10 September 2019

CIP MERCHANT CAPITAL LIMITED
("CIP Merchant Capital" or the "Company")

INTERIM RESULTS FOR THE PERIOD ENDED 30 JUNE 2019

CIP Merchant Capital is pleased to announce its Interim Report and Unaudited Consolidated Financial Statements for the six month period ended 30 June 2019.

Highlights

- The Company is now approximately 50% invested
- Further debt investment of €4.05 million in Coro Energy plc
- Further equity investment of $0.5 million in Orthofix Medical Inc, providing CIP with an equity interest of 0.6%
- Initial equity investment of £3.2 million in CareTech Holdings plc, providing CIP with an equity interest of 1.0%
- Competed syndication of minority stake in 7Star Srl, with €1.7 million sold to co-investors, reducing CIP economic interest from 49% to 35.4%, though the Company retains control of the voting rights over the shares transferred
- Initial equity investment of £0.1 million in Brave Bison Group plc, followed by further post period end equity investments, for a total consideration of £0.8 million, providing CIP with an equity interest of 7.7% (as at 19 August 2019)
- Post the period end, initial equity investment of £0.8 million in Proactis Holdings plc, providing CIP an equity interest of 2.5% (as at 1 July 2019)

A presentation on the Company is also now available on the Company's website www.cipmerchantcapital.com.

For further information, please contact:

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The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014.

Chairman's Statement

Introduction

Following CIP Merchant Capital Limited's (the "**Company**") first year of trading on the AIM market, I am pleased to present the Company's Interim Report and Unaudited Consolidated Financial Statements for the period from 1 January 2019 to 30 June 2019. (the "**Interim Financial Statements**").

Since the Company's admission to AIM, the Investment Manager and its advisors have been busy sourcing opportunities and as at 30 June 2019 we had invested approximately 47% of your Company's net assets. Following recent investments in Brave Bison Group plc ("Brave Bison") and Proactis Holdings plc ("Proactis") since the end of June, this has now increased to approximately 50%.

The Company remains focused on investing the remainder of its cash in accordance with its investment policy and will keep shareholders updated in this regard. In accordance with its cash management policy, as at 30 June 2019, the Company had invested its liquidity in short dated sterling treasury and corporate bonds. Further details on the current portfolio are set out in the Investment Managers Report.

Before moving on, it is my duty to note that the developments on the global scene are still unclear, with increasing tensions among major countries. One of the main threats we are concerned about is the outcome of Brexit given the continuing delays and it is still unclear what will happen at the end of October and beyond.

Lastly, I urge shareholders to keep in mind that the Board resolved not to hedge the Company's investments in foreign currencies, and hence shareholders are encouraged to ponder thoroughly and carefully the impact of a significant adjustment of sterling to unforeseen outcomes of the negotiations between the United Kingdom and the European Union.

Performance
The Company's published NAV as at the end of 30 June 2019, was 88.51p per share. During the period, the share price gradually decreased from 72p per share as at the close of business 28 December 2018 to around 55p per share in May 2019. At the close of business 28 June 2019, the price per share had recovered to 64.50p, which represented a discount of 27.5% to the then NAV per share of 89p per share. The Company's shares have traded at an average discount of 22.8% to NAV during the period. As at 6 September 2019, the Company's share price was 54.00p per share, representing a discount of 40.09% to the NAV on 6 September of 90.13p per share.

During the period, the Company's NAV total return was 1.5%.

Dividends
There were no dividends declared in the period. As stated in the Admission Document, it is the Company's intention to reinvest the net proceeds of any net income or realisations in the portfolio.

Corporate Governance
The Company seeks to comply with the AIC Code and undertakes to ensure that the Directors are kept up to date with matters concerning listed investment companies like ours. The AIC updated its Code on 5 February 2019 to reflect revised Principles and Provisions included in the UK Corporate Governance Code which was revised in 2018. These changes apply to financial years beginning on or after 1 January 2019 and the Directors intend to report on the Company's compliance with the changes in the Annual Report for the year ended 31 December 2019.

The Board take their fiduciary and corporate governance responsibilities seriously and I encourage Shareholders to contact us at info@cipmerchantcapital.com should they have any questions or would like to discuss anything with us.

Adrian Collins
Non-executive Chairman

Investment Manager's Report

Investment Strategy
The Company aims to generate risk-adjusted returns through capital appreciation, investing primarily in stocks and equity securities and taking a private equity approach to achieve a target IRR of 20% over the medium to long term. Key investment targets will predominantly be listed on a Western European stock exchange and will typically have a market capitalisation below £500 million, which the Board believes often puts such companies below the radar of the larger institutional investors in the market. A flexible mandate also allows part of the Company's capital to be deployed in debt, as well as funds or private equity.

The Investment Manager is continuously reviewing and considering various investment opportunities that may meet the Company's investment objectives and investing policy. The opportunities are actively sourced by the Investment Manager through its network of contacts and through a proactive identification of target investments through its proprietary database. Once fully invested, the Company expects that its investments will predominately be in the following industries; oil and gas; healthcare; pharmaceutical; and real estate.

Market Conditions

The first half of 2019 was marked by the recovery of the markets following the period of significant poor performance experienced towards the end of 2018, showing improvements in global equities. In the first half of 2019, the FTSE AIM 100 index rose by 9% which was in line with the FTSE 100 index which rose 10%. Similarly, in Germany, the SDAX grew by 20% and the DAX by 17%. In the US the Russel 2000 grew by 16% compared with a 14% increase of the DJIA: and in Italy, FTSE AIM Italia grew by 15% vis-à-vis a 16% increase in FTSE MIB.

Public markets are though heading to a potential tumultuous second half of 2019, due to a number of threats and increasing tensions at political level. Since the end of June, the European markets have shown signs of weakness due to worries about tariffs the US is threatening to impose on the EU.

Performance Review

Our focus has remained both on seeking to identify opportunities to invest in and supporting existing investments. On the first point, we screen markets, analysing and meeting with potential investee companies. On the second point, we monitor carefully the performances of the businesses, compare them against our investment case and maintain a dialogue with the top executives and other shareholders in the portfolio companies.

As at 30 June 2019, the Company's portfolio comprises six investments, most of them still in an early stage in our investment cycle and hence it is still too early to see the expected progress in the value creation leading to a recovery of the Net Asset Value. Since the end of June, we progressed in building the Company's interest in Brave Bison and acquired an interest in Proactis.

Portfolio Review

Portfolio Company	Industry	Country	Period end – 30 June 2019		31 August 2019	
			£	*% of NAV*	*£*	*% of NAV*
Alkemy SpA	Software/Tech	Italy	3,674,735	7.5%	3,335,374	6.8%
Brave Bison Group Plc	Software/Tech	UK	56,358	0.1%	655,656	1.3%
CareTech Holding	Healthcare	UK	3,543,500	7.3%	3,477,000	7.1%
Coro Energy Plc	Oil & Gas	UK	2,938,356	6.0%	3,616,438	7.4%
Coro Energy Plc**	Oil & Gas	UK	306,023	0.6%	441,559	0.9%
Coro Energy Plc*	Oil & Gas	UK	3,111,910	6.4%	3,171,519	6.5%
Orthofix Medical Inc	Healthcare	US	4,652,660	9.6%	4,667,433	9.6%
Happy Friends	Healthcare	Italy	3,945,956	8.1%	3,987,702	8.1%
Proactis Holdings Plc	Software/Tech	UK	–	–	1,150,000	2.3%
Portfolio			**22,229,498**	**45.6%**	**24,502,681**	**50.0%**

**Eurobond*

***Warrants over shares in Coro Energy Plc*

<u>*Alkemy SpA*</u>

Alkemy SpA ("**Alkemy**") continues to progress its transition from AIM Italia to the STAR segment of Borsa, Italiana's Main Market MTA, which was approved by shareholders in June 2019 and is expected to give more visibility to the shares and provide access to a broader investor base and assist in a re-rating of its share price.

In late August 2019, Alkemy announced 1st half 2019 results, in line with market expectations, showing +53% growth in revenue vis-à-vis 1H2018, to €41.7 million, +42% in EBITDA to €2.7 million and +33% in Net Income.

<u>*Brave Bison Group plc*</u>

Between the end of June and the end of August 2019, the Company has built a 7.7% stake in Brave Bison Group plc ("**Brave Bison**"), a video producing company quoted on AIM. With approximately £3.7 million in cash as at 30 June 2019, revenues for the 2018 year in excess of £21.2 million (£10.1 million in first half of 2019) and having announced a maiden EBITDA in the last fiscal year, it provides indications of positive growth.

CareTech Holdings plc

CareTech Holdings plc ("**CareTech**") announced its interim results for six months ended 31 March 2019 in late June 2019, showing an acceleration not only in terms of revenue and EBITDA on a like-for-like basis, but also improvements due to the acquisition of Cambian Group plc. The enlarged group generated over £190 million in revenue with an underlying EBITDA growing 71% to over £33 million.

Coro Energy plc

After the completion of the issue of the Eurobonds in April 2019, in which the Company subscribed for €4.05 million, Coro Energy plc ("**Coro**") steered its attention toward progressing its exploration programme. Having received the authorisations from the Indonesian authorities, a jack up rig has been contracted for a two well programme, with one planned to be an exploration well to test the Tambak prospect and one to the intra-Muda sandstone reservoir in the southern area of the Mako gas field.

The rig mobilisation from Singapore is anticipated in late September, with continuous drilling and testing planned to last until November. Despite the progress in developing and advancing its business, Coro's valuation (and hence the share price) still struggles to align with the value of the assets acquired over the last year.

Happy Friends

7Star Srl ("**Happy Friends**") has opened a second veterinary hospital in Brescia and is progressing with the works for further openings. At the headquarters, a medical coordinator and a business developer were hired and are expected to contribute to the roll out of the growth strategy. At the same time, the Company completed the syndication of the investment in June 2019, with a €1.7 million stake of the €6.1 million total investment sold to co-investors.

Orthofix Medical Inc.

Orthofix Medical Inc. ("**Orthofix**") announced the results for the first and second quarter of 2019. The first quarter of 2019 showed revenues in line with guidance, with EBITDA at the lower end of the spectrum. At the beginning of August, Orthofix announced the 2nd quarter results, showing an increase of 3.9% in net sales compared to prior year (5.0% on a constant currency basis) despite some weakness in the EBITDA due to the marketing effort to launch a new cervical disc product. This new product has already generated US$0.5 million sales since June, when Orthofix actually began its marketing of the product. The succession plan for the CEO was announced, with a seasoned orthopaedic and spine executive who will replace the current President and CEO on 1 November 2019. The share price increased 4% following this second announcement. Management has reiterated its guidance for 2019 stated at the beginning of the year.

Proactis Holdings plc

After 30 June 2019, the Company built a 2.5% stake in Proactis Holdings plc ("**Proactis**"), a software company in the procurement industry with clients in a number of industries and geographies, quoted on AIM.

Thanks to the Software-as-a-Service business model, combined with a strong retention rate, Proactis has annualised recurring revenue of US$47.6 million generating an EBITDA of approximately US$16.0 million.

Shortly after the Company's investment, Proactis announced in late July that it had received a preliminary unsolicited approach from a US-based investor with regard to an offer for the company and a number of preliminary unsolicited expressions of interest from other parties. Whilst the Proactis board has confirmed its confidence in the prospects and position of the company as an independent business, it has commenced a formal process to explore its strategic options and to review the expressions of interest received.

Cash Management

In accordance with its cash management policy, the Company has invested approximately £19.0 million in short dated treasury and corporate bonds as at 30 June 2019. In addition, another £2.35 million was put on a weekly deposit.

Outlook

We are constantly screening investment opportunities and seeking to employ the Company's funds. This means not only that additional investments are expected to be completed going forward, but also that further capital could be used to support our existing portfolio companies.

The prolonged market uncertainties, especially the Brexit negotiations and trade war between Europe and the US, give us reason to believe that it is prudent and in the Company's shareholders' best interests to wait, where applicable, until negative news affects the share price of a potential investment instead of investing too early before potential negative macroeconomic impacts are experienced by such targets. Accordingly, given this prudent approach to investing, the Company is not yet fully invested and it is now expected that it will take at least until the end of 2020.

All of the Company's investee companies are pursuing strategies in line with the Company's investment targets, which has already led to material developments at the portfolio company level. It is hoped that the market will value the progress in these companies, leading to improvements in the share prices of investee companies which will consequently lead to an improvement in the NAV of the Company.

Unaudited Condensed Consolidated Statement of Comprehensive Income for the period from 1 January 2019 to 30 June 2019

	Notes	Period from 1 January 2019 to 30 June 2019 £ (Unaudited)	Period from 13 September 2017 to 30 June 2018 £ (Unaudited)
INVESTMENT INCOME			
Net gains / (losses) on investments at fair value through profit or loss	**4**	804,986	(972,946)
Foreign exchange losses		(11,389)	-
NET INVESTMENT INCOME / (LOSS)		**793,597**	**(972,946)**
Bank Interest		1,664	-
EXPENSES			
Investment management fees	**3,9**	(489,216)	(536,281)
Directors' fees	**9**	(43,750)	(61,729)
Secretarial and administration fees	**3**	(22,172)	(48,853)
Advisory and consultancy fees		(23,370)	(27,118)
Legal and professional fees		(18,180)	(15,201)
Brokerage and custody fees		(10,787)	(12,841)
Audit fees		(9,464)	(8,916)
Other fees		(44,875)	(24,605)
TOTAL EXPENSES		**(661,814)**	**(735,544)**
PROFIT / (LOSS) FOR THE FINANCIAL PERIOD		**133,447**	**(1,708,490)**
Interest payable and similar charges		(53)	-
TOTAL COMPREHENSIVE INCOME		**133,394**	**(1,708,490)**

EARNINGS / (LOSS) PER ORDINARY SHARE			
Basic and diluted earnings / (loss) per share	**14**	**0.00**	**(0.03)**

Unaudited Condensed Consolidated Statement of Financial Position
As at 30 June 2019

	Notes	As at 30 June 2019 £ (Unaudited)	As at 31 December 2018 £ (Audited)
CURRENT ASSETS			
Investments at fair value through profit and loss	**4**	41,253,014	42,256,877
Receivables and prepayments	**5**	1,649,301	468,001
Cash and cash equivalents		5,621,556	5,635,760
		7,270,857	**6,103,761**
TOTAL ASSETS		**48,523,871**	**48,360,638**
CURRENT LIABILITIES			
Overdraft		(14)	-
Payables and accruals	**6**	(337,439)	(307,614)
TOTAL NET ASSETS		**48,186,418**	**48,053,024**
EQUITY			
Share capital	**7**	52,446,105	52,446,105
Retained earnings		(4,259,687)	(4,393,081)
TOTAL EQUITY		**48,186,418**	**48,053,024**
		£	**£**
Net Asset Value per share	**10**	**0.87**	**0.87**

Unaudited Condensed Consolidated Statement of Changes in Equity
for the period from 1 January 2019 to 30 June 2019

	Period from 1 January 2019 to 30 June 2019	
	Share	**Retained**

	capital £ (Unaudited)	Earnings £ (Unaudited)	Total Equity £ (Unaudited)
Total Equity as at 1 January 2019	52,446,105	(4,393,081)	48,053,024
Total comprehensive income for the period	-	133,394	133,394
Total Equity as at 30 June 2019	**52,446,105**	**(4,259,687)**	**48,186,418**

	Period from 13 September 2017 to 30 June 2018		
	Share capital £ (Unaudited)	**Retained Earnings £ (Unaudited)**	**Total Equity £ (Unaudited)**
Total Equity as at 13 September 2017	**-**	**-**	**-**
Transactions with Shareholders:			
Shareholders proceeds from issues of shares	55,000,002	-	55,000,002
Cancellation of shares	(2)	-	(2)
Expenses of share issue	(2,553,895)	-	(2,553,895)
Total transactions with shareholders	**52,446,105**	**-**	**52,446,105**
Total comprehensive loss for the period	-	(1,708,490)	(1,708,490)
Total Equity as at 30 June 2018	**52,446,105**	**(1,708,490)**	**50,737,615**

Unaudited Condensed Consolidated Statement of Cash Flows
for the period from 1 January 2019 to 30 June 2019

	Period from 1 January 2019 to 30 June 2019 £ (Unaudited)	Period from 13 September 2017 to 30 June 2018 £ (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Total comprehensive income / (loss)	133,394	(1,708,490)
Adjustments for:		
Decrease / (increase) in receivables and prepayments	340,115	(223,838)
(Decrease) / increase in payables and accruals	(24,962)	292,669
Interest Paid	53	-
Loss on exchange movements	11,389	-
Unrealised (gains) / losses on revaluation of investments	(804,987)	972,946
Investment Income	293,673	230,733
Purchase of investments	(35,799,091)	(48,107,655)
Sale of investments	35,847,640	3,000,000

NET CASH USED IN OPERATING ACTIVITIES	**(2,776)**	**(45,543,635)**
Interest Paid	(53)	-
NET CASH USED IN OPERATING ACTIVITIES	**(2,829)**	**(45,543,635)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of ordinary shares	-	55,000,002
Cancellation of ordinary shares	-	(2)
Expenses of ordinary shares issue	-	(2,553,895)
NET CASH GENERATED FROM FINANCING ACTIVITIES	**-**	**52,446,105**
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	**(2,829)**	**6,902,470**
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
At the beginning of the period	5,635,760	-
Net (decrease) / increase in cash and cash equivalents	(2,829)	6,902,470
Gains / (losses) on exchange movements	(11,389)	-
At the end of the period	**5,621,542**	**6,902,470**
Comprised of:		
Cash and cash equivalents	5,621,556	6,902,470
Overdraft	(14)	-

Notes to the Unaudited Condensed Consolidated Interim Financial Statements
For the period from 1 January 2019 to 30 June 2019

1. PRINCIPAL ACTIVITES

The Company was incorporated with limited liability in Guernsey under the Companies (Guernsey) Law, 2008, as amended on 13 September 2017 with registered number 64013, and is regulated by the Guernsey Financial Services Commission (the "**GFSC**") as a registered closed-ended investment company. The Company commenced business following the admission of the Company's shares to trading on the AIM market of the London Stock Exchange on 22 December 2017.

The registered office of the Company is at 3rd Floor, 1 Le Truchot, St Peter Port, Guernsey, GY1 1WD.

The investment objective of the Company is to generate risk-adjusted returns for Shareholders through investment in equity and equity-related products and instruments, by targeting appreciation in the value of its investments over the medium to longer term, principally through capital growth.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently, unless otherwise stated.

Basis of preparation
The Unaudited Interim Financial Statements for the period from 1 January 2019 to 30 June 2019 have been prepared on a going concern basis in accordance with IAS 34, the AIM Rules for Companies and applicable legal and regulatory requirements.

The Unaudited Interim Financial Statements should be read in conjunction with the Annual Report and Financial Statements for the period ending 31 December 2018, which were prepared in accordance with International Financial Reporting Standards **("IFRS")** and which received an unqualified audit report.

These financial statements are presented in Sterling, the Company's functional currency, being the currency of the primary economic environment in which the Company operates.

Going concern
In assessing the going concern basis of accounting the Directors have had regard to the guidance issued by the Financial Reporting Council. After making enquiries, and bearing in mind the nature of the Company's business and assets, the Directors consider 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.

Investment entity exemption
Investments are made by the Company via its Limited Partnership – Merchant Capital LP (the "**Limited Partnership**"). The Limited Partnership has met the criteria within IFRS 10 to qualify as an investment entity.

As per IFRS 10 an investment entity is an entity that obtains funds from one or more investors for the purpose of providing those investors with investment management services, commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both, and measures and evaluates the performance of substantially all of its investments on a fair value basis.

The Company has therefore not consolidated the Limited Partnership on the basis of the Limited Partnership being an investment entity. The investment in the Limited Partnership has therefore been reflected at fair value.

Basis of Consolidation

The "**Group**" is defined as the Company and its subsidiary Merchant Capital GP Limited ("**GP**").

As the GP is itself not an investment entity, and is solely in the structure to be the GP to the Limited Partnership which itself is providing services to the Company, it has been consolidated.

Where the Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

All intra-group transactions, balances, income and expenses are eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted across the Group.

Critical Accounting Estimates and Judgements
When preparing the Unaudited Interim Financial Statements Management relies on a number of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results could differ from those estimates and assumptions.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the financial statements were the same as those applied to the Annual Report and Financial Statements for the period ended 31 December 2018.

Financial assets

Classification

The Group financial assets are classified in the following measurement categories:

- measured subsequently at fair value or through profit or loss; and
- measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

At initial recognition, the Group measures a financial asset at its fair value, plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets held at amortised cost
Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. These assets are subsequently measured at amortised cost using the effective interest method.

The Group assesses on a forward looking basis the expected credit losses associated with its financial assets held at amortised cost. The Group has elected to apply the simplified approach permitted by IFRS 9 in respect of trade and other receivables. This approach requires expected lifetime losses to be recognised from initial recognition of the receivables.

The Group's financial assets held at amortised cost include trade and other receivables and cash and cash equivalents.

Financial assets at fair value through profit or loss.
The investment into the Limited Partnership is measured at fair value as the business model is for capital appreciation and the Group manages and evaluates the performance on a fair value basis. The Limited Partnership holds listed and unlisted investments.

The change in fair value is recognised in profit or loss and is presented within the 'net change in fair value on financial assets in the consolidated statement of comprehensive income.

Recognition, derecognition and initial measurement
A financial asset (in whole or in part) is derecognised either (i) when the Group has transferred substantially all the risks and rewards of ownership; or (ii) when it has neither transferred nor retained substantially all the risks and rewards and when it no longer has control over the assets or a portion of the asset; or (iii) when the contractual right to receive cash flow has expired.

Financial liabilities

Recognition
Financial liabilities are recognised in the Condensed Consolidated Statement of Financial Position when the Group becomes a party to the contractual provisions of the relevant financial instrument. Financial liabilities are initially recognised at fair value.

Classification and measurement
The Group only has financial liabilities which are classified as amortised cost.

Financial liabilities measured at amortised cost

Other payables do not bear interest and are stated at their monetary value. Other payables are recorded to the extent that a financial obligation exists to third parties.

De-recognition of financial liabilities
A financial liability (in whole or in part) is derecognised when the Group's contractual obligation to deliver cash or other financial assets is extinguished i.e. is discharged, expires or is cancelled. Any gain or loss on de-recognition is recognised in the Condensed Consolidated Statement of Comprehensive Income.

Segmental reporting
The decision maker is the Board of Directors. The Directors are of the opinion that the Group is engaged in a single segment of business with the primary objective of investing in securities to generate capital growth for shareholders. Consequently, no business segmental analysis is provided.

3. SIGNIFICANT ONGOING AGREEMENTS

The following significant contracts have been entered into by the Company:

Investment Management Agreement
The Company, the GP and Merchant Capital Manager Limited (the "**Investment Manager**") have entered into the Investment Management Agreement dated 15 December 2017. Under the Investment Management Agreement, the Investment Manager has been appointed to act as the Group's investment manager and AIFM, subject to the overall control and supervision of the Directors.

The Investment Manager receives from the Company an investment manager fee of 2.0% per annum of the prevailing Net Asset Value. The management fees are calculated on the last day of each quarter and are payable in arrears.

Administration Agreement
Under the administration agreement, Maitland Administration (Guernsey) Limited (the "**Administrator**") receives from the Company a fee computed and payable quarterly in arrears. The fee is calculated at the rate of 0.09% of the Net Asset Value of the Company with a minimum fee per annum of £40,000 paid on a quarterly basis.

3. SIGNIFICANT ONGOING AGREEMENTS

The Administrator also receives a quarterly periodic fee in respect of the Company Secretarial Services of £40,000 per annum. The Administrator is also reimbursed all out-of-pocket expenses reasonably incurred.

Merchant Capital Limited Partnership Agreement
The Limited Partnership Agreement is an agreement between the GP, the Company and the Investment Manager dated 30 November 2017 pursuant to which the parties have agreed to establish the Limited Partnership in order to make investments pursuant to the Company's investing policy. The Limited Partnership shall continue until the one hundredth anniversary of the date of its registration under the Limited Partnership (Guernsey) Law, 1995 (the "**Partnership Law**") unless it is dissolved or its life is extended under the Limited Partnership Agreement.

The GP has agreed to act as general partner of the Limited Partnership and will be solely responsible for the conduct and management of the Limited Partnership's business. The limited partners in the Limited Partnership, namely the Company and the Investment Manager, shall take no part in the management and control of the business and affairs of the Limited Partnership, and shall have no right or authority to act for the Limited Partnership or to take any part in or in any way interfere in the conduct or management of the Limited Partnership or to vote on matters relating to the Limited Partnership other than as set forth in the Limited Partnership Agreement and/or as permitted by the Partnership Law.

The GP, the Company and the Investment Manager have made capital contributions of £1, £799 and £200 to the Limited Partnership respectively. The Company is required to make loans to enable the Limited Partnership to meet its obligations as they fall due for such amount and for such purpose as the GP may request on not less than five business days' written notice (or such shorter period as may be necessary in an emergency). Where the Company makes a loan to the Limited Partnership, the Limited Partnership shall not pay interest on any loan and all loans shall be unsecured. While it remains a limited partner of the Limited Partnership the Company shall not be entitled to be repaid all or any part of a loan other than on liquidation of the Limited Partnership or realisations by the Limited Partnership.

The Investment Manager will receive 20% of the net realised cash profits from investments and follow-on investments made over the relevant period once the Company has received all loan capital and a preferred return that equates to an IRR of 5% for the relevant period and associated follow-on period.

4. INVESTMENTS

	Limited Partnership £	Direct Investments £	Total Investments £
Opening fair value as at 1 January 2019	16,351,413	25,905,464	42,256,877
Additions at cost	6,715,935	29,137,944	35,853,879
Disposal proceeds	(1,516,125)	(35,852,930)	(37,369,055)
Net realised loss on disposal of investments	(6)	(457,501)	(457,507)
Net unrealised gains on revaluation of investments	679,055	289,765	968,820
Closing fair value as at 30 June 2019	**22,230,272**	**19,022,742**	**41,253,014**

	Limited Partnership £	Direct Investments £	Total Investments £
Opening fair value as at 13 September 2017	-	-	-
Additions at cost	19,520,047	63,256,500	82,776,547
Disposal proceeds	-	(37,000,000)	(37,000,000)
Net realised loss on disposal of investments	-	(23,075)	(23,075)
Net unrealised gains on revaluation of investments	(3,168,634)	(327,961)	(3,496,595)
Closing fair value as at 31 December 2018	**16,351,413**	**25,905,464**	**42,256,877**

	30 June 2019 £	31 December 2018 £
Net realised loss on disposal of investments	(457,507)	(23,075)
Net unrealised gains / (losses) on revaluation of investments	968,820	(3,496,595)
Investment Income	293,673	503,801
Net gains / (losses) on investments at fair value through profit or loss	**804,986**	**(3,015,869)**

5. RECEIVABLES AND PREPAYMENTS

	30 June 2019 £	31 December 2018 £
Amounts due from brokers*	1,521,415	-
Accrued Income	118,383	458,181
Prepayments	9,503	9,820

	1,649,301	**468,001**

***Sale of stake to co-investors of Happy Friends, trade date 28 June 2019, settled 2 July 2019.

6. OTHER PAYABLES AND ACCRUALS

	30 June 2019 £	31 December 2018 £
Accrual for:		
Investment management fee	248,026	241,805
Administration and Company Secretarial fee	10,922	20,964
Audit Fee	7,934	17,500
Amounts due to brokers	54,787	-
Other expenses	15,770	27,345
	337,439	**307,614**

7. SHARE CAPITAL

Ordinary shares	**Number of shares**	**Share capital £**
Opening balance	55,000,000	52,446,105
Issue of shares – Gross proceeds	-	-
Issue costs	-	-
Redemption of shares	-	-
Balance as at 30 June 2019	**55,000,000**	**52,446,105**

Ordinary shares	**Number of shares**	**Share capital £**
Opening balance	-	-
Issue of shares – Gross proceeds	55,000,002	55,000,002
Issue costs	-	(2,553,895)
Redemption of shares	(2)	(2)
Balance as at 31 December 2018	**55,000,000**	**52,446,105**

The Company was incorporated on 13 September 2017 with an issued share capital of £2 represented by 2 ordinary shares of £1 each. These shares were redeemed immediately following the share issue described below from the proceeds raised.

On 22 December 2017, the Company issued 55 million ordinary shares at £1 per share in an offer for subscription, raising £52,446,105 after expenses of broker fees and legal and professional fees of £2,553,895.

8. DIVIDEND POLICY

It is the current intention of the Directors to reinvest the net proceeds of any realisations in the Company's portfolio. However, the Directors may consider the payment of dividends in the future.

9. RELATED PARTY TRANSACTIONS

The basis of calculation of the fees due to the Investment Manager are set out in note 3. The Investment Manager earned remuneration of £489,216 (30.06.18: £536,281) from the Company during the period in respect of normal services provided, with £248,026 (31.12.18: £241,805) outstanding at the end of the period.

During the period, the Directors received remuneration fees of £43,750 (30.06.18: £61,729), of which £nil (31.12.18: £21,875) were outstanding at the end of the period. The Independent Non-executive Directors received an annual remuneration fee of £25,000 each. The Chairman receives an additional £10,000 and the Chairman of the Audit Committee receives an additional £2,500.

Mr Sgarbi and Mr Fumagalli have signed a waiver letter dated 30 November 2017 and therefore have waived their Directors fee.

Mr Fumagalli, a Director of the Company, has an indirect beneficial interest in the Company, of 2.94% (2018: 1.82%). Mr Fumagalli is also a non-executive director of Coro Energy plc in which the Company holds shares. Refer to the Unaudited Portfolio Statement for more information.

Mr Sgarbi, a Director of the Company, has an indirect beneficial interest in the Company of 2.94% (2018: 1.82%). In addition, Mr Sgarbi participated in the syndication of Happy Friends subscribing for a €100,000 stake.

Mr Falla, a Director of the Company, has a direct beneficial interest in the Company of 0.02% (2018: 0.02%).

On 30 July 2019, Mr Collins the Company's Non-executive Chairman, purchased 50,000 ordinary shares in the Company representing 0.09% of the Company's issued capital.

10. NET ASSET VALUE RECONCILIATION

The NAV per share is expressed in GBP and is determined by dividing the net assets attributable to shareholders of the Company by the number of ordinary shares in issue on the valuation day.

	£
Published NAV per share	0.89
Valuation adjustment*	(0.02)
Accounting NAV per share	0.87

*The Board approved a change in valuation methodology for the Coro Energy Eurobond from bid price to discounted cash flows as they consider this method best represents fair value.

11. FAIR VALUE MEASUREMENT

Valuation of financial instruments

IFRS 13 requires the Group to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurements in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability. The determination of what constitutes 'observable' requires significant judgement by the Company. The Company considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following table analyses, within the fair value hierarchy, the Company's financial assets (by class) measured at fair value at 30 June 2019:

30 June 2019	**Level 1 £**	**Level 2 £**	**Level 3 £**	**Total £**
Investments				
Investment in LP	-	-	22,230,272	22,230,272
Debt instruments	19,022,742	-	-	19,022,742
	19,022,742	**-**	**22,230,272**	**41,253,014**

31 December 2018	**Level 1 £**	**Level 2 £**	**Level 3 £**	**Total £**
Investments				
Investment in LP	-	-	16,351,413	16,351,413
Debt instruments	25,905,464	-	-	25,905,464
	25,905,464	**-**	**16,351,413**	**42,256,877**

During the period, there were no transfers between levels.

The fair value of the investment in the Limited Partnership is based on the net asset value of the Limited Partnership. This is based on the components within the Limited Partnership. Further details regarding the components of the Limited Partnership can be found in the portfolio statement.

Orthofix Medical Inc, Alkemy SpA, Brave Bison PLC, CareTech Holdings plc and Coro Energy Plc ("Coro Energy") are all quoted equity securities and therefore their fair value is taken from quoted bid prices as at close of business on 30 June 2019.

The Coro Energy Eurobond is valued using a discounted cash flow model ("DCF Model"). The DCF Model calculates the net present value of the Bond and interest using effective interest rate. Coro Energy warrants are priced using the Black- Scholes model which gives a theoretical estimate of the price of the option and the warrants are not material to the financial statements.

Merchant Capital HF Limited is an unquoted security and its fair value is based on the underlying investment into Happy Friends, which is based on the investment price given the early stage of the investment but revalued with the 30 June 2019 exchange rate.

A reconciliation of fair value measurements in Level 3 is set out in the following table.

	30 June 2019 £	31 December 2018 £
Opening Balance	16,351,413	-
Purchases	6,715,935	19,520,047
Sales	(1,516,125)	-
Total gains or losses included in gains on investments in the Income Statement:		
On assets sold	(6)	-
On assets held at year end	679,055	(3,168,634)
	22,230,272	**16,351,413**

Capital risk management

The capital structure of the Company is as disclosed in the Statement of Financial Position and is managed on a basis consistent with its investment objective and policies.

12. ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT BASIS

In the current and prior period all Investments were measured at fair value through profit or loss. Receivables and prepayments, Cash and cash equivalents and Payables and accruals are valued at amortised cost.

13. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: Market risk (including price risk, interest rate risk and foreign currency risk), credit risk and liquidity risk.

These Unaudited Condensed Interim Financial Statements do not include the financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2018.

14. BASIC AND DILUTED EARNINGS PER ORDINARY SHARE

Basic earnings/(loss) per ordinary share is calculated by dividing the comprehensive income for the period of £133,394 (30 June 2018: (£1,708,490)) by the weighted average number of ordinary shares outstanding during the period 55,000,000 (30 June 2018: 55,000,000).

The basic and diluted value is the same as the Group doesn't have any diluted shares.

15. EVENTS AFTER THE REPORTING PERIOD

On 30 July 2019, Mr Collins the Company's Non-executive Chairman, purchased 50,000 ordinary shares in the Company representing 0.09% of the Company's issued capital.

In the period post 30 June 2019, the Company, via the Limited Partnership, invested in Proactis Holdings plc, acquiring a 2.5% interest and has increased its interest in Brave Bison Group plc to 7.7%.

Unaudited Portfolio Statement
As at 30 June 2019

INVESTMENTS	Valuation	Percentage of net assets

	£	%
Merchant Capital L.P.		
Coro Energy Plc	2,938,356	6.10
Coro Energy Warrants 12/04/2022	306,023	0.63
Orthofix Medical	4,652,660	9.65
Alkemy SPA	3,674,735	7.63
Coro Energy Eurobond 5%	3,111,910	6.46
Brave Bisson Group Plc	56,358	0.12
CareTech Holdings Plc	3,543,500	7.35
Merchant Capital HF Limited* (Happy Friends)	3,946,730	8.19
Fair value of Limited Partnership	22,230,272	46.13
The Company		
UK Treasury 3.75% 07/09/2019	5,028,399	10.43
UK Treasury Bill 0% 15/07/2019	5,998,276	12.45
European Investment Bank 0.625% 17/01/2020	5,992,582	12.44
EIB FRN 17/02/2020	2,003,485	4.16
	19,022,742	39.48
Total Investments	41,253,014	85.61
Net current assets	6,933,404	14.39
Total net asset value	**48,186,418**	**100.00**

- **Fair value is based on the underlying value of Happy Friends**

Reconciliation of Profit

The profit consists of:

MERCHANT CAPITAL L.P.

Realised gains / (losses) on investments	(6)
Unrealised gains / (losses) on investments	679,055
LP fair value movement	**679,049**
Realised (losses) on investments	(457,501)
Unrealised gains on investments	289,765
Exchange losses on currency balances	(11,389)
Investment income	293,673
Bank Interest	1,664
Investment management fees	(489,216)
Other expenses	(172,598)
Interest paid	(53)

Total comprehensive gain for the period	**133,394**