Instruments' – Classification and Measurement (effective from 1 January 2013)
- IAS 1, 'Presentation of Financial Statements' – Amendments resulting from May 2010 Annual Improvements to IFRS (effective from 1 January 2011)
- IAS 24, 'Related Party Disclosures' – Revised definition of related parties (effective from 1 January 2011)

Improvements to IFRS' were issued in April 2009 and May 2010 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 2010 and 1 January 2011 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.

notes to the financial statements

1 accounting policies continued

(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.

(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 2011. 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 £40,400,000 (2010: £43,313,000).

(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.

notes to the financial statements

1 accounting policies continued

(f) investments continued

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.

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 2011, is a gain of £11,511,000 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.

notes to the financial statements

1 accounting policies continued

(g) options continued

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.

(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.

Finance costs: 100% of basic loans, borrowing cost and CULS are charged to revenue.

(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.

notes to the financial statements

1 accounting policies continued

(l) share based payments continued

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 over the vesting period was transferred to the Share Options Reserve and all options have now vested.

The Share Options Reserve as at the balance sheet date reflects the fair value of any remaining options. Fair value is deemed to be the share price of the Ordinary Shares – providing these options are “in the money”, i.e. where share price exceeds exercise price.

(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 or exercised. 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.

notes to the financial statements

1 accounting policies continued

(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.

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 2011 NASCIT held three portfolio investments in excess of 50%, Hampton Investment Properties Limited "Hampton", Kiln Lane Property Limited and Browallia LLP. 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:

i) Hampton

Based upon the most recent management accounts of Hampton, dated 31 January 2011, 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 £12.9m

– to increase:

b) investment property by £40.5m

c) current assets by £2.4m

d) non-current liabilities by £23.5m

e) current liabilities by £1.7m

notes to the financial statements

2 non-consolidation of investments continued

– to include:

f) minority interest of £4.8m

The Directors believe that consolidation of this investment would give no additional benefits to the Shareholders, cause undue expense and would not have a material effect on Net Assets or on the reported net asset value per share.

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

ii) Kiln Lane Property Limited

The Company holds 89% of Kiln Lane but the Board has chosen not to consolidate this investment on the basis of non-materiality.

iii) Browallia LLP

The Company holds 95% of Browallia LLP but again the Board has chosen not to consolidate this investment on the basis of non-materiality.

Recent financial information on Browallia LLP is not available but its assets have been transferred into another of the investee companies in the portfolio and an application has been made to have the company struck off so the effect if the holding had been consolidated would be minimal.

3 income

	2011 £'000	2010 £'000
income from investments		
UK dividend income	1,602	1,661
Unfranked investment income		
– dividends	–	31
– interest	161	210
– interest reinvested	649	837
– underwriting commission	62	–
	<u>2,474</u>	<u>2,739</u>
other income		
Interest receivable	86	133
Net dealing losses from Subsidiary trading	(530)	(263)
VAT reclaimed on investment management fee [†]	–	525
Sundry income	311	391
	<u>(133)</u>	<u>786</u>
Total income	<u><u>2,341</u></u>	<u><u>3,525</u></u>

notes to the financial statements

3 income continued

	2011 £'000	2010 £'000
total income comprises		
Dividends	1,602	1,692
Interest	896	1,180
Other income*	(157)	653
	<u>2,341</u>	<u>3,525</u>
	2011 £'000	2010 £'000
income from investments		
Listed UK	1,664	1,661
Unlisted UK	789	1,030
Other unlisted	21	48
	<u>2,474</u>	<u>2,739</u>

* Includes net dealing losses from Subsidiary trading.

† 31 January 2010 income net of VAT refund received during the year to 31 January 2010. There was no such refund in the year up to 31 January 2011.

4 investment management fee

- (i) Pursuant to the Secondment Services Agreement, described in the Group Report of the Directors on page 20 and the Directors' Remuneration Report on page 29, 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 20 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. It is calculated as 10% of the outperformance and paid as a percentage of Shareholders' Funds. It 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.

notes to the financial statements

4 investment management fee continued

(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). With effect from 1 February 2011, it has been agreed that the activity fee of £225 per transaction will no longer be payable and that in return the investment management related fee will increase to £125,000 per annum. The Joint Manager felt that a fee per transaction meant that it was unattractive to do small trades so this adjustment will remedy that.

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

	2011			2010		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Annual fee	2,255	–	2,255	1,862	–	1,862
Performance Fee	–	1,176	1,176	–	1,102	1,102
Irrecoverable VAT thereon	–	43	43	–	123	123
	<u>2,255</u>	<u>1,219</u>	<u>3,474</u>	<u>1,862</u>	<u>1,225</u>	<u>3,087</u>

At 31 January 2011, £113,000 was payable to the Joint Manager in respect of outstanding management fees (2010: £93,000). At 31 January 2011, £1,176,000 plus VAT was payable to GFS in respect of outstanding performance fees (2010: £1,102,000). This is expected to be paid in May 2011.

5 other expenses

	2011 £'000	2010 £'000
Auditor's remuneration (see below)	54	51
Directors' fees (see page 30)*	98	104
Investment management related fee (see note 4)	100	100
Activity fees (see note 4)	27	29
Other expenses	449	689
	<u>728</u>	<u>973</u>

* During the year, it was discovered that Mr E F Gittes had been overpaid a total of £7,000 during the period July 2009 – March 2011 (£4,000 relates to the year ended 31 January 2010) as his fees had not been adjusted upon his retirement as Chairman of the Company. This is now being rectified with a deduction of £2,000 in the year ended 31 January 2011 and the remainder to be deducted during the forthcoming year.

notes to the financial statements

5 other expenses continued

	2011	2010
Auditors' remuneration	£'000	£'000
Fees payable to the Company's Auditor for the audit of the financial statements:		
– Current year auditor	39	–
– Prior year auditor	6	47
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:		
– Prior year auditor	1	1
– Other services relating to taxation:		
– Current year auditor	4	–
– Prior year auditor	4	3
	<u>54</u>	<u>51</u>

Fees payable to the Company's Auditor, KPMG Audit PLC 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.

6 share based remuneration

	2011			2010		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost of repurchasing management options (see below)	–	–	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

A list of the Options in issue are shown below;

No. of options at 1 February 2010	Year of grant	Price	Excercised/ cancelled during the year	Grant of options during the year	Price	No. of Options at 31 January 2011
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	317,500	–	–	20,000

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

notes to the financial statements

On 15 March 2010 C H B Mills (Mr Mills) exercised 100,000 share options granted in 2000 under the NASCIT 1994 Executive Share Option Scheme at an exercise price of 677.57p per share. With the approval of the Board, Mr Mills exercised these options at the strike price of 677.57p.

Accordingly, application was made and accepted, for 100,000 Ordinary Shares to be admitted to the Official List and be admitted to trading on the main market of the London Stock Exchange. Admission took place on 15 April 2010.

Further to a review of the NASCIT 2002 Executive Share Option Scheme, a majority of the option holders waived their rights to future participation. As part of the review of the incentive scheme, it was agreed that, subject to the proceeds being reinvested in NASCIT shares and those shares being held for a period of not less than two years, an ex gratia payment totalling £3.9 million be paid to Mr Mills and to those eligible employees of North Atlantic Value LLP.

The carrying value of these exercised and waived options was £6.4 million.

At the date of this report there were 20,000 options granted in 2005 in issue, with a carrying value of £0.2 million.

7 interest payable and similar charges

	2011 £'000	2010 £'000
On bank loans and overdrafts	197	224
Interest on CULS	10	18
	<u>207</u>	<u>242</u>

8 taxation on ordinary activities

	2011 £'000	2010 £'000
Overseas taxation	-	5
	<u>-</u>	<u>5</u>

The current taxation charge for the year is different from the standard rate of corporation tax in the UK 28% (2010: 28%). The differences are explained below.

	2011 Total £'000	2010 Total £'000
Total return on ordinary activities before taxation	<u>40,400</u>	<u>43,318</u>
Theoretical tax at UK Corporation tax rate of 28% (2010: 28%)	11,312	12,129
Effects of:		
Non taxable capital return	(11,550)	(12,004)

notes to the financial statements

UK dividends which are not taxable	(449)	(469)
Increase in tax losses, disallowable expenses and offshore income gains	687	344
Overseas tax which is not recoverable	—	5
	<u> </u>	<u> </u>
Actual current tax charge	<u> </u>	<u> </u>
	—	5

Factors that may affect future tax charges:

The Group has tax losses of £19,794,000 (2010: £19,107,000) 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 £19,794,000 (2010: £19,107,000) 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			Capital			Total		
	*Net return £'000	Ordinary Shares	Per Share pence	*Net return £'000	Ordinary Shares	Per Share pence	*Net return £'000	Ordinary Shares	Per Share pence
2011									
Basic return per Share	(849)	14,488,339	(5.86)	41,249	14,488,339	284.70	40,400	14,488,339	278.84
CULS**	13	2,577,905		–	2,577,905		13	2,577,905	
Diluted return per Share	<u>(836)</u>	<u>17,066,244</u>	<u>(4.90)</u>	<u>41,249</u>	<u>17,066,244</u>	<u>241.70</u>	<u>40,413</u>	<u>17,066,244</u>	<u>236.80</u>

	Revenue			Capital			Total		
	*Net return £'000	Ordinary Shares	Per Share pence	*Net return £'000	Ordinary Shares	Per Share pence	*Net return £'000	Ordinary Shares	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
CULS**	19	3,753,120		–	3,753,120		19	3,753,120	
Diluted return per Share	<u>462</u>	<u>18,563,833</u>	<u>2.49</u>	<u>42,870</u>	<u>18,563,833</u>	<u>230.93</u>	<u>43,332</u>	<u>18,563,833</u>	<u>233.42</u>

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.

** 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.

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	
	2011	2010
Ordinary Shares – Basic	1,664p	1,480p
– Diluted	1,459p	1,169p

notes to the financial statements

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

The basic net asset value per Ordinary Share is based on net assets of £233,896,000 (2010: £219,461,000) and on 14,057,252 Ordinary Shares (2010: 14,824,227) 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 20,000 (2010: 1,017,500) Share Options were exercised at the prevailing exercise prices, giving a total of 16,048,052 issued Ordinary Shares (2010: 19,429,552).

10 investments

a. Investments at fair value through profit or loss

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Quoted at fair value:				
United Kingdom	46,360	75,328	66,684	91,033
Overseas	1,085	2,186	1,085	2,186
Total quoted investments	47,445	77,514	67,769	93,219
Treasury bills at fair value	24,836	7,489	24,836	7,489
Unlisted and loan stock at fair value	115,166	94,667	115,166	94,667
Total investments at fair value	<u>187,447</u>	<u>179,670</u>	<u>207,771</u>	<u>195,375</u>

notes to the financial statements

10 investments continued

	Listed equities	AIM quoted	Unlisted equities	Loan stocks	Treasury Bills	Total
group – 2011	£'000	£'000	£'000	£'000	£'000	£'000
analysis of investment portfolio movements						
Opening bookcost as at 1 February 2010	51,547	29,326	59,258	16,648	7,298	164,077
Opening unrealised (depreciation)/appreciation	(15,745)	12,386	20,941	(2,180)	191	15,593
opening valuation as at 1 February 2010	35,802	41,712	80,199	14,468	7,489	179,670
Movements in year:						
Transfers	(5,015)	(18,451)	14,150	9,316	–	–
Purchases at cost	12,260	244	9,242	2,927	84,426	109,099
Sales – proceeds	(17,273)	(34,344)	(1,999)	(18,851)	(66,272)	(138,739)
– realised (losses)/gains on sales	(2,377)	28,562	(1,256)	(5,691)	24	19,262
Increase/(decrease) in fair value	11,909	(5,584)	11,511	1,150	(831)	18,155
closing valuation as at 31 January 2011	35,306	12,139	111,847	3,319	24,836	187,447
Closing bookcost as at 31 January 2011	39,142	5,337	79,395	4,349	25,476	153,699
Closing unrealised (depreciation)/appreciation	(3,836)	6,802	32,452	(1,030)	(640)	33,748
	35,306	12,139	111,847	3,319	24,836	187,447
company – 2011						
analysis of investment portfolio movements						
Opening bookcost as at 1 February 2010	62,028	29,326	59,325	16,648	7,298	174,625
Opening unrealised (depreciation)/appreciation	(10,521)	12,386	20,874	(2,180)	191	20,750
opening valuation as at 1 February 2010	51,507	41,712	80,199	14,468	7,489	195,375
Movements in year:						
Transfers	(5,015)	(18,451)	14,150	9,316	–	–
Purchases at cost	12,260	244	9,242	2,927	84,426	109,099
Sales – proceeds	(17,273)	(34,344)	(1,999)	(18,851)	(66,272)	(138,739)
– realised (losses)/gains on sales	(2,377)	28,562	(1,256)	(5,691)	24	19,262
Increase/(decrease) in fair value	16,528	(5,584)	11,511	1,150	(831)	22,774
closing valuation as at 31 January 2011	55,630	12,139	111,847	3,319	24,836	207,771
Closing bookcost as at 31 January 2011	49,623	5,337	79,462	4,349	25,476	164,247
Closing unrealised appreciation/(depreciation)	6,007	6,802	32,385	(1,030)	(640)	43,524
	55,630	12,139	111,847	3,319	24,836	207,771

notes to the financial statements

10 investments continued

	Listed equities	AIM quoted	Unlisted equities	Loan stocks	Treasury Bills	Total
group – 2010	£'000	£'000	£'000	£'000	£'000	£'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 unrealised (depreciation)/appreciation	(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)
– realised gains/(losses) on sales	8,530	(13,610)	2,279	(1,200)	(1,587)	(5,588)
Increase/(decrease) in fair value	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 unrealised (depreciation)/appreciation	(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 unrealised (depreciation)/appreciation	(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)
– realised gains/(losses) on sales	8,530	(13,610)	2,279	(1,200)	(1,587)	(5,588)
Increase/(decrease) in fair value	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 unrealised (depreciation)/appreciation	(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

	2011	2010
	£'000	£'000
analysis of capital gains and losses		
Gains/(losses) on sales	19,262	(5,588)
Unrealised gains	18,155	43,149
	<u>37,417</u>	<u>37,561</u>
Net premiums on sale of options held for trading	(161)	900
Movement in valuation of unexpired put options	612	78
Losses on loan repayment	–	(19)
Movement in valuation of escrow	–	11
	<u>37,868</u>	<u>38,531</u>
gains on investments	<u>37,868</u>	<u>38,531</u>
Unrealised gains	4,619	4,477
	<u>4,619</u>	<u>4,477</u>
gains on equity accounted investments	<u>4,619</u>	<u>4,477</u>
	<u>4,619</u>	<u>4,477</u>
	2011	2010
	£'000	£'000
Exchange losses on capital items	(626)	(371)
Exchange gains on escrow	–	448
Exchange gains on capital items and currency	607	1,010
	<u>(19)</u>	<u>1,087</u>
exchange (losses)/gains	<u>(19)</u>	<u>1,087</u>
	2011	2010
	£'000	£'000
portfolio analysis		
Equity shares	133,453	131,685
Convertible preference securities	25,839	26,028
Fixed interest securities	3,319	14,468
Treasury Bills	24,836	7,489
	<u>187,447</u>	<u>179,670</u>

notes to the financial statements

10 investments continued

b. Subsidiary undertaking

At 31 January 2011 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 the date of this report, the Company held 7,106,284 Ordinary shares representing 34.99% 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:

	2011 £'000	2010 £'000
Cost		
Opening share of net assets at 1 February	15,705	11,228
Sales – proceeds	–	–
– gains on disposals	–	–
Share of profit for the year	<u>4,619</u>	<u>4,477</u>
Closing share of net assets at 31 January	<u>20,324</u>	<u>15,705</u>

notes to the financial statements

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 2010:

	£'000
Net assets	50,906
Income and gains from investments	11,704
Net profit for the period	4,207

Oryx is traded on the London Stock Exchange. The value at bid price at 31 January 2011 was £17,410,000, based on the holding of 7,106,284 Ordinary shares priced at 245p 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 2011 %	31 January 2010 %
Forefront Group Limited	– Ordinary Shares	23.1	21.4
Castle Support Services PLC	– Ordinary Shares	–	24.6
Hampton Investment Properties Limited*	– Ordinary Shares	62.1	72.0
Kiln Lane Property Limited*	– Ordinary Shares	89.0	89.0
Martley Limited (Jersey)	– Ordinary Shares	29.6	29.6
Nationwide Accident Repair Services PLC	– Ordinary Shares	23.2	23.2
North America Banks Fund Limited	– Ordinary Shares	–	21.1
Bionostics Holdings Limited	– Ordinary Shares	47.1	54.7
Orthoproducts Limited	– Ordinary Shares	40.0	40.0
Oryx International Growth Fund Limited (incorporated in Guernsey)	– Ordinary Shares	34.5	31.5
Browallia LLP*	– Ordinary Shares	95.0	95.0
Performance Chemicals Company	– Ordinary Shares	46.1	39.1
Trident Private Equity Fund III LP	– Ordinary Shares	32.0	52.7

* The Board has chosen not to consolidate these holdings. See note 2 for further details.

notes to the financial statements

10 investments continued

e. Investments held for trading – derivatives

	Group	Group	Company	Company
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Valuation of unexpired put options	–	(612)	–	(612)
Unrealised loss on unexpired put options	–	(12)	–	(12)
	<u>–</u>	<u>(624)</u>	<u>–</u>	<u>(624)</u>

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 2011, US Treasury Bills with a market value of £24,836,000 were deposited with brokers (2010: £7,489,000).

g. Transaction costs

During the year, the Group incurred total transaction costs of £58,000 (2010: £67,000) comprising £42,000 (2010: £38,000) and £16,000 (2010: £29,000) on purchases and sales of investments respectively. These amounts are included in gains on investments as disclosed in the Consolidated Statement of Comprehensive Income.

h. Material disposals of unlisted investments in the year:

Security Name	Disposal Date	Proceeds	Bookcost	Gain/(loss)	Carrying value at 31 January 2010
		£'000	£'000	£'000	£'000
Avanti Communications Senior Loan	July 2010	6,282	5,979	303	5,531
DMWSL 632 (Inspired Gaming) Loan Notes	July 2010	8,817	14,799	(5,982)	N/A
Bionostics Mezzanine Loan	September 2010	1,613	1,629	(16)	N/A
Hampton Loan	November 2010	500	500	–	N/A

11 trade and other receivables

	Group	Group	Company	Company
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Amounts owed by Subsidiary	–	–	9,232	1,281
Accrued income	242	129	242	129
Other debtors	2,576	1,889	2,425	1,292
	<u>2,818</u>	<u>2,018</u>	<u>11,899</u>	<u>2,702</u>

notes to the financial statements

12 bank loans: falling due in less than one year

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
£9 million multi currency loan facility to 31 July 2011				
Euro €6.8 million term drawn to 14/04/11	5,786	5,864	5,786	5,864
	<u>5,786</u>	<u>5,864</u>	<u>5,786</u>	<u>5,864</u>

During the year no repayments were made. The Euro loan of €6.8m was due to mature on 14 April 2011, at which point in time €5m was repaid in full and the balance of €1.8m continues to be borrowed and was rolled over until 23 June 2011.

13 trade and other payables

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Amounts due to brokers	2	–	2	–
Other creditors and accruals	1,714	1,526	1,714	1,526
	<u>1,716</u>	<u>1,526</u>	<u>1,716</u>	<u>1,526</u>

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

	2011 No. of units	2011 £'000	2010 No. of units	2010 £'000
group and company				
Balance at beginning of year	3,587,825	152	3,866,504	164
Converted during the year	(507,025)	(21)	(28,679)	(1)
Bought back in year	(1,110,000)	(47)	(250,000)	(11)
	<u>1,970,800</u>	<u>84</u>	<u>3,587,825</u>	<u>152</u>

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.

notes to the financial statements

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 2011, 507,025 (2010: 28,679) 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 2011, 1,110,000 (2010: 250,000) CULS units were purchased for cancellation at an average rate of 882p per unit (2010: 794p).

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 2011 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

	2011 Number	2011 £'000	2010 Number	2010 £'000
– issued and fully paid:				
Ordinary Shares of 5p:				
Balance at beginning of year	14,824,227	741	14,795,548	740
Conversion of CULS	507,025	26	28,679	1
New issue of shares	100,000	5	–	–
Cancellation of shares	(1,374,000)	(69)	–	–
	<u>14,057,252</u>	<u>703</u>	<u>14,824,227</u>	<u>741</u>

During the year, 507,025 (2010: 28,679) CULS units were converted into Ordinary Shares of 5p as detailed in note 14.

Since 31 January 2011, a total of 115,000 Ordinary Shares have been purchased by the Company for cancellation. As at the date of this report, the Company's issued share capital consists of 13,942,252 Ordinary shares of 5p nominal value each.

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

There are Options under the 2002 Executive Share Option Scheme totalling 20,000 (2010: 1,017,500) remaining, details of which are given on page 31 in the Directors' Remuneration Report. These 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	Group	Company	Company
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Total gains from ordinary activities				
before finance costs and taxation	40,607	43,560	40,607	43,560
Gains on investments	(37,849)	(39,618)	(42,468)	(44,095)
Share of net return of associate	(4,619)	(4,477)	–	–
Settlement of outstanding share options	(3,887)	–	(3,887)	–
Provision for Subsidiary	–	–	530	236
Dividends and interest reinvested	(649)	(837)	(649)	(837)
Increase in debtors and accrued income	(1,324)	(90)	(1,324)	(90)
Changes relating to investments of				
dealing Subsidiary	530	(568)	–	–
Increase in creditors and accruals	158	1,263	158	1,263
Tax on investment income	–	(5)	–	(5)
Cash (expended)/received from operations	<u>(7,033)</u>	<u>(772)</u>	<u>(7,033)</u>	<u>32</u>

17 analysis of net cash and net debt

	At			At
net cash	1 February	Cash	Exchange	31 January
	2010	flow	movement	2011
	£'000	£'000	£'000	£'000
Group				
Cash and cash equivalents	<u>29,600</u>	<u>214</u>	<u>529</u>	<u>30,343</u>
Company				
Cash and cash equivalents	<u>29,550</u>	<u>(8,267)</u>	<u>529</u>	<u>21,812</u>
net debt	At			At
	1 February	Cash	Exchange	31 January
	2010	flow	movement	2011
	£'000	£'000	£'000	£'000
Group				
Loans falling due in less than one year	<u>5,864</u>	<u>–</u>	<u>(78)</u>	<u>5,786</u>
Company				
Loans falling due in less than one year	<u>5,864</u>	<u>–</u>	<u>(78)</u>	<u>5,786</u>

notes to the financial statements

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 16 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.

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 2010. 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.

currency risk

The Group's total return and net assets can be materially affected by currency translation movements as a significant proportion of the Group's assets are denominated in currencies other than Sterling, which is the Group's functional currency. It is not the Group's policy to hedge this risk on a continuing basis but the Group may, from time to time, match specific overseas investment with foreign currency borrowings. The Joint Managers seek, when deemed appropriate, to manage exposure to currency movements on borrowings by using forward foreign currency contracts as a hedge against potential foreign currency movements. At 31 January 2011, the Group had no open forward currency contracts (2010: none).

The revenue account is subject to currency fluctuation arising on overseas income. The Group does not hedge this currency risk.

notes to the financial statements

18 financial instruments and risk profile continued

Foreign currency exposure by currency of denomination:

group and company

	31 January 2011			31 January 2010		
	Overseas	Net monetary	Total currency	Overseas	Net monetary	Total currency
	investments	assets	exposure	investments	assets	exposure
	£'000	£'000	£'000	£'000	£'000	£'000
US Dollar	74,502	16,703	91,205	39,920	23,748	63,668
Euro	685	(5,794)	(5,109)	6,597	(5,865)	732
	75,187	10,909	86,096	46,517	17,883	64,400

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 £10,134,000 (2010: £7,074,000).

If Sterling had strengthened against the US Dollar by 10%, this would have decreased the net assets by £8,291,000 (2010: decrease of £5,788,000).

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;
- the interest payable on the Group's variable rate borrowings; and
- 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.

notes to the financial statements

18 financial instruments and risk profile continued

Movements in interest rates would not significantly affect net assets attributable to the Group's Shareholders and total profit.

loans and borrowings

group and company	Effective interest rate	Maturity	31 January 2011 £'000	31 January 2010 £'000
current				
Term loan – Euro €6.8 million (2010: €6.8 million)	3.50%	14 April 2011	5,786	5,864
non current				
CULS	5.00%	31 May 2013	84	152
			<u>5,870</u>	<u>6,016</u>
		Maturity	31 January 2011 £'000	31 January 2010 £'000
Maturity dates of financial liabilities:				
Principal amounts payable on maturity:				
Term loan – Euro €6.8 million (2010: €6.8 million)		14 April 2011	5,786	5,864
CULS		31 May 2013	84	152
Interest payable on maturity:				
Term loan – Euro €6.8 million (2010: €6.8 million)		14 April 2011	51	13
CULS *		31 May 2013	23	60

* 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 2011 of 2.33 years (2010: 3.33 years). Assumes no further redemptions.

notes to the financial statements

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 2011, 507,025 (2010: 28,679) 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 2011, the Company purchased 1,110,000 (2010: 250,000) units of CULS for cancellation at a total cost (including stamp duty) of £9,795,000 (2010: £1,984,000).

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 £84,000 (2010: £152,000) 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 2011, the Company had a multi-currency loan Revolving Credit Facility of up to £9 million (which expires on 31 July 2011). 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 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 £246,000 (2010: increase by £237,000).

If interest rates fell by 100 basis points this would decrease net assets by £246,000 (2010: decrease by £237,000).

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.

notes to the financial statements

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 2011 on its quoted and unquoted investments and options on investments was as follows:

	2011	2011	2010	2010
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Financial assets at fair value through profit or loss				
– Non current investments at fair value through profit or loss	187,447	207,771	179,670	195,375
Financial assets at fair value through profit or loss and held for trading				
– Current asset investments	550	550	634	634
Current liabilities				
– Put options on investments	–	–	(612)	(612)

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.

	2011		2010	
	Increase in fair value	Decrease in fair value	Increase in fair value	Decrease in fair value
	£'000	£'000	£'000	£'000
Increase/(decrease) in net assets	18,745	(18,745)	17,967	(17,967)

notes to the financial statements

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.

Liquidity risk is not significant as the Group invests in equities and other investments that are readily realisable. It has no derivative liabilities as shown in note 10(e). The Group had a multi-currency loan facility of £9.0 million as at 31 January 2011. Details of contractual maturities of the financial liabilities together with contractual amounts of interest payable are shown on page 70.

(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:

	2011	2011	2010	2010
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
financial assets neither past due or impaired				
Fixed income securities	3,319	3,319	14,468	14,468
Preference shares	25,839	25,839	26,028	26,028
Treasury Bills	24,836	24,836	7,489	7,489
Accrued income and other debtors	1,341	1,190	1,593	996
Cash and cash equivalents	30,343	21,812	29,600	29,550
	<u>85,678</u>	<u>76,996</u>	<u>79,178</u>	<u>78,531</u>

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

There are no commitments giving rise to credit risk as at 31 January 2011.

notes to the financial statements

18 financial instruments and risk profile continued

The Company 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 7 fair value hierarchy system:

financial assets at fair value through profit or loss

At 31 January 2011

	Total	Level 1	Level 2	Level 3
	£'000	£'000	£'000	£'000
Equity investments	159,292	47,445	–	111,847
Fixed interest investments	28,155	24,836	–	3,319
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>187,447</u>	<u>72,281</u>	<u>–</u>	<u>115,166</u>

notes to the financial statements

18 financial instruments and risk profile continued

financial assets at fair value through profit or loss continued

At 31 January 2010

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

financial liabilities at fair value through profit or loss

At 31 January 2011

Nil.

At 31 January 2010

	Total	Level 1	Level 2	Level 3
	£'000	£'000	£'000	£'000
Derivatives	(612)	–	(612)	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	(612)	–	(612)	–

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 2011

	Equity investments	Fixed interest investments	Total
	£'000	£'000	£'000
Opening balance	80,199	14,468	94,667
Purchases	9,242	2,927	12,169
Sales	(1,999)	(18,851)	(20,850)
Transfers into Level 3*	14,150	9,316	23,466
Total gains or losses included in gains on investments in the Statement of Comprehensive Income:			
– on assets sold	(1,256)	(5,691)	(6,947)
– on assets held at the end of the year	11,511	1,150	12,661
	<u> </u>	<u> </u>	<u> </u>
Closing balance	111,847	3,319	115,166

*Transfers into Level 3 relate to holdings that were listed (in Level 1) in the prior year but became unlisted during the year to 31 January 2011.

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:

	2011 £'000	2010 £'000
Debt		
Borrowings under the multi-currency loan facility	5,786	5,864
CULS	84	152
Equity		
Equity share capital	703	741
Retained earnings and other reserves	233,193	218,720
	<u>239,766</u>	<u>225,477</u>
Debt as a % of net assets	2.5%	2.7%

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.

notes to the financial statements

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 16 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	£517,000
Trident Private Equity II LP	Investment Advisory	£531,000
Trident Private Equity III LP	Investment Advisory	£1,080,000

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: Catalyst Media Group PLC, Sunlink Health Systems Inc, Bionostics Limited, Hampton Investment Properties, Izodia PLC, Second London American Trust PLC (in members' voluntary liquidation), Prime Focus London PLC, Oryx International Growth Fund Limited, Glass America, Inc, Progeny, Inc, Global Options, Celsis International Limited and MJ Gleeson PLC. Employees of the Joint Manager may hold options over shares in investee companies. A total of £43,750 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 and its associates (excluding Christopher Mills and the Chairman) hold 142,493 shares in the Company (2010: 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 E M 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).

On 10 December 2010, the Company purchased 200,000 Ordinary shares for cancellation from one of its Directors, Mr E F Gittes, at a price of 1,005p per share. This transaction was notified to the UK Listing Authority and announced via the regulatory news service.

transaction with other companies in the group.

At 31 January 2011 amounts due from the wholly owned subsidiary Consolidated Venture Finance Limited (CVF) were £9,232,000 (2010: £1,281,000).

20 commitments and contingent liabilities

- (i) 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 was a party to an agreement with KBC Bank NV to assist Nastor Investments Limited to acquire the entire issued share capital of Celsis International Limited. In return for its support, the Company receives a fee of 4% of the outstanding balance per annum.
- (ii) 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.
- (iii) The Company has also committed to invest £25.5m in Trident Private Equity Fund III over the forthcoming months, of which £5.4m has been drawn down to date.

directors and advisers

Directors

The Hon. P D E M Moncreiffe (Chairman)

C H B Mills (Chief Executive)

K Siem

C L A Irby

O R Grace Jr.

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

Westhouse Securities Limited

One Angel Court

London EC2R 7HJ

Company Secretary & Registered Office

J O Hambro Capital Management Limited

Ground Floor

Ryder Court

14 Ryder Street

London SW1Y 6QB

Telephone: 020 7747 5681

Registrars

Capita Registrars

34 Beckenham Road

Beckenham

Kent

BR3 4TU

Auditors

KPMG Audit p.l.c.

100 Temple Street

Bristol BS1 6AG

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 Thursday 30 June 2011, 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 2011.
2. To approve the Directors' Remuneration Report.
3. To re-elect Mr E F Gittes as a Director of the Company.
4. To re-elect Mr C H B Mills as a Director of the Company.
5. To appoint KPMG Audit Plc 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, 9 and 12 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 £232,370 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

notice of annual general meeting

- (ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal amount of £34,855; 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 1,394,225;
 - (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(i) 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.
10. **ordinary resolution – Approval of the 2011 Share Option Scheme**
THAT the North Atlantic Smaller Companies Investment Trust plc 2011 Share Option Scheme (the "Scheme"), in the form produced at the Meeting and initialled by the Chairman for the purposes of identification, and summarised in the Appendix to this Notice, be and is hereby approved and adopted and that the Directors be and they are hereby authorised to do all acts and things which they may consider necessary or expedient to carry the Scheme into effect.

notice of annual general meeting

11. **ordinary resolution – Directors’ authority to allot Shares in connection with the Scheme**
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 Act up to an aggregate nominal amount of £34,855 in connection with the Scheme referred to in resolution 10 above during the period from the date of this resolution until 30 June 2016 at which time such authority will expire, except that the Company may before such expiry make an offer or agreement in connection with the Scheme 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 (this authority shall be in addition to all existing authorities conferred upon the Directors pursuant to Section 551 of the Act).
12. **special resolution – Directors’ authority for the disapplication of pre-emption rights in connection with the Scheme.**

THAT, subject to and conditional upon the passing of resolution 11 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 in connection with the Scheme pursuant to the authority conferred on them by that resolution 11 as if Section 561(1) of the Act did not apply to any such allotment.

Dated this 24 day of May 2011

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, 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 28 June 2011 (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 2011 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 13,942,252 Ordinary Shares, carrying one vote each. Therefore, the total voting rights in the Company as at 24 May 2011 are 13,942,252.

notice of annual general meeting

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.
10. The rules of the 2011 Share Option Scheme will be available for inspection during normal business hours at the registered office of the Company and at the office of Allen & Overy, One Bishops Square, London E1 6AD on any weekday (Saturday, Sunday and Bank Holidays excepted) from the date of this Notice and at the place of the Annual General Meeting for 15 minutes prior to the Annual General Meeting until (in each case) the close of the Annual General Meeting.

Summary of the North Atlantic Smaller Companies Investment Trust plc 2011 Share Option Scheme**1. Constitution**

The Scheme is constituted by rules. It is not intended that the Scheme will be approved by Her Majesty's Revenue & Customs under the Income Tax (Earnings and Pensions) Act 2003. However, it is intended that options will be granted subject to the condition that any employer national insurance contributions due on the exercise of the options will be borne by the participants.

2. Eligibility

The Remuneration Committee of the Board (the 'Committee') may select individuals who provide services to the Company (including any such individuals who are employees of J O Hambro Capital Management Limited and its subsidiaries) to be granted options over Ordinary Shares in the Company.

The Committee will decide the extent of the participation of any individual.

3. Grant of Options

Options may normally only be granted within 42 days of the announcement of the final or interim results of the Company or the issue of a prospectus by the Company. Options may also be granted within 42 days of the general meeting of the Company convened for 30 June 2011. Exceptionally, options may be granted at other times.

Options may not be granted more than 10 years after the approval of the Scheme by the Shareholders of the Company in general meeting. No consideration shall be payable for the grant of an option.

Benefits under the Scheme will not be pensionable.

4. Option Price

The price per Ordinary Share at which options may be exercised (the "option price") will not be less than the highest of:

- (i) an amount equal to the fully diluted net asset value of an Ordinary Share as shown by the latest unaudited management accounts of the Company approved by the Directors prior to the date of grant;
- (ii) the middle market price of an Ordinary Share on a dealing day immediately preceding the date of grant as derived from the Daily Official List of the London Stock Exchange plc; and
- (iii) the nominal value of an Ordinary Share.

5. Non-Transferability

Options are not transferable and may only be exercised by the persons to whom they were granted or their personal representatives.

6. Performance Requirement

Options may only be exercised if the fully diluted net asset value of the Company (ignoring dilution on the exercise of share options) has grown (i) at a compound of five per cent. per annum, and (ii) by a percentage at least 60 per cent. of the percentage increase in the sterling adjusted Standard & Poor's Composite Index (or such other index determined by the Committee), in each case measured over the three year period following the grant of the option or, failing this, between the date of grant of the option and the date of exercise. This requirement does not apply if the option is exercisable in certain of the special circumstances as described below.

7. Exercise of Options

While the participant continues to provide services to the Company, options may not be exercised before the third anniversary of their date of grant. In no circumstances may options be exercised later than the tenth anniversary of their date of grant. Where, however, a participant ceases to provide services to the Company by reason of his permanent injury or disability, redundancy or retirement, he may exercise his options within a period of six months from the date of the cessation of the provision of such services. If a participant dies, his options may be exercised within twelve months of his death. If a participant ceases to provide services to the Company in circumstances other than those set out above, his options will normally lapse, but the Committee may exercise a discretion to allow him to exercise his options.

If a participant's options become exercisable due to his retirement, or if the Committee exercises its discretion to allow the options to become exercisable, the options may nevertheless only be exercised if the performance requirement has been achieved on a pro-rata basis. In other cases where options become exercisable within three years from the date of grant (i.e. as a result of permanent injury or disability, redundancy or the death of the participant), the performance requirement is waived. The Committee has a discretion to extend the six month period for exercise.

In the event of a change of control, reconstruction, amalgamation or voluntary winding up of the Company, options may, within the specified period after the relevant event, be exercised (whether or not the performance requirements have been achieved) or in certain circumstances be exchanged for options over shares in an acquiring company or a company associated with an acquiring company.

8. Discharge of Option in Cash

If the Committee so decides, the Company will, in lieu of allotting Ordinary Shares on the exercise of an option, pay to or procure payment to the participant of a cash sum equal to the amount by which the fully diluted net asset value of the Shares (at the time of exercise) in respect of which the notice of exercise was given exceeds their exercise price (the "cash sum"). However, any cash sum (net of any income tax and/or national insurance contributions borne by the participant) must be invested by the participant in Ordinary Shares in the Company. These Ordinary Shares must be held for a period of two years by the participant or, if earlier, until the participant ceases to provide services to the Company by reason of his permanent injury or disability, redundancy, his retirement or his death or, at the discretion of the Committee, in other circumstances, or until there is a change of control, reconstruction, amalgamation or voluntary winding-up of the Company.

9. **Rights attached to Ordinary Shares**

Ordinary Shares issued pursuant to the Scheme will rank pari passu in all respects with Ordinary Shares of the Company then in issue, but they will not participate in any dividend or rights attaching to the Ordinary Shares by reference to a record date preceding the date of exercise. The Company will apply to the UK Listing Authority for Ordinary Shares issued pursuant to the Scheme to be admitted to the Official List save that if the Ordinary Shares are allotted on the exercise of an option after the record date for a dividend, rights issue or other distribution, the Ordinary Shares will not be entitled to participate in the relevant dividend, rights issue or other distribution.

10. **Variations of Capital**

In the event of any variation in the capital of the Company arising from a capitalisation issue, an offer to Shareholders by way of rights, a subdivision, consolidation, reduction or other variation of capital, the option price and the number of Ordinary Shares subject to options may be varied as the Committee determines appropriate to reflect such a variation of capital.

11. **Amendments**

The Scheme may be amended by the Committee, but any changes that would benefit participants and which relate to the provisions dealing with eligibility, the principal terms of the options, the determination of the exercise price, the number of Ordinary Shares that may be issued under the Scheme or the basis for making adjustments in the event of variations of capital cannot be made without the prior approval of Shareholders of the Company in general meeting (except for minor amendments to benefit the administration of the Scheme or amendments to take into account a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants in the Scheme or the Company).

12. **Limit on Share Capital**

The maximum number of Ordinary Shares which may be issued under the Scheme or any employee share scheme established by the Company after the adoption of the Scheme will not during any period of ten years exceed 5 per cent. of the fully diluted Ordinary Share capital of the Company (assuming full conversion of the convertible unsecured loan stock 2013). For the purposes of calculating this limit, Ordinary Shares transferred from treasury will be treated the same as newly issued Ordinary Shares, unless the share incentive scheme guidelines of the Association of British Insurers are amended to permit treasury shares to be disregarded.

Note

The above summarises the main features of the rules of the Scheme (the "Rules"), but does not form part of the Rules and should not be taken as affecting the interpretation of the detailed terms and conditions constituting the Rules.

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	



Cover Image: detail of “The Battle of the Nile:
Destruction of ‘L’Orient’, 1 August 1798”
(Mather Brown, 1825 © National Maritime Museum,
Greenwich, London)