

# **CIP Merchant Capital Limited**

Annual Report and Consolidated Audited Financial Statements

For the period from 13 September 2017 (date of Incorporation) to 31 December 2018

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# CIP Merchant Capital Limited

## Corporate Summary

For the period from 13 September 2017 to 31 December 2018

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CIP Merchant Capital Limited (“**CIP**” or the **Company**”) is a closed-ended investment company limited by shares, registered and incorporated in Guernsey under the Companies (Guernsey) Law 2008, (“**Companies Law**”) as amended, on 13 September 2017, with registered number 64013.

The Company is a Registered Closed-ended Collective Investment Scheme regulated by the Guernsey Financial Services Commission (the “**GFSC**”) pursuant to the Protection of Investors (Bailiwick of Guernsey) Law 1987, as amended (“**POI Law**”) and the Registered Closed-ended Investment Scheme Rules 2015.

The Company has 55,000,000 ordinary shares of no par value in issue, all of which are admitted to trading on the AIM market of the London Stock Exchange under the ticker “CIP”. ISIN: GG00BF8NW879; SEDOL: BF8NW87.

The Company is not (and is not required to be) regulated or authorised by the FCA, though is subject to the AIM Rules for Companies, the Market Abuse Regulation and the rules of the London Stock Exchange.

The Company established Merchant Capital L.P, on 1 December 2017 with registration number 2977, as a limited partnership in Guernsey under the Limited Partnerships (Guernsey) Law, 1995 (as amended) (the “**LP**”), through which the Company makes its investments pursuant to its investing policy. The Company, Merchant Capital GP Limited (the “**GP**”), a wholly owned Guernsey subsidiary of the Company and Merchant Capital Manager Limited (the “**Investment Manager**”) has entered into a limited partnership agreement on 30 November 2017, whereby the GP acts as General Partner of the LP, the Company is the Founder Limited Partner, and the Investment Manager is the Special Limited Partner.

The board of directors of the Company (the “**Directors**” or, together, the “**Board**”) also constitute the board of the GP and investment decisions are taken by the Directors in their capacity as directors of the Company and in their capacity as directors of the GP (acting in its capacity as the general partner of the L.P).

The Company, the GP and the Investment Manager have entered into an Investment Management Agreement, as further described in this report, in relation to the management of the assets of the Group.

### ***Investment Objective and Policy***

The Company’s investment objective is to generate risk-adjusted returns for its 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.

The Company invests primarily in equity and equity-linked securities (and related instruments), as well as debt, convertible debt and other financial instruments with equity characteristics, of companies that the Board (as advised by the Investment Manager) believes typically have at least two or more of the following characteristics:

- ability to achieve a superior risk adjusted return with a medium/long term target IRR of 20 per cent;
- cash generative (or expected to generate cash within a reasonable investment horizon);

# CIP Merchant Capital Limited

## Corporate Summary (Continued)

For the period from 13 September 2017 to 31 December 2018

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- attractive management track records;
- strong fundamentals;
- potential for liquidity or exit within an identified time frame; and/or
- potential for the relevant company to have a competitive advantage.

Investments may either be active, being investments made directly by the Company, or passive, being indirect investments made by the Company through similar funds or investment vehicles. The Company may set up (and potentially co-invest in) funds (including cornerstone investments in specialist funds on preferred terms (which may include lower management fees)).

The Company will consider investments in a number of industries and sectors, particularly those in which the Directors and the Investment Manager have the necessary expertise and experience to be able to identify and manage the opportunity. It is expected that investments will predominantly be in the following industries:

- oil and gas;
- healthcare;
- pharmaceutical; and
- real estate.

Investments will typically (but will not all) be listed on a Western European stock exchange, with a predominant focus on the markets of the London Stock Exchange. The Company will invest in companies with a market capitalisation of (listed) or valued at (unlisted) less than £500 million at the time of investment and will focus largely on investment in companies with a market capitalisation of or valued at less than £200 million at the time of investment.

# CIP Merchant Capital Limited

## Chairman's Statement

For the period from 13 September 2017 to 31 December 2018

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### Introduction

Following CIP Merchant Capital Limited's ("**CIP**" or the "**Company**") successful admission to trading on AIM in December 2017 ("**Admission**"), raising gross proceeds of £55 million, I am pleased to present the Company's Annual Report and Audited Consolidated Financial Statements for the period from the Company's incorporation on 13 September 2017 to 31 December 2018. (the "**Audited Financial Statements**").

Since Admission, the Investment Manager and its advisors have been busy sourcing opportunities and as at 31 December 2018 four investments have been made, representing approximately 34% of the Company's net assets.

Whilst taking longer than envisaged to invest its funds, the Company remains focused on investing the remainder of its cash and short term holdings in accordance with its investment policy and will keep shareholders updated in this regard. I would also note, however, that the general market sentiment has not improved significantly since the Company's 2018 interim accounts were announced on 28 September 2018. The Brexit negotiations have not progressed significantly throughout the year 2018 and uncertainty regarding the final outcome of the relationship between the United Kingdom and the European Union persists, with the material risk of a hard Brexit.

In accordance with its cash management policy, as at 31 December 2018, the Company had invested approximately £25.9 million in short dated treasury and corporate bonds. Further details on the current portfolio are set out in the Investment Managers Report.

As the Board has resolved not to hedge its investments in foreign currencies (comprising approximately 26.9% of investments made to date), shareholders should consider carefully the impact of a significant adjustment to Sterling, such as unforeseen outcomes of the negotiations between the United Kingdom and the European Union.

### Performance

The Company's NAV as at the end of 31 December 2018 was 87.20p per share. During the period, the share price gradually decreased from the initial launch price of 100p per share to 72.00p per share (as at the close of business 28 December 2018). As at 22 March 2019, the Company's share price was 68.50p per share, representing a discount of 20.96% to the NAV of 86.67p per share.

During the period, the Company's NAV declined by 12.8% since its inception (gross of issue costs), while net of IPO costs the performance is negative by 8.6%. Post period end, the NAV of the Company has not changed considerably, ending at 86.67p per ordinary share as at 22 March 2019 (last NAV published to date).

### Dividends

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

# CIP Merchant Capital Limited

## Chairman's Statement (Continued)

For the period from 13 September 2017 to 31 December 2018

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### Corporate Governance

The Company complies with the Association of Investment Companies ("AIC") Code of Corporate Governance to the extent required and undertakes to ensure that the Directors are kept up to date with matters concerning listed investment companies like ours. The Board take their fiduciary and corporate governance responsibilities seriously and I encourage shareholders to contact us at [info@cipmerchantcapital.com](mailto:info@cipmerchantcapital.com) should they have any questions or would like to discuss anything with us.

### Adrian Collins

Non-executive Chairman

# CIP Merchant Capital Limited

## Investment Managers' Report

For the period from 13 September 2017 to 31 December 2018

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### 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 CIP'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.

### Market Conditions

2018 was undoubtedly one of the toughest years since the 2008 financial crisis, starting with an increase in the market volatility seen in the first half of the year followed by substantial falls across global equities as a result of macroeconomic conditions and global events, especially in December 2018. Historically, volatility is amplified at the smaller end of the market, and the second half of 2018 was no exception: the FTSE AIM 100 index lost 22.8%, exceeding the loss of the FTSE 100 index of 11.9%; similarly, in Germany, the SDAX fell 20.4% versus DAX falling by 14.2%; and in the US the Russel 2000 fell by 17.9% versus a 3.9% fall of the DJIA. Interestingly, the FTSE AIM Italia index lost 12% while the index for the Italian main market (FTSE MIB) lost 16.1%, which we believe is mostly due to concerns about the souring of the relationships between the country and the European Union. This led to a disconnection between the value of businesses and their underlying stock prices, which is typically a situation suited to the Company's strategy to identify undervalued investment opportunities.

The general trends in private markets were maintained during 2018 according to data from PitchBook which reports the following in relation to the Private Equity industry: in the US, a further 2,581 deals were completed from the registered 2,247 at the end of first half of 2018, representing a volume increase of 6% for the year versus 2017, with a total deal value of US\$713 billion, up 17% versus 2017. By contrast, in the Europe 3,208 deals were completed in 2018 with a total of €396.3 billion, representing a 13% decrease in volume and a 4% decrease in deal value vis-à-vis 2017.

The start to 2019 has continued in much the same vein. Whilst markets conditions have generally improved year to date, volatility is still very much present, with numerous drivers. Among those that may directly affect the performance of the portfolio but also provide good entry points for further investment, we see the uncertainty about the outcome of the Brexit negotiations, the deterioration of the macroeconomic indicators across the globe and the exacerbation of international tensions between the US and China.

# CIP Merchant Capital Limited

## Investment Managers' Report (Continued)

For the period from 13 September 2017 to 31 December 2018

### Performance Review

Our focus has remained both on seeking to identify opportunities to invest in and supporting existing investments.

As at 31 December 2018, the Company had completed four investments, which are all still in an early stage and hence it is too early to see the expected progress in the value creation leading to a recovery of the Net Asset Value. Post the end of the period, we have sought to take advantage of the weakness in Orthofix Medical Inc.'s recent share price performance and have, as a result, increased our position to 0.55% of the company's currently issued share capital. However, the current market conditions are not currently pricing in all the external risks, which pushes us to be careful in moving forward with the investment activity.

### Portfolio Review

Portfolio Company	Industry	Country	Period end valuation		Current valuation	
			GBP	% of NAV	GBP	% of NAV
Alkemy SpA	Business Services	Italy	3,542.924	7.4%	3,745.226	7.9%
Coro Energy Plc	Oil & Gas	UK	3,428.082	7.1%	3,089.041	6.5%
Orthofix Medical Inc	Healthcare	US	3,895.083	8.1%	4,453.283	9.3%
Happy Friends	Healthcare	Italy	5,485.324	11.4%	5,442.777	11.4%
<b>Portfolio</b>			<b>16,351.413</b>	<b>34.0%</b>	<b>16,730.327</b>	<b>35.1%</b>

\* As at 22 March 2019

#### Coro Energy plc

It has been a busy period for Coro Energy plc ("**Coro**"), as the company entered into three transactions in South East Asia. After the acquisition of a 42.5% interest in the Lengo gas field, offshore East Java, Coro announced two further material developments: the signing of a Joint Study Agreement on 10 December 2018 and, after the reporting period, the acquisition of a 15% interest in Duyung Production Sharing Contract ("**PSC**").

The joint study agreement has now been signed with Petroliam Nasional Berhad ("**Petronas**"), the Malaysian oil and gas company owned by the Government of Malaysia, for the exploration of the Block 2A. The Block 2A, which covers an area of 2,400 sq km, is located in west Malaysia, in the Central Luconia province, a highly prolific sub-basin.

The Duyung PSC contains the Mako gas field, West Natuna Basin, offshore Indonesia, and is independently certified by Gaffney, Cline & Associates to include 276 billion cubic feet of certified gross 2C recoverable dry gas over a field upside of 392 billion cubic feet (3C resources). Coro is in the process of issuing €22.5 million Eurobonds, which will have senior security over Coro's shares held in operating subsidiaries holding its existing assets, in which the Company may participate.

# CIP Merchant Capital Limited

## Investment Managers' Report (Continued)

For the period from 13 September 2017 to 31 December 2018

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### Orthofix Medical Inc.

Orthofix Medical Inc. (“**Orthofix**”) has shown significant progress since the Company's investment in terms of its business development. In terms of its business activity, the most relevant update is the company's announcement of 7 February 2019 regarding the FDA approval of its M6-C artificial cervical disc to treat patients with cervical disc degeneration, which unlocks the opportunity to target a niche, but valuable, market in the US in the coming years. From a financial perspective, Orthofix demonstrated a healthy improvement in performance, with 2018 Net Sales up by 4.4% year-on-year and Adjusted EBITDA up by 7.4% over the same period. On 25 February 2019, Orthofix announced its 2019 Outlook with expected Net Sales in the range of \$472-477 million (representing a year-over-year increase of 4.2% to 5.3% on a reported basis) and Adjusted EBITDA in the range of \$86-89 million (representing a year-over-year decrease of 1.8% to a year-over-year increase of 1.6%). The management of Orthofix expect to achieve a high single digit growth in sales in 2019 and double-digit growth in sales in 2020.

We note that the CEO of Orthofix, announced his intention to step down from his role after a 6-year period in office. Appointed with an initial mandate of 3-5 years at the helm of Orthofix, he explained his rationale was to ensure that Orthofix identify a CEO capable of navigating the company through the substantial growth expected in the coming years. Despite clarifying his intention to stay with Orthofix until the right person is found and properly handover, the market has not appreciated the news and the stock price took a plunge in excess of 15% in the share price. We have taken advantage of the resulting share price weakness to increase the Company's holding in Orthofix.

### Alkemy SpA

Alkemy SpA (“**Alkemy**”) has kept progressing in its international development growth strategy. On 13 December 2018, Alkemy announced the commencement of the process for its transition from the AIM Italia market to the STAR segment of the main market of Borsa Italiana, which is expected to give more visibility to the shares and provide access to a broader investor base.

### Happy Friends

7Star Srl (“**Happy Friends**”) is a company that seeks to disrupt the Italian market of veterinary practices through providing a full-service offering spanning 24 hour emergency versus ER, surgery, neurology, ortho, health plans, veterinary pharmacy, outpatient care, grooming, and training. After running a pilot center in Grassobbio (Bergamo province) for more than a year, the strategy of the management is to progress expansion throughout northern Italy. On 6 December 2018, the Company acquired a 49% interest in Happy Friends for a total consideration of €6.1 million, split between a share capital increase (€2.6 million) and shareholder loan (€3.5 million).

## Cash Management

In accordance with its cash management policy, the Company had invested approximately £25.9 million as at 31 December 2018 in short dated treasury and corporate bonds.

## 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.

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# CIP Merchant Capital Limited

## Investment Managers' Report (Continued)

For the period from 13 September 2017 to 31 December 2018

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The prolonged market uncertainties, especially the Brexit negotiations, give us reason to believe that it is prudent and in CIP'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 unclear as to how long this will take.

All the investee companies of CIP are pursuing strategies in line with CIP'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 the companies, leading to accelerations in the share prices, which will consequently lead to an improvement in the NAV of the Company.

**Carlo Sgarbi**

Investment Manager

# CIP Merchant Capital Limited

## The Board of Directors

For the period from 13 September 2017 to 31 December 2018

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### **Adrian Collins (Independent Non-Executive Chairman) – appointed 18 October 2017**

Mr. Collins has worked in the fund management business for over 35 years, a large part of which was at Gartmore Investment Management Limited where latterly he was managing director. He is chairman of Liontrust Asset Management plc and is also on the boards of Bahamas Petroleum Company plc and a number of other companies.

### **Marco Fumagalli (Non-Independent Non-Executive Director) – appointed 31 August 2018**

Mr. Fumagalli has a significant transaction track-record as a Global Partner at the PE house 3i Group, with significant results in the management of investments in both private (e.g. Giochi Preziosi, Coelsanus Preserves and Vis Pharmaceuticals) and listed companies (e.g. Biosearch Italy and Datamat Novuspharma). From 2010 to 2013, he was responsible for managing the private equity activities within a Swiss family office. Mr. Fumagalli is a co-founder and principal of Continental Investment Partners and is currently a non-executive director of AIM quoted companies Sound Energy plc, Echo Energy Plc and Coro Energy plc.

### **Carlo Sgarbi (Non-Independent Non-Executive Director) – appointed 31 August 2018**

Mr. Sgarbi has over 20 years' experience in investment banking with IMI Group, part of Intesa Sanpaolo, a leading Italian banking group, which included being appointed Head of Debt Capital Markets in 1995 for Banca IMI, the investment bank of the Intesa Sanpaolo. Mr. Sgarbi was subsequently appointed Global Head of Fixed Income and Derivatives, Co-Head of Global Markets Equities and Derivatives, where he was responsible for managing approximately 300 professionals specialised in different areas of market activities and risk. From 2007 to 2013, he was responsible for managing all investment activities within a Swiss family office, which Mr. Fumagalli was also involved with from 2010. In 2013, he founded Continental Investment Partners along with Mr. Fumagalli and is a Managing Partner of CIP.

### **John Falla (Independent Non-Executive Director) – appointed 18 October 2017**

Mr. Falla trained with Ernst & Young in London before moving to their Corporate Finance Department. On returning to Guernsey he worked for an international bank, before joining the Channel Islands Stock Exchange as a member of the Market Authority. In 2000, Mr. Falla joined the Edmond de Rothschild Group in Guernsey and provided corporate finance advice to clients including open and closed-ended investment funds and institutions with significant property interests. He was also a director of a number of Edmond de Rothschild Group operating and investment companies. Mr. Falla is now a non-executive director of a number of investment companies, the majority of which are listed on the London Stock Exchange, and a consultant. Mr. Falla is a Chartered Accountant and has a BSc Hons degree in Property Valuation and Management from The City University, London. He is a Chartered Fellow of the Chartered Institute for Securities and Investment having been awarded their diploma.

# CIP Merchant Capital Limited

## The Board of Directors (Continued)

For the period from 13 September 2017 to 31 December 2018

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### **Robert King (Independent Non-Executive Director) – appointed 18 October 2017**

A non-executive director for a number of open and closed-ended investment funds including, Weiss Korea Opportunity Fund Limited, Chenavari Capital Solutions Limited (Chairman) and Tufton Oceanic Assets Limited (Chairman). Before becoming an independent non-executive director in 2011 he was a director of Cannon Asset Management Limited and their associated companies. Prior to this he was a director of Northern Trust International Fund Administration Services (Guernsey) Limited (formerly Guernsey International Fund Managers Limited) where he had worked from 1990 to 2007. He has been in the offshore finance industry since 1986 specialising in administration and structuring of offshore open and closed ended investment funds. Rob is British and resident in Guernsey.

# CIP Merchant Capital Limited

## Report of the Directors

For the period from 13 September 2017 to 31 December 2018

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The Directors present their first Annual Report and the Audited Financial Statements of the Company for the period 13 September 2017 (date of Incorporation) to 31 December 2018.

### Status and Activity

The Company was registered in Guernsey on 13 September 2017 and is a registered closed-ended investment scheme under the POI Law. The Company issued 55,000,000 ordinary shares which trade on the AIM market of the London Stock Exchange under the ticker "CIP". The shares were admitted for trading on 21 December 2017.

On incorporation, two shares were issued at £1.00 each for the purpose of incorporation to the subscribers to the Memorandum. These shares were redeemed by the Company on Admission. Subsequently upon Admission, a further 55,000,000 ordinary shares were issued at £1 to investors

### Results and dividends

The Company's performance during the period is discussed in the Chairman's Statement on page 5. The results for the period are set out in the Statement of Comprehensive Income on page 34. The Directors do not recommend the payment of a dividend for the period ended 31 December 2018. As stated in the Admission Document, it is the Company's intention to reinvest the net proceeds of any realisations in the portfolio.

### 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.

### Statement of Directors Responsibilities

The Directors are responsible for preparing an Annual Report and Financial Statements for each financial period which gives a true and fair view, in accordance with applicable law and regulations, of the state of affairs of the Company and of the profit or loss of the Company for that period.

Company law requires the Directors to prepare Financial Statements for each financial period. Under that law the Directors have elected to prepare the Financial Statements in accordance with International Financial Reporting Standards ("IFRS").

In preparing the Financial Statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

# CIP Merchant Capital Limited

## Report of the Directors (Continued)

For the period from 13 September 2017 to 31 December 2018

The maintenance and integrity of the Company's website is the responsibility of the Directors. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the Financial Statements comply with Companies Law. The Directors 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.

The Company has adopted the AIC Code of Corporate Governance Code, which requires the Directors to ensure that the Annual Report and Audited Financial Statements are fair, balanced and understandable. In order to reach a conclusion on this matter the Board has requested that the Audit Committee advises on whether it considers that the Annual Report and Audited Financial Statements fulfil these requirements. The process by which the Audit Committee has reached these conclusions is set out in the Audit Committee Report on pages 26 to 29.

Having taken into account all matters considered by the Board and brought to the attention of the Board for the period ended 31 December 2018, as outlined in the Corporate Governance Statement, Strategic Report and the Audit Committee Report, the Board has concluded that the Annual Report and Audited Financial Statements for the period ended 31 December 2018, taken as a whole, are fair, balanced and understandable and provides the information required to assess the Company's performance, business model and strategy.

### Directors

The Directors of the Company who served during the period and to date are set out on page 11.

### Directors' interests

The Directors held the following interests in the share capital of the Company either directly or beneficially as at 31 December 2018, and as at the date of signing these Financial Statements:

<b>Director</b>	<b>Shares 2018</b>	<b>% of issued shares 2018</b>
Adrian Collins	-	-
Marco Fumagalli	1,000,000*	1.82
Carlo Sgarbi	1,000,000*	1.82
John Falla	10,000	0.02
Rob King	-	-

\*Held by Goldfinch SA, a company wholly owned in equal proportion by Marco Fumagalli and Carlo Sgarbi, which holds 2,000,000 Shares in aggregate.

# CIP Merchant Capital Limited

## Report of the Directors (Continued)

For the period from 13 September 2017 to 31 December 2018

The Company does not have any employees, only non-executive Directors who receive only a basic fee, plus expenses. Therefore, the use of the detailed remuneration table is not appropriate here. A condensed table showing the information relevant to the Director's remuneration is shown in its place.

The Directors who served in the period received the following fees:

<b>Director</b>	<b>2018 (£)</b>
Adrian Collins	42,192
Marco Fumagalli	-
Carlo Sgarbi	-
John Falla	33,151
Rob King	30,136
<b>Directors' fees</b>	<b>105,479</b>

Mr Sgarbi and Mr Fumagalli have signed a waiver letter dated 30 November 2017 and therefore have waived their Directors' fee. Mr Falla, Mr King and Mr Collins have signed a letter of engagement dated 30 November 2017 confirming their duties and fees. Mr Collins, the Chairman received an annual fee of £35,000, Mr Falla, the Audit Committee Chairman, receives an annual fee of £27,500 and Mr King received an annual fee of £25,000.

### Share buy backs and discount management

The Directors believe that the most effective means of minimising any discount to Net Asset Value which may arise on the Company's share price, is to deliver strong, consistent performance from the assets held by the Group in both absolute and relative terms. However, the Board recognises that wider market conditions and other considerations affect the rating of its ordinary shares in the short term and the Board may seek to limit the level and volatility of any discount to Net Asset Value at which its ordinary shares may trade. The means by which this might be done could include the Company repurchasing its ordinary shares. Therefore, subject to the requirements of the Companies Law, the Company's Articles and other applicable legislation, the Company may purchase its ordinary shares in the market in order to address any imbalance between the supply of and demand for its ordinary shares. Such purchases would be at a discount to Net Asset Value and would be accretive to the Net Asset Value of its ordinary shares.

In deciding whether to make any such purchases, the Directors will have regard to what they believe to be in the best interests of the Company's shareholders and to the applicable Guernsey legal requirements which require the Directors to be satisfied on reasonable grounds that the Company will, immediately after any such repurchase, satisfy a solvency test prescribed by the Companies Law and any other requirements in its Memorandum and Articles.

The Directors have the general authority to make market purchases of up to 14.99% of its currently issued share capital. Such authority was renewed at the first annual general meeting of the Company on 28 December 2018. There is no present intention to exercise such general authority, however the making and timing of any market purchases is at the absolute discretion of the Board.

Market purchases may only be made provided the price to be paid is not more than the higher of:  
(i) 5% above the average of the mid-market value of its ordinary shares for the five business days

# CIP Merchant Capital Limited

## Report of the Directors (Continued)

For the period from 13 September 2017 to 31 December 2018

before the day the purchase is made; or (ii) that stipulated by the regulatory technical standards adopted by the EU pursuant to the Market Abuse Regulation from time to time. Shares purchased by the Company may be cancelled or held as treasury shares.

Market purchases may only be made provided the price to be paid is not more than the higher of: (i) 5% above the average of the mid-market value of its ordinary shares for the five business days before the day the purchase is made; or (ii) that stipulated by the regulatory technical standards adopted by the EU pursuant to the Market Abuse Regulation from time to time. Shares purchased by the Company may be cancelled or held as treasury shares.

The Company may borrow and/or realise investments in order to finance such Share purchases.

### Treasury Shares

The Company may hold any ordinary shares repurchased by it 'in treasury', meaning that the shares remain in issue owned by the Company rather than being cancelled. Shares held in treasury are not entitled to receive any dividend declared by the Company or to exercise voting rights.

Shares held in treasury may be subsequently cancelled or sold for cash. There is no limit on the number of ordinary shares which may be held in treasury.

Whilst the Company currently has authority to sell its ordinary shares out of treasury for cash on a non-pre-emptive basis, the Directors do not intend to sell any shares out of treasury at a price which represents a discount to the then prevailing NAV per share. Shares being held in treasury should give the Company the ability to sell such shares quickly and cost efficiently and should provide the Company with additional flexibility in the management of its capital base. In addition, the Board believes that the effective use of treasury shares could assist the Company in improving liquidity in its shares and managing any imbalance between supply and demand.

### Shareholders' significant interests

The following shareholders had a substantial interest of 3% or more of the Company's issued share capital as at 28 February 2019, and as at the date of the signing of these Financial Statements:

	<b>% of issued share capital</b>
EFG Bank	9.09%
Corporation Financiere Europeene SA	9.09%
Spartan Fund Ltd SAC	8.11%
Ecostone Fund Ltd	3.32%
Horbit Small Cap Opportunities Fund Ltd	3.27%

# CIP Merchant Capital Limited

## Report of the Directors (Continued)

For the period from 13 September 2017 to 31 December 2018

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### Relations with Shareholders

The Directors place a great deal of importance on communication with shareholders. The Annual Report and Financial Statements are also distributed to other parties who have an interest in the Company's performance. Additional information on the Company can be obtained through the website [www.cipmerchantcapital.com](http://www.cipmerchantcapital.com).

### Annual General Meeting

The notice for the Annual General Meeting of the Company, which is to be held on 2 May 2019 at 11.00am, is attached hereto. The Form of Proxy for the Annual General Meeting is attached to these Consolidated Financial Statements

### Independent Auditor

The Audit Committee is responsible for overseeing the Company's relationship with the external auditor, including making recommendations to the Board on the appointment of the external auditor and their remuneration. BDO Limited ("BDO") has been appointed as the Company's external auditor.

The Directors make the following statement:

- so far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- that all steps have been taken by the Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors is aware of that information.

The auditor, BDO, has indicated its willingness to continue in office. Accordingly, a resolution for its reappointment will be proposed at the forthcoming Annual General Meeting.

### Alternative Investment Fund Managers Directive ('AIFMD')

As a company incorporated in Guernsey, the Company is a non-EU AIF for the purposes of the AIFM Directive. The Investment Manager acts as AIFM to the Company. The AIFM, also incorporated in Guernsey, is a non-EU AIFM for the purposes of the AIFM Directive. The Company and the AIFM comply and will continue to comply with the requirements of the AIFM Directive, as applicable to them.

Approved by the Board of Directors on 29 March 2019 and signed on behalf of the Board by

John Falla  
Director

Rob King  
Director

# CIP Merchant Capital Limited

## Corporate Governance Statement

For the period from 13 September 2017 to 31 December 2018

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The Company has joined the AIC and has therefore elected to comply with the provisions of the AIC Code of Corporate Governance 2016 (“**AIC Code**”) which sets out a framework of best practice in respect of governance of investment companies. The AIC Code has been endorsed by the Financial Reporting Council as an alternative means for members to meet their obligations in relation to the UK Corporate Governance Code.

The Financial Sector Code of Corporate Governance issued by the Guernsey Financial Services Commission (the “**GFSC Code**”) provides a framework that applies to all entities licensed by the GFSC or which are registered or authorised as a collective investment scheme under the Protection of Investors (Bailiwick of Guernsey) Law, 1987 (as amended). Companies reporting against the UK Corporate Governance Code or the Association of Investment Companies Code of Corporate Governance are deemed to comply with the GFSC Code.

The Board has considered the principles and recommendations of the AIC Code, produced by the AIC, by reference to the AIC Corporate Governance Guide for Investment Companies (the “**AIC Guide**”). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to investment companies, such as the Company. The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Code), will provide better information to Shareholders. The Company has complied with the recommendations of the AIC Code, the relevant provisions of the UK Code (except as set out below) and associated disclosure requirements of the Listing Rules (to the extent applicable to the Company).

As disclosed in the Listing documents, the Company, being an externally advised investment company with an entirely non-executive board of directors does not consider the following provisions of the AIC Code applicable:

- the role of the chief-executive
- executive directors’ remuneration, and
- the need for an internal audit function

Considering that the Board comprises of three Independent Directors, no Senior Independent Director has been appointed.

### The Board

The Board has formulated policies and procedures to assist them to comply with the AIC Code: Directors are selected and appointed by the Board as a whole. There is no separate nomination committee. This function is carried out by the Board as a whole.

The Board has been assembled, with the aid of the Company’s advisers, to ensure that it has the appropriate breadth of experience and skills. The Directors will thereafter be responsible for reviewing the size, structure and skills of the Board as a whole and considering whether any changes are required or new appointments are necessary to meet the requirements of the Company’s business or to maintain a balanced Board. This will be formally considered annually at the time of the Board’s annual performance appraisal. The Board has been briefed about their ongoing responsibilities as Directors. The Articles require that at each annual general meeting, each director who is not an Independent Director shall retire from office and each such director will offer themselves up for re-election by the members. The Directors have agreed that each Director

# CIP Merchant Capital Limited

## Corporate Governance Statement (Continued)

For the period from 13 September 2017 to 31 December 2018

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both non independent and independent will offer themselves up for election or re-election by the members at each annual general meeting

The Directors are responsible for the determination of the Company's investing policy and strategy and have overall responsibility for the Company's activities including the review of investment activity and performance. The Directors will meet at least four times per annum, and the Audit Committee of the Company will meet at least two times per annum. The Management Engagement Committee will meet at least once a year at appropriate times in the Company's reporting and audit cycle and otherwise as required at the discretion of the Committee Chairman or at the request of any of its members.

The Directors ensures that the Board members have and maintain the appropriate breadth of experience and skills.

### Independence

Mr Collins, Mr King and Mr Falla are currently considered by the Board to be independent of the Company and the Continental Investment Partners group. The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, no limit on the overall length of service of any of the Company's Directors, including the Chairman, has been imposed. New Directors will receive an induction from the Investment Manager and the Administrator on joining the Board, and all Directors will receive other relevant training as necessary on their on-going responsibilities in relation to the Company.

### Appointment, re-election and remuneration of Directors

Subject to the Companies Law and the Articles, the Directors shall have power at any time, and from time to time, without sanction of the Company in general meeting, to appoint any person to be a Director, either to fill a casual vacancy or as an additional Director. Any Director so appointed shall hold office only until the next following annual general meeting and shall then be eligible for re-appointment. Subject to the Companies Law and the Articles, the Company may by ordinary resolution appoint any person as a Director; and remove any person from office as a Director.

A Director may resign from office as a Director by giving notice in writing to that effect to the Company at its office, which notice shall be effective upon such date as may be specified in the notice, failing which upon delivery to the registered office.

In accordance with the Memorandum and Articles, at each annual general meeting of the Company, (i) each Director who is not an Independent Director shall retire from office and each Director may offer himself up for election by the Shareholders, and (ii) one third of the Independent Directors shall retire from office and each such Director may offer himself for election or re-election by the Shareholders. The Directors have decided that they will all stand for re-election at each AGM.

A list of the Directors' remuneration can be found on page 15.

### Annual performance appraisal

The performance of the Board, committees and individual Directors is evaluated annually through a self-assessment process coordinated by the administrator who will circulate the findings. The board will consider the need for and the benefits of having this externally facilitated by an independent 3rd party from time to time.

### Operation of the Board

# CIP Merchant Capital Limited

## Corporate Governance Statement (Continued)

For the period from 13 September 2017 to 31 December 2018

It is the responsibility of the Board to ensure that there is effective stewardship of the Company's affairs. Strategic issues and all operational matters of a material nature are determined by the Board. The Company has neither executive Directors nor any employees. However, the Board do engage external firms to undertake the investment management, secretarial and custodial activities of the Company under guidance. Documented contractual arrangements are in place between the Company and these firms, which clearly set out the areas where the Board has delegated authority to them.

The Board meet at least quarterly to review the overall business of the Group and consider the matters specifically reserved for it. The quorum at Directors' meetings is two Independent directors present in person or by telephone. Detailed information is provided by the Investment Manager and Administrator for these meetings and additionally at regular intervals to enable the Directors to monitor compliance with the investment objective and the investment performance of the Company both in an absolute and relative sense. The Directors are provided with board papers in advance of each quarterly meeting to allow the review of several key areas including the Company's investment activity, portfolio performance and risk management over the quarter relative to its investment policy.

The Board also receive quarterly reports from the Registrar analysing and commenting on the composition of the Company's share register and monitoring of significant changes to Shareholders during the period.

Attendance at the Board, Audit Committee and Management Engagement Committee meetings during the year was as follows:

Director	Board meetings		Audit Committee		Management Engagement Committee (*)	
	Held	Attended	Held	Attended	Held	Attended
Adrian Collins	13	12	1	1	0	0
Marco Fumagalli	13	12	1	N/A	0	N/A
Carlo Sgarbi	13	11	1	N/A	0	N/A
John Falla	13	13	1	1	0	0
Rob King	13	10	1	0	0	0

(\*) There was no MEC committee during the period. It was decided to do the first review in 2019 and this was undertaken on 29 March 2019.

### Board Committees

#### The Company's Audit Committee

The Audit Committee is responsible for monitoring the integrity of the Company's financial statements, reviewing significant financial reporting issues, reviewing the effectiveness of the Company's internal control and risk management systems and overseeing the relationship with the external auditor (including advising on their appointment, agreeing the scope of the audit and reviewing the audit findings). The Audit Committee also monitors the need for an internal audit function at least annually.

The Audit Committee comprises all of the Independent Directors with John Falla acting as the chair of the committee. The Audit Committee meets at least twice a year at appropriate times in the

# CIP Merchant Capital Limited

## Corporate Governance Statement (Continued)

For the period from 13 September 2017 to 31 December 2018

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reporting and audit cycle and otherwise as required. The Audit Committee also meets with the Company's external auditor as required.

### Management Engagement Committee

The Company has established a management engagement committee which comprises all of the Independent Directors with Robert King acting as the chair of the committee. The management engagement committee meets at least once a year (commencing December 2018, being one year after the launch of the Company).

The Management Engagement Committee carried out its annual review of the performance and capabilities of the Investment Manager on 29 March 2019 to confirm that the continued appointment of Merchant Capital Manager Limited as Investment Manager is deemed to be in the interest of Shareholders. As part of the review process, the Management Engagement Committee concluded that the Company's Outsourced Service Providers are performing in accordance with the Company's expectations and contractual arrangements.

The management engagement committee's main function is to review and make recommendations on any proposed amendment to the Investment Management Agreement and keep under review the performance of the Investment Manager and other service providers

### Other Committees

The Board as a whole fulfils the responsibilities typically undertaken by a nominations committee. The Company will revisit the need for separate committees of the above to be formed as its business grows.

In addition, the Board has the ability to put in place sub-committees of Directors to review ad-hoc pieces of information and take decisions based upon their findings, e.g. decisions in relation to disclosure of information under the Market Abuse Regulation ("MAR").

A majority of Independent Directors are responsible for authorising all purchases and sales within the Company's portfolio. More specifically, the Investment Manager advises the Board on the investment, management and disinvestment activities, other than in the portfolio's management strategies. The majority of the independent Directors are responsible for supporting or rejecting the advice of the Investment Manager. All investment decisions are subject to Board approval.

### **Internal control and financial reporting**

The Board is responsible for establishing and maintaining the Company's system of internal controls. Internal control systems are designed to meet the specific needs of the Company and the risks to which it is exposed, and, by their very nature, provide reasonable, but not absolute, assurance against material misstatement or loss.

The key procedures which have been established to provide effective internal controls include:

- Maitland Administration (Guernsey) Limited (formerly R&H Fund Services (Guernsey) Limited) is responsible for the provision of administration, accounting and company secretarial duties;
- Merchant Capital Managers Limited is the Investment Manager and provides portfolio management and risk management services to the Company. They are also the AIFM for the purposes of the AIFMD;

# CIP Merchant Capital Limited

## Corporate Governance Statement (Continued)

For the period from 13 September 2017 to 31 December 2018

- Computershare Investor Services (Guernsey) Limited is responsible for the provision of Registrar services;
- Strand Hanson Limited is responsible for the provision of Nomad and Broker.
- The Board clearly defines the duties and responsibilities of the Company's agents and advisers in the terms of their contracts; and
- The Board receives assurances from the Company's agents and advisers that any amendments required as a result of regulatory change, including the General Data Protection Regulations (effective 25 May 2018), are actioned accurately and timeously;
- The Board reviews financial information and compliance reports produced by the Administrator on a regular basis.

The Board and Audit Committee have reviewed the Company's risk management and internal control systems and believe that the controls are satisfactory, given the size and nature of the Company.

### Service Providers

#### Investment Manager/AIFM

The Company's investment manager is Merchant Capital Manager Limited (the "Investment Manager"), which is licensed and regulated in Guernsey under the Protection of Investors (Bailiwick of Guernsey) Law, 1987. The Investment Manager was founded by Marco Fumagalli and Carlo Sgarbi in August 2017 for the purpose of acting as the investment manager to the Company. Mr. Fumagalli and Mr. Sgarbi are the sole shareholders of the Investment Manager and accordingly it is an affiliate of Continental Investment Partners SA.

The Company, the GP and the Investment Manager have entered into the Investment Management Agreement. Under the Investment Management Agreement, the Investment Manager has been appointed to act as the Group's investment manager and Alternative Investment Fund Manager ("AIFM"), subject to the overall control and supervision of the Directors. The Investment Manager is entitled to receive from the Company a management fee which is calculated and paid quarterly in arrears at an annual rate of 2% per annum of the prevailing net asset value.

The investment Manager has entered into a Services Agreement with Continental Investment Partners. Under the Services Agreement, Continental Investment Partners provides certain investment due diligence, monitoring and reporting services to the Investment Manager. These services include, but are not limited to, carrying out bottom-up fundamental analysis of potential investee companies, preparation of due diligence reports, monitoring and reporting of fund performance and investments, monitoring the listed and private equity and debt markets generally, introducing contacts to the Investment Manager with a view to enabling it to create and/or pursue investment opportunities and providing access to Continental Investment Partners' proprietary database of shadow investee companies and its proprietary screening to enable the Investment Manager to identify potential investee companies.

#### Administrator and Secretary

Maitland Administration (Guernsey) Limited ("**Maitland**") has been appointed as administrator and secretary to the Company pursuant to the Administration Agreement dated 15 December 2017.

# CIP Merchant Capital Limited

## Corporate Governance Statement (Continued)

For the period from 13 September 2017 to 31 December 2018

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Maitland was incorporated with limited liability in Guernsey on 20 January 2010 and is licensed by the Guernsey Financial Services Commission under the POI Law.

### Registrar

Computershare Investor Services (Guernsey) Limited has been appointed as registrar to the Company pursuant to the Registrar Agreement dated 15 December 2017. In such capacity, the Registrar will be responsible for the transfer and settlement of Shares held in certificated and uncertificated form. The Register may be inspected at the office of the Registrar.

The Company has neither Executive Directors nor any employees. However, the Board has engaged external firms, namely the Investment Manager and the Administrator, to undertake the investment management, secretarial and custodial activities of the Group. Documented contractual arrangements are in place between the Company and these firms, which clearly set out the areas where the Board has delegated, if the case, authority to them.

### **Anti-bribery and corruption**

The Board acknowledges that the Company's international operations may give rise to possible claims of bribery and corruption. In consideration of the UK Bribery Act the Board reviews the perceived risks to the Company arising from bribery and corruption to identify aspects of the business which may be improved to mitigate such risks. The Board has adopted a zero tolerance policy towards both bribery corruption, and has reiterated its commitment to carry out business fairly, honestly and openly.

### **Environment**

The Company seeks to conduct its affairs responsibly and environmental factors are, where appropriate, taken into consideration with regard to investment decisions taken on behalf of the Company. The Directors recognise that their first duty is to act in the best financial interests of the Company's shareholders and to achieve good financial returns against acceptable levels of risk, in accordance with the objectives of the Company.

In asking the Company's Investment Manager to deliver against these objectives, they have also requested that the Investment Manager take into account the broader social, ethical and environmental issues of the vessels within the Company's portfolio, acknowledging that companies failing to manage these issues adequately run a long term risk to the sustainability of their businesses. More specifically, they expect companies to demonstrate ethical conduct, effective management of their stakeholders' relationships, responsible management and mitigation of social and environmental impacts, as well as due regard for wider societal issues.

### **Diversity Policy**

The Company supports the AIC Code provision that Boards should consider the benefits of diversity, including gender, when making appointments and is committed to ensuring it receives information from the widest range of perspectives and backgrounds. The Company's aim as regards the composition of the Board is that it should have a balance of experience, skills and knowledge to enable each Director and the Board as a whole to discharge their duties effectively. Whilst the Board of the Company agrees that it is entirely appropriate that it should seek diversity, it does not consider that this can be best achieved by establishing specific quotas and targets and

# CIP Merchant Capital Limited

## Corporate Governance Statement (Continued)

For the period from 13 September 2017 to 31 December 2018

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appointments will continue to be made based wholly on merit. Accordingly, when changes to the Board are required, regard is paid to both the need for diversity and to a comparative analysis of candidates' qualifications and experience. A pre-established, clear, neutrally formulated and unambiguous set of criteria would be utilised to determine the most suitable candidate for the specific position sought.

### Share Dealing Code

The Company has adopted a share dealing code, in conformity with the requirements of the AIM Rules and the Market Abuse Regulation, and will take steps to ensure compliance by the Board and relevant senior staff with the terms of the policy.

### Conflicts

There are potential and actual conflicts of interest between the Company, the Group, the Investment Manager, Continental Investment Partners and the other members of the Continental Investment Partners group of companies. Certain of these relationships are described below.

The Investment Manager, which is an affiliate of Continental Investment Partners, provides services to the Company and Merchant Capital GP. In due course, it may provide financial, investment and/or professional advice to other clients. CIP is involved in other financial, investment and professional activities and accordingly will not devote their full time and attention to the affairs of the Group. The Investment Management Agreement generally does not limit or restrict the Investment Manager's ability to engage in any business or manage any other investment, subject to certain restrictions contained therein.

In such circumstances, it is the policy of the Investment Manager to endeavour to ensure that such conflicts are resolved, and any investment opportunities allocated, fairly. Each such conflict will be fully disclosed to the Company and the GP by the Investment Manager provided that such disclosure does not breach any law or regulation. In addition, the Investment Manager shall disclose to the Board prior to making any investment recommendation to the Company whether the Investment Manager or Continental Investment Partners has invested or intends to invest or co-invest in such investee company. Principals of the Investment Manager may take board positions with the Investee Company.

The Company has a right of first refusal in respect of any investment opportunity identified by the Investment Manager and/or Continental Investment Partners falling within the Company's investing policy. The Investment Manager, however, has no obligation to originate, sell or exchange any investment for the Company which the Investment Manager and/or Continental Investment Partners may originate, purchase, sell or exchange for one or more other funds/clients if the Investment Manager believes in good faith at the time the investment decision is made that such transaction or investment would be unsuitable, impractical or undesirable for the Company.

# CIP Merchant Capital Limited

## Corporate Governance Statement (Continued)

For the period from 13 September 2017 to 31 December 2018

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All final decisions in respect of any investment made or disposed of by the Group are made by the Board.

The activities of the Investment Manager, in its capacity as the Company's Investment Manager are subject to the overall policies, supervision and review of the Board.

John Falla  
Director

# CIP Merchant Capital Limited

## Audit Committee Report

For the period from 13 September 2017 to 31 December 2018

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### Background

The Audit Committee has been in operation throughout the period under review. The Audit Committee, chaired by John Falla, operates within clearly defined terms of reference (which are available from the Company's website, [www.cipmerchantcapital.com](http://www.cipmerchantcapital.com)), which include all matters indicated by DTR 7.1 and the AIC Code. Its other members are Adrian Collins and Rob King. Only independent directors can serve on the Audit Committee and members of the Audit Committee must have no links with the Company's external auditor and must be independent of the Company. The identity of the chairman of the Audit Committee is reviewed on an annual basis and the membership of the Audit Committee and its terms of reference are kept under review. The Audit Committee meet at least twice a year in Guernsey, and meet the external auditor as required in Guernsey. The Board has taken note of the requirement that at least one member of the Committee should have recent and relevant financial experience and is satisfied that the Committee is properly constituted in that respect, with all members being highly experienced and, in particular two members having backgrounds as chartered accountants.

### Duties

The duties of the Audit Committee in discharging its responsibilities include reviewing the Interim Report, Annual Report, the valuation of the Company's investment portfolio, the system of internal controls, and the terms of appointment of the external auditor together with their remuneration. It is also the formal forum through which the external auditor reports to the Board and shall meet not less than twice a year and at such other times as the Audit Committee chairman shall require. The objectivity of the external auditor is reviewed by the Audit Committee, which also reviews the terms under which the external auditor is appointed to perform non-audit services and the fees paid to the external auditor or their affiliated firms overseas.

The Audit Committee also reviews, considers and, if thought appropriate, recommends for the purposes of the Company's financial statements, valuations prepared by the Investment Manager. The main duties of the Audit Committee are:

- giving full consideration and recommending to the Board for approval of the contents of the Interim Report and Annual Report and reviewing the external auditor's report thereon;
- reviewing the scope, results, cost effectiveness, independence and objectivity of the external auditor;
- reviewing the draft valuation of the Company's investments, and making a recommendation to the Board on the valuation of the Company's investments;
- reviewing and recommending to the Board for approval of the audit, audit related and non audit fees payable to the external auditor and the terms of their engagement;
- reviewing and approving the external auditor's plan for the following financial year;
- reviewing the appropriateness of the Company's accounting policies;
- ensuring the standards and adequacy of the internal control systems;
- reviewing and considering the UK Code, the AIC Code and the FRC Guidance on Audit Committees; and
- reviewing the risks facing the Company and monitoring the risk matrix.

# CIP Merchant Capital Limited

## Audit Committee Report (Continued)

For the period from 13 September 2017 to 31 December 2018

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The Audit Committee is required to report its findings to the Board, identifying any matters on which it considers that action or improvement is needed, and make recommendations on the steps to be taken. The external auditor is invited to attend the Audit Committee meetings at which the Interim Reports and Annual Reports are considered and at which they have the opportunity to meet with the Committee.

### Financial Reporting

The primary role of the Audit Committee in relation to the financial reporting is to review with the Administrator and any external consultant the appropriateness of the Interim Reports and Annual Reports, concentrating on, amongst other matters:

- the quality and acceptability of accounting policies and practices;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- material areas in which significant judgements have been applied or there has been discussion with either an external consultant or the external auditor;
- whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy; and
- any correspondence from regulators in relation to the Company's financial reporting. To aid its review, the Audit Committee considers reports from the Investment Manager and any external consultant as appointed by the Company of the underlying Funds and also reports from the external auditor on the outcomes of their half-year review and annual audit.

### Meetings

The Committee has met on two occasions during the period. The matters discussed at those meetings were:

- review of the terms of reference of the Audit Committee to confirm that they remain appropriate to the business of the committee and the current regulatory environment in which the Company operates;
- review of the accounting policies and format of the financial statements;
- the draft valuation of the Company's investments in the Limited Partnership, and the recommendation to the Board on the valuation of the Company's investments;
- review and approval of the audit plan of the external auditor;
- review, discussion and approval of the fee for the external audit;
- detailed review of the Annual Report and recommendation for approval by the Board;
- detailed review of the Interim Report and recommendation for approval by the Board;
- assessment of the effectiveness of the external audit process as described below; and
- review of the Company's key risks and internal controls.

### Primary area of judgement

The Audit Committee determined that the key risk of misstatement of the Company's financial statements related to the valuation of investments at fair value through profit or loss, in the context of the judgements necessary to evaluate current fair values. As outlined in note 6 to the financial

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# CIP Merchant Capital Limited

## Audit Committee Report (Continued)

For the period from 13 September 2017 to 31 December 2018

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statements of the Company, the total carrying value of financial assets of the Company at fair value at 31 December 2018 was £42,256,877.

The external auditor explained the results of their review of the valuations, including their challenge of management's underlying projections, the economic assumptions and multiples used. On the basis of their audit work, there were no adjustments proposed that were material in the context of the financial statements of the Company as a whole.

### Internal Audit

The Audit Committee shall consider at least once a year whether or not there is a need for an internal audit function. Currently, the Audit Committee does not consider there to be a need for an internal audit function, given that there are no employees in the Company and all outsourced functions are with parties who have their own internal controls and procedures

### External Audit

BDO Limited ("**BDO**") has been the Company's external auditor since the Company's inception. The lead audit director, Justin Hallett, has not changed during the period. Mr Hallett will be replaced in the year ended 31 December 2023 in accordance with normal audit director rotation arrangements. The Audit Committee has noted the revisions to the UK Code introduced by the FRC in September 2012 and the AIC Code issued in February 2015, in particular, the recommendation in each, to put the external audit out to tender at least every ten years. The objectivity of the external auditor is reviewed by the Audit Committee which also reviews the terms under which the external auditor may be appointed to perform non-audit services.

The Audit Committee reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the external auditor, with particular regard to any non-audit work that the external auditor may undertake and the level of fees associated to this non-audit work. In order to safeguard external auditor independence and objectivity, the Audit Committee ensures that any other advisory and/or consulting services provided by the external auditor does not conflict with its statutory audit responsibilities. Advisory and/or consulting services will generally only cover reviews of interim financial statements, tax compliance and capital raising work. Any non-audit services conducted by the external auditor outside of these areas require the consent of the Audit Committee before being initiated. The external auditor may not undertake any work for the Company in respect of the following matters – preparation of the financial statements, preparation of valuations used in financial statements, provision of investment advice, taking management decisions or advocacy work in adversarial situations. The Audit Committee considers BDO Limited to be independent of the Company. To fulfil its responsibility regarding the independence of the external auditor, the Audit Committee considered:

- changes in audit personnel in the audit plan for the current period;
- a report from the external auditor describing its arrangements to identify, report and manage any conflicts of interest; and
- the extent of non-audit services provided by the external auditor;
- To assess the effectiveness of the external auditor, the committee reviewed;
- the external auditor's fulfilment of the agreed audit plan and variations from it; and
- reports highlighting the major issues that arose during the course of the audit.

# CIP Merchant Capital Limited

## Audit Committee Report (Continued)

For the period from 13 September 2017 to 31 December 2018

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The Audit Committee is satisfied with BDO's effectiveness and independence as external auditor having considered the degree of diligence and professional scepticism demonstrated by them. As such, the Audit Committee has not considered it necessary this year to conduct a tender process for the appointment of its external auditor. Having carried out the review described above and having satisfied itself that the external auditor remains independent and effective, the Audit Committee has recommended to the Board that BDO be reappointed as external auditor for the year ending 31 December 2019.

On behalf of the Audit Committee,

**John Falla**

Chairman of the Audit Committee

29 March 2019

## **Independent Auditor's Report to Members of CIP Merchant Capital Limited**

### **Opinion**

We have audited the consolidated financial statements of CIP Merchant Capital Limited ("the Group") for the period ended 31 December 2018 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards, as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2018 and of its loss for the period 13 September 2017 to 31 December 2018;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Independent Auditor’s Report to Members of CIP Merchant Capital Limited (Cont’d)

Key Audit Matter	Audit Response
<p><b>Investments</b> (note 6) The investment portfolio, whether held directly, or indirectly via the Limited Partnership, at 31 December 2018 comprised both listed and unlisted investments and unlisted warrants.</p> <p>This is a key accounting estimate where there is an inherent risk of management override arising from the investment valuations being prepared by the Investment Manager, who is remunerated based on the net asset value of the funds, derived using those valuations.</p> <p>We focused on the valuation and existence of all investments because investments represent the principal element of the net asset value as disclosed in the Statement of Financial Position in the financial statements.</p>	<p>For listed investments, we agreed the existence of the investment portfolio holdings to the respective Custodian confirmations.</p> <p>For unlisted investments we agreed the warrants to the warrant instrument and obtained direct confirmation from the underlying investment for the unlisted investment.</p> <p>We tested the valuation of all listed investments held by agreeing the prices used in the valuation to independent third-party sources.</p> <p>For the unlisted warrants we obtained management’s valuation and challenged this by using sensitivity analysis to ensure that the valuation was immaterial to the financial statements.</p> <p>For the unlisted investment, which was completed just before the year end, we obtained management’s assessment of whether there had been any events post acquisition that would indicate that the price of recent investment no longer represented fair value.</p>

### Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgment, we determined materiality for the financial statements as a whole to be £725,000, which is based on a level of 1.5% of total assets. We considered total assets to be the most appropriate benchmark due to the Group being an investment fund with the objective of long-term capital growth.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality for the Group has been set at £471,000 which is 65% of materiality.

International Standards on Auditing (UK) also allow the auditor to set a lower materiality for particular classes of transaction, balances or disclosures for which misstatements of lesser

## **Independent Auditor's Report to Members of CIP Merchant Capital Limited (Cont'd)**

amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. In this context, we set a lower level of materiality to apply to sensitive fees including: investment management fees, administration fees, directors' fees, legal and professional fees; audit fees, advisory and consultancy fees and brokerage and custody fees. We determined materiality for these areas to be £72,500.

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of £36,250 (£3,625 for items audited to our lower materiality above). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

### **An overview of the scope of our audit**

We carried out a full scope audit of the Company which was tailored to take into account the nature of the Company's investments, involvement of the Investment Manager, the Company's Administrator and Custodian, the accounting and reporting environment and the industry in which the Company operates.

We considered the likelihood, nature and potential magnitude of any misstatement and following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

The group consists of the parent company and one subsidiary which was determined to be an insignificant component.

### **Other information**

The Directors' are responsible for the other information. The other information comprises the information included in the annual report and consolidated audited financial statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the parent company; or
- the financial statements are not in agreement with the accounting records; or

## **Independent Auditor's Report to Members of CIP Merchant Capital Limited (Cont'd)**

- we have failed to obtain all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

### **Responsibilities of Directors'**

As explained more fully in the Statement of Directors' Responsibilities within the Report of the Directors, the Directors' are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### **Use of our report**

This report is made solely to the members of CIP Merchant Capital Limited (the "parent company"), as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the parent company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

The engagement director on the audit resulting in this independent auditor's report is Justin Hallett.

BDO Limited  
Chartered Accountants  
Place du Pré  
Rue du Pré  
St Peter Port  
Guernsey

Date 29 March 2019

# CIP Merchant Capital Limited

## Consolidated Statement of Comprehensive Income

For the period from 13 September 2017 to 31 December 2018

		Period from 13 September 2017 to 31 December 2018
	Notes	£
Net losses on investments at fair value through profit or loss	6	(3,015,869)
Foreign exchange gains		40,580
<b>NET INVESTMENT LOSSES</b>		<b>(2,975,289)</b>
<b>INCOME</b>		
Bank Interest		16,438
<b>EXPENSES</b>		
Investment management fees	3, 11	(1,049,646)
Directors' fees	11	(105,479)
Secretarial and administration fees	3	(87,736)
Advisory and consultancy fees		(47,672)
Legal and professional fees		(16,899)
Brokerage and custody fees		(21,777)
Audit fees		(25,500)
Other fees		(79,521)
<b>TOTAL EXPENSES</b>		<b>(1,434,230)</b>
<b>LOSS FOR THE FINANCIAL PERIOD</b>		<b>(4,393,081)</b>
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>		<b>(4,393,081)</b>
<b>Diluted and basic earnings per share (ordinary shares)</b>	13	<b>(0.08)</b>

There are no comparative figures for the period as the Company was incorporated on 13 September 2017 and 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. These are therefore the first audited consolidated financial statements produced by the Company

The notes on pages 38 to 51 form part of these financial statements.

# CIP Merchant Capital Limited

## Consolidated Statement of Financial Position

For the period from 13 September 2017 to 31 December 2018

	Notes	As at 31 December 2018 £
<b>ASSETS</b>		
Investments at fair value through profit or loss	6	42,256,877
Receivables and prepayments	7	468,001
Cash and cash equivalents		5,635,760
		<u>6,103,761</u>
<b>TOTAL ASSETS</b>		<b>48,360,638</b>
<b>LIABILITIES</b>		
Payables and accruals	8	(307,614)
<b>TOTAL NET ASSETS</b>		<b>48,053,024</b>
<b>EQUITY</b>		
Share capital	9	52,446,105
Retained earnings	10	(4,393,081)
<b>TOTAL EQUITY</b>		<b>48,053,024</b>
<b>Net Asset Value per share</b>	12	<b>0.87</b>

The Financial Statements were approved and authorised for issue by the Board on 29 March 2019 and sign on its behalf by:

**John Falla**  
Director

**Rob King**  
Director

The notes on pages 38 to 51 form part of these financial statements.

# CIP Merchant Capital Limited

## Consolidated Statement of Changes in Equity

For the period from 13 September 2017 to 31 December 2018

	Notes	Period from 13 September 2017 to 31 December 2018		
		Share Capital	Retained Earnings	Total equity
		£	£	£
<b>Total Equity as at 13 September 2017</b>		-	-	-
<b>Transactions with Shareholders:</b>				
Shareholders proceeds from issues of shares	9	55,000,002	-	55,000,002
Cancellation of shares	9	(2)	-	(2)
Expenses of share issue	9	(2,553,895)	-	(2,553,895)
<b>Total transactions with shareholders</b>		<b>52,446,105</b>	<b>-</b>	<b>52,446,105</b>
Total comprehensive loss for the period		-	(4,393,081)	(4,393,081)
<b>Total Equity as at 31 December 2018</b>		<b>52,446,105</b>	<b>(4,393,081)</b>	<b>48,053,024</b>

The notes on pages 38 to 51 form part of these financial statements

# CIP Merchant Capital Limited

## Consolidated Statement of Cash Flows

For the period from 13 September 2017 to 31 December 2018

	Period from 13 September 2017 to 31 December 2018
	£
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Total comprehensive loss	(4,393,081)
Adjustments for:	
Increase in receivables and prepayments	(468,001)
Increase in payables and accruals	307,614
Net losses on investments at fair value through profit or loss	3,015,869
Investment income	503,801
Foreign exchange gains	(40,580)
Purchase of investments	(82,776,547)
Sale of investments	37,000,000
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(46,850,925)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Issue of ordinary shares	55,000,002
Cancellation of ordinary shares	(2)
Expenses of ordinary shares issue	(2,553,895)
<b>NET CASH GENERATED FROM FINANCING ACTIVITIES</b>	<b>52,446,105</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>5,595,180</b>
Cash and cash equivalents at the beginning of the period	-
Gains on exchange movements	40,580
Net increase in cash and cash equivalents	5,595,180
<b>Cash and cash equivalents at end of period</b>	<b>5,635,760</b>

The notes on pages 38 to 51 form part of these financial statements

# CIP Merchant Capital Limited

## Notes to the Consolidated Financial Statements

For the period from 13 September 2017 to 31 December 2018

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### 1. PRINCIPAL ACTIVITIES

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 a registered closed-ended investment scheme pursuant to The Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended and the Registered Closed-ended Investment Scheme Rules (the “**RCIS Rules**”). 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 3<sup>rd</sup> 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 Company’s financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as adopted by the European Union.

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

The Company has early adopted IFRS 9, which is effective for periods beginning on or after 1 January 2018.

*International Accounting Standards (“IAS”), IFRS and International Financial Reporting Interpretations Committee of the IASB (“IFRIC”) Interpretations issued but not yet effective at the reporting date.*

At the date of approval of these Financial Statements, there are a number of new standards, amendments to existing standards and interpretations, which have not been applied in these Financial Statements that were in issue but not yet effective and will be adopted from their effective date. The Directors do not expect any of them to have an effect on the future Financial Statements.

#### 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.

# CIP Merchant Capital Limited

## Notes to the Consolidated Financial Statements

For the period from 13 September 2017 to 31 December 2018

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### 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

#### Investment entity exemption

The Investments are made by the Group via the limited partnership – Merchant Capital LP (the “**Limited Partnership**”). The Company and the Limited Partnership have 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

As the General Partner is itself not an investment entity, and is solely in the structure to be General Partner to the Limited Partnership which itself is providing services to the Fund, 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.

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

#### Foreign currency

##### Transactions and balances

Foreign currency transactions are translated into the functional currency of the Company, being Sterling, using the exchange rates prevailing at the date of the transactions. Monetary assets and liabilities in foreign currencies are translated into the functional currency using the exchange rate prevailing at the date of the Statement of Financial Position.

Foreign exchange gains and losses arising from translation are included in the Statement of Comprehensive Income

Where foreign currency items are held at fair value, the foreign currency movements are treated as part of the fair value change.

# CIP Merchant Capital Limited

## Notes to the Consolidated Financial Statements

For the period from 13 September 2017 to 31 December 2018

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### 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

#### Use of estimates

The preparation of financial statements in accordance with IFRS requires the Board to make 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 is included in note 4.

#### Financial assets

##### Classification

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

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

The classification depends on the Group'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 applied 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.

# CIP Merchant Capital Limited

## Notes to the Consolidated Financial Statements

For the period from 13 September 2017 to 31 December 2018

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### 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

The change in fair value is recognised in profit or loss and is presented within the 'net gains/(losses) on investments at fair value through profit or loss' 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 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 Consolidated Statement of Comprehensive Income.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and cash on deposit measured at fair value.

#### **Equity instruments**

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from proceeds.

#### **Income**

Interest income is accounted for on an accruals basis and recognised in the Consolidated Statement of Comprehensive Income. Interest income includes interest earned on cash held at bank on call and on deposit.

# CIP Merchant Capital Limited

## Notes to the Consolidated Financial Statements

For the period from 13 September 2017 to 31 December 2018

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### 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Dividend income from investments is accounted for on an ex-dividend basis, gross of applicable withholding taxes and is recognised in the Statement of Comprehensive Income within investment income when the Group's right to receive payments is established.

#### Segmental reporting

The decision maker is the Board. 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. 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.

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

# CIP Merchant Capital Limited

## Notes to the Consolidated Financial Statements

For the period from 13 September 2017 to 31 December 2018

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### 3. SIGNIFICANT ONGOING AGREEMENTS (Cont'd)

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. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The Directors make estimates and assumptions concerning the future. The resulting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

#### **Fair value measurement**

The company invests in Merchant Capital Limited Partnership as per note 2. 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, see note 14 for more information.

### 5. TAXATION

The Company is eligible for exemption from taxation in Guernsey under the provisions of the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989, and has paid an annual exemption fee of £1,200.

There is no taxation charge included in the Consolidated Statement of Comprehensive Income as there has not being any irrecoverable withholding tax incurred on investment income received in the period.

The Limited Partnership is treated as a transparent entity for tax purposes which means that its profits are taxed directly in the hands of each partner.

# CIP Merchant Capital Limited

## Notes to the Consolidated Financial Statements

For the period from 13 September 2017 to 31 December 2018

### 6. INVESTMENTS

	Limited Partnership £	Direct Investments £	Total Investments £
Opening at fair value	-	-	-
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 loss on revaluation of investments	(3,168,634)	(327,961)	(3,496,595)
<b>Closing fair value</b>	<b>16,351,413</b>	<b>25,905,464</b>	<b>42,256,877</b>

The valuations of investments is discussed in more detail in note 14.

	2018 £
Net realised loss on disposal of investments	(23,075)
Net unrealised loss on revaluation of investments	(3,496,595)
Investment Income	503,801
<b>Net losses on investments at fair value through profit or loss</b>	<b>(3,015,869)</b>

### 7. RECEIVABLES AND PREPAYMENTS

	2018 £
Accrued income	458,181
Prepayments	9,820
	<b>468,001</b>

# CIP Merchant Capital Limited

## Notes to the Consolidated Financial Statements

For the period from 13 September 2017 to 31 December 2018

### 8. OTHER PAYABLES AND ACCRUALS

	2018
	£
Accrual for:	
Investment management fee	241,805
Administration and Company Secretarial fee	20,964
Audit fee	17,500
Other expenses	27,345
	<b>307,614</b>

### 9. SHARE CAPITAL

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

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 of no par value 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.

### 10. RETAINED EARNINGS

The following items are the components of the retained earnings account:

- gains and losses on the disposal of investments;
- exchange differences of a capital nature;
- expenses charged to the Statement of Comprehensive Income in accordance with the above accounting policies;
- increases or decreases in the valuation of investments held at the period end; and
- net revenue recognised in the Statement of Comprehensive Income.

# CIP Merchant Capital Limited

## Notes to the Consolidated Financial Statements

For the period from 13 September 2017 to 31 December 2018

### 11. RELATED PARTY TRANSACTIONS

The bases of calculation of the fees due to the Investment Manager are set out in note 3. The Investment Manager earned remuneration of £1,049,646 from the Company during the period in respect of normal services provided, with £241,805 outstanding at the end of the period.

During the period, the Directors received remuneration fees of £105,479 of which £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 M. Fumagalli, a Director of the Company, has an indirect beneficial interest in the Company, of 1.82%.

Mr C. Sgarbi, a Director of the Company, has an indirect beneficial interest in the Company of 1.82%.

Mr J. Falla, a Director of the Company, has a direct beneficial interest in the Company of 0.02%.

### 12. NET ASSET VALUE RECONCILIATION

The 28 December 2018 Net Asset Value (“NAV”) as reported to shareholders on 31 December 2018 has been adjusted mainly to reflect adjustments on accrued expenses based on information received after the period end.

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 participating redeemable shares in issue on the valuation day.

### 13. BASIC AND DILUTED EARNINGS PER ORDINARY SHARE

Basic (loss)/earnings per Ordinary Share is calculated by dividing the comprehensive loss for the period of £4,393,081 by the weighted average number of ordinary shares outstanding during the period. The weighted average number of ordinary shares for the period is 55,000,000.

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

### 14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Group's investing activities, through its Limited Partnership, exposes it to various types of risk that are associated with the investments in order to generate returns. The financial risks are: Market Risk, Liquidity Risk and Credit Risk.

#### Market risk

Market risk is affected by three main components: price risk, interest rate risk and currency risk. All three of these components may be affected by Brexit although this is not quantifiable at the time of publication of these financial statements.

# CIP Merchant Capital Limited

## Notes to the Consolidated Financial Statements

For the period from 13 September 2017 to 31 December 2018

### Price risk

The Group is exposed to price risk on its financial instruments. There is a risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument held or factors affecting all financial instruments traded in the market.

If the prices of the Group at 31 December 2018 had increased by 5% with all other variables held constant, this would have increased net assets attributable to shareholders by approximately £1,295,273. Conversely, if the prices had decreased by 5%, this would have decreased net assets attributable to shareholders by approximately £1,295,273.

The fair value of the Limited Partnership is directly impacted by the underlying investments held by the Limited Partnership. The underlying investments held by the Limited Partnership comprise listed investments, unlisted investments and unlisted warrants. No sensitivity has been prepared for the warrant, as it is immaterial.

If the prices of the Limited Partnership at 31 December 2018 had increased by 5% with all other variables held constant, this would have increased net assets attributable to shareholders by approximately £817,571. Conversely, if the prices had decreased by 5%, this would have decreased net assets attributable to shareholders by approximately £817,571.

### Interest rate risk

The Group is exposed to interest rate risk to the extent that prevailing interest rates may fluctuate on the floating rate instruments.

The exposure at 31 December 2018 of financial assets and financial liabilities to interest rate risk is shown by reference to:

- Floating interest rates
- Fixed interest rates

<b>GROUP</b>		<b>Total</b>
<b>31 December 2018</b>	<b>£</b>	<b>£</b>
Exposure to fixed interest rates	24,105,238	24,105,238
Exposure to floating interest rates*	1,800,226	1,800,226
Cash and cash equivalents (floating interest rate)	5,635,760	5,635,760
	<b>31,541,224</b>	<b>31,541,224</b>

\* Exposure is via investments held at Fair Value through Profit or Loss.

There is no interest rate risk exposure in the Limited Partnership. The only item that could be considered as bearing interest is the loan given to Merchant Capital HF, but this is an interest free loan and therefore not exposed to interest risk.

# CIP Merchant Capital Limited

## Notes to the Consolidated Financial Statements

For the period from 13 September 2017 to 31 December 2018

### Interest rate sensitivity

The following table illustrates the sensitivity of the Group to an increase or decrease of 50 basis points (bps) in interest rates in regards to the assets which are subject to interest rate risk.

The sensitivity analysis is based on the Group's financial instruments held at the balance sheet date, with all other variables held constant.

<b>31 December 2018</b>	<b>50 bps increase</b>	<b>50 bps decrease</b>
	<b>£</b>	<b>£</b>
Effect on Net equity	16,653	(16,653)
	<b>16,653</b>	<b>(16,653)</b>

### Currency risk

A proportion of the Group's portfolio is invested in investments denominated in a foreign currency and movement in exchange rates can significantly affect their Sterling value.

The Investment Manager does not normally hedge against foreign currency movements affecting the value of the investment portfolio, but takes account of this risk when making investment decisions.

The fair values of the Group's assets that have foreign currency exposure at 31<sup>st</sup> December 2018 are shown below:

<b>31 December 2018</b>	<b>US Dollars</b>	<b>Euro</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Investment at fair value through profit or loss	3,895,083	9,028,248	12,923,331
Cash and cash equivalents	484,658	24,933	509,591
	<b>4,379,741</b>	<b>9,053,181</b>	<b>13,432,922</b>

### Currency risk sensitivity

If the foreign currency exchange rates at 31 December 2018 had increased/decreased by 5% with all other variables held constant, this would have increased/decreased net assets attributable to shareholders as follow:

<b>31 December 2018</b>	<b>US Dollars</b>	<b>Euro</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>
If exchange rates appreciated 5%	230,513	476,483	706,996
If exchange rates depreciated 5%	(208,559)	(431,103)	(639,662)

Included in the previous table are the movements impacting the underlying Limited Partnership.

# CIP Merchant Capital Limited

## Notes to the Consolidated Financial Statements

For the period from 13 September 2017 to 31 December 2018

### Currency risk sensitivity (Cont'd)

The below table analyses the individual foreign currency movement in respect of the Limited Partnership:

<b>31 December 2018</b>	<b>US Dollars</b>	<b>Euro</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>
If exchange rates appreciated 5%	(205,004)	(475,171)	(680,175)
If exchange rates depreciated 5%	185,480	429,917	615,397

### Liquidity risk

Liquidity risk, also referred to as funding risk, is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at, or close to, its fair value. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of liquid assets.

Liquidity risk is not significant as the majority of the Group's assets are investments in quoted securities which are readily realisable; their value is significantly in excess of the Group's financial liabilities.

All financial liabilities of the Group at the balance sheet date are payable within 3 months.

### Credit risk

The Group is exposed to material credit risk on its cash and cash equivalents and investments. Failure of the transaction counterparty to perform their obligations under the financial instruments may lead to a financial loss. The credit risk in respect of cash balances are mitigated by placing cash with a reputable banking institution with a credit rating with a single A- (or equivalent) or higher credit rating as determined by an internationally recognised rating agency or gilts or otherwise approved by the Board.

No classes of financial assets contain impaired assets. The maximum exposure to credit risk over financial assets is the carrying value of those assets in the Statement of Financial Position.

The Group does not have any collateral held as security or other credit enhancements as at 31 December 2018.

### Valuation of financial instruments

The Company classifies 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

# CIP Merchant Capital Limited

## Notes to the Consolidated Financial Statements

For the period from 13 September 2017 to 31 December 2018

### Valuation of financial instruments (Cont'd)

- 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 as a whole. 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.

### 14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

#### Valuation of financial instruments (continued)

The following table analyses, within the fair value hierarchy, the Company's financial assets (by class) measured at fair value at 31 December 2018:

<b>31 December</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Investments				
Investment in LP	-	-	16,351,413	16,351,413
Debt instruments	25,905,464	-	-	25,904,464
	<b>25,905,464</b>	<b>-</b>	<b>16,351,413</b>	<b>42,256,877</b>

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 unaudited portfolio statement on page 52.

Orthofix Medical Inc, Alkemy SpA and Coro Energy Plc are all quoted securities and therefore their fair value is using quoted bid prices as at close of business on 31 December 2018.

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 recent investment price given that the investment was made just before the period end but revalued with the 31 December 2018 exchange rate.

Core Energy Plc 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.

# CIP Merchant Capital Limited

## Notes to the Consolidated Financial Statements

For the period from 13 September 2017 to 31 December 2018

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### 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.

### 15. EVENTS AFTER THE REPORTING PERIOD

Following the reporting period, the Company, through the Limited Partnership, made further share purchase investments in Orthofix as follows:

- 2,500 shares on 26 February 2019;
- 4,500 shares on 11 March 2019; and
- 4,500 shares on 12 March 2019.

# CIP Merchant Capital Limited

## Unaudited Portfolio Statement As at 31 December 2018

	Valuation £	Percentage of net assets %
<b>Merchant Capital L.P.</b>		
Merchant Capital HF Limited	5,485,324	11.42
Orthofix Medical Inc	3,895,083	8.11
Alkemy SpA Common	3,542,924	7.37
Coro Energy plc	3,428,082	7.13
Coro Energy plc Warrants 9 April 2019	-	-
Fair value of Limited Partnership	16,351,413	34.03
<b>The Company</b>		
UK Treasury Bill 4.5% 07/03/2019	10,066,600	20.95
European Investment Bank 1.5% 01/02/2019	10,006,435	20.82
European Investment Bank 5.375% 07/03/2019	4,032,203	8.39
Lloyds Bank 2.75% 14/01/2019	1,800,226	3.75
Total Investments	25,905,464	53.91
Cash and cash equivalents	5,635,760	11.73
Other net current assets	160,387	0.33
<b>Total net asset value</b>	<b>48,053,024</b>	<b>100.00</b>

# CIP Merchant Capital Limited

## Unaudited Portfolio Statement (Continued)

As at 31 December 2018

Reconciliation of Loss

The loss consists of: -

### **MERCHANT CAPITAL L.P.**

Realised gains/losses on investments	-
Unrealised gains/losses on investments	(3,168,634)
Investment income	-
Expenses	-
<b>LP Fair value movement</b>	<b>(3,168,634)</b>

### **Reconciliation of Loss (continued)**

Other Gains/Losses

Realised losses on investments	(23,075)
Unrealised losses on investments	(327,961)
Exchange gains on currency balances	40,580
Investment income	503,801
Bank interest	16,438
Investment management fees	(1,049,646)
Other expenses	(384,584)
<b>Total comprehensive loss for the period</b>	<b>(4,393,081)</b>

# CIP Merchant Capital Limited

## General Information

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The Shares were issued and admitted to the AIM Market of the London Stock Exchange on 21 December 2017.

### Directors

Adrian John Reginald Collins (Independent Non-Executive Chairman)  
Marco Fumagalli (Non-Independent Non-Executive Director)  
Carlo Sgarbi (Non-Independent Non-Executive Director)  
John Martyn Falla (Independent Non-Executive Director)  
Robert Paul King (Independent Non-Executive Director)

### Registered office

3rd Floor, 1 Le Truchot  
St Peter Port GY1 1WD  
Guernsey

### Investment Manager and AIFM

Merchant Capital Manager Limited  
3rd Floor, 1 Le Truchot  
St Peter Port GY1 1WD  
Guernsey

### Nominated Adviser and Broker

Strand Hanson Limited  
26 Mount Row  
London W1K 3SQ  
United Kingdom

### Legal Advisers to the Company (as to English law)

Gowling WLG (UK) LLP  
4 More London Riverside  
London SE1 2AU  
United Kingdom

### Legal Advisers to the Company (as to Guernsey law)

Ogier  
Redwood House  
St Julians Avenue  
St Peter Port GY1 1WA  
Guernsey

### Administrator and Company Secretary

Maitland Administration (Guernsey) Limited  
3rd Floor, 1 Le Truchot  
St Peter Port GY1 1WD  
Guernsey

# CIP Merchant Capital Limited

## General Information (Continued)

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### **Independent Auditor**

BDO Limited  
Place du Pré  
St Peter Port GY1 3LL  
Guernsey

### **Registrar**

Computershare Investor Services (Guernsey) Limited  
1st Floor, Tudor House  
Le Bordage  
St Peter Port GY1 1DB  
Guernsey

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice from your stockbroker or other independent adviser authorised under the Financial Services and Markets Act 2000 (as amended) if you are in the United Kingdom or, if not, from another appropriately authorised independent adviser.

If you have recently sold or transferred all of your shares in CIP Merchant Capital Limited, please forward this document, together with the accompanying documents, as soon as possible either to the purchaser or transferee or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

## **CIP Merchant Capital Limited**

**Registered Office Address: 1 Le Truchot, St. Peter Port, Guernsey, GY1 1WD**  
**Registration Number: 64013**

### **NOTICE OF ANNUAL GENERAL MEETING**

Notice is hereby given that the Annual General Meeting of Members of CIP Merchant Capital Limited (the '**Company**') will be held at 1 Le Truchot, 3rd Floor, St. Peter Port, Guernsey on 2 May 2019 at 11.00 a.m. BST to transact the business set out in the Resolutions below.

#### **Ordinary business**

#### **ORDINARY RESOLUTIONS**

1. To receive the Company's Annual Report and Audited Financial Statements for the period ended 31 December 2018.
2. To re-appoint BDO Limited as auditor to the Company until the conclusion of the next annual general meeting at which the accounts are laid before the Company.
3. To authorise the Directors of the Company to determine the remuneration of the auditor.
4. To re-elect Mr Carlo Sgarbi as a Director of the Company who retires by rotation in accordance with Article 24.1 of the Articles of Incorporation of the Company.
5. To re-elect Mr Marco Fumagalli as a Director of the Company who retires by rotation in accordance with Article 24.1 of the Articles of Incorporation of the Company.
6. To re-elect Mr Adrian Collins as a Director of the Company who retires by rotation in accordance with Article 24.1 of the Articles of Incorporation of the Company.
7. To re-elect Mr Robert King as a Director of the Company who retires by rotation in accordance with Article 24.1 of the Articles of Incorporation of the Company.

8. To re-elect Mr John Falla as a Director of the Company who retires by rotation in accordance with Article 24.1 of the Articles of Incorporation of the Company.
9. The Company is authorised, in accordance with the Companies (Guernsey) Law, 2008 (the "**Companies Law**"), as amended, subject to the AIM Rules for Companies and all other applicable legislation and regulations, to make market acquisitions (within the meaning of section 316 of the Companies Law) of its own redeemable ordinary share of no par value in the capital of the Company issued and designated as an "ordinary share" ("**Shares**") which may be cancelled or held as treasury shares, provided that: (i) the maximum number of Shares authorised to be purchased under this authority shall be a number equal to 8,244,500 Shares, representing 14.99% of the issued ordinary share capital of the Company as at 29 March 2019; (ii) the minimum price (exclusive of expenses) which may be paid for a Share shall be £0.01 pence per Share; (iii) the maximum price (exclusive of expenses) which may be paid for a Share shall be not more than an amount equal to the higher of (i) 5 per cent. above the average of the mid-market value of the Shares for the five business days prior to the day the purchase is made; or (ii) that stipulated by the regulatory technical standards adopted by the EU pursuant to the EU Market Abuse Regulation (594/2014) from time to time, such authority to expire on 30 June 2020 (unless previously renewed, revoked or varied by the Company in a general meeting) save that the Company may make a contract to acquire Shares under this authority before its expiry which will or may be executed wholly or partly after its expiration and the Company may make an acquisition of Shares pursuant to such a contract. The authority granted by this resolution shall replace all existing authorities previously granted to the Company to make market acquisitions of its own Shares.

By order of the Board  
**Maitland Administration (Guernsey) Limited**  
1 Le Truchot  
St Peter Port  
Guernsey  
GY1 1WD

29 March 2019

## **NOTES**

### **Proxies**

1. Members entitled to attend and vote at the Meeting are entitled to appoint one or more proxies to attend, speak and vote instead of him or her, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by such member. A proxy need not be a member of the Company. A form of proxy accompanies this notice. Completion and return of the form of proxy will not preclude members from attending or voting at the Meeting, if they so wish. The fact that members may have completed forms of proxy will not prevent them from attending and voting at the Meeting in person should they afterwards decide to do so.
2. To be valid, the form of proxy, together with the power of attorney or the authority, if any, under which it is executed (or a notarially certified copy of such power of attorney) must be

deposited with Computershare Investor Services (Guernsey) Limited, c/o The Pavillons, Bridgewater Road, Bristol, BS99 6ZY by no later than 11.00 am on 30 April 2019 before the time for holding the Meeting or adjourned Meeting or the taking of a poll at which the person named in the instrument proposes to vote.

3. If you do not intend to attend the Meeting please complete and return the form of proxy as soon as possible.

#### **Thresholds and entitlement to vote**

4. A member must first have his or her name entered on the register of members not later than 11.00 am on 30 April 2019. If the Meeting is adjourned, members entered on the register not later than 11.00am on 30 April 2019 before the time fixed for the adjourned Meeting shall be entitled to attend and vote at the Meeting. Changes to entries in the register after that time shall be disregarded in determining the rights of any holders to attend and vote at the Meeting.
5. To be passed, ordinary resolutions require a majority in favour of the votes cast in person or by proxy at the Meeting and special resolutions require a majority of not less than 75% of members who vote in person or by proxy at the Meeting. On a show of hands every shareholder who is present in person (or being a company is present by a representative not himself a shareholder) and who is allowed to vote at a general meeting shall have one vote. Upon a poll every member holding Shares who is present in person or by proxy (or being a company is represented) shall have one vote for every Share of which he is the registered holder.
6. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first named being the most senior).
7. A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all of its powers as a member provided that no more than one corporate representative exercises powers over the same share.
8. As at 29 March 2019, being the latest practicable date before the publication of this notice of annual general meeting, the Company's issued share capital consisted of 55,000,000 Shares each carrying one vote. Therefore, the total voting rights in the Company as at 29 March 2019 is 55,000,000.

#### **Miscellaneous**

9. Copies of the Directors' letters of appointment are available for inspection at the registered office of the Company during normal business hours from 1 April 2019 and will be available for inspection at the place where the meeting is being held from 15 minutes prior to and during the meeting.
10. Members who have general queries about the annual general meeting should write to Maitland Administration (Guernsey) Limited, the Company Secretary, at the registered office of the Company: 3rd Floor, 1 Le Truchot, St Peter Port GY1 1WD, Guernsey.

### **Explanation of certain resolutions**

11. Resolution 1 – annual report and audited financial statements – the Board will present the Company's Annual Report and Audited Financial Statements for the period ended 31 December 2018 to the meeting.
12. Resolutions 2 and 3 – auditor re-appointment and remuneration – The Company is required to appoint an auditor to serve until the next annual general meeting and seek shareholder consent for the Directors to set the remuneration of the auditors.
13. Resolutions 4 to 8 – re-election of a Director - Pursuant to article 24.1 of the articles of incorporation of the Company, any new Director appointed by the directors to either fill a casual vacancy or as an additional director shall hold office only until the next following annual general meeting and shall then be eligible for re-appointment.
14. Resolution 9 – market purchases – the Directors are requesting authority for the Company to make market purchases of up to 8,244,500 Shares, representing 14.99% of the issued ordinary share capital of the Company as at 29 March 2019 (the latest practicable date prior to the publication of this document)). There is no present intention to exercise such general authority. Any repurchase of Shares will be made subject to the Companies Law, the AIM Rules and within guidelines established from time to time by the Directors (which will take into account the income and cash flow requirements of the Company) and will be at the absolute discretion of the Directors, and not at the option of shareholders. Subject to shareholder authority for the proposed repurchases, general purchases of the Shares in issue will only be made through the market. Such purchases may only be made provided the price to be paid is not more than the higher of: (i) 5% above the average of the middle market quotations for the Shares for the five Business Days before the purchase is made; or (ii) the higher of the price of the last independent trade and the highest current independent bid at the time of purchase.

**CIP Merchant Capital Limited**  
Registered Office Address: 1 Le Truchot, St. Peter Port, Guernsey, GY1 1WD  
Registration Number: 64013

**FORM OF PROXY**

**For use at the Annual General Meeting of CIP Merchant Capital Limited (the “Company”)  
to be held on 2 May 2019 at 11.00 a.m (BST)**

I/We \_\_\_\_\_ (block \_\_\_\_\_ capitals \_\_\_\_\_ please)

of address) \_\_\_\_\_

being (a) member(s) of the Company appoint the Chairman of the meeting or (see note 1)

As my/our proxy and, on a poll, to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at 1 Le Truchot, 3<sup>rd</sup> Floor, St. Peter Port, Guernsey on **2 May 2019 at 11.00 a.m (BST)** and any adjournment thereof.

Please indicate with an ‘X’ in the spaces provided how you wish your votes to be cast on the resolutions specified.

	For	Against	Abstain
<b>ORDINARY RESOLUTIONS</b>			
1. To receive the Company’s Annual Report and Audited Financial Statements for the period ended 31 December 2018.			
2. To re-appoint BDO LLP Limited as auditor to the Company.			
3. To authorise the Directors of the Company to determine the remuneration of the auditor.			
4. To re-elect Mr Carlo Sgarbi as a Director of the Company.			
5. To re-elect Mr Marco Fumagalli as a Director of the Company.			
6. To re-elect Mr Adrian Collins as a Director of the Company.			
7. To re-elect Mr Robert King as a Director of the Company.			

8. To re-elect Mr John Falla as a Director of the Company.			
9. To authorise the Company to make market acquisitions of its own Shares.			

Subject to any voting instructions so given, the proxy will vote, or may abstain from voting, on any resolution as he/she may think fit.

Signature\_\_\_\_\_

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2018

**PROXY NOTES**

1. If you so desire you may delete the words 'Chairman of the meeting' and insert the name of your own choice of proxy, who need not be a member of the Company. Please initial such alteration.
2. A corporation must execute the proxy under its common seal or under the hand of an officer or attorney duly authorised.
3. In the case of joint holders, the signature of any one holder will be sufficient, but the names of all the joint holders should be stated. Joint holders are not permitted to vote independently of each other and must vote as one.
4. To appoint more than one proxy to vote in relation to different shares within your holding, you may photocopy this form. Please indicate on each copy of the form the proxy's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you).

Please also indicate if the appointment of a proxy is one of multiple appointments being made. All such forms should be signed and returned together in the same envelope. Appointing a proxy shall not preclude a member from attending and voting in person at the meeting.

5. If this form is returned without indication as to how the person appointed proxy shall vote, he will exercise his discretion as to how he votes or whether he abstains from voting.
6. To be valid, this form of proxy, duly executed together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power or authority, must be deposited at Computershare Investor Services (Guernsey) Limited, c/o The Pavillions, Bridgewater Road, Bristol, BS99 6ZY by no later than 11.00 am BST on 30 April 2019 before the time for holding the meeting or adjourned meeting or the taking of a poll at which the person named in the instrument proposes to vote.

No member shall be entitled to be present or take part in any proceedings or vote either personally or by proxy at any meeting unless all calls due from him have been paid.