

# **Manchester & London Investment Trust PLC**

**Annual Report & Financial Statements  
Year Ended 31<sup>st</sup> July 2015**



**Manchester & London Investment Trust plc**  
Registered in England & Wales No. 01009550

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



## Financial Summary

### Total Return

	Year to 31 <sup>st</sup> July 2015	Year to 31 <sup>st</sup> July 2014	Percentage (decrease)/ Increase
Total return (£'000)	2,483	(6,295)	139.4
Return per 25p ordinary share – fully diluted	11.47p	(28.08)p	140.8
Total revenue return per 25p ordinary share	6.00p	13.63p	(56.0)
Cash dividend per 25p ordinary share	6.00p	13.75p	(56.4)

### Capital

	At 31 <sup>st</sup> July 2015	At 31 <sup>st</sup> July 2014	Percentage (decrease)/ Increase
Net assets attributable to equity shareholders* (£'000)	63,074	64,361	(2.0)
Net asset value per 25p ordinary share – fully diluted	293.35p	293.20p	0.1
Benchmark performance - Total Return Basis**	6,616	6,315	4.8
Total Portfolio Return performance versus benchmark adjusting for shares bought back			0.2

\* Net asset value as at 31<sup>st</sup> July 2015 includes a £1.1m reduction in respect of own shares bought back during the year (2014: £1.3m reduction).

\*\* Dow Jones U.K. Total Stock Market Total Return Index (DWGBT).

### Ongoing Charges

	Year to 31 <sup>st</sup> July 2015	Year to 31 <sup>st</sup> July 2014
Ongoing charges as a percentage of average net assets***	0.78%	0.82%

\*\*\* Calculated in accordance with AIC guidelines.

### Financial Calendar

Year ended:	31 <sup>st</sup> July 2015
Results announced:	30th October 2015
Report and Accounts made available to shareholders:	30th October 2015
Annual General Meeting to be held in Manchester:	30 <sup>th</sup> November 2015
Expected final dividend payment:	3 <sup>rd</sup> December 2015



## Directors

<sup>1</sup>**P H A Stanley** (82) joined the Board on 25<sup>th</sup> November 1997 and was appointed Chairman on 25<sup>th</sup> November 2000. Mr Stanley was Chairman of BWD Securities plc (1995-2000) and has extensive experience in Stock Market related matters.

<sup>2</sup>**D Harris** (65) was appointed to the board on 28<sup>th</sup> May 2009 following the acquisition of OSP Limited (formerly Osprey Smaller Companies Income Fund Limited). Mr Harris is also the Chief Executive of InvaTrust Limited.

<sup>3</sup>**B Miller** (47) was appointed to the board on 30<sup>th</sup> August 2013 following the resignation of Mr B S Sheppard. Mr Miller is also an executive director of Damille Partners Limited and Damille Investments II Limited.

<sup>1</sup>Member of nomination remuneration and management committees for 9 years and member of the audit committee for 17 years.

<sup>2</sup>Member of nomination, remuneration, management committees and audit committees for 6 years.

<sup>3</sup>Member of nomination, remuneration and audit committees for 2 years.

## Advisers & Administration

### Registered Office

2<sup>nd</sup> Floor  
Arthur House  
Chorlton Street  
Manchester M1 3FH  
Tel: 0161 228 1709  
Fax: 0161 228 2510

### Registrar

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

### Country of Incorporation

Registered in England & Wales  
Number: 01009550

### Bank

National Westminster Bank plc  
11 Spring Gardens  
Manchester M60 2DB

### Company website

[www.manchesterandlondon.co.uk](http://www.manchesterandlondon.co.uk)

### Investment Manager

M & L Capital Management Limited  
Basement Office  
21 Brompton Square  
London SW3 2AD  
Tel: 0207 584 5733  
Fax: 0207 589 3923

### Auditor

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

### Secretary

M K Camp  
2<sup>nd</sup> Floor  
Arthur House  
Chorlton Street  
Manchester M1 3FH

### Administrator

M&M Investment Services  
M&M Investment Company plc  
2<sup>nd</sup> Floor  
Arthur House  
Chorlton Street  
Manchester M1 3FH



## Chairman's Statement

### Results for the year ended 31<sup>st</sup> July 2015

The portfolio remains focused on larger capitalisation stocks listed in developed markets which are seeking global growth.

The trust's portfolio performance for our financial year has been, for all intents and purposes, in line with our UK stock market benchmark. Performance has improved throughout the year and the new strategy adopted by the Investment Manager has stabilised performance.

We have seen a concerted move by the Investment Manager to reduce overweight concentrations in stocks within the fund. Overweight holdings have been a historical legacy of the trust that many believe has been one of the reasons that led to the trust trading on a large discount. The other potential reasons for a discount, such as recent underperformance, the smaller size of the fund and the Sheppard family shareholding all remain but at least two can be rectified in time. It is the intention for the trust to manage its portfolio on a concentrated basis but with more balance.

### Dividends

On the 31<sup>st</sup> July 2014, we announced that it was possible that, under the lower leverage conditions we have chosen to adopt to comply with the partial exemption, sub threshold regulations within the AIFM directive, the Company may have less capital with which to generate trading income for financial years following 2014.

The Company's income is comprised of both (1) dividend income from investments (considered ordinary investment income to be paid as ordinary dividends) and (2) income from trading activity which includes gains and losses on the trading of shares and equity derivatives, net of commissions, interest and other costs expensed (considered trading income to be paid as special dividends).

The Directors are proposing a final ordinary dividend per share of 1.70 pence and a final special dividend per share of 0.25 pence for the financial year 2015. This means that, on a per share basis, the dividends proposed or paid out in respect of the 2015 financial year total to 3.20 pence as ordinary dividends and 2.80 pence as special dividends. On a total ordinary and special basis, these dividends are 56.4 per cent lower than the total dividends paid in respect of the 2014 financial year.

It is inevitable that as we repositioned the portfolio away from more commodity and value based investments we have seen our ordinary income drop. We do not see this trend reversing in the near future but we have been assured that the Investment Manager is constantly striving to generate as much trading income as possible.

### Annual General Meeting

I look forward to welcoming shareholders to our forty third Annual General Meeting to be held at St. Ann's Church, St. Ann Street, Manchester, M2 7LF at 1p.m. on 30<sup>th</sup> November 2015.

P H A Stanley  
Chairman

**Equity Exposures (Longs)**As at 31<sup>st</sup> July 2015

<b>Listed investments*</b>	<b>Sector</b>	<b>Valuation £'000</b>	<b>% of Net Assets</b>
P2P Global Investment plc	Fixed Income Fund	3,425	5.4
Beiersdorf AG <sup>1</sup>	Consumer Goods	3,119	4.9
Shire plc	Healthcare & Pharmaceuticals	3,062	4.9
Heineken N.V. <sup>1</sup>	Consumer Goods	3,015	4.8
AlphaBet Inc. <sup>2</sup>	Technology	2,797	4.4
Smith & Nephew plc	Healthcare & Pharmaceuticals	2,611	4.1
AstraZeneca plc	Healthcare & Pharmaceuticals	2,595	4.1
Amazon.com, Inc. <sup>2</sup>	Technology	2,551	4.0
Apple Inc. <sup>2</sup>	Technology	2,534	4.0
Pernod Ricard SA <sup>1</sup>	Consumer Goods	2,493	4.0
Unilever plc	Consumer Goods	2,410	3.8
GlaxoSmithKline plc	Healthcare & Pharmaceuticals	2,231	3.5
Paypal Holdings Inc. <sup>2</sup>	Technology	2,066	3.3
Davide Campari-Milano S.p.A. <sup>1</sup>	Consumer Goods	2,048	3.2
PZ Cussons plc	Consumer Goods	2,009	3.2
KWS SAAT AG <sup>1</sup>	Technology	1,804	2.9
Scottish Mortgage Investment Trust plc	Technology	1,571	2.5
Polar Capital Technology Trust plc	Technology	1,531	2.4
ROBO-STOX UCITS ETF <sup>2</sup>	Technology	1,400	2.2
Baidu, Inc. <sup>2</sup>	Technology	1,088	1.7
Pacific Horizon Investment Trust plc	Technology	1,001	1.6
ARM Holdings plc	Technology	998	1.6
eBay Inc. <sup>2</sup>	Technology	940	1.5
Jimmy Choo plc	Consumer Goods	935	1.5
Perrigo Company plc <sup>2</sup>	Healthcare & Pharmaceuticals	893	1.4
Yahoo! Inc. <sup>2</sup>	Technology	866	1.4
Stada Arzneimittel AG <sup>1</sup>	Healthcare & Pharmaceuticals	793	1.3
Other listed investments (under 1.0%)	Various	3,814	6.1
<b>Listed investments</b>		<b>56,600</b>	<b>89.7</b>
Unlisted at Directors' valuation		201	0.3
<b>Total long positions</b>		<b>56,801</b>	<b>90.0</b>
Cash and net current assets		6,273	10.0
<b>Net assets</b>		<b>63,074</b>	<b>100.0</b>

(\*Including equity swap exposures as detailed in note 20.)

All investments listed above are equities (unless otherwise stated), denominated in Sterling (except <sup>1</sup>Euro and <sup>2</sup>USD) that have been issued by companies registered in England (save for Beiersdorf AG, Heineken N.V., Alphabet Inc., Amazon.com, Inc., Apple Inc., Pernod Ricard SA, Paypal Holdings Inc., Davide Campari-Milano S.p.A., KWS SAAT AG, Baidu, Inc., eBay Inc., Perrigo Company plc, Yahoo! Inc. and Stada Arzneimittel AG that are registered in Germany, Holland, USA, USA, France, USA, Italy, Germany, China, USA, Republic of Ireland, USA and Germany respectively).



## Portfolio Sector Analysis

As at 31<sup>st</sup> July 2015

Sector	% of Net Assets
Technology	35.0
Consumer Goods	26.7
Healthcare & Pharmaceuticals	21.6
Fixed Income Funds	5.4
Other	1.0
Unlisted Investments	0.3
Cash and net current assets/(liabilities)	10.0
<b>Net assets</b>	<b>100.0</b>



## Investment Objective and Policy

### Investment objective

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

### Investment policy

#### Asset allocation

The Company's investment objective is sought to be achieved through a policy of actively investing in a diversified portfolio, comprising UK and overseas equities and fixed interest securities. The Company seeks to invest in companies whose shares are admitted to trading on a regulated market. However, it may invest in a small number of equities and fixed interest securities of companies whose capital is not admitted to trading on a regulated market. Investment in overseas equities is utilised by the Company to increase the risk diversification of the Company's portfolio and to reduce dependence on the UK economy in addressing the growth and income elements of the Company's investment objective.

The Company may invest in derivatives, money market instruments, currency instruments, contracts for differences ("CFDs"), futures, forwards and options for the purposes of (i) holding investments and (ii) hedging positions against movements in, for example, equity markets, currencies and interest rates.

There are no maximum exposure limits to any one particular classification of equity or fixed interest security. The Company's investments are not limited to any one industry sector and its current investment portfolio is spread across a range of sectors. The Company has no specific criteria regarding market capitalisation or credit ratings in respect of investee companies.

#### Risk diversification

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

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

#### Gearing

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

The effect of gearing may be achieved without borrowing by investing in a range of different types of investments including derivatives. The Company will not enter into any investments which have the effect of increasing the Company's net gearing beyond the above limit.

#### General

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

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

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



## Investment Manager's Review

Last year we wrote that we had underestimated how some of the geopolitical, economic and technological changes that have occurred since the 2008 depression have structurally altered some business models. We believe this even more so today.

We have refocused the portfolio on stocks that are future focused, developed market listed and larger capitalisation. In particular, we have refocused on growth over value and on disrupters over the disrupted.

### The Portfolio

The portfolio (deducting all portfolio related costs such as commissions and carry cost) generated a positive total return of 5.0 per cent over the financial year compared with a return of our benchmark of 4.8 per cent. The performance in the second half was better with an outperformance against the Dow Jones U.K. Total Stock Market Total Return Index on the same basis as above of greater than 1.2 per cent.

We are now generally holding positions in four distinct segments: Consumer Goods, Technology, Healthcare & Pharmaceuticals and Other. In addition, we have detailed below the effect of under-performance from investments in the Oil & Gas and Mining sectors, which impacted performance during the beginning of the year. Note that all holdings in these latter two sectors have been divested and we are unlikely to revisit them in the near future. The portfolio segments can be broken down in contribution to performance terms over the year as follows:

Consumer Goods	3.5%
Technology	1.9%
Healthcare & Pharmaceuticals	2.6%
Other	2.0%
	<hr/>
	10.0%
Oil & Gas (Since divested)	-4.3%
Mining (Since divested)	-0.7%
	<hr/>
	5.0%

### Technology Investments

Last year we made the observation, based upon various statistical references, that business models were being disrupted more quickly and more dramatically than in our earlier experiences on the stock market. We were caught living in the past to painful effect. Hence, we made the decision to shift focus within the portfolio and seek to allocate approximately one third of the portfolios weighting to Technology sector stocks including software, hardware and disrupting business models.

We believe that over the next decade we will see dramatic growth in the following themes: internet of things, electric vehicles, robotics, 3d printing, cloud computing, internet retailing, wearables and the shared economy. Some of these themes such as 3d printing are hard to harness via the investment market and we are suspicious that the sub sector, rather like the airline industry, will favour the consumer more than the investor. In addition to this point, we are aware that this sector is fast moving where a deep knowledge of technology via dedicated teams is an advantage and so we have tended to focus on investing within this sector in mega capitalisation stocks such as Alphabet Inc. and Apple Inc. or via specialist funds such as Scottish Mortgage, Pacific Horizon and Polar Capital Technology. We are also trying to overlay some event driven ideas within this segment of the portfolio with stocks such as Ebay Inc. and PayPal Holdings Inc.

It is often said that this sector is wildly overvalued but we would counter this with the point that we feel it is better to be in a technology stock with a 40 per cent market share growing its top line at 25 per cent on an EV to EBITDA multiple of 15x than Diageo plc which is barely growing its top line also on 15x (hence the reason why we sold our holding in Diageo plc).



## Investment Manager's Review (continued)

In conclusion, we think that the sector exhibits growth at a reasonable price so we are trying to harness this through a fund and mega capitalisation holdings approach.

Key positive contributors in this segment included Syngenta, which contributed 1.0 per cent to portfolio performance, driven by a takeover approach from Monsanto. This position was sold prior to the year end, as it looked unlikely that the two sides would reach an agreement. Alphabet also contributed 0.8 per cent to performance, while Apple and Amazon contributed 0.3 per cent and 0.4 per cent respectively. Our worst performers were Stratasys (-0.6 per cent contribution) and Baidu (-0.5 per cent contribution), both of which have been divested.

### Consumer Goods Investments

We have roughly one third of our current portfolio in Consumer Goods.

The key news is that subsequent to the year-end we completely divested of our holding in PZ Cussons plc. Interestingly, our decision to divest did not come from a deeper understanding of the consumer goods sector (which has always been an area we have focused on) but by a better understanding of the possibilities of future technology.

Having spent some time this year studying robotics, 3d printing and the electric vehicle market we are becoming convinced that the future of Africa is looking less certain. The old view was that once China had passed on low cost manufacturing to the ASEAN countries then it would be Africa's turn. In addition to that, as Africa developed better political governance, the theory ran that more of its resource wealth would filter down through to the middle classes.

We don't see either happening in the medium term future. We see factories being onshored and manned by robots, 3D printers making the cheap plastic toys and the use of combustion engine cars being only for collectors and car enthusiasts.

Potentially the bigger worry is that the brand owner's power is being eroded and if previously they were worrying about the power of the mega supermarket chain and now they worry about the discounters then in a decade they will be terrified of Amazon and Alibaba. This is going to lead to consolidation in the sector but from a position of weakness not strength.

Hence, our strategy has been to buy the larger, more global players that are targets for consolidation with top class brands like Nivea, Heineken, Dove, Campari, Jimmy Choo etc.

Performance was relatively strong across the sector, with positive contributions from; Pernod Ricard SA, which contributed 0.9 per cent to performance, Unilever plc, Svenska Cellulosa Aktiebolaget and Diageo plc which each contributed 0.7 per cent, Heineken NV and Davide Campari-Milano Spa which both contributed 0.6 per cent and Beiersfors AG which contributed 0.4 per cent. Many of these holdings benefited from Euro weakness and low bond yields, which continued to facilitate a rotation into stocks with reliable cash flows. Though PZ Cussons plc had a better H2 than H1, it was still a drag on performance for the year, contributing -0.8 per cent.

### Healthcare & Pharmaceutical Investments

We are very excited by the prospects for health care over the next decade due to Genomics and Biologics. We are scared about public service pricing pressures in an ever over indebted world but we think the natural result of these factors will be further consolidation to remove duplicated cost structures. Hence, yet again, our strategy is to pick investments that are exciting prospects on a stand alone basis, with valuations that are reasonable considering their growth prospects that also have the potential to be consolidated by larger players. We are concerned that some parts of the sector have become overvalued but we do see our chosen investments as being attractively valued.

Performance was largely driven in this sub sector by Shire plc, which contributed 1.3 per cent. GlaxoSmithKline plc was the largest drag, contributing -0.2 per cent. Though it is lower growth than many of our other holdings in the sector, we believe GlaxoSmithKline remains inexpensive on a sum of the parts basis and is a potential M&A candidate.



## Investment Manager's Review (continued)

### Other

Key contributors included IPOs such as Euronext, P2P Global Investments and VPC Speciality Lending, each of which contributed 0.2 per cent.

### Oil & Gas

As explained in our Half Year Report, we exited all Oil and Gas investments earlier in the year. This proved prudent as the sector subsequently fell further. Nevertheless, our exposure to the sector early in the year contributed -4.3 per cent to overall portfolio performance.

### Mining

We also exited our last remaining Mining positions, though exposure earlier in the year contributed -0.7 per cent to portfolio performance.

### Generating trading income

We detailed last year why there are several reasons deriving from AIFMD as to why it will be much harder for us to generate Trading Income in future financial years. The consequences of lower Trading Income will most probably lead to lower dividends in future financial periods.

Our Trading Income for the financial year fell from £1,377,000 for 2014 to £971,000 for 2015. These lower returns are to be expected as we can allocate less capital to trading but we do always hope to improve the performance in the forthcoming year.

### Controlling costs

Other operating expenses (being all costs excluding direct portfolio costs such as management fee, carry and commission) have decreased marginally from £234,000 to £180,000 since our preceding financial year. This is a reasonable performance but, as has been highlighted before, we expect these costs to now escalate following the introduction of AIFMD and anticipated further regulation over forthcoming financial years. We have recently introduced a new portfolio management software system into our systems which we believe will give the Investment Manager greater control and analytical ability over the portfolio and the Board greater clarity of the financial position of the fund.

We anticipate investing more in future years to make our systems even more robust.

### Paying shareholders a dividend

Due to a refocus of the portfolio on growth rather than value our aggregate ordinary dividend per share for the 2015 year will be 3.20 pence which is lower than the 7.48 pence paid with respect to the 2014 financial year.

Due to our lower Trading Income this year our aggregate special dividends per share for the 2015 year will be 2.80 pence which is lower than the 6.27 pence paid with respect to the 2014 financial year.



## Investment Manager's Review (continued)

### The year ahead

Our five best guesses for 2016 are set out below:

- **Another low growth = low returns year** – this is why we have focused on growth focused stocks.
- **China to be the big worry** – we remain underweight in Mining and Oil & Gas.
- **Consolidation through M&A will pick up** – most of our holdings excluding Apple and Alphabet could be consolidated.
- **The Dollar continues to appreciate** – ceteris paribus, we perform better when the Dollar strengthens.
- **The developing markets will slow but ASEAN should still grow faster than developed markets** – so we continue to favour global companies with some exposure to these markets.

### Conclusion

We have refocused on change or where change is least likely to hurt us. We have reduced overweight exposures to individual stocks and we hope that in time that may narrow our discount. We have performed better but we still have a very long way to go.

Our concerns rest around the potential for a dramatic slowdown for China which drags the world down into a deflationary cycle where debts become overwhelming. Our best guess is that this won't happen and we are in line for another low economic growth and low market returns year where the dollar continues to appreciate. We are also hopeful of a pick-up in M&A activity for which we are reasonably well positioned.

We should understand that by holding fewer small capitalisation or cyclical stocks we may underperform as we are theoretically taking less risk.

We will do our best to generate Trading Income which can be paid out to shareholders as dividend income. We understand that dividend income is a very important aspect of shareholder returns.

Investment Manager  
**M & L Capital Management Limited**



## Principal Portfolio Holdings

### **Beiersdorf AG (“Beiersdorf”)**

Beiersdorf is a global personal care company with strong Skin Care brands in both the mass market and premium segments such as NIVEA, Eucerin and La Prairie. We believe the NIVEA brand is a world class, tier 1 asset and would be highly attractive to a larger peer.

### **Shire plc (“Shire”)**

Shire is a global specialty biopharmaceutical company focusing on rare diseases, regenerative medicine and specialised conditions. We believe Shire is inexpensive relative to its growth prospects and remains a potential M&A candidate. We also see the proposed combination with Baxalta Inc. as compelling, potentially creating the world’s leading rare diseases platform.

### **Heineken NV (“Heineken”)**

Heineken is a Dutch brewer that produces well known brands such as Heineken, Amstel & Strongbow. Based on volume, Heineken is the world’s third largest beer producer after AB Inbev and SABMiller. Heineken is inexpensive relative to its peer group with relatively stable growth potential. Though it may not be a particularly willing seller, it could still attract attention in a sector that is likely to be driven by M&A over the next few years.

### **Alphabet Inc (“Alphabet”)**

Alphabet is a global technology company that is at the forefront of innovation in internet-based services and future technologies. Current areas of Alphabet’s portfolio include online advertising, search, YouTube, cloud computing, Nest and Android operating systems. Future areas of growth for Alphabet may also include Robotics, Internet of Things, driverless vehicles and Artificial Intelligence.

We see Alphabet as offering compelling value on a sum of the parts basis and is likely to be a leading player in a number of emerging technologies that could drive growth for years to come. Alphabet is likely to be a core long term holding.

### **Smith & Nephew Plc (“Smith & Nephew”)**

Smith & Nephew is a global medical devices company. It is an international producer of products used in arthroscopy, advanced wound management, orthopaedic reconstruction, endoscopy, trauma extremities, fixation devices and sports medicine.

Smith & Nephew has reasonably attractive growth prospects over the next 5 years and is frequently mentioned as an M&A target. However, the company’s core segments may not be immune to technological disruption in the long run and we would not be sad to see it acquired by a US peer.

### **AstraZeneca plc (“AstraZeneca”)**

AstraZeneca is a global innovation-driven biopharmaceutical company. AstraZeneca has a wide portfolio of products with a primary focus on three important areas of healthcare: Cardiovascular and Metabolic disease, Oncology and Autoimmunity.

AstraZeneca is in the midst of a lower growth phase as key drugs come off patent. However the stock is inexpensive and, longer term, the pipeline looks attractive. The pipeline is not without risks though, in particular their position in oncology remains somewhat behind the leaders and could fail to provide the sort of results that the market is expecting.

### **Amazon.com Inc (“Amazon”)**

Amazon is best known as one of the world’s largest e-commerce and online retail companies. However, it is also building a wider technological portfolio. In particular, Amazon Web Services is the world’s largest provider of cloud computing services and is now Amazon’s fastest growing division. Like Alphabet, we believe Amazon will be a key player in a number of future technologies that will drive growth over the longer term.



## Principal Portfolio Holdings (continued)

### Apple Inc (“Apple”)

Apple is one of the world’s most innovative technology companies that has a history of producing well designed, sleek and desirable consumer products. As well as hardware, Apple is a leader in the online services and software industries and is likely to take a leading role in the development of emerging and future technological areas such as wearables, internet of things and driverless vehicles.

Though the stock has recently been driven by iPhone and China slowdown concerns, Apple is inexpensive and we remain attracted to the long term prospects of its expansion into new consumer technologies. Apple is likely to be a core long-term holding.

### Pernod Ricard SA (“Pernod Ricard”)

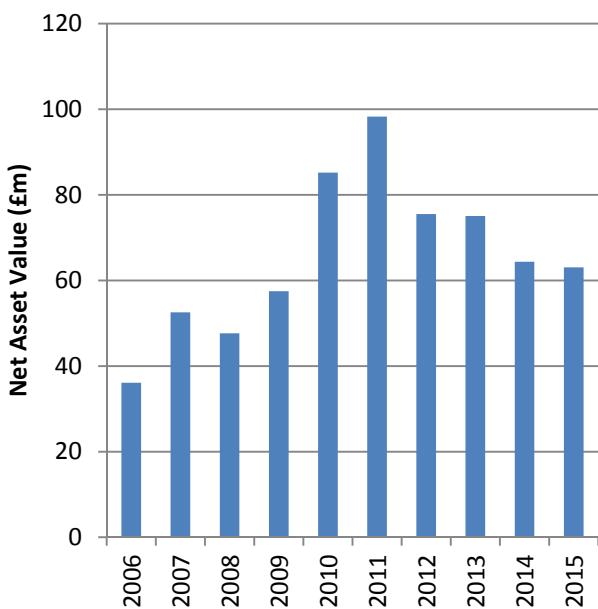
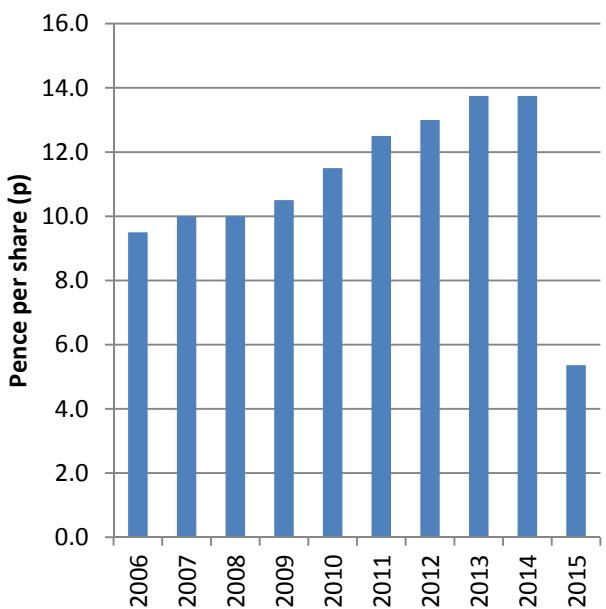
Pernod Ricard is one of the global leaders in the wines and spirits sector manufacturing popular brands including Martell cognac, Jameson Irish whisky, Beefeater gin, Absolut vodka, Malibu rum and Jacob’s Creek wines. Whilst its exposure to China is a potential short-term concern, longer-term it is well placed to benefit from Chinese & ASEAN consumer growth.

### Unilever plc (“Unilever”)

Unilever is a multinational consumer goods company, with recognisable brands in personal goods, household goods and food. Unilever has made steady progress this year given relatively challenging conditions and although it is not inexpensive, we would expect further non-core food disposals to drive further multiple expansion.

**Investment Record of the Last Ten Years**

<b>Year ended</b>	<b>Total return £'000</b>	<b>Return per ordinary share</b>		<b>Dividend per ordinary share p</b>	<b>Total assets less liabilities £'000</b>	<b>Net asset value per 25p share</b>	
		<b>Basic p</b>	<b>Fully diluted p</b>			<b>Basic p</b>	<b>Fully diluted p</b>
31 <sup>st</sup> July 2006	3,206	42.75	31.14	9.50	36,107	481.43	351.17
31 <sup>st</sup> July 2007	5,799	41.58	41.58	10.00	52,554	376.80	376.80
31 <sup>st</sup> July 2008	(3,490)	(25.02)	(25.02)	10.00	47,669	341.80	341.80
31 <sup>st</sup> July 2009	645	4.43	4.43	10.50	57,495	328.44	328.44
31 <sup>st</sup> July 2010	13,151	71.75	71.75	11.50	85,203	379.40	379.40
31 <sup>st</sup> July 2011	15,691	69.87	69.87	12.50	98,267	437.60	437.60
31 <sup>st</sup> July 2012	(19,945)	(88.81)	(88.81)	13.00	75,515	336.26	336.26
31 <sup>st</sup> July 2013	2,522	11.23	11.23	13.75	75,050	334.19	334.19
31 <sup>st</sup> July 2014	(6,295)	(28.08)	(28.08)	13.75	64,361	293.20	293.20
<b>31<sup>st</sup> July 2015</b>	<b>2,483</b>	<b>11.47</b>	<b>11.47</b>	<b>6.00</b>	<b>63,074</b>	<b>293.35</b>	<b>293.35</b>

**Net Assets****Dividends**

In the period from 1981 to 2005, total assets less liabilities increased from £241,000 to £33,611,000. Net assets per share increased from 24.1p to 448.2p.



## Statement of Corporate Governance

### Application of Association of Investment Companies Code Principles

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

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

The Board considers that the Company has complied with the provisions set out in the UK Corporate Governance Code throughout the year to 31<sup>st</sup> July 2015 except as referred to below. The following statement describes how the Company has applied the relevant principles of Corporate Governance.

### The Board and Committees

The Board currently comprises three non-executive Directors, two of whom are considered to be independent of the Company's Investment Manager.

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

Peter Henry Arthur Stanley (Chairman), aged 82, joined the MLIT Board in November 1997 and was appointed Chairman in November 2000. He was Chairman of BWD Securities PLC between 1995 and 2000 and has extensive experience in London Stock Exchange related matters. Previously Mr. Stanley's roles included Chairman of Firms Accounts Committee of the London Stock Exchange and the Chairman of Capital Committee. Mr Stanley was initially selected to join the Board because he was known to the other directors who valued his judgement and experience and he was last re-elected at the Company's annual general meeting held on 24<sup>th</sup> November 2014.

In addition to being satisfied that Mr Stanley is independent of the controlling shareholder, they have also determined that Mr Stanley, who has not been an adviser to the company or an employee of its investment manager and is not a director of any other investment company managed by M & L Capital Management Ltd, is independent of the Company's investment manager and satisfies all the other independence criteria in the AIC Code save that he has served on the board for more than 9 years. The Board shares the AIC's view that, while the boards of investment companies, in common with the boards of other companies, are likely to benefit from a regular infusion of new blood, they are perhaps more likely than most to benefit from having at least one director with considerably longer than nine years' experience. As the other directors are younger and have been appointed in the last 7 years, the Board believes that its composition achieves a sensible balance. The Company considers Mr Stanley to be an effective chairman, contributing the continuity of his experience over 18 years through many investment cycles, to the Board's deliberations. His regular attendance at Board meetings and his contribution as Chairman demonstrates his commitment to the Company.

As regards his effectiveness, Mr Stanley's biographical details set out above demonstrate the experience which he brings to the Board.

Following completion of the Board's evaluation process, the other directors are of the opinion that Mr Stanley continues to provide effective contributions to the performance of the Board and is committed to his role as Chairman. The other directors further consider that Mr Stanley's long association with the Company through many investment cycles and his judgement and experience will continue to be of great benefit to the Board and the Company.

To determine Mr Stanley's independence, the Board has taken into account his experience and standing and the strength of character and judgement demonstrated by him. It has also considered the relationships or circumstances listed above.



## Statement of Corporate Governance (continued)

### The Board and Committees (continued)

Brett Lance Miller, BA, LL.B., aged 47, is a General Partner of Damille Partners, an Executive Director of Damille Investments II Limited and of Damille Partners Limited.

Brett presently serves as a Non-Executive Director of M&L Property Assets plc and the Company.

Brett graduated from the University of the Witwatersrand (South Africa) with a bachelors degree majoring in law and economics and additionally holds a law degree from the London School of Economics (after having relocated to the United Kingdom in 1988). He qualified as a solicitor and practised until December 1997. He joined Nabarro Nathanson, a London-based law firm, in September 1993 where he did his articles and practiced until December 1997.

Brett has specialised in mergers and acquisitions and corporate finance in the energy and natural resources and smaller companies sectors. He was previously managing director and a key shareholder in Ruegg & Co Limited, a London based corporate finance boutique, prior to its sale to Astaire Group plc in July 2009. He has experience in raising equity capital for smaller companies, having been the driving force behind numerous small company flotations in a variety of sectors. Brett also has experience in corporate finance, corporate governance issues, corporate restructurings and optimising financial capital structures.

As Mr Miller is a director of M&L Property Assets PLC, a property investment company which has the same investment manager as the Company, he is not deemed to be independent of the investment manager (M & L Capital Management Limited). Mr Miller is also registered with the Financial Conduct Authority as a non-salaried representative of Midas Investment Management Limited (a company in the same group as M & L Capital Management Limited).

Following completion of the Board's evaluation process, the other directors are of the opinion that Mr Miller continues to provide effective contributions to the performance of the Board and is committed to his role. As regards his effectiveness, Mr Miller's biographical details set out above demonstrate the experience which he brings to the Board, which is complementary to that of the other directors.

Mr Miller does not have a contract of service.

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

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

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

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



## Statement of Corporate Governance (continued)

### The Board and Committees (continued)

The Board has established both a nominations and a remuneration committee, comprising the entire Board. The nominations committee is responsible for considering the appointment of new directors, agents and advisers, and evaluating the overall composition of the Board. In considering appointments to the Board these are based on merit. The nomination committee also takes into account the ongoing requirements of the Company and the need to have within the Board a balance of skills, experience, independence and diversity, including gender and knowledge of the Company. There are procedures for a new Director to receive relevant information on the Company together with appropriate induction. The remuneration committee is responsible for considering all material elements of remuneration policy which is set out in the Directors' Remuneration Report on page 35. Mr P H A Stanley is Chairman of both committees.

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

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

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

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

The audit committee, having regard to matters communicated to it by the auditors, considered the significant issues of investment valuation and revenue recognition, addressed through regular review of investment valuations and reports prepared by the Investment Manager.

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

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



## Statement of Corporate Governance (continued)

### Directors Meetings

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

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

### Accountability and Audit

The Directors' Responsibilities Statement in respect of the financial statements is set out on page 34. The Report of the Independent Auditor is on pages 36 to 38.

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

### Alternative Investment Fund Managers Directive

AIFMD is now applicable to all Alternative Investment Funds including ourselves. In conjunction with our investment manager, the Board has chosen to comply with the partial exemption, sub threshold regulations within the AIFM directive, by ensuring our gross assets do not exceed the Euro 100m threshold. This is not a long term solution to this regulation and it is anticipated that the Board may appoint a Depositary once a suitably priced solution becomes available.



## Statement of Corporate Governance (continued)

### Internal Financial Control

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

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

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

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

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

- Investment management is provided by M & L Capital Management Limited ("MLCM"). The Board is responsible for setting the overall investment policy and monitors the activity of the Investment Manager at regular Board meetings. The Investment Manager provides reports at these meetings, which cover investment performance and compliance issues.
- M&M Investment Services is responsible for the provision of administration, internal audit and risk management duties. M&M Investment Services is a standalone unit which reports to the Board on risk control issues for the Company as a whole.
- Custody and safekeeping of assets is undertaken by Pershing Securities Limited, Morgan Stanley & Co. International plc and JP Morgan Chase & Co.
- The duties of investment management and custody of assets are segregated. The procedures of the individual parties are designed to complement one another.
- The non-executive Directors of the Company clearly define the duties and responsibilities of their agents and advisers in terms of their contracts. The appointment of agents and advisers is conducted by the nominations committee after consideration of the quality of the parties involved and the Board monitors their ongoing performance and contractual arrangements.
- Mandates for authorisation of investment transactions and expenses payments are set by the Board and monitored by the Administrator.
- For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market prices at the close of business at the end of the reporting period. The Administrator produces all valuation reports independently for the Board based on the Company's valuation policy.
- Liquidity risk is minimised by investing in a portfolio of quoted companies that are readily realisable. The Administrator reports to the Board monthly on the liquidity profile of the fund.
- The Board reviews in detail the financial information produced by the Administrator, Investment Manager and Company Secretary on a regular basis.

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



## Statement of Corporate Governance (continued)

### Investment Manager

The investment management agreement has now been assigned from Midas Investment Management Limited to MLCM.

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

In the year to 31<sup>st</sup> July 2015 the total remuneration paid to the entire staff of the investment manager was £182,000 (2014: £359,000), payable to an average staff number throughout the year of 2 (2014: 9).

The investment management of MLIT is solely undertaken by Mr M Sheppard and Mr R Morgan, to whom a combined total of £182,000 (2014: £98,000) was paid by the Investment Manager during the year.

MLCM was paid no performance fee or carried interest in the Company.

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

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

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

### Exercise of Voting Powers

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

### Capital Structure

The Company's capital structure is summarised in note 17 to the financial statements.

### Transfer of Securities

There are:

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



## Statement of Corporate Governance (continued)

### Relations with Shareholders

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

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

### Relationship agreement with controlling shareholder

The Company has in place, as required by LR 9.2.2AR(2)(a), a continuing, written and legally binding relationship agreement with its controlling shareholder, M&M Investment Company plc, and their associates. The purpose of this agreement is to formally ensure compliance with independence provisions set out in LR 6.1.4D.

Since entering the relationship agreement, the Company has fully complied with the independence provisions included within this agreement and, so far as the Company is aware, the independence provisions included in this agreement have also been complied with during the period under review by the controlling shareholder and their associates.

### Social, Ethical and Environmental Policy

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

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

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

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

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



## Strategic Report

The Directors present their annual report and financial statements for the year ended 31<sup>st</sup> July 2015.

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

### Business Review

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

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

### Status

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

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

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

The Company's registered number is 01009550.

### Principal activities

The Company carries on business as an Investment Company. A review of investment activities for the year ended 31<sup>st</sup> July 2015 and the outlook for the coming year is given by the Investment Manager on pages 10 to 13.

### Performance and key performance indicators

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

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

Total net assets at 31<sup>st</sup> July 2015 amounted to £63,074,000 compared with £64,361,000 at 31<sup>st</sup> July 2014, a decrease of 2.0 per cent (net of own share buybacks as disclosed in note 18), whilst the fully diluted net asset value per ordinary share increased to 293.4p from 293.2p.

Group net revenue return after taxation for the year was £1,300,000 (2014:£3,055,000), a decrease of 57.4 per cent.

The share price during the period under review has been quoted at discounts to net asset value of 12.3 to 18.9 per cent.



## Strategic Report (continued)

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

### Going concern

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

### Principal risks and uncertainties associated with the Company

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

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

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

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

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

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

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

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



## Strategic Report (continued)

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

### Risk management

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

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

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

### Gearing

By the year end gross long equity exposure represented 90.0 per cent of net assets.

### Management

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

### Future development

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

By Order of the Board  
Mr M K Camp  
**Secretary**

30<sup>th</sup> October 2015



## Directors' Report

### Investment objective and policy

The Group's investment objective and policy is stated on page 9.

### Results

The Group's total comprehensive profit for the year, after taxation, amounted to £2,483,000 (2014: £6,295,000 total comprehensive loss).

After own share buybacks as disclosed in note 18, total net assets at 31<sup>st</sup> July 2015 amounted to £63,074,000 compared with £64,361,000 at 31<sup>st</sup> July 2014, whilst the fully diluted net asset value per ordinary share increased to 293.4p from 293.2p.

### Dividends

A first special dividend for the year ended 31<sup>st</sup> July 2015 of 2.30p per share was paid on 28<sup>th</sup> November 2014 (2014: 5.00p). Further to this an interim ordinary dividend of 1.50p and a second special dividend of 0.25p per ordinary share were paid on 30<sup>th</sup> April 2015 (2014: 5.50p interim ordinary). The Directors are recommending a final ordinary dividend of 1.70p per ordinary share (2014: 1.98p final ordinary) and a final special dividend of 0.25p per ordinary share (2014: 1.27p final special), giving a total for the year of 6.00p per ordinary share (2014: 13.75p).

It is our current intention that the final ordinary dividend will be paid on 3<sup>rd</sup> December 2015 to shareholders registered on 20<sup>th</sup> November 2015. The shares will be declared ex-dividend on 19<sup>th</sup> November 2015.

### Share valuations

On 31<sup>st</sup> July 2015, the middle market quotation and the net asset value per ordinary 25p share were 238.4p and 293.4p, respectively. This indicates that the discount on the Company's shares was 18.7 per cent. This is not uncommon as the share prices of closed-end funds are often traded at a discount to their net asset values.

### Events after the reporting period

There have been no significant events since the end of the reporting period other than the volatility currently experienced in the stock market.

### Substantial holdings in the Company

At 30<sup>th</sup> October 2015, the Company had been notified of the following beneficial interests of 3 per cent and over in the Company's ordinary share capital carrying unrestricted voting rights:

	Number	%
Pershing Nominees Limited	15,287,566*	71.1
The Bank of New York (Nominees) Limited	1,053,808	4.9

\* This holding includes 13,611,968 shares of which M&M Investment Company plc is the beneficial owner. This figure represents 60.6% of the issued share capital of the Company.

M&M Investment Company plc is controlled by Mr M Sheppard.



## Directors' Report (continued)

### Directors

The members of the Board who served during the year to 31<sup>st</sup> July 2015, together with their biographical details, are listed on page 5.

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

Mr D Harris, who was re-elected to the Board in November 2014 will remain on the Board and does not offer himself for re-election.

Mr B Miller, who was elected to the Board in August 2013, is proposed for re-election in accordance with the Listing Rules which require the annual re-election of non-independent directors of investment companies.

### Directors' interests

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

Beneficial interests	31 <sup>st</sup> July 2015 Ordinary shares of 25p	31 <sup>st</sup> July 2014 Ordinary shares of 25p
Mr P H A Stanley (Chairman)	15,050	13,250
Mr D Harris	-	-
Mr B Miller	-	-

No other changes in the above interests occurred between 31<sup>st</sup> July 2015 and 30<sup>th</sup> October 2015.

### Supplier terms

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

The Group had trade payables of £156,000 (2014: £96,000) at the year end. Trade payables are settled by the due date for payment. Payables in respect of investment purchases are settled in accordance with Stock Exchange regulations.



## Directors' Report (continued)

### Explanation of the Annual General Meeting Resolutions

#### Resolutions

1. Annual Report and Financial Statements for the year ended 31<sup>st</sup> July 2015.

The directors are required to present to the meeting the Company's audited annual accounts and related reports for the financial year ended 31<sup>st</sup> July 2015 (the Annual report and accounts).

2. Directors' remuneration report

The Directors' remuneration report for 2015 is set out on page 35 of the Annual report and accounts. In accordance with the Companies Act 2006, this vote to approve the remuneration report is advisory only and the directors' entitlement to receive remuneration is not conditional on it. The resolution and vote are a means of providing shareholder feedback to the Board.

3. Dividend

The final ordinary and final special dividends for the year ended 31st July 2015, as recommended by the directors, are 1.70 and 0.25 pence per ordinary share respectively. If approved by shareholders, the final dividends will become due and payable on 3rd December 2015 to ordinary shareholders named on the register of members as at 6pm on 20th November 2015.

4. and 5. Re-election of directors

The Articles of Association require that a third of the directors retire by rotation each year. Mr B.L. Miller is proposed for re-election in accordance with the Listing Rules which require the annual re-election of non-independent directors of investment companies. In addition the re-appointment of Mr P.H.A. Stanley is proposed in compliance with The Corporate Governance guide for Investment Companies ("AIC Code") which requires the annual reappointment of non-executive directors who have served on the board for nine years or more.

Resolutions 4 and 5 are being proposed at the 2015 AGM for the reappointment of Mr Miller and Mr Stanley who both offer themselves for re-election.

Mr B.L. Miller

Brett Lance Miller, BA, LL.B., aged 47, is a General Partner of Damille Partners, an Executive Director of Damille Investments II Limited and of Damille Partners Limited.

Brett presently serves as a Non-Executive Director of M&L Property Assets plc and the Company.

Brett graduated from the University of the Witwatersrand (South Africa) with a bachelors degree majoring in law and economics and additionally holds a law degree from the London School of Economics (after having relocated to the United Kingdom in 1988). He qualified as a solicitor and practised until December 1997. He joined Nabarro Nathanson, a London-based law firm, in September 1993 where he did his articles and practiced until December 1997.

Brett has specialised in mergers and acquisitions and corporate finance in the energy and natural resources and smaller companies sectors. He was previously managing director and a key shareholder in Ruegg & Co Limited, a London based corporate finance boutique, prior to its sale to Astaire Group plc in July 2009. He has experience in raising equity capital for smaller companies, having been the driving force behind numerous small company flotations in a variety of sectors. Brett also has experience in corporate governance issues, corporate restructurings and optimising financial capital structures.



## Directors' Report (continued)

### Explanation of the Annual General Meeting Resolutions (continued)

As Mr Miller is a director of M&L Property Assets PLC, a property investment company which has the same investment manager as the Company, he is not deemed to be independent of the investment manager (M & L Capital Management Limited). Mr Miller is also registered with the Financial Conduct Authority as a non-salaried representative of Midas Investment Management Limited (a company in the same group as M & L Capital Management Limited).

Following completion of the Board's evaluation process, the other directors are of the opinion that Mr Miller continues to provide effective contributions to the performance of the Board and is committed to his role. As regards his effectiveness, Mr Miller's biographical details set out above demonstrate the experience which he brings to the Board, which is complementary to that of the other directors.

Mr Miller does not have a contract of service.

#### Mr P.H.A. Stanley

Peter Henry Arthur Stanley (Chairman), aged 82, joined the MLIT Board in November 1997 and was appointed Chairman in November 2000. He was Chairman of BWD Securities PLC between 1995 and 2000 and has extensive experience in London Stock Exchange related matters. Previously Mr. Stanley's roles included Chairman of Firms Accounts Committee of the London Stock Exchange and the Chairman of Capital Committee. Mr Stanley was initially selected to join the Board because he was known to the other directors who valued his judgement and experience and he was last re-elected at the Company's annual general meeting held on 24th November 2014.

In addition to being satisfied that Mr Stanley is independent of the controlling shareholder, they have also determined that Mr Stanley, who has not been an adviser to the company or an employee of its investment manager and is not a director of any other investment company managed by M & L Capital Management Ltd, is independent of the Company's investment manager and satisfies all the other independence criteria in the AIC Code save that he has served on the board for more than 9 years. The AIC Code states in relation to length of service: "The AIC does not believe that there is any evidence that this is the case for investment companies and therefore does not recommend that long-serving directors be prevented from forming part of an independent majority. However, where a director has served for more than nine years, the board should state its reasons for believing that the individual remains independent in the annual report." The Board shares the AIC's view that, while the boards of investment companies, in common with the boards of other companies, are likely to benefit from a regular infusion of new blood, they are perhaps more likely than most to benefit from having at least one director with considerably longer than nine years' experience. As the other directors are younger and have been appointed in the last 7 years, the Board believes that its composition achieves a sensible balance. The Company considers Mr Stanley to be an effective chairman, contributing the continuity of his experience over 18 years through many investment cycles, to the Board's deliberations, his contribution to which demonstrates to the Board's satisfaction that he should continue to be recognised as an independent director. His regular attendance at Board meetings and his contribution as Chairman demonstrates his commitment to the Company.

As regards his effectiveness, Mr Stanley's biographical details set out above demonstrate the experience which he brings to the Board.

Following completion of the Board's evaluation process, the other directors are of the opinion that Mr Stanley continues to provide effective contributions to the performance of the Board and is committed to his role as Chairman. The other directors further consider that Mr Stanley's long association with the Company through many investment cycles and his judgement and experience will continue be of great benefit to the Board and the Company.



## Directors' Report (continued)

### Explanation of the Annual General Meeting Resolutions (continued)

To determine Mr Stanley's independence, the Board has taken into account his experience and standing and the strength of character and judgement demonstrated by him. It has also considered the relationships or circumstances listed above.

Mr Stanley does not have a contract of service.

#### 6. Auditor

Auditors have to be appointed at each general meeting at which the Annual report and accounts are presented to shareholders. An assessment of the effectiveness, independence and objectivity of the auditor has been undertaken by the Audit Committee which has recommended to the Board that CLB Coopers be re-appointed as Auditor.

The remuneration of the Auditor must be fixed by the Company in a general meeting or in such manner as the Company may determine in a general meeting. This resolution authorises the Audit Committee to decide on the level of such remuneration.

#### 7. and 8. Change of the Articles

Resolutions 7 and 8 are special resolutions to change the Articles to permit the sale of Treasury Shares at a discount to NAV per share in circumstances approved by Shareholders in general meeting and to enshrine the new arrangements for the reappointment of independent directors in the Articles. The background and reasons for these changes are set out in paragraphs 2 and 3 respectively in the letter in Part 1 of this document.

#### 9. Authority to allot Shares

The authority conferred on the directors at last year's Annual General Meeting to allot shares or grant rights to subscribe expires at the conclusion of the AGM. The Board recommends that this authority be renewed and resolution 9 will, if passed, authorise the directors to allot the Company's ordinary shares up to a maximum nominal amount of £1,624,770, being the whole of the authorised but unissued ordinary share capital of the company (including 956,122 Shares held in Treasury), which represents approximately 30.2 per cent. of the aggregate nominal value of the issued and unconditionally allotted ordinary share capital of the Company as at the close of business on 30th October 2015. The renewal of these powers of allotment is consistent with the guidance issued by The Investment Management Association (IMA) concerning directors' powers to allot share capital. The authorities conferred by resolution 9 will expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, fifteen months following the passing of this resolution. This authority also applies to the allotment or sale of shares from Treasury described below. Save for any such allotment or sale of Shares from Treasury, the directors have no present intention of exercising these authorities, but believe that it is in the best interests of the Company to have the authorities available so that the Board has the flexibility to issue securities at short notice and without the need for a general meeting should the Board determine that it is appropriate to do so.

#### 10. Waiver of pre-emption rights

Resolution 10, which will be proposed as a special resolution, seeks to renew the Directors' authority to allot Shares for cash in connection with a rights issue or other than pro rata to existing Shareholders. In the case of an issue of Shares other than pro rata to existing Shareholders, the authority will be limited to a nominal amount of £268,761.50, which represents approximately 5 per cent. of the issued Shares as at 30th October 2015. If granted, the authority will last until the next annual general meeting of the Company or, if earlier, fifteen months following the passing of the Resolution.



## Directors' Report (continued)

### Explanation of the Annual General Meeting Resolutions (continued)

This authority to allot shares on a non pre-emptive basis will also apply to the sale, allotment or transfer of Shares held in Treasury.

The Board will comply with the provision of the Statement of Principles of the Pre-Emption Group that no more than 7.5 per cent. of the issued Share capital should be allotted for cash, or transferred from Treasury, on a non pre-emptive basis during any rolling three-year period. For this purpose the Board will treat net issuance from after taking any purchases into during such rolling three year period into account in determining the percentage allotted or transferred.

#### 11. Authority to allot or sell Treasury Shares from Treasury at a discount to NAV.

This Resolution is being proposed to waive pre-emption rights in respect of up to 1,075,046 Treasury Shares and in compliance with the Listing Rules to permit the allotment or sale of Shares from Treasury at a discount to net asset value per Share provided that Treasury Shares may only be sold at a discount to NAV per Share if that discount does not exceed the weighted average discount to NAV per Share at which the Shares were purchased and provided that any Shares sold from Treasury for cash are sold at higher prices (including expenses) than the weighted average price at which those Shares were bought into Treasury.

The Board's reasons for proposing this Resolution are set out in paragraph 2 of the letter in Part 1 of this document. Any such sale or allotment is also subject to the passing of Resolution 7 to change the Articles.

#### 12. Authority to make market purchases of the Company's own shares

Resolution 12, which will be proposed as a special resolution, seeks to renew the authority granted at last year's Annual General Meeting and gives the Company authority to buy back its own Shares in the market as permitted by the Act. The authority limits the number of ordinary shares that could be purchased to a maximum of 3,222,988 (representing 14.99% of the issued ordinary share capital of the Company as at the close of business on 30<sup>th</sup> October 2015. The authority sets minimum and maximum prices. This authority will expire at the conclusion of the next Annual General Meeting of the Company after the date of the passing of this resolution or, if earlier, fifteen months following the passing of the resolution.

The directors may exercise the authority to purchase the Company's ordinary shares as when the price at which Shares are trading in the market is less than the Company's net asset value per Share, taking into account other investment opportunities. The authority will be exercised only if the directors believe that to do so would result in an increase in net assets per Share and would be in the best interests of the Shareholders as a whole.

Any purchases of Shares would be by means of market purchases through the London Stock Exchange. Any Shares purchased pursuant to this authority may either be held as Treasury shares or cancelled by the Company, depending on which course of action is considered by the directors to be in the best interests of the Shareholders at the time. As at the close of business on 30<sup>th</sup> October 2015, the Company held 956,112 Shares in Treasury.



## Directors' Report (continued)

### Directors' responsibilities in relation to the Company's Auditor

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

By Order of the Board

Mr M K Camp

**Secretary**

30<sup>th</sup> October 2015



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

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

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

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

- properly select suitable accounting policies in accordance with IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, and apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements and accounting estimates that are reasonable;
- provide additional disclosure when compliance with the specific requirements of IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company and Group financial position and financial performance;
- state that the Company and Group financial statements have been prepared in accordance with IFRS, subject to any material departures disclosed and explained in the financial statements;
- present fairly the Company and Group financial position, financial performance and cashflows; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

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

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

- (a) the financial statements, prepared in accordance with the IFRS adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- (b) the Annual Report includes a fair review of the development and performance of the fund and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The board confirms that the annual report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the performance, strategy and business model of the Company and Group. This statement is underpinned by the comprehensive review process of the annual report by the audit committee and directors. Each of the Directors accepts responsibility accordingly.

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

30<sup>th</sup> October 2015



## Directors' Remuneration Report

### Annual statement

This report has been prepared by the Board in accordance with the requirements of the Companies Act 2006 in respect of the year ended 31<sup>st</sup> July 2015. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

Company law requires the Company's Auditor to audit certain information set out in this report. Where information has been audited it is indicated as such. The Auditor's opinion is included in their report on pages 36 to 38.

### Directors' remuneration policy

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

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

Non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits. There are no executive directors.

### Terms of Directors' appointment

No Directors have a contract of service.

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

### Directors' emoluments for the year (audited)

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

	Fees 2015 £	Fees 2014 £
Mr P H A Stanley (Chairman)	18,000	18,000
Mr B S Sheppard (Resigned 30 <sup>th</sup> August 2013)	-	1,000
Mr D Harris	15,000	15,000
Mr B Miller (Appointed 30 <sup>th</sup> August 2013)	15,000	13,750
	<hr/> <hr/>	<hr/> <hr/>
	48,000	47,750

There were no other payments to past directors.

Director shareholdings are disclosed in the Directors' Report.

### Approval

The Directors' Remuneration Report was approved by the Board of Directors on 30<sup>th</sup> October 2015 and signed on its behalf by:

Mr P H A Stanley  
Chairman



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

We have audited the financial statements of Manchester & London Investment Trust plc for the year ended 31<sup>st</sup> July 2015, which comprise the Consolidated Statement of Comprehensive Income, Consolidated and Company Statements of Changes in Equity, Consolidated and Company Statements of Financial Position and Consolidated and Company Statements of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

### Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 34 the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements, and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31<sup>st</sup> July 2015 and of the Group's profit or loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.



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

### Our assessment of risks of material misstatement

We identified the following specific risks of material misstatement that had the greatest effect on the audit strategy, the greatest allocation of resources and the main direction of the audit team's efforts;

- Inaccurate valuation of investments, derivatives and related liabilities; and
- Incomplete or inaccurate revenue recognition in respect of entitlement to income.

### Our application of materiality

We applied our professional judgement to assess an appropriate level of materiality for our audit of the financial statements. This provides suitable benchmarks to determine the nature, timing and extent of audit procedures in determining whether the financial statements are free from material misstatements.

After carrying out risk assessment procedures we applied an overall materiality level for the audit of the financial statements at £1.3m based on 2% of Gross Assets. After consideration of the internal control environment and the complexity of account balances we applied a 62.5% reduction factor in determining performance materiality at £0.8m.

Given the importance of the distinction between revenue and capital for the Group we applied a separate performance materiality for the Statement of Comprehensive Income of £0.1m based on an average benchmark of gross return at 1% and return on ordinary activities before taxation at 10%.

We reported to the Board all differences above £63,000 or £7,000 identified through our audit procedures on the Consolidated Statement of Financial Position and Consolidated Statement of Comprehensive Income respectively.

### An overview of the scope of the audit

The audit was completed through a fully substantive approach with use of professional scepticism. Our approach addressed the above risks of material misstatement through the following procedures;

- Reviewing the reconciliation of investment balances to third party custodian statements and subsequent retranslation of foreign currency values;
- Agreeing a sample of investments held at year end to prices from external sources;
- Agreeing revenue entitlement, on a sample basis, to and from underlying accounting records to 3rd party documentation and recalculating foreign currency balances; and
- Reviewing the latest ISAE 3402 reports on custodians' internal controls, where available, for reliance placed on the accuracy of reported investment activity and balances.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.



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

### Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge gained during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses these matters that we communicated to the audit committee which we consider should have been disclosed.

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

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

Under the Listing Rules we are required to review:

- the Directors' statement set out on page 25 in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

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

30<sup>th</sup> October 2015

**Consolidated Statement of Comprehensive Income**For the year ended 31<sup>st</sup> July 2015

	Note	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000	2014 Revenue £'000	2014 Capital £'000	2014 Total £'000
<b>Gains</b>							
Gains/(losses) on investments at fair value through profit or loss		-	1,402	1,402	-	(9,052)	(9,052)
<b>Trading income</b>	<b>2</b>	<b>971</b>	-	<b>971</b>	<b>1,377</b>	-	<b>1,377</b>
<b>Investment income</b>	<b>2</b>	<b>1,185</b>	-	<b>1,185</b>	<b>2,431</b>	-	<b>2,431</b>
Gross return		2,156	1,402	3,558	3,808	(9,052)	(5,244)
<b>Expenses</b>							
Investment management fee	3	(311)	-	(311)	(348)	-	(348)
Cost of investment transactions		(303)	-	(303)	(170)	-	(170)
Other operating expenses	4	(180)	-	(180)	(234)	-	(234)
Total expenses		(794)	-	(794)	(752)	-	(752)
<b>Return before finance costs and tax</b>		<b>1,362</b>	<b>1,402</b>	<b>2,764</b>	<b>3,056</b>	<b>(9,052)</b>	<b>(5,996)</b>
Finance costs	6	(62)	(219)	(281)	(1)	(298)	(299)
<b>Return on ordinary activities before tax</b>		<b>1,300</b>	<b>1,183</b>	<b>2,483</b>	<b>3,055</b>	<b>(9,350)</b>	<b>(6,295)</b>
Tax expense	7	-	-	-	-	-	-
<b>Return on ordinary activities after tax</b>		<b>1,300</b>	<b>1,183</b>	<b>2,483</b>	<b>3,055</b>	<b>(9,350)</b>	<b>(6,295)</b>
<b>Earnings per ordinary share (pence)</b>							
Basic	9	6.00	5.47	11.47	13.63	(41.71)	(28.08)
Fully diluted	9	6.00	5.47	11.47	13.63	(41.71)	(28.08)

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

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

All items in the above statement derive from continuing operations.

The notes on pages 45 to 58 form part of these financial statements.

**Consolidated and Company Statements of Changes in Equity**For the year ended 31<sup>st</sup> July 2015

<b>Group</b>	<b>Share capital £'000</b>	<b>Share premium £'000</b>	<b>Treasury shares £'000</b>	<b>Other reserves £'000</b>	<b>Capital reserve (unrealised) £'000</b>	<b>Capital reserve (realised) £'000</b>	<b>Retained earnings £'000</b>	<b>Total £'000</b>
<b>Balance at 1<sup>st</sup> August 2013</b>	5,614	35,132	-	(79)	5,596	24,899	3,888	75,050
<b>Changes in equity for 2014</b>								
Total comprehensive loss	-	-	-	-	-	-	(6,295)	(6,295)
Buybacks of ordinary shares	-	-	(1,306)	-	-	-	-	(1,306)
Transfer of capital	-	-	-	-	9,643	(18,993)	9,350	-
Equity dividends paid	-	-	-	-	-	-	(3,088)	(3,088)
<b>Balance at 31<sup>st</sup> July 2014</b>	<b>5,614</b>	<b>35,132</b>	<b>(1,306)</b>	<b>(79)</b>	<b>15,239</b>	<b>5,906</b>	<b>3,855</b>	<b>64,361</b>
<b>Changes in equity for 2015</b>								
Total comprehensive income	-	-	-	-	-	-	2,483	2,483
Buybacks of ordinary shares	-	-	(1,089)	-	-	-	-	(1,089)
Transfer of capital	-	-	-	-	(10,088)	11,271	(1,183)	-
Equity dividends paid	-	-	-	-	-	-	(2,681)	(2,681)
<b>Balance at 31<sup>st</sup> July 2015</b>	<b>5,614</b>	<b>35,132</b>	<b>(2,395)</b>	<b>(79)</b>	<b>5,151</b>	<b>17,177</b>	<b>2,474</b>	<b>63,074</b>

<b>Company</b>	<b>Share capital £'000</b>	<b>Share premium £'000</b>	<b>Treasury shares £'000</b>	<b>Other reserves £'000</b>	<b>Capital reserve (unrealised) £'000</b>	<b>Capital reserve (realised) £'000</b>	<b>Retained earnings £'000</b>	<b>Total £'000</b>
<b>Balance at 1<sup>st</sup> August 2013</b>	<b>5,614</b>	<b>35,295</b>	<b>-</b>	<b>(79)</b>	<b>5,596</b>	<b>1,530</b>	<b>27,102</b>	<b>75,058</b>
<b>Changes in equity for 2014</b>								
Total comprehensive loss	-	-	-	-	-	-	(6,303)	(6,303)
Buybacks of ordinary shares	-	-	(1,306)	-	-	-	-	(1,306)
Transfer of capital	-	-	-	-	9,643	(18,993)	9,350	-
Equity dividends paid	-	-	-	-	-	-	(3,088)	(3,088)
<b>Balance at 31<sup>st</sup> July 2014</b>	<b>5,614</b>	<b>35,295</b>	<b>(1,306)</b>	<b>(79)</b>	<b>15,239</b>	<b>(17,463)</b>	<b>27,061</b>	<b>64,361</b>
<b>Changes in equity for 2015</b>								
Total comprehensive income	-	-	-	-	-	-	2,483	2,483
Buybacks of ordinary shares	-	-	(1,089)	-	-	-	-	(1,089)
Transfer of capital	-	-	-	-	(10,088)	11,271	(1,183)	-
Equity dividends paid	-	-	-	-	-	-	(2,681)	(2,681)
<b>Balance at 31<sup>st</sup> July 2015</b>	<b>5,614</b>	<b>35,295</b>	<b>(2,395)</b>	<b>(79)</b>	<b>5,151</b>	<b>(6,192)</b>	<b>25,680</b>	<b>63,074</b>

The notes on pages 45 to 58 form part of these financial statements.

**Consolidated Statement of Financial Position**At 31<sup>st</sup> July 2015

	Note	2015 £'000	2014 £'000
<b>Non-current assets</b>			
Investments at fair value through profit or loss	10	28,040	45,664
		<b>28,040</b>	<b>45,664</b>
<b>Current assets</b>			
Unrealised derivative assets	16	2,387	291
Trade and other receivables	12	24	100
Cash and cash equivalents	13	34,233	19,625
		<b>36,644</b>	<b>20,016</b>
<b>Gross assets</b>		<b>64,684</b>	<b>65,680</b>
<b>Current liabilities</b>			
Unrealised derivative liabilities	16	(1,410)	(1,185)
Trade and other payables	15	(200)	(134)
		<b>(1,610)</b>	<b>(1,319)</b>
<b>Net assets</b>		<b>63,074</b>	<b>64,361</b>
<b>Equity attributable to equity holders</b>			
Ordinary share capital	17	5,614	5,614
Shares held in treasury	18	(2,395)	(1,306)
Share premium		35,132	35,132
Other reserves			
Capital reserve – realised		17,177	5,906
Capital reserve – unrealised		5,151	15,239
Goodwill reserve		(79)	(79)
Retained earnings		2,474	3,855
<b>Total equity</b>		<b>63,074</b>	<b>64,361</b>
<b>Net asset value per share</b>			
Ordinary shares – basic	19	<b>293.4p</b>	<b>293.2p</b>
Ordinary shares – fully diluted	19	<b>293.4p</b>	<b>293.2p</b>

The financial statements on pages 39 to 58 were approved by the Board of Directors and authorised for issue on 30<sup>th</sup> October 2015 and are signed on their behalf by:

Mr D Harris

Mr P H A Stanley (Chairman)

Directors

*The notes on pages 45 to 58 form part of these financial statements.*

**Company Statement of Financial Position**At 31<sup>st</sup> July 2015

	Note	2015 £'000	2014 £'000
<b>Non-current assets</b>			
Investments at fair value through profit or loss	10	28,040	45,664
		<b>28,040</b>	<b>45,664</b>
<b>Current assets</b>			
Unrealised derivative assets	16	2,387	291
Trade and other receivables	12	24	100
Cash and cash equivalents	13	34,233	19,625
		<b>36,644</b>	<b>20,016</b>
<b>Gross assets</b>		<b>64,684</b>	<b>65,680</b>
<b>Current liabilities</b>			
Unrealised derivative liabilities	16	(1,410)	(1,185)
Trade and other payables	15	(200)	(134)
		<b>(1,610)</b>	<b>(1,319)</b>
<b>Net assets</b>		<b>63,074</b>	<b>64,361</b>
<b>Equity attributable to equity holders</b>			
Ordinary share capital	17	5,614	5,614
Shares held in treasury	18	(2,395)	(1,306)
Share premium		35,295	35,295
Other reserves			
Capital reserve – realised		(6,192)	(17,463)
Capital reserve – unrealised		5,151	15,239
Goodwill reserve		(79)	(79)
Retained earnings		25,680	27,061
<b>Total equity</b>		<b>63,074</b>	<b>64,361</b>

The financial statements on pages 39 to 58 were approved by the Board of Directors and authorised for issue on 30<sup>th</sup> October 2015 and are signed on their behalf by:

Mr D Harris

Mr P H A Stanley (Chairman)

Directors

*The notes on pages 45 to 58 form part of these financial statements.*

**Consolidated Statement of Cash Flows**For the year ended 31<sup>st</sup> July 2015

	2015 £'000	2014 £'000
<b>Cash flow from operating activities</b>		
Return on operating activities before taxation	2,483	(6,295)
Interest paid	54	299
Loss on investments	1,215	2,208
Decrease in receivables	76	90
Increase/(decrease) in payables	66	(49)
Increase in derivatives	(1,871)	(10,587)
Net cash generated from/(used in) operating activities	<u>2,023</u>	<u>(14,334)</u>
<b>Cash flow from investing activities</b>		
Purchases of investments	(47,247)	(35,015)
Sales of investments	<u>63,656</u>	<u>62,832</u>
Net cash generated from investing activities	<u>16,409</u>	<u>27,817</u>
<b>Cash flow from financing activities</b>		
Equity dividends paid	(2,681)	(3,088)
Buybacks of ordinary shares	(1,089)	(1,306)
Repaid to loan facility	-	(10,967)
Interest paid	<u>(54)</u>	<u>(299)</u>
Net cash used in financing activities	<u>(3,824)</u>	<u>(15,660)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>14,608</b>	<b>(2,177)</b>
Cash and cash equivalents at beginning of year	<u>19,625</u>	<u>21,802</u>
<b>Cash and cash equivalents at end of year</b>	<b><u>34,233</u></b>	<b><u>19,625</u></b>

The notes on pages 45 to 58 form part of these financial statements.

**Company Statement of Cash Flows**For the year ended 31<sup>st</sup> July 2015

	2015 £'000	2014 £'000
<b>Cash flow from operating activities</b>		
Return on operating activities before taxation	2,483	(6,303)
Interest paid	54	299
Loss on investments	1,215	2,225
Decrease in receivables	76	2,661
Increase/(decrease) in payables	66	(66)
Increase in derivatives	(1,871)	(5,482)
Net cash generated by/(used in) operating activities	<u>2,023</u>	<u>(6,666)</u>
<b>Cash flow from investing activities</b>		
Purchases of investments	(47,247)	(35,015)
Sales of investments	63,656	62,832
Net cash generated from investing activities	<u>16,409</u>	<u>27,817</u>
<b>Cash flow from financing activities</b>		
Equity dividends paid	(2,681)	(3,088)
Buybacks of ordinary shares	(1,089)	(1,306)
Repaid to loan facility	-	(10,967)
Interest paid	(54)	(299)
Net cash used in financing activities	<u>(3,824)</u>	<u>(15,660)</u>
<b>Net increase in cash and cash equivalents</b>		
	14,608	5,491
Cash and cash equivalents at beginning of year	19,625	14,134
<b>Cash and cash equivalents at end of year</b>	<b><u>34,233</u></b>	<b><u>19,625</u></b>

The notes on pages 45 to 58 form part of these financial statements.



## Notes Forming Part of the Financial Statements

For the year ended 31<sup>st</sup> July 2015

### 1. Accounting policies

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

Manchester & London Investment Trust plc ("MLIT") is a public limited company, which is listed on the London Stock Exchange and is incorporated and domiciled in the United Kingdom. The consolidated financial statements of the Company for the year ended 31<sup>st</sup> July 2015 comprise the Company and its subsidiaries (together referred to as the 'Group' and individually as 'Group entities').

#### a) Basis of preparation and statement of compliance

In accordance with European Union regulations, these financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board ("IASB"), as adopted for use in the EU effective at 31<sup>st</sup> July 2015.

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

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

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

#### b) Basis of consolidation

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

As permitted by Section 408 of the Companies Act 2006, the parent Company's statement of comprehensive income has not been included in these financial statements. The parent Company's comprehensive profit after tax for the year was £2,483,000 (2014: £6,303,000 comprehensive loss).

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

#### c) Presentation of Statement of Comprehensive Income

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

#### d) Intangible assets - goodwill

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

**Notes Forming Part of the Financial Statements (continued)***For the year ended 31<sup>st</sup> July 2015***1. Accounting policies (continued)****e) Valuation of investments**

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

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

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

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

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

**f) Revenue recognition**

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

Income from trading activity includes gains and losses on the trading of shares, equity swaps and futures, net of commissions, interest and other costs expensed.

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

Listed options and futures contracts are recognised at fair value through profit or loss and fall within the classification of held for trading under FRS 26. The fair value is the applicable closing price of the underlying option or contract.

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

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

Where the Group has elected to receive its dividends in the form of additional shares rather than cash, the amount of cash dividend foregone is recognised as income.

**g) Derivatives**

Derivatives include equity swaps, futures and options. The Company recognises financial assets and financial liabilities when it becomes a party to the contractual provisions of the instrument.

Derivatives are held at fair value based upon traded prices and/or third party information provided and are recognised in the Statement of Comprehensive Income. They are recognised as capital and are shown in the capital column of the Statement of Comprehensive Income if they are of a capital nature, and are recognised as revenue and shown in the revenue column of the Statement of Comprehensive Income if they are of a revenue nature.

**Notes Forming Part of the Financial Statements (continued)***For the year ended 31<sup>st</sup> July 2015***1. Accounting policies (continued)****h) Treasury shares**

Consideration paid for the purchase of shares held in treasury is recognised directly in equity reserves.

**i) Expenses**

All expenses are accounted for on the accruals basis and with the exception of capital interest are charged to revenue.

**j) Finance costs**

Finance costs are accrued at the effective interest rate.

**k) Taxation**

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

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

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

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

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

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

**l) Dividends payable to shareholders**

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

**m) Cash and cash equivalents**

Cash and short-term deposits in the balance sheet comprise cash at bank, short-term deposits with an original maturity of three months or less, cash held in highly liquid investment accounts or cash held as collateral on open equity swap and derivative positions.

**Notes Forming Part of the Financial Statements (continued)**For the year ended 31<sup>st</sup> July 2015**1. Accounting policies (continued)****n) Capital reserve*****Capital reserve - realised***

The following are accounted for in this reserve:

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

***Capital reserve - unrealised***

The following are accounted for in this reserve:

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

**o) Foreign currencies**

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

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

**p) New standards and significant amendments not applied**

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

**Accounting Standards**

	<b>Effective date</b>
IFRS 5 Non-current assets held for sale and discontinued operations	1 <sup>st</sup> January 2016
IFRS 7 Financial Instruments: Disclosures	1 <sup>st</sup> January 2016
IFRS 9 Financial Instruments	1 <sup>st</sup> January 2018
IFRS 10 Consolidated Financial Statements	1 <sup>st</sup> January 2016
IFRS 11 Joint arrangements	1 <sup>st</sup> January 2016
IFRS 12 Disclosure of interests in other entities	1 <sup>st</sup> January 2016
IFRS 15 Revenue from contracts with customers	1 <sup>st</sup> January 2018
IAS 1 Presentation of Financial Statements	1 <sup>st</sup> January 2016
IAS 16 Property, plant and equipment	1 <sup>st</sup> January 2016
IAS 19 Employee benefits	1 <sup>st</sup> January 2016
IAS 27 Separate Financial Statements	1 <sup>st</sup> January 2016
IAS 28 Investments in Associates and Joint Ventures	1 <sup>st</sup> January 2016
IAS 34 Interim Financial Reporting	1 <sup>st</sup> January 2016
IAS 38 Intangible assets	1 <sup>st</sup> January 2016

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

**Notes Forming Part of the Financial Statements (continued)**For the year ended 31<sup>st</sup> July 2015**2. Income**

	2015 £'000	2014 £'000
<b>Total income comprises</b>		
Trading income	971	1,377
Dividends from listed investments	1,140	2,428
Interest	45	3
	<b>2,156</b>	<b>3,808</b>

Finance, commission and other costs (including stamp duty) deducted in the calculation of trading income are not disclosed separately.

**3. Investment management fee**

	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000	2014 Revenue £'000	2014 Capital £'000	2014 Total £'000
Investment management fee	311	-	311	348	-	348

The Investment Manager provides investment services to the Company under a management agreement with a termination period of three months. The annual fee is 0.5 per cent of the total portfolio value including cash and short term deposits, payable quarterly in arrears. The fee is not subject to Value Added Tax ("VAT"). Transactions with the investment manager during the year are disclosed in note 21.

The investment management fee is chargeable to revenue.

**4. Other operating expenses**

	2015 £'000	2014 £'000
Directors' fees	48	48
Auditors' remuneration	23	23
Registrar fees	10	11
Exchange rate variances	-	45
Other expenses	99	107
	<b>180</b>	<b>234</b>

Fees payable to the Company's auditor for the audit of the parent company and consolidated financial statements

23

Fees payable to the Company's auditor for other services:

• other services relating to taxation	7	7
	<b>30</b>	<b>30</b>

Other operating expenses include irrecoverable VAT where appropriate.

**Notes Forming Part of the Financial Statements (continued)**For the year ended 31<sup>st</sup> July 2015**5. Staff numbers and costs**

Excluding Directors, the Group employs no members of staff.

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

	2015 £'000	2014 £'000
P H A Stanley (Chairman)	18	18

**6. Finance costs**

	2015 £'000	2014 £'000
Charged to revenue	62	1
Charged to capital	219	298
	<u>281</u>	<u>299</u>

The finance costs attributable to closed positions defined as trading income are deducted in the calculation of trading income along with commission costs. The split between the commission charged for trading and capital items is not disclosed separately.

**7. Taxation**

	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000	2014 Revenue £'000	2014 Capital £'000	2014 Total £'000
Current UK corporation tax	-	-	-	-	-	-
Profit/(loss) before tax	1,300	1,183	2,483	3,055	(9,350)	(6,295)
Tax at the UK corporation tax rate of 20.67% (2014: 22.33%)	269	245	514	682	(2,088)	(1,406)
Tax effect of non-taxable dividends/unrealised profits	(228)	-	(228)	(489)	-	(489)
Income not subject to UK corporation tax	(17)	-	(17)	(308)	-	(308)
Brought forward losses utilised during the period	(28)	-	(28)	-	-	-
Losses on investments not relieved	-	(290)	(290)	-	2,022	2,022
Other non-taxable income less expenses not deductible for tax	-	45	45	-	66	66
Unrelieved tax losses and other deductions arising in the period	4	-	4	-	-	-
Excess management expenses	-	-	-	115	-	115
Current year tax charge	-	-	-	-	-	-

**Notes Forming Part of the Financial Statements (continued)**For the year ended 31<sup>st</sup> July 2015**7. Taxation (continued)**

The Company has surplus management expenses at 31<sup>st</sup> July 2015 of £2,372,000 (2014: £3,053,000).

At 31<sup>st</sup> July 2015, there is an unrecognised deferred tax asset, measured at the standard rate of 20.7 per cent, of £490,000 (2014: £641,000). This deferred tax asset relates to surplus management expenses. It is unlikely that the Group will generate sufficient taxable profits in the foreseeable future to recover these amounts and therefore the asset has not been recognised in the year, or in prior years.

As at 31<sup>st</sup> July 2015, the Company has unrelieved capital losses of £9,330,000 (2014: £9,330,000). There is therefore, a related unrecognised deferred tax asset, measured at the standard rate of 20.7 per cent, of £1,928,000 (2014: £1,959,000). These capital losses can only be utilised to the extent that the Company does not qualify as an investment trust in the future and, as such, the asset has not been recognised.

**8. Dividends**

	2015 £'000	2014 £'000
Amounts recognised as distributions to equity holders in the period:		
Final ordinary dividend for the year ended 31 <sup>st</sup> July 2014 of 1.98p (2013: 8.25p) per share	431	1,853
First special dividend for the year ended 31 <sup>st</sup> July 2014 of 5.00p (2014: Nil) per share	1,098	-
Second special dividend for the year ended 31 <sup>st</sup> July 2014 of 1.27p (2014: Nil) per share	276	-
Interim ordinary dividend for the year ended 31 <sup>st</sup> July 2015 of 1.50p (2014: 5.50p) per share	322	1,235
First special dividend for the year ended 31 <sup>st</sup> July 2015 of 2.30p (2014: Nil) per share	500	-
Second special dividend for the year ended 31 <sup>st</sup> July 2015 of 0.25p (2014: Nil) per share	54	-
	<hr/> <u>2,681</u>	<hr/> <u>3,088</u>

The Directors are proposing a final ordinary dividend of 1.70p and a final special dividend of 0.25p for the financial year 2015. These proposed dividends have been excluded as a liability in these financial statements in accordance with IFRS.

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

	2015 £'000	2014 £'000
Interim ordinary dividend for the year ended 31 <sup>st</sup> July 2015 of 1.50p (2014: 5.50p) per share	322	1,235
Proposed final ordinary dividend for the year ended 31 <sup>st</sup> July 2015 of 1.70p (2014: 1.98p) per share*	365	431
First special dividend for the year ended 31 <sup>st</sup> July 2015 of 2.30p (2014: 5.00p) per share	500	1,098
Second special dividend for the year ended 31 <sup>st</sup> July 2015 of 0.25p (2014: nil) per share	54	-
Proposed final special dividend for the year ended 31 July 2015 of 0.25p (2014: 1.27p) per share*	<hr/> <u>54</u>	<hr/> <u>277</u>
	<hr/> <u>1,295</u>	<hr/> <u>3,041</u>

\*Based on the total shares eligible to receive dividend as at 30<sup>th</sup> October 2015.

**Notes Forming Part of the Financial Statements (continued)**For the year ended 31<sup>st</sup> July 2015**9. Return per ordinary share**

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

	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000	2014 Revenue £'000	2014 Capital £'000	2014 Total £'000
Return:						
Basic and fully diluted	1,300	1,183	2,483	3,055	(9,350)	(6,295)

Basic revenue, capital and total return per ordinary share is based on the net revenue, capital and total return for the period and on the weighted average number of ordinary shares in issue (excluding those shares held in treasury per note 18) of 21,645,499 (2014: 22,417,547).

**10. Investments at fair value through profit or loss**

	Group & Company		
	2015 £'000	2014 £'000	
Investments as below			
	Listed £'000	Unlisted £'000	Total £'000
Opening cost at 1 <sup>st</sup> August	30,663	56	30,719
Opening unrealised appreciation at 1 <sup>st</sup> August	14,868	77	14,945
Opening fair value at 1 <sup>st</sup> August	45,531	133	45,664
Purchases at cost	47,183	64	47,247
Sales proceeds	(63,656)	-	(63,656)
Realised profit on sales	10,672	-	10,672
(Decrease)/increase in unrealised appreciation	(11,891)	4	(11,887)
Closing fair value at 31 <sup>st</sup> July	27,839	201	28,040
Closing cost at 31 <sup>st</sup> July	24,862	120	24,982
Closing unrealised appreciation at 31 <sup>st</sup> July	2,977	81	3,058
Closing fair value at 31 <sup>st</sup> July	27,839	201	28,040

**Notes Forming Part of the Financial Statements (continued)**For the year ended 31<sup>st</sup> July 2015**11. Subsidiary undertakings**

	Company	
	2015 £'000	2014 £'000
Opening cost at 1 <sup>st</sup> August	17	17
Provision for diminution in value	(17)	(17)
Closing cost at 31 <sup>st</sup> July	-	-

The Company has investments in the following subsidiary undertakings:

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

All these subsidiary undertakings are included in the consolidation.

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

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

**12. Trade and other receivables**

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Dividend receivables	-	51	-	51
Other receivables	16	10	16	10
Prepayments	8	39	8	39
	<b>24</b>	<b>100</b>	<b>24</b>	<b>100</b>

**13. Cash and cash equivalents**

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Cash & cash equivalents	34,233	19,625	34,233	19,625

Cash & cash equivalents include £33.3m (2014: £15.0m) held in investment accounts as collateral against open equity swap and derivative exposures which are detailed in note 20.

**Notes Forming Part of the Financial Statements (continued)**For the year ended 31<sup>st</sup> July 2015**14. Securities**

As part of custodian relationships, assets held with both Morgan Stanley & Co. International plc and JP Morgan Chase & Co. are subject to a first fixed charge with full title guarantee as continuing security.

£25.3m of collateral was held with Morgan Stanley & Co. International plc as at 31<sup>st</sup> July 2015 (2014: £14.2m).

£36.0m of collateral was held with JP Morgan Chase & Co. as at 31<sup>st</sup> July 2015 (2014: £Nil).

**15. Trade and other payables****Group**

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Trade payables	156	96	156	96
Accruals	44	38	44	38
	200	134	200	134

**16. Derivatives**

The Company may use a variety of derivative contracts, including equity swaps, futures, forwards and options under master agreements with the Company's derivative counterparties to enable the Company to gain long and short exposure on individual securities. Derivatives are valued by reference to the underlying market value of the corresponding security.

The sources of the return under the derivative contract (e.g. notional dividends, financing costs, interest returns and capital changes) are allocated to the revenue and capital accounts in accordance with the nature of the underlying source of income and in accordance with the guidance given in the AIC SORP. Notional dividend income arising on long positions is apportioned wholly to the revenue account. Notional interest expense on long positions is initially allocated 100% to capital whilst the position is unrealised, however, upon realisation these costs are expensed through the income statement as revenue or capital in accordance with the Company's revenue recognition accounting policy. Unrealised changes in value relating to underlying price movements of securities in relation to derivatives are allocated to revenue or capital, dependent upon their nature.

The net fair value of derivatives at 31<sup>st</sup> July 2015 was a positive £977,000 (2014: negative £894,000). The corresponding gross exposure on equity swaps as at 31<sup>st</sup> July 2015 was £28,761,000 (2014: £21,273,000). The net marked to market futures and options total value as at 31<sup>st</sup> July 2015 was negative £406,000 (2014: negative £290,000).

**Group**

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
<b>Assets</b>				
Unrealised derivative assets	2,387	291	2,387	291
	2,387	291	2,387	291
<b>Current liabilities</b>				
Unrealised derivative liabilities	1,410	1,185	1,410	1,185
	1,410	1,185	1,410	1,185

**Notes Forming Part of the Financial Statements (continued)**For the year ended 31<sup>st</sup> July 2015**17. Share capital**

Ordinary share capital	No. ('000)	2015 £'000	No. ('000)	2014 £'000
<b>Authorised</b>				
Ordinary shares of 25p each	28,000	7,000	28,000	7,000
Non-voting Convertible Preference shares of £1 each	1,000	1,000	1,000	1,000
<b>Ordinary shares of 25p each issued and fully paid</b>				
Balance as at 1 <sup>st</sup> August	22,457	5,614	22,457	5,614
Balance as at 31 <sup>st</sup> July	22,457	5,614	22,457	5,614

Ordinary shares carry the right to one vote and the right to dividends.

**18. Shares held in treasury**

	No. ('000)	2015 £'000	No. ('000)	2014 £'000
Balance as at 1 <sup>st</sup> August	506	1,306	-	-
Shares bought back during year	450	1,089	506	1,306
Balance as at 31 <sup>st</sup> July	956	2,395	506	1,306

At the annual general meeting held on 24<sup>th</sup> November 2014, shareholders approved the Board's proposal to authorise the Company to acquire up to 14.99 per cent of its issued share capital as at 31<sup>st</sup> July 2014.

During the year the Company bought back 450,271 (2.0%) of its Ordinary Shares for a total consideration of £1,089,000. These shares were held in Treasury throughout the period.

**19. Net asset value per share**

	Net asset value per share		Net assets attributable	
	2015 p	2014 p	2015 £'000	2014 £'000
Ordinary shares: basic and fully diluted	293.4	293.2	63,074	64,361

The basic net asset value per ordinary share is based on net assets at the year end and 21,500,920 (2014: 21,951,191) ordinary shares in issue, adjusted for any shares held in treasury.

**Notes Forming Part of the Financial Statements (continued)**For the year ended 31<sup>st</sup> July 2015**20. Risks – Investments, derivatives and other risks**

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

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

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

**Market price risk**

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

Details of the long equity exposures held at 31<sup>st</sup> July 2015 are shown on page 7.

If the price of these investments and equity swaps had increased by 3 per cent at the reporting date with all other variables remaining constant, the capital return in the statement of comprehensive income and the net assets attributable to equity holders of the Group would increase by £1,704,000.

A 3 per cent decrease in share prices would have resulted in an equal and opposite effect of £1,704,000, on the basis that all other variables remain constant.

At the year end the Group's direct equity exposure to market price risk was as follows:

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
<b>Equity long exposures</b>				
Investments held in equity form	28,040	45,664	28,040	45,664
Long exposure held in equity swaps	28,761	21,273	28,761	21,273
	<b>56,801</b>	<b>66,937</b>	<b>56,801</b>	<b>66,937</b>

**Notes Forming Part of the Financial Statements (continued)**For the year ended 31<sup>st</sup> July 2015**Risks – Investments, derivatives and other risks (continued)*****Interest rate risk***

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

***Liquidity risk***

Liquidity risk reflects the risk that the Group will have insufficient funds to meet its financial obligations as they fall due. The Directors have minimised liquidity risk by investing in a portfolio of quoted companies that are readily realisable.

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

As at 31<sup>st</sup> July 2015 the financial liabilities comprised:

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Unrealised derivative liabilities	1,410	1,185	1,410	1,185
Trade payables and accruals	200	134	200	134
	<hr/>	<hr/>	<hr/>	<hr/>
	1,610	1,319	1,610	1,319

All of the above liabilities are due within one month and are stated at fair value.

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

***Currency rate risk***

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The only material foreign currency exposures are Beiersdorf AG, Heineken N.V., Pernod Ricard SA, Davide Campari-Milano S.p.A., KWS SAAT AG and Stada Arzneimittel AG with a market value of £13,272,000, denominated in Euros and Alphabet Inc., Amazon.com, Inc., Apple Inc., Paypal Holdings Inc., ROBO-STOX UCITS ETF, Baidu, Inc., eBay Inc., Perrigo Company plc and Yahoo! Inc. denominated in US Dollars with a market value of £15,135,000.

In addition the group held cash exposure to US Dollars of £7,746,000 at the year end.

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

**Notes Forming Part of the Financial Statements (continued)***For the year ended 31<sup>st</sup> July 2015***21. Related party transactions**

The Investment Manager of the Company is now M & L Capital Management Limited (the former Investment Manager was Midas Investment Management Limited). Both companies are controlled by Mr M Sheppard.

The Investment Manager receives a quarterly investment management fee for these services which in the year under review amounted to a total of £311,000 (2014: £348,000) excluding VAT. The balance owing to the Investment Manager as at 31<sup>st</sup> July 2015 was £127,000 (2014: Nil).

Also payable in the year to Midas was a corporate fee for acting as financial adviser amounting to £30,000 (2014: £30,000) excluding VAT and commission fees of £16,000 (2014: £293,000) excluding VAT to the Company. The balance owing to Midas at 31<sup>st</sup> July 2015 was £Nil (2014: £82,000).

During the year the Company paid service, administration and secretarial charges totalling £18,000 (2013: £Nil) to its parent company, M&M Investment Company plc. The balance owing to MMIC as at 31<sup>st</sup> July 2015 was £28,000 (2014: £Nil).

**22. Capital management**

There are no externally imposed capital requirements. The capital managed is noted in the Statements of Changes in Equity on page 40 and managed in accordance with the Investment Policies and Objectives on page 9.

**23. Ultimate control**

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

A copy of the consolidated financial statements of M&M Investment Company plc can be obtained by writing to The Company Secretary, 2<sup>nd</sup> Floor, Arthur House, Chorlton Street, Manchester M1 3FH.

**24. Post balance sheet events**

The have been no significant events since the end of the reporting period other than the volatility currently experienced in the stock market.



## Shareholder Benefits

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

### ***Centre Court***

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

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



**Shareholders Notes**