Company Number 05123368

# REPORT OF THE DIRECTORS AND

# FINANCIAL STATEMENTS

# FOR THE YEAR ENDED 31 MAY 2016

# FOR

# CRAVEN HOUSE CAPITAL PLC

CRAVEN HOUSE CAPITAL PLC

CONTENTS OF THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 MAY 2016

## COMPANY INFORMATION
## FOR THE YEAR ENDED 31 MAY 2016

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|---|---|
| **DIRECTORS:** | Mr M J Pajak<br>Mr B S Bindra<br>Mr C P Morrison (appointed 5 February 2016) |
| **SECRETARY:** | Mr B Winters |
| **REGISTERED OFFICE:** | 776-778 Barking Road<br>London<br>E13 9PJ |
| **REGISTERED NUMBER:** | 05123368 (England and Wales) |
| **AUDITOR:** | Crowe Clark Whitehill LLP<br>St Bride's House<br>10 Salisbury Square<br>London<br>EC4Y 8EH |
| **BANKERS:** | Royal Bank of Scotland<br>280 Bishopsgate<br>London<br>EC2M 4RB |
| **SOLICITORS:** | McEvoy Partners<br>27 Hatch St Lower<br>Dublin 2<br>Ireland |
| **NOMINATED ADVISER:** | Spark Advisory Partners Ltd<br>5 St John’s Lane<br>London<br>EC1M 48H |

## CHAIRMAN'S STATEMENT
## FOR THE YEAR ENDED 31 MAY 2016

Dear Shareholder

I am pleased to provide an introduction to the first annual report and accounts to be published by Craven House Capital Plc since my appointment as Chairman in October 2016.

The Company has reported a healthy, 41% increase in its Net Asset Value, equating to a 5% increase in Net Asset Value on a per share basis, after a fund raise in May 2016. More importantly, following the year-end, the Company has experienced an active period of fund raising and investment activity which has seen further significant increases in its asset base. Craven has also successfully completed a consolidation and re-denomination of its share capital, the details of which are outlined in more detail in the Investment Manager's report below.

The Company's philosophy and strategy place Craven in a favourable position to deliver long-term growth and success in its target markets. The result of the activity of recent months is that Craven is now well positioned to report further progress in the current year and I look forward to working with the Board and management to accelerate this growth.

**Richard Burrows**
Chairman

**Statement by the Investment Manager**

For the year ending 31 May 2016, the company reported a 41% increase in NAV from £4.7m to £6.6m. On a per share basis, this equated to a 5% increase from 0.58 to 0.61 pence per share, after a fund raise in May 2016. In keeping with our long held policy we revalue assets downward where we feel impairment is necessary, but never mark-up assets unless there has been an arm's length transaction or exit as the Directors believe that this represents the best indication of fair value. Therefore, the NAV per share remains below the high water mark of 2014 and Desmond Holdings will not receive any performance fee for the year.

As reported in the half-year results, FY 2016 was dedicated to a review and assessment of the investment landscape globally with specific focus on emerging markets. In FY 2016 the company made no new investments and did not exit any portfolio investments.

The highlight of what was therefore an uneventful period in terms of transactional activity occurred in the closing weeks of FY 2016 as the Company announced that it had raised £3.47m in cash equity via the issuing of 277.4 million new shares at a premium to both the prevailing share price and the pre-investment NAV.

In undertaking our regular review of Craven's existing portfolio of investments as we approached the year-end, we made the difficult decision to make a total write off of our equity investment in Pressfit Holdings Plc (Pressfit). Two years ago when Pressfit was admitted to the London AIM market we had hoped it would provide a seamless exit and validation of our strategy. Unfortunately, a series of events resulted in the complete erosion of equity value. Pressfit's problems stemmed from two primary sources. First when Pressfit's Nomad, Daniel Stewart, lost its Nomad license, the company lost its primary source of financing which was contingent on Pressfit remaining a listed company. Also when Pressfit lost their AIM quote, some customers and suppliers began to worry about the stability of the company and its ability to perform on existing orders.

The write down of our investment in Pressfit during the period was more painful in terms of opportunity cost than financial damage as we had already written down the investment on two previous occasions.

The Company undertook comprehensive restructuring during the course of the year. As a result investments are now held via a wholly-owned Irish holding company, Craven Industrial Holdings Plc, which in turn owns investment assets or further holding company subsidiaries. These subsidiaries have been established to hold the group's investments by geography with each subsidiary owning investments in a specific geographic jurisdiction.

As was the case in the prior year, investments held at fair value through profit or loss are valued in accordance with the IPEVCV guidelines. Details of valuation methodologies are provided in the notes to the accounts.

A summary of Craven's investments following the restructuring is as follows, with further information provided in notes 8 and 14 below. As highlighted above, the fair value of our investment in Pressfit Holdings has been written down to zero. The Company's holdings in a portfolio of agricultural, industrial and logistics investments in South Africa have been transferred to Kwikbuild Corporation Ltd, a subsidiary of Craven Industrial Holdings Plc. The Company's investments in Craven House Industries Ltd and Ceniako Ltd have been transferred to Craven Industrial Holdings Plc. The Company's investment in the mortgage over the Green Isle Hotel has not transferred to Craven Industrial Holdings Plc as it was anticipated that this would be repaid shortly after the year end.

| Investment | | Value as of 31 May 2016 |
|---|---|---|
| Mortgage over the Green Isle Hotel, Dublin | | £384,900 |
| Craven Industrial Holdings Plc | | |
| Craven House Industries Ltd | £204,990 | |
| Ceniako Ltd | £892,106 | |
| Kwikbuild Corporation Ltd | £3,327,795 | |
| Pressfit Holdings Plc | £0 | |
| | | £4,424,891 |
| **TOTAL VALUE OF INVESTMENTS** | | **£4,809,791** |

**Post Period Restructuring**

As mentioned above, the year ending in May 2016 was relatively uneventful. However, the post period activity was significant. As outlined and approved at our Extraordinary General Meeting in June, the Company was reorganized to provide a more beneficial capital structure. First there was a share consolidation that reduced the number of shares outstanding from 1.35 billion to 1.84 million. Secondly, the shares are now priced in US dollars.

It is important to understand why we took these actions; As we will continue to use our shares as acquisition currency, there were two principal driving factors behind our decision. Firstly, the share consolidation was necessary in order to properly engage with the full spectrum of future investors; we, and the Directors, were of the view that, with the shares often trading at a fraction of one penny, this made the shares unattractive, particularly to institutional investors. Secondly, a US dollar priced currency is, in our opinion, far more attractive to global investors than one priced in a fraction of a British Pound, particularly in light of uncertainty surrounding the future strength of this currency following Britain's decision to leave the EU.

Our view is that the current situation is bullish for the US dollar, which is and has always been the de facto currency pair in emerging markets. In many emerging markets, assets trade in US dollars and not the local currency. Land, property and businesses that produce products for export are almost always linked to the dollar. In Argentina or South Africa for example, the Peso and Rand may vary dramatically from month to month but agricultural land will hold its real value and trade hands in US dollars. A farm or a property may actually transact in Pesos or Rand but the price is determined by the dollar exchange rate on that day. If, in five years, the farm or the building is sold again, the price will be set at the prevailing exchange rate. The reason for this is twofold; First agricultural land produces a commodity that is traded globally in US dollars. Therefore the value of the land is determined largely by the income produced. Secondly, in countries with a history of fiscal and monetary instability the population has always relied on foreign currency as a safe haven. In Africa, South America and most of Asia the average shopkeeper can tell you what the exchange rate to the dollar is on any given day. This is especially true in countries that rely on dollar income from raw material exports and dollar purchasing power for imported finished goods. At present there is an acute shortage of dollars in emerging markets. Finally, as outlined below we feel the Euro and Sterling are in for a difficult period. We believe we are in a far better position to expand our asset base with the US dollar denominated shares trading at a price per share that does not prohibit investment from institutions. This has already been validated by post period fund raising and investment activity.

**Post-Period Investments**

Since the period end we have sold 988,950 new shares at an average price of $12.63 per share. The market capitalization has increased from $16.1m at the end of May 2016 to $20.7m as of the end of November. We have made investments in a Greek hotel, a portfolio of South African loans, an Angolan trading company and land in Argentina and Brazil. When investing in emerging market trading companies our preference is to enter the investment in a senior position within the capital structure. In the case of both the Greek hotel and the Angolan trading company we are secured creditors with the option to convert to equity at our discretion. When investing in land we prefer to take freehold title of debt free assets. This is the case with both land investments made subsequent to the end of the period.

Cash reserves following the activity outlined above and as at the end of November are approximately $6 million.

**Strategy**

As outlined previously in shareholder communication, we are long-term deep value investors. We seek to buy good assets selling below their intrinsic value. Regardless of jurisdiction, this is a strategy that takes time to develop and we acknowledge and accept that the market may not recognise either the value of our investments or the value of our shares for a prolonged period of time. This situation is compounded by the fact that our strategy actively involves entering markets in crisis where capital is scarce and most investors are capitulating and running for the door. We are actively seeking good assets offered by distressed sellers in jurisdictions where other investors are fleeing.

We believe that an investment in Craven House shares should be viewed as a medium to long term holding. In our opinion, there is currently and will likely continue to be a disconnect between the price of Craven's shares and the underlying value of our investment portfolio. Short term fluctuations in the share price are beyond our control; sometimes the market will undervalue the shares and sometimes they will overvalue the shares. In the near term liquidity will continue to be an issue.

Another challenge for the Board, particularly with regard to shareholder communications, is the opaque nature of distressed investing regardless of jurisdiction. We actively seek distressed situations and it takes time for these to develop. Often times we enter an investment in multiple layers of the capital structure with the expectation that the company will be forced to restructure. Often times we seek to be the party forcing the restructuring. For example we may enter an investment as an equity investor in a troubled company. We may also subsequently acquire the secured debt of the company at a discount. Depending on the nature of the company, our view of management's capabilities, the disposition of other shareholders and creditors, we will develop a plan to maximize our return over a five to ten year period. We may take action which impairs our equity value but increases our overall return. These investments are tactical in nature and often it will not be appropriate or in shareholders' interests to update the market on each step of the process, subject to our disclosure obligations as an AIM listed company. In these situations, often involving creditor committees, court appointed receivers and hostile shareholders and creditors, it is essential to keep our tactical plans confidential. We will keep shareholders notified of any material event, acquisition or impairment but will avoid providing ongoing commentary as these tussles unfold.

**What is Next?**

We believe we are in a period of significant political and economic turmoil. Unprecedented fiscal and monetary stimulus has been accelerating for the past seven years. Central bank activity has been the driving factor in most financial markets. This has caused numerous distortions in the price of financial assets, hard assets and global currencies. In the equity markets, regulation and the aforementioned central bank policies have driven capital away from individual shares into index driven financial products. For the past ten years exceedingly low interest rates in the developed world created a bubble in fixed income, and emerging market shares and currencies as investors chased yield.

We expect there to be more economic and political turmoil in the near future. Rising interest rates in the United States will likely cause even further pain for emerging economies and their currencies. There is a dollar shortage across the globe because, over the last seven years, companies and governments in emerging economies borrowed in US dollars from banks hungry for a positive spread. If interest rates start to revert to their 21st century mean, we are of the opinion that this could unleash a wave of credit defaults from corporations and governments alike. We suspect there will be more "bail ins" than "bail outs" and countries already facing severe capital shortages will see good assets trade hands at very low valuations or fail to get a bid at any price.

As counterintuitive as this may seem it will present the best opportunities for us. In times of peace and prosperity, people are happy to hold financial assets that promise future value. They do not view currencies or "cash deposits" as the liability of a questionable counter party. They are comfortable holding the debt or currency of profligate issuers so long as they provide a profitable carry. These trades work very well for a long time up until the time they don't. In our experience borrowers go broke very slowly then all at once.

In a time of crisis we will be very fortunate to have our own currency in Craven House shares. They are denominated in US dollars, freely tradable and underpinned by the value of our underlying assets. We believe there will be a time in the very near future where owners of illiquid but quality assets in crisis jurisdictions will be so desperate for liquidity and foreign currency that they will eagerly exchange their assets for our currency if only to be able to meet their financial obligations denominated in US Dollars.

Our goal is to continue to acquire assets that have a long life and maintain their value in times of trouble. We want to own or lend against real assets and essential goods. These assets include land, property, utility like service providers with steady cash flows, commodities either above or below ground and agricultural products. We want to buy these good assets from distressed sellers and ride through the period of financial and political turmoil. This will take time but the returns will reward our patience.

History is replete with examples of market collapses followed by a period of instability, followed by an economic renaissance. It is a regular occurrence in Africa and Latin America. In emerging markets these boom bust boom cycles are driven by politics, economics and foreign capital flight. Peak-to-trough these cycles are steep and painful. Foreign investors flee thereby forcing the currency down as they sell assets and local currency. Often they are trapped by capital controls and seek an exit at any price by any means. The local market is left with insufficient capital to carry on normal business. Importers cannot supply the economy with the basic staple products in countries dependent on selling natural resources to earn hard currency which is then used to import everything from food to footwear. When this happens good assets go on sale. We are able to take a long term view with an indefinite holding period. If we buy long life assets and are not forced to sell during a crisis period we believe we will be well rewarded.

We cannot guarantee that events will transpire as we predict but we now believe we have the correct structure to capitalise on such situations. We are now well positioned to act quickly in Angola, Nigeria, Greece, Brazil and other countries where political and economic crisis will likely present opportunities. We continue to evaluate markets such as Egypt and Mozambique both of which are starting to exhibit the stresses mentioned above. We are therefore proposing to broaden the scope of our investing policy at this year's Annual General Meeting. We intend to acquire excellent assets while most foreign market participants are either liquidating or abstaining. Until these opportunities arise we will endeavour to manage our existing portfolio in the best interests of all shareholders over the long term.

Once again we caution existing and prospective investors not to expect immediate movement in the share price. It may well be that our philosophy is viewed as contrarian for the better part of the next ten years. If you are sensitive to short term fluctuations in the share price, we recommend you don't own Craven House shares. Our strategy is unabashedly unpopular and counter to the prevailing wisdom. We recognize that the herd is preparing for another "taper tantrum" and sell off in emerging markets. But if you have a long term view, a belief in the demographic trends in emerging markets and are prepared to weather some stormy seas we believe our ten year returns will beat the index obsessed herd regulated to benchmark focused mediocrity. As Mark Twain once said, "Whenever you find yourself on the side of the majority, it is time to pause and reflect". We may be proven wrong. We may lose all of our capital. However, we have reflected and we are right where we want to be.

**Desmond Holdings Ltd**
**Investment Manager to Craven House Capital Plc**

The directors present the Strategic Report of Craven House Capital for the year ended 31 May 2016.

**Principal activity**

Craven House Capital plc is a frontier and emerging market investment company adopting a traditional merchant banking approach, whereby we identify and invest in good quality and high growth operating companies with management that demonstrate the local knowledge and business acumen to thrive in their chosen market. In addition, the Company may also invest in special situations and seek to acquire distressed assets in any geographical jurisdiction, particularly in economies undergoing or recovering from some form of crisis.

Central to the Company's investment strategy is the ability to use shares as currency in acquisitions. By providing a public market valuation to existing enterprises, international debt and equity financing can be brought to a market that is otherwise expensive and illiquid.

**Key performance indicators considered by the Company**

The Group focuses on the key performance areas as outlined in its Investing Policy and concentrates on the Net Asset Value of investments, calculated on a per share basis. The Company's Investment Manager, Desmond, submits regular management reports to the board of directors, which includes a calculation of the Group's Net Asset Value.

**Review of the Business in the year**

Craven House continued to seek to acquire businesses in emerging and developed markets utilising its AIM quoted shares as acquisition currency. We also continue to target businesses with distressed shareholders in need of rapid liquidity. While this has a negative impact on the share price as new shareholders sell into the market, it creates long-term value for our shareholders.

There was limited activity during the year. The Company made no new investments or disposals, however a significant number of transactions were evaluated including opportunities in new geographies.

The Company successfully completed a private placing of new shares on the 17th May 2016, raising £3.47 million in cash. The proceeds will be utilised to execute the Company's investment strategy.

The Company undertook comprehensive restructuring during the course of the year. As a result investments are now held via a wholly-owned Irish holding company, Craven Industrial Holdings Plc, which in turn owns investment assets or further holding company subsidiaries. These subsidiaries have been established to hold the group's investments by geography with each subsidiary owning investments in a specific geographic jurisdiction.

The resulting underlying investments of Craven Industrial Holdings Plc are disclosed in further detail in note 8 and note 14 below.

**Position of the Company's business at the end of the year**

The Company's NAV increased from £4.7 million to £6.6 million during the year. We remain a debt free business with the exception of loans made to the Company by its largest shareholder and Wise Star Capital Investment Limited. Cash reserves will be increased significantly following the successful private placing outlined above which raised £3.47 million.

**Principal risks and uncertainties facing the business**

The principal risks to the business continue to be the inherent instability in the markets in which we operate. Our strategy is directly exposed to swings in currencies, political and economic instability. Our continued focus on distressed sellers in emerging markets and distressed developed markets such as Greece and Ireland will expose the Company to these type of risks. These are risks that the Company actively seek as they provide the opportunity to acquire assets at a discount to their intrinsic value utilising our share capital at a premium to market prices.

**ON BEHALF OF THE BOARD:**

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Mr M J Pajak - Director

Date: .............................................

## REPORT OF THE DIRECTORS
## FOR THE YEAR ENDED 31 MAY 2016

The directors present their report with the financial statements of the Company for the year ended 31 May 2016.

**DIVIDENDS**
No dividends will be distributed for the year ended 31 May 2016.

**EVENTS SINCE THE END OF THE YEAR**
Information relating to events since the end of the year is given in the notes to the financial statements.

**DIRECTORS**
The directors who held office during the year were;

Mr M J Pajak
Mr B S Bindra
Mr C P Morrison (appointed 5 February 2016)
Miss A N Eavis (resigned 5 February 2016)

**POLITICAL AND CHARITABLE CONTRIBUTIONS**
No charitable or political donations were made during the year.

**DIRECTORS' REMUNERATION**
**Directors' service agreements and emoluments**
The service contracts of the current directors are as follows:

| NAME | BASIC ANNUAL FEE |
|---|---|
| Mr M J Pajak | £20,000*/** |
| Mr B S Bindra | £9,000** |
| Mr C P Morrison | £9,000** |
| Miss A N Eavis | £30,000 |

* Subject to the Group generating an operating profit.
** Payable in new ordinary shares of the Company at 1p per share.

**Directors’ emoluments for the year ended 31st May 2016**

| | |
|---|---|
| Mr M J Pajak | - |
| Mr B S Bindra | £4,230 |
| Mr C P Morrison | £2,625 |
| Miss A N Eavis | £63,750 |
| Total directors' remuneration | **£70,605** |

Payments made to Miss A N Eavis in the year included amounts paid in lieu of notice.

Further to his appointment as a director Mr C P Morrison was granted share options to acquire 3.6m shares at £0.01 per share. These options have a negligible value as of 31 May 2016.

**FINANCIAL RISK MANAGEMENT POLICIES**
Information on the use of financial instruments by the Company and its management of financial risk is disclosed in Note 14 to the financial statements.

**FUTURE DEVELOPMENTS**
In the coming year the Company will continue to execute its ongoing investment strategy by seeking transformative acquisition targets. Details of post year end transactions are disclosed in Note 16.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Directors' Report, Strategic Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and applicable law. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company, and of the profit or loss for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the 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 are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

They are further responsible for ensuring that the Strategic Report and the Report of the Directors and other information included in the Annual Report and Financial Statements is prepared in accordance with applicable law in the United Kingdom.

The maintenance and integrity of the Craven House Capital website is the responsibility of the Directors; the work carried out by the auditors does not involve the consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred in the accounts since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the accounts and the other information included in annual reports may differ from legislation in other jurisdictions.

## STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the Directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

## AUDITOR

The auditor, Crowe Clark Whitehill LLP, will be proposed for re-appointment at the forthcoming Annual General Meeting.

**ON BEHALF OF THE BOARD:**

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Mr M J Pajak - Director

Date: ............................................

**REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF CRAVEN HOUSE CAPITAL PLC**

We have audited the financial statements of Craven House Capital plc for the year ended 31 May 2016 which comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cashflows and related notes numbered 1 – 16. 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.

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

**Respective responsibilities of directors and auditors**

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

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the 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 Chairman's Report, the Investment Manager's Report, the Strategic Report and the Report of the Directors 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 affairs of the Company as at 31 May 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Leo Malkin (Senior Statutory Auditor)
for and on behalf of Crowe Clark Whitehill LLP
St Bride's House
10 Salisbury Square
London
EC4Y 8EH

Date: ............................................

CRAVEN HOUSE CAPITAL PLC

INCOME STATEMENT
FOR THE YEAR ENDED 31 MAY 2016

| | Notes | 2016 £'000 | 2015 £'000 |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| Gross Portfolio return | | **(845)** | (705) |
| Administrative expenses | | **(409)** | (227) |
| **OPERATING LOSS** | | **(1,254)** | (932) |
| Finance costs | 4 | **(157)** | (27) |
| Finance income | 4 | **10** | 48 |
| **LOSS BEFORE INCOME TAX** | 5 | **(1,401)** | (911) |
| Income tax | 6 | **-** | - |
| **LOSS FOR THE PERIOD** | | **(1,401)** | (911) |
| **Profit/(Loss) per share expressed In pence per share:** | | | |
| Basic and Diluted | 7 | **(0.17)** | (0.11) |

**STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 31 MAY 2016**

| | **2016** | 2015 |
|---|---|---|
| | **£'000** | £'000 |
| **LOSS FOR THE PERIOD** | **(1,401)** | (911) |
| **OTHER COMPREHENSIVE INCOME** | **-** | - |
| **TOTAL COMPREHENSIVE LOSS FOR THE PERIOD** | **(1,401)** | (911) |

**STATEMENT OF FINANCIAL POSITION**
**AS AT 31 MAY 2016**

| | Notes | 2016 £'000 | 2015 £'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| Investments at fair value through profit or loss | 8 | **4,810** | 4,673 |
| | | **4,810** | 4,673 |
| **CURRENT ASSETS** | | | |
| Trade and other receivables | 9 | **2,696** | 312 |
| Cash and cash equivalents | 10 | **64** | 217 |
| | | **2,760** | 529 |
| **TOTAL ASSETS** | | **7,570** | 5,202 |
| **EQUITY** | | | |
| **SHAREHOLDERS' EQUITY** | | | |
| Called up share capital | 11 | **8,806** | 8,526 |
| Share premium | | **10,451** | 7,391 |
| Retained earnings | | **(12,611)** | (11,210) |
| **TOTAL EQUITY** | | **6,646** | 4,707 |
| **LIABILITIES** | | | |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 12 | **509** | 104 |
| Interest bearing loans and borrowings | 13 | **415** | 391 |
| | | **924** | 495 |
| **TOTAL LIABILITIES** | | **924** | 495 |
| **TOTAL EQUITY AND LIABILITIES** | | **7,570** | 5,202 |

Approved and authorised for issue by the Board on ………………….2016 and signed on its behalf by:

..................................................................
Mr M J Pajak - Director

## STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 MAY 2016

| | Called up share capital £'000 | Profit and loss account £'000 | Share premium £'000 | Total equity £'000 |
|---|---|---|---|---|
| **Balance at 1 June 2014** | 8,519 | (10,299) | 7,310 | 5,530 |
| **Changes in equity** | | | | |
| Issue of share capital | 7 | - | 81 | 88 |
| Total comprehensive income | - | (911) | - | (911) |
| **Balance at 31 May 2015** | 8,526 | (11,210) | 7,391 | 4,707 |
| **Changes in equity** | | | | |
| Issue of share capital | 280 | - | 3,230 | 3,510 |
| Issue costs | - | - | (170) | (170) |
| Total comprehensive income | - | (1,401) | - | (1,401) |
| **Balance at 31st May 2016** | 8,806 | (12,611) | 10,451 | 6,646 |

**CRAVEN HOUSE CAPITAL PLC**

**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED 31 MAY 2016**

| | Notes | **2016** **£'000** | 2015 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash used in operations | 1 | **(109)** | (564) |
| Interest paid | | **-** | (13) |
| **Net cash used in operating activities** | | **(109)** | (577) |
| **Cash flows used in investing activities** | | | |
| Sale of fixed asset investments | | **-** | 717 |
| Issue of shares | | **1,073** | 321 |
| Repayment of loans | | **-** | (270) |
| Interest received | | **(44)** | 42 |
| **Net cash (used in)/from investing activities** | | **1,029** | 810 |
| **Cash flows used in financing** | | | |
| Advance of loans | | **(1,073)** | - |
| **Net cash (used in)/from financing** | | **(1,073)** | - |
| **Increase/(decrease) in cash and cash equivalents** | | **(153)** | 233 |
| **Cash and cash equivalents at the beginning of the year** | 2 | **217** | (16) |
| **Cash and cash equivalents at the end of the year** | 2 | **64** | 217 |
| **Cash and cash equivalents consist of:** Cash and cash equivalents included in current assets/(Trade and other payables) | | **64** | 217 |

During the year share capital called up, allotted but not fully paid amounted to £2,433,000. This amount was received post year end and advanced as loans to subsidiary undertakings.

## NOTES TO THE STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 MAY 2016

### 1. RECONCILIATION OF PROFIT/(LOSS) BEFORE INCOME TAX TO CASH USED IN OPERATIONS

| | **2016** | 2015 |
|---|---|---|
| | **£'000** | £'000 |
| Loss before income tax | **(1,401)** | (911) |
| Finance costs | **157** | 27 |
| Finance income | **(10)** | (48) |
| (Increase)/decrease in value in investments | **845** | 705 |
| | **(409)** | (227) |
| Increase/(decrease) in trade and other receivables | **49** | (198) |
| Increase/(decrease) in trade and other payables | **251** | (139) |
| **Cash used in operations** | **(109)** | (564) |

### 2. CASH AND CASH EQUIVALENTS

The amounts disclosed on the statement of cash flow in respect of cash and cash equivalents are in respect of these statement of financial position amounts:

**Year ended 31 May 2016**

| | **31.5.16** | 1.6.15 |
|---|---|---|
| | **£'000** | £'000 |
| Cash and cash equivalents | **64** | 217 |

**Year ended 31 May 2015**

| | **31.5.15** | 1.6.14 |
|---|---|---|
| | **£'000** | £'000 |
| Cash and cash equivalents | **217** | (16) |

## 1. ACCOUNTING POLICIES

**Basis of preparation**
These financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS as adopted by the EU.

Craven House Capital plc is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on the company information page. The Company is listed on the AIM Market of the London Stock Exchange (code: CRV).

The financial statements have been prepared under the historical cost convention, except to the extent varied below for fair value adjustments required by accounting standards, and in accordance with applicable International Financial Reporting Standards (IFRS) as adopted for use by the European Union. The principal accounting policies are set out below.

These financial statements are presented in pounds sterling, rounded to the nearest £'000. Pounds sterling is the currency of the primary economic environment in which the company operates.

The accounting policies adopted by the Company are consistent with those of the previous financial year.

**Going concern**
The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Report. The financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk. The Company has considerable financial resources. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

**Changes in accounting standards**
The Directors have considered the definition of an investment entity in IFRS 10 as well as the associated application guidance. The directors considered that Craven House Capital has met the definition of an investment entity.

**Standards, amendments and interpretations to be published standards not yet effective**
A number of new standards and amendments to standards and interpretations have been issued but are not yet effective and in some cases have not yet been adopted by the EU.
The Directors do not expect that the adoption of these standards will have a material impact on the financial statements of the Company in future periods.

**Financial assets**
Purchases or sales of financial assets are recognised at the date of the transaction. Where appropriate criteria are met, the Company makes use of the option of designating fixed asset investments upon initial recognition as financial assets at fair value through profit or loss. These criteria include that the fixed asset investment should meet the Company's published Investing Policy and form part of the Company's managed portfolio or similar investments. Such financial assets are carried at fair value and movements in fair value are taken through the profit and loss account. For quoted securities, fair value is either the bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted.

## 1. ACCOUNTING POLICIES - continued

**Measurement**
Financial assets at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed through the profit or loss. Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value in accordance with International Private Equity and Venture Capital Valuation ("IPEVCV") guidelines, as the Company's business is to invest in financial assets with a view to profiting from their total return in the form of capital growth and income. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in the period in which they arise.

**Valuation of investments**
Some of the Company's assets and liabilities are measured at fair value for financial reporting purposes. The Investment Manager determines the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Investment Manager uses market-observable data to the extent it is available. The Investment Manager reports its findings to the Board of Directors of the Company every quarter to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in notes 8 and 14.

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and

Level 2 fair value measurements for those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly or indirectly.

Level 3 fair value measurements are those derived from inputs that are not based on observable market data.

At the balance sheet date all of the Company's financial assets fell into Level 3.

a) Quoted investments

Where investments are quoted on recognised stock markets and an active market in the shares exists, the company values those investments at closing mid-market price on the reporting date. Where an active market does not exist those quoted investments are valued by the application of an appropriate valuation methodology as if the relevant investment was unquoted.

## 1. ACCOUNTING POLICIES - continued

**Valuation of investments (continued)**

b) Unquoted investments

In estimating the fair value for an unquoted investment, the Company applies a methodology that is appropriate in light of the nature, facts and circumstances of the investment and its materiality in the context of the total investment portfolio using reasonable data, market inputs, assumptions and estimates. Any changes in the above data, market inputs, assumptions and estimates will affect the fair value of an investment.

**Financial liabilities and equity**
Financial liabilities are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all its liabilities.

**Revenue recognition**
Revenue recognition depends on the type of revenue concerned:

- Management fees are recognised as they are earned.
- Interest income is recognised on an accruals basis as finance income.
- Investments are held at fair value and are revalued continually with any change in value recognised in the income statement as gross portfolio return.

The above policies on revenue recognition result in both deferred and accrued income.

**Taxation**
The tax expense represents the sum of the tax currently payable and deferred tax at rates substantively enacted at the balance sheet date.

**Current tax**
The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement 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 Company's liability for current tax is calculated using tax rates that have enacted by the balance sheet date.

**Deferred tax**
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences between the Company's taxable profits and its results as stated in the financial information that arises from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial information.

## 1. ACCOUNTING POLICIES – continued

**Foreign currencies**
In preparing the financial statements of the Company, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur; which form part of the net investment in a foreign operation and which are recognised in the foreign currency translation reserve.

For the purposes of presenting sterling financial statements, the assets and liabilities of the Company's foreign operations are expressed using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rate for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and recognised in a foreign currency translation reserve.

**Segment reporting**
Operating segments are reported in a manner consistent with the internal reporting provided to the Directors. The Directors, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the senior management that make strategic decisions. The Company is principally engaged in investment business; the Directors consider there is only one business segment significant enough for disclosure.

**Critical accounting estimates and judgements**
Preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Further information regarding the assumptions relied upon and sensitivity analysis around these assumptions is provided in note 14 below.

In particular, significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are in the following areas:

**Valuation of investments**
The Company has made a number of investments in the form of loans or equity instruments in private companies operating in emerging markets. The investee companies are generally at a key stage in their development and operating in an environment of uncertainty in capital markets. Should planned development prove successful, the value of the Company’s investment is likely to increase, although there can be no guarantee that this will be the case. Should planned development prove unsuccessful, there is a material risk that the Company’s investments may be impaired. The carrying amounts of investments are therefore highly sensitive to the assumption that the strategies of these investee companies will be successfully executed.

## 2. SEGMENTAL REPORTING

The operating segment has been determined and reviewed by the Directors to be used to make strategic decisions. The Directors consider there to be a single business segment being that of investing activities, therefore there is only one reportable segment.

## 3. EMPLOYEES AND DIRECTORS

| | **2016** | 2015 |
|---|---|---|
| | **£'000** | £'000 |
| Wages and salaries – Directors' remuneration | **71** | 30 |

The average monthly number if employees during the year was as follows:

| | **2016** | 2015 |
|---|---|---|
| Directors | **3** | 3 |

Directors' remuneration was split as follows;

| | **2016** | 2015 |
|---|---|---|
| | **£'000** | £'000 |
| Fees | **20** | 30 |
| Share based payments | **51** | - |
| Total | **71** | 30 |

Further details of Directors' remuneration is included in the Report of the Directors.

The highest paid Director received emoluments and benefits as follows:

| | **2016** | 2015 |
|---|---|---|
| | **£'000** | £'000 |
| Fees | **20** | 30 |

Desmond Holdings Ltd is the Company's Investment Manager. The Directors are the key management of the Company. There were no Directors (2015: none) to whom retirement benefits were accruing under money purchase schemes.

## 4. NET FINANCE INCOME

| | 2016 | 2015 |
|---|---|---|
| | £'000 | £'000 |
| Finance income: | | |
| Interest receivable | **10** | 48 |
| | **10** | 48 |
| Finance costs: | | |
| Loan interest | **157** | 27 |
| | **157** | 27 |
| **Net finance income/(expense)** | **(147)** | 21 |

## 5. LOSS BEFORE INCOME TAX

The loss before income tax is stated after charging/(crediting):

| | 2016 | 2015 |
|---|---|---|
| | £'000 | £'000 |
| Rental charges | **2** | 2 |
| Fees payable to the Company's auditor for the audit of the Company's annual accounts | **23** | 13 |
| Fees payable to the Company's auditor for other services - tax services | **3** | 3 |
| - other services | **2** | 2 |
| Foreign exchange losses/(gains) | **6** | (16) |

## 6. INCOME TAX

**Analysis of charge in the year**

| | **2016** | 2015 |
|---|---|---|
| | **£'000** | £'000 |
| Current tax: | **-** | - |
| Deferred tax | **-** | - |
| Tax on profit on ordinary activities | **-** | - |

| | **2016** | 2015 |
|---|---|---|
| | **£'000** | £'000 |
| Loss on ordinary activities before tax | **(1,401)** | (911) |

**Analysis of charge in the year**

| | **2016** | 2015 |
|---|---|---|
| | **£'000** | £'000 |
| Loss on ordinary activities multiplied by main companies rate of corporation tax in the UK of 20% (2015: 20%) | **(280)** | (182) |
| Effects of: | | |
| Loss carried forward | **280** | 182 |
| Current tax charge for the year as above | **-** | - |

At 31 May 2016 the Company had UK tax losses of approximately £4,292,000 (2015: £2,891,000) available to be carried forward and utilised against future taxable profits. A deferred tax asset has not been recognised due to uncertainties over when profits will arise.

## 7. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted loss per share earnings per share has not been disclosed as the inclusion of unexercised warrants would be anti-dilutive.

## 7. EARNINGS PER SHARE - continued

Reconciliations are set out below.

| | Earnings £'000 | 2016 Weighted average number of shares | Per-share amount Pence |
|---|---|---|---|
| **Basic EPS** | | | |
| Earning attributable to ordinary shareholders | (1,401) | 818,029,058 | -0.17 |

| | Earnings £'000 | 2015 Weighted average number of shares | Per-share amount pence |
|---|---|---|---|
| **Basic EPS** | | | |
| Earning attributable to ordinary shareholders | (911) | 799,920,183 | -0.11 |

## 8. INVESTMENTS

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

The Company adopted the recent investment methodology prescribed in the IPEVCV guidelines to value its investments at fair value through profit and loss.

The Company had the following holdings at 31 May 2016:

| Subsidiary Name | Holding | Principal Place of Business | Ownership Interest |
|---|---|---|---|
| Craven Industrial Holdings Plc | Direct | Ireland | 100% |
| Craven House Industries Ltd | Indirect | Ireland | 95% |
| Craven House Capital Nigeria Ltd | Indirect | Nigeria | 100% |
| Craven House Angola LDA | Indirect | Nigeria | 100% |
| Kwikbuild Corporation LDA | Indirect | Isle of Man | 97% |
| e-Kwikbuild Housing Co. (Pty) Ltd | Indirect | South Africa | 97% |
| Phoenix Sports (Pty) Ltd | Indirect | South Africa | 87% |
| Royalty Sports Brands (Pty) Ltd | Indirect | South Africa | 81% |
| Supernova Brands (Pty) Ltd | Indirect | South Africa | 87% |
| Geared Up Sports (Pty) Ltd | Indirect | South Africa | 87% |
| Redline Sports (Pty) Ltd | Indirect | South Africa | 87% |
| Bluesky Sports (Pty) Ltd | Indirect | South Africa | 87% |
| The Craft Factory (Pty) Ltd | Indirect | South Africa | 87% |

## 8. INVESTMENTS -continued

### Investments at fair value through profit or loss

| | Quoted Investments £'000 | Unquoted Investments £'000 | Total £'000 |
|---|---|---|---|
| At 1 June 2014 | 11 | 6,084 | 6,095 |
| Additions | - | - | - |
| Disposal | | (717) | (717) |
| Revaluations | (586) | (119) | (705) |
| Reclassification | 575 | (575) | - |
| At 31 May 2015 | - | 4,673 | 4,673 |
| Disposals | - | (91) | (91) |
| Additions | - | 1,073 | 1,073 |
| Revaluation | - | (845) | (845) |
| At 31 May 2016 | - | 4,810 | 4,810 |

### Unquoted investments

| | Equity £'000 | Convertible loans £'000 | Loan £'000 | Total £'000 |
|---|---|---|---|---|
| At 1 June 2014 | 4,773 | 91 | 1,220 | 6,084 |
| Disposals | - | - | (717) | (717) |
| Fair value movements | (550) | - | (144) | (694) |
| At 31 May 2015 | 4,223 | 91 | 359 | 4,673 |
| Disposals | - | (91) | - | (91) |
| Additions | - | - | 1,073 | 1,073 |
| Revaluation | (845) | - | - | (845) |
| At 31 May 2016 | 3,378 | - | 1,432 | 4,810 |

**8. INVESTMENTS - continued**

There was a corporate restructuring of the Company undertaken during the year, as described in the Investment Manager's report above, whereby investments were transferred from Craven House Capital Plc to its wholly owned subsidiary, Craven Industrial Holdings Plc or its subsidiaries. The revaluation outlined above represents the valuation applied to the resulting investments held by Craven Industrial Holdings Plc or its subsidiaries as at the 31 May 2016 and described in further detail below.

Unquoted investments at 31 May 2016 have been measured on a Level 3 basis as no observable market data was available. These investments are as follows:

Shares in Craven Industrial Holdings Plc are valued at £4,424,891, representing a 100% holding. These have been valued based on the underlying investments within Craven Industrial Holdings plc at the 31 May 2016. The value of Craven Industrial Holdings plc is segmented across its principal investments as follows:

> Shares in Craven House Industries Limited are valued at £204,990, representing a 95% holding. Craven House Industries Limited is the 50.1% shareholder of Finishtec Acabamento Tecnicos em Matais Ltd ("Finishtec"). This shareholding has been valued on a net assets basis which the Directors believe represents the best indication of the fair value at the year end. Previously this investment was valued at the price of the recent investment and the change in valuation method was made to reflect current market conditions.
>
> Shares in Ceniako Limited valued at £892,106 representing a 49% holding. This has been valued at the price originally paid by Craven House Capital as the Directors believe that the price of recent investment continues to represent the best indication of the fair value at the year based on the information available to them regarding net assets. There have been no changes or events subsequent to the original investment that would imply a change in the investment's fair value.
>
> Shares in Kwikbuild Corporation Ltd valued at £3,327,795 representing a 97% shareholding. This valuation is based on the value of the net assets of KwikBuild Corporation Ltd, which the Directors believe represent the best indication of the fair value at the year-end. The majority of these net assets comprise of investment in; a portfolio of agricultural and industrial investments, the valuation of which is supported by substantial land and real estate investments; and import and distribution businesses, the valuation of which is supported by a multiple of future earnings of the businesses. Previously the investment was valued at the transaction price and the change in valuation method was made to reflect current market conditions.
>
> Shares in Pressfit Holdings Plc valued at zero, representing a 22.6% holding. The value of the shares have been written down to zero as the Directors believe that this is the best indication of the value at the year end.

A loan with Kilmore Ventures Ltd is valued at £384,900. The year-end valuation is based on the agreed conversion of the loan into a facility of €500,000 to be repaid on or before 14 November 2016, which the Directors believe is the most appropriate indicator of the year end valuation based on the information available to them regarding net assets. Subsequent to the balance sheet date, this loan was settled in full.

## 9. TRADE AND OTHER RECEIVABLES

| | 2016 | 2015 |
|---|---|---|
| | £'000 | £'000 |
| Current and non current: | | |
| Other receivables | **238** | 247 |
| Unpaid share capital (Note 11) | **2,433** | - |
| Prepayments and accrued income | **25** | 65 |
| | **2,696** | 312 |

## 10. CASH AND CASH EQUIVALENTS

| | 2016 | 2015 |
|---|---|---|
| | £'000 | £'000 |
| Bank accounts | **64** | 217 |

## 11. CALLED UP SHARE CAPITAL

**Authorised**

| Equity shares Number: | Class: | Nominal Value: | 2016 £'000 | 2015 £'000 |
|---|---|---|---|---|
| 2,280,038,212 | Ordinary | 0.001 | **2,280** | 2,280 |
| 77,979,412 | Deferred | 0.09 | **7,018** | 7,018 |
| 77,979,412 | Deferred | 0.009 | **702** | 702 |
| | | | **10,000** | 10,000 |

**Allotted, called up and fully paid**

| Equity shares Number: | Class: | Nominal Value: | 2016 £'000 | 2015 £'000 |
|---|---|---|---|---|
| 1,086,452,620 (2015: 805,540,872) | Ordinary | 0.001 | **1,086** | 806 |
| 77,979,412 | Deferred | 0.09 | **7,018** | 7,018 |
| 77,979,412 | Deferred | 0.009 | **702** | 702 |
| | | | **8,806** | 8,526 |

## 11. CALLED UP SHARE CAPITAL – continued

The deferred shares carry no entitlement to receive notice of any general meeting, to attend, speak or vote at such general meeting. Holders are not entitled to receive dividends, and on a winding up of the Company holders of deferred shares are entitled to a return of capital only after the holder of each Ordinary share has received a return of capital together with a payment of £1 million per share. The deferred shares may be cancelled at any time for no consideration by way of a reduction in capital.

On 5 February 2016, the Company allotted 3,500,000 new ordinary shares to Miss A N Eavis in lieu of Directors' fees and compensation in lieu of notice for the period ended 5 February 2016. The value of the shares being £43,750.

On 17 May 2016, the Company allotted 277,411,748 new ordinary shares to various shareholders as a new issue of shares. At the 31 May 2016 unpaid share capital, included in other receivables totalled £2,433,544.

In the year ended 31 May 2015, the Company extended the time scale of 82,226,266 fully transferable exercisable warrants issued in the year ended 31st May 2012. At the date of issue the warrants could be exercised on or before 30th June 2014, this period has now been extended to 30th June 2016.

## 12. TRADE AND OTHER PAYABLES

| | **2016** | 2015 |
|---|---|---|
| | **£'000** | £'000 |
| Current: | | |
| Trade payables | **158** | 76 |
| Accruals and deferred income | **351** | 28 |
| | **509** | 104 |

## 13. FINANCIAL LIABILITIES - BORROWINGS

| | **2016** | 2015 |
|---|---|---|
| | **£'000** | £'000 |
| Current: | | |
| Other loans | **415** | 391 |

| Term and debt repayment schedule | **1 year or less £'000** |
|---|---|
| Other loans | **415** |

## 13. FINANCIAL LIABILITIES - BORROWINGS – continued

Other loans of £415,000 comprise a convertible loan made by Mr E Kalimtgis, a shareholder, totalling £327,000 and loans of £87,500 made by Wise Star Capital Investment Limited, a Hong Kong investment company. The loans were provided to enable the Company to make qualifying investments under its Investing Policy and to provide working capital for the Company.

The loan provided by Mr E Kalimtgis is a convertible loan which includes interest payable at a rate of 6% per annum. The loan was provided for 12 months dated 22 October 2014 with the holder having the option of converting the principal portion of £300,000 into 24,000,000 fully paid Ordinary Shares of 0.1p pence per share at the conversion price of 1.25 pence per share. The loan was extended to 22 October 2016 in the year. The Directors do not consider the value of the conversion rights attaching to the loans to be a material component of equity.

The loan provided by Wise Star Capital Investment Limited includes interest payable at a rate of 6% per annum. The loan was provided for 12 months dated 1 September 2011; however this loan has since been extended to at least 31 May 2017. The amount owed to Wise Star Capital Investment Limited at the balance sheet date was £87,500.

## 14. FINANCIAL INSTRUMENTS

**Financial risk management objectives and policies**

Management has adopted certain policies on financial risk management with the objective of:

i. ensuring that appropriate funding strategies are adopted to meet the Company's short-term and long-term funding requirements taking into consideration the cost of funding, gearing levels and cash flow projections;

ii. ensuring that appropriate strategies are also adopted to manage related interest and currency risk funding; and

iii. ensuring that credit risks on receivables are properly managed.

**Financial instrument by category**

The accounting policies for financial instruments have been applied to the line items below:

Financial assets at fair value through profit or loss

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and

Level 2 fair value measurements for those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly or indirectly.

Level 3 fair value measurements are those derived from inputs that are not based on observable market data.

At the balance sheet date all of the Company's financial investments fell into Level 3.

## 14. FINANCIAL INSTRUMENTS - continued

Unquoted equity investments held at fair value through profit or loss are valued in accordance with the IPEVCV guidelines as follows;

| | **2016** | 2015 |
|---|---|---|
| | **£'000** | £'000 |
| **Investment valuation methodology** | | |
| Earnings multiple | - | 517 |
| Recent investment price | 892 | 3,706 |
| Net Assets | 3,533 | - |
| | 4,425 | 4,223 |

Level 3 valuations include inputs based on non-observable market data. IFRS 13 requires an entity to disclose quantitative information about the significant unobservable inputs used. IFRS 13 and IFRS 7 requires the Directors to consider the impact of changing one or more of the inputs used as part of the valuation process to reasonable possible alternative assumptions.

20% of Level 3 equity investments are held at recent investment price, supported by information available to the Directors regarding net assets. Directors have considered a number of reasonable possible alternative assumptions regarding the value of the net assets. A reasonable change to the input assumptions, for example a 10% increase or decrease in foreign exchange rates, would lead to a decrease or increase in the valuation of these investments of up to £90,000.

80% of Level 3 investments are valued on a net assets basis, meaning that the Investment Manager has derived an enterprise value for these investments from the perspective of a market participant and from the fair value of the underlying investments. Directors have considered a number of reasonable possible alternative assumptions regarding the value of the net assets. A reasonable change to the input assumptions, for example a 10% increase or decrease in the value of the underlying assets would lead to a decrease or increase in the valuation of these investments of up to £353,300.

The valuation method applied to each equity investment is that which is considered most appropriate with regard to the stage of development of the investee business and the IPEVCV guidelines. In applying the price of recent investment valuation methodology the basis used is the initial cost of the investment.

Investments in debt instruments are valued at their recoverable amounts.

All other financial instruments, including cash and cash equivalents, trade and other receivables, trade and other payables and loans and borrowings, are measured at amortised cost.

Due to their short-term nature, the carrying values of cash and cash equivalents, trade and other receivables, trade and other payables and loans and borrowings approximates their fair value.

## 14. FINANCIAL INSTRUMENTS – continued

### Credit risk

The Company's credit risk is primarily attributable to other receivables. Management has a credit policy in place and the exposure to credit risks is monitored on an ongoing basis. In respect of other receivables, individual credit evaluations are performed whenever necessary. The Company's maximum exposure to credit risk is represented by loans, both those held as unquoted investments and included in other receivables, and cash balances. The Company monitors the financial position of borrowing entities on an ongoing basis and is satisfied with the quality of the debt. Investment of surplus cash balances are reviewed on an annual basis by the Company and it is satisfied with the choice of institution.

### Interest rate risk

The Company currently operates with positive cash and cash equivalents as a result of issuing share capital in anticipation of future funding requirements. As the Company has no borrowings from the bank and the amount of deposits in the bank are not significant, the exposure to interest rate risk is not significant to the Company.

### Liquidity risk

The Company manages its liquidity requirements by the use of both short-term and long-term cash flow forecasts. The Company's policy to ensure facilities are available as required is to issue equity share capital in accordance with agreed settlement terms with vendors or professional firms, and all are due within one year.

The table below summarises the maturity profile of the Company’s financial liabilities based on contractual discounted payments.

| Year ended 31 May 2016 | On demand £000 | Less than 3 months £000 | 3 to 12 months £000 | Total £000 |
|---|---|---|---|---|
| Trade payables | 158 | - | - | 158 |
| Accruals and deferred income | 351 | - | - | 351 |
| Interest bearing loans and borrowings | - | - | 415 | 415 |
| | **509** | **-** | **415** | **924** |
| Year ended 31 May 2015 | | | | |
| Trade payables | 76 | - | - | 76 |
| Accruals and deferred income | 28 | - | - | 28 |
| Interest bearing loans and borrowings | - | - | 391 | 391 |
| | **104** | **-** | **391** | **495** |

## 14. FINANCIAL INSTRUMENTS – continued

### Price risks

The Company's securities are susceptible to price risk arising from uncertainties about future value of its investments. This price risk is the risk that the fair value of future cash flows will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual investment or financial instrument or its holder or factors affecting all similar financial instruments or investments traded in the market.

During the year under review, the Company did not hedge against movements in the value of its investments. A 10% increase/decrease in the fair value of investments would result in a £481,000 (2015: £467,300) increase/decrease in the net asset value.

While investments in companies whose business operations are based in emerging markets may offer the opportunity for significant capital gains, such investments also involve a degree of business and financial risk, in particular for unquoted investments.

Generally, the Company is prepared to hold unquoted investments for a middle to long time frame, in particular if an admission to trading on a stock exchange has not yet been planned. Sale of securities in unquoted investments may result in a discount to the book value.

### Currency risks

The Company is exposed to foreign currency risk on its investments held at fair value and adverse movements in foreign exchange rates will reduce the values of these investments. There is no systematic hedging in foreign currencies against such possible losses on translation/realisation. Otherwise the Company operates primarily within its local currency.

The sensitivity to a reasonable possible change in US$ exchange rates, with all other variables held constant, would be £109,476 (2015: £94,000) which would directly affect both profits before tax and the effect on pre tax equity. This is assuming a 5% variance. The impact on the profit before tax and pre tax equity is due to the fair value adjustment of assets and liabilities. The Company’s exposure to other foreign currency changes is not deemed to be material.

### Capital management

The Company's financial strategy is to utilise its resources to further grow its portfolio. The Company keeps investors and the market informed of its progress with its portfolio through periodic announcements and raises additional equity finance at appropriate times.

The Company regularly reviews and manages its capital structure for the portfolio companies to maintain a balance between the higher shareholder returns that might be possible with certain levels of borrowing for the portfolio and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure of the portfolio in the light of changes in economic conditions. Although the Company has utilised loans from shareholders to acquire investments, it is the Company's policy as far as possible to finance its investing activities with equity and not to have gearing in its portfolio.

At the balance sheet date the capital structure of the Company consisted of borrowings disclosed in note 13, cash and cash equivalents and equity comprising issued capital and reserves.

## 15. RELATED PARTY DISCLOSURES

During the year, the Company entered into the following transactions with related parties and connected parties:

**Loans from Wise Star Capital Investment Limited**
At the year end the Company owed £87,462 to Wise Star Capital Investment Limited, Mr M J Pajak was Director of Wise Star Capital Investment Limited during the year. Details of the loan are set out in note 13.

**Loans from Mr E Kalimtgis**
In a prior year the Company received a loan of £300,000 from Mr E Kalimtgis, a shareholder. £16,000 interest was charged in the year. At the year end the balance owed to Mr E Kalimtgis was £327,000. Details of the loan are set out in note 13.

**Management fees payable to Desmond Holdings Limited**
During the year the Company incurred management fees of £70,000 from Desmond Holdings Limited. At the year end, included in trade creditors, is an amount of £52,500 payable to Desmond Holdings Limited in respect of unpaid invoices.

**Directors and key management**
Amounts payable in the year to directors (who also comprise key management) are set out in the Directors' Remuneration report. At 31 May 2016 no amounts were payable to directors.

All key management personnel are Directors and appropriate disclosure with respect to them is made in note 3 of the financial statements. There are no other contracts of significance in which any Director has or had during the year a material interest.

## 16. EVENTS AFTER THE REPORTING PERIOD

**16 June 2016:** The Company announced a placing of 266,828,899 new ordinary shares of 0.1p each, at a price of 1.25p per share, raising total proceeds of £3.34 million in cash.

**1 August 2016:** The Company completed the disposal of its investment in the mortgage over the Green Isle Hotel.

**4 August 2016:** The Company completed a consolidation and redenomination of its share capital whereby each block of 734 ordinary shares of £0.001 each was converted into one ordinary share of US$1.00 each.

**30 August 2016:** The Company announced a placing of for 205,423 new Ordinary Shares in the Company priced at $12.17, amounting to an aggregate subscription of $2,500,000. These funds were immediately provided to the subscriber, Xenod Tour Oikod Epeix Afon Daktylidi AE ("Xenod"), on the form of a convertible loan. The loan has a term of five years and, upon maturity, is convertible for up to 30% of the equity of Xenod. Xenod is a Greek holding company whose sole asset is the Hotel Yiannaki; a 45 room, four-star hotel, located on the Greek Island of Mykonos.

## 16. EVENTS AFTER THE REPORTING PERIOD - continued

**12 September 2016:** The Company announced a placing of 150,800 new ordinary shares of $1.00 each, at a price of $12.50 per share, raising total proceeds of $1.885 million in cash.

**16 September 2016:** The Company completed the acquisition of a portfolio of non-performing loans from a major South African bank for a total consideration of ZAR 20,000,000 (twenty million South African Rand).

**30 September 2016:** The Company provided a $1,500,000 convertible loan to FMCD Ltd ("FMCD"), a company specialising in the import, distribution and sale of lubricants and food products into Angola. The loan has a term of one year, and carries an interest rate of 5%. Upon maturity, the loan will be repaid, renewed or is convertible for up to 10% of the equity in FMCD at the discretion of Craven House.

**19 October 2016:** The Company announced that it has provided an additional $1,965,000 convertible loan to FMCD. The loan has a term of one year, and carries an interest rate of 5%. Upon maturity, the Loan will be repaid, renewed or is convertible for up to 13% of the equity in FMCD at the discretion of Craven House. The loan is an additional facility to that provided to FMCD on the 30 September 2016. In total, the convertible loans provided to FMCD equal $3,465,000 and are convertible for up to 23% of the equity in FMCD. The loans benefit from a senior secured position; with a security package including four hectares of leasehold land in the Angolan enclave of Cabinda.