Manchester & London Investment Trust plc

REPORT AND ACCOUNTS 2012

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31st July 2012

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

Contents

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

Financial Summary

Total Return

	Year to 31st July 2012	Year to 31st July 2011	Percentage increase/ (decrease)
Total Return (£'000)	(19,945)	15,691	(227.1)
Return per 25p ordinary share – fully diluted	(88.8)p	69.9p	(227.0)
Total Revenue Return per 25p ordinary share	14.3p	11.1p	28.8
Cash dividend per 25p ordinary share	13.0p	12.5p	4.0

Capital

	At 31st July 2012	At 31st July 2011	Percentage increase/ (decrease)
Net assets attributable to equity shareholders (£'000)	75,515	98,267	(23.2)
Net asset value per 25p ordinary share – fully diluted	336.3p	437.6p	(23.1)
FTSE All-Share Index	2,927.3	3,026.0	(3.3)
Performance versus FTSE All-Share Index			(19.8)

Ongoing Charges

	Year to 31st July 2012	Year to 31st July 2011
Ongoing charges as a percentage of average net assets	0.86%	0.51%

Financial Calendar

Year ended:	31st July 2012
Results announced:	16th October 2012
Report and Accounts made available to shareholders:	16th October 2012
Annual General Meeting to be held in Manchester:	22nd November 2012
Expected final dividend payment:	30th November 2012

Directors

*** P H A Stanley** (79) joined the Board in November 1997 and was appointed Chairman in November 2000. Mr Stanley was Chairman of BWD Securities plc (1995-2000) and has extensive experience in Stock Market related matters.

B S Sheppard (78) is a founder Director of Manchester & London Investment Trust plc and was Chairman until November 2000.

*** D Harris** (62) was appointed to the board on 26th May 2009 following the acquisition of OSP Limited (formerly Osprey Smaller Companies Income Fund Limited). Mr Harris is also the Chief Executive of InvaTrust Consultancy.

** Independent Director and Member of the Audit Committee*

Advisers & Administration

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2nd Floor
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Chorlton Street
Manchester M1 3FH
Tel: 0161 228 1709
Fax: 0161 228 2510

Country of Incorporation
Registered in England & Wales
Number: 01009550

Company website
www.manchesterandlondon.co.uk

Investment Manager & Stockbroker
Midas Investment Management Limited
2nd Floor
Arthur House
Chorlton Street
Manchester M1 3FH
Tel: 0161 228 1709
Fax: 0161 228 2510

Secretary
P Thomas
2nd Floor
Arthur House
Chorlton Street
Manchester M1 3FH

Registrar
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PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH
Tel: 0870 702 0003
Fax: 0870 703 6114

Bank
National Westminster Bank plc
11 Spring Gardens
Manchester M60 2DB

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

Chairman's Statement

Results for the year ended 31st July 2012

Our 2012 financial year was a year marked by high volatility and the re-emergence of the Eurozone crisis. After falling from around 6,000 in July 2011 to around 5,000 in August 2011; the market then rallied back to 6,000 in March 2012 to drop again to around 5,200 in May 2012. The market then crept back to finally close at around 5,600 at the end of the period.

It has been a disappointing period for the fund as, although the index effectively traded within a fairly narrow range, the movements within the subsectors of the index were more marked. In essence, the period was a risk off period with strong reallocations into fixed income and developed market defensive equities paying reasonable dividend yields, even if these latter stocks were at best low growth, if not ex-growth. Within equities, Tobacco, Utilities, Alcoholic Beverages etc did well, but cyclicals such as Miners, Oil & Gas and Industrial Engineering performed badly. Unfortunately, the majority of the fund is exposed to the latter rather than the former and hence we performed very poorly, both absolutely and relatively. More details regarding our performance can be found in the Investment Manager's report.

It is our view that the issues regarding the Eurozone are insurmountable unless the richer countries of the North wish to sanction a constant transfer of wealth across to the Southern states. None of us here believe that this will be their collective desired future. The issues with the Eurozone are not to do with liquidity or a blockage in the monetary transmission mechanism as we are constantly told, but actually lie in uncompetitiveness, over-regulation, far too much debt and a feeble banking system. As we have said numerous times before, there are three ways for the situation to be solved: a transfer of wealth from North to South (we don't see this "continuing" to happen); the South becomes competitive (unlikely without the quick route via currency devaluation) or mass money printing which is unsterilised (this may happen and Draghi is certainly moving that way, but against Bundesbank protestations). In conclusion, we are swayed by Capital Economics' conclusion that the overwhelmingly logical outcome is that we see some periphery countries exit the Eurozone.

Turning to the market itself, it is miraculous to see that we are entering the Q3 2012 reporting season as the first reporting season for three years with forecast negative earnings growth and yet the market remains buoyant. The reason for this is the monetary printing being undertaken by almost all significant central banks which, in the Federal Reserve's case, is unlimited in scope. The big question is which card outweighs the other and when does the miracle balm effect of printing wear thin?

It is all very well herding into low growth yield plays but in time all but the most inexpensive investments do require some growth to provide rewards. In addition, growth shares can not continue to devalue against their earnings growth forever. In the longer term, we believe investors will be drawn back to globally exposed, well established, cash generative growth stocks which is where we are positioned. We do not intend to try to switch out of these only to try to time our return before the herd. In time our portfolio will see the rewards of being positioned to gain advantage from the benefits of global population growth, productivity gains, urbanisation and the growth of the middle classes.

Over the last financial year, Manchester & London's net asset per share decreased by 23.1 per cent, which is an underperformance against the FTSE All-Share Index which generated a return of minus 3.3 per cent. As at the end of July 2012, we have materially outperformed the FTSE-All Share index over the last ten years and we have performed in line with the market over the last five years (even after such a disappointing year).

The Directors are proposing a Final Dividend of 7.8p making a total of 13.0p per share for the year, an increase of 4 per cent for the year. This total payment compares with the Total Revenue Return per ordinary share for the year of 14.3p. The Company has carried forward distributable reserves of £27.2m, representing over £1.21 per share, which puts us in a strong position to pursue a flexible distribution policy, should the Directors believe this to be in shareholders' best interests.

Annual General Meeting

I look forward to welcoming shareholders to our fortieth Annual General Meeting to be held in the Lancaster Suite, The Midland Hotel, Peter Street, Manchester M60 2DS, at 12.45 pm on Thursday 22nd November 2012.

Mr P H A Stanley
Chairman

Portfolio Investments

As at 31st July 2012

Listed investments	Sector	Valuation £'000	% of Net Assets
PZ Cussons plc	Personal Goods	**13,880**	18.4
Smith & Nephew plc	Healthcare Services	**7,630**	10.1
Weir Group plc	Industrial Engineering	**7,292**	9.7
Xstrata plc	Mining	**6,942**	9.2
Standard Chartered plc	Banking	**6,184**	8.2
Diageo plc	Beverages	**5,748**	7.6
BG Group plc	Oil & Gas Producers	**5,676**	7.5
Rio Tinto plc	Mining	**5,535**	7.3
BP plc	Oil & Gas Producers	**5,356**	7.1
Syngenta AG	Chemicals	**5,182**	6.9
Unilever plc	Food Producers	**4,652**	6.1
Burberry Group plc	Personal Goods	**4,169**	5.5
Jardine Matheson Holdings Ltd	General Industrial	**4,003**	5.3
Smith Group plc	General Industrial	**3,775**	5.0
Aberdeen Asset Management plc	Financial Services	**2,409**	3.2
Afren plc	Oil & Gas Producers	**2,403**	3.2
Schroders plc	Financial Services	**2,296**	3.0
HMS Hydraulic Machines & Systems Group plc	Industrial Engineering	**2,216**	2.9
Vedanta Resources plc	Mining	**1,965**	2.6
Millennium & Copthorne Hotels plc	Travel & Leisure	**1,333**	1.8
Sportingbet plc	Travel & Leisure	**1,331**	1.7
BlackRock Greater Europe Inv Trust plc	Equity Investment Instruments	**957**	1.3
Glencore International plc	Mining	**754**	1.0
Lloyds Banking Group plc	Banking	**653**	0.8
Walter Energy Inc	Oil & Gas Producers	**592**	0.8
Heritage Oil plc	Oil & Gas Producers	**284**	0.4
Joy Global Inc	Mining	**66**	0.1
Listed investments		**103,283**	136.7
Unlisted at Director's valuation		**126**	0.2
Cash and net current assets/(liabilities)		**(27,894)**	(36.9)
Net assets		**75,515**	100

All investments listed above are equities (unless otherwise stated), denominated in Sterling (save for Syngenta that is denominated in CHF and Jardine Matheson, HMS Hydraulic Machines & Systems, Walter Energy and Joy Global in USD), that have been issued by companies registered in England (save for Syngenta, Jardine Matheson, HMS Hydraulic Machines & Systems, Glencore International, Walter Energy, Heritage Oil and Joy Global that are registered in Switzerland, Bermuda, Cyprus, Jersey, USA, Jersey and USA respectively).

Portfolio Sector Analysis

As at 31st July 2012

Sector	% of Portfolio
Personal Goods	17.5
Mining	14.8
Oil & Gas Producers	13.8
Industrial Engineering	9.2
General Industrial	7.5
Healthcare Services	7.4
Banking	6.6
Beverages	5.6
Chemicals	5.0
Financial Services	4.5
Food Producers	4.5
Travel & Leisure	2.6
Equity Investment Instruments	0.9
Unlisted Investments	0.1
	100.0

Investment Objective and Policy

Investment objective

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

Investment policy

Asset allocation and risk diversification

The Company's investment objective is sought to be achieved through a policy of actively investing in a diversified portfolio, comprising UK and overseas equities and fixed interest securities. The Company seeks to invest in companies whose shares are admitted to trading on a regulated market. However, it may invest in a small number of equities and fixed interest securities of companies whose capital is not admitted to trading on a regulated market. Investment in overseas equities is utilised by the Company to increase the risk diversification of the Company's portfolio and to reduce dependence on the UK economy in addressing the growth and income elements of the Company's investment objective. There are no maximum exposure limits to any one particular classification of equity or fixed interest security. The Company's investments are not limited to any one industry sector and its current investment portfolio is spread across a range of sectors. The Company has no specific criteria regarding market capitalisation or credit ratings in respect of investee companies.

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

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

The Company may invest in derivatives, money market instruments and currency instruments including contracts for differences ("CFDs"), futures, forwards and options. These investments may be used for hedging positions against movements in, for example, equity markets, currencies and interest rates. In addition, these instruments will only be used for efficient portfolio management purposes. For the avoidance of doubt, the use of such instruments to engage in trading transactions is strictly against the Company's investment policy. Any trading transactions will be carried out through dealing subsidiaries of the Company. The Company would not maintain derivative positions should the total underlying exposure of these positions exceed one times the adjusted total capital and reserves.

Gearing

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

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

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

Investment Objective and Policy (continued)

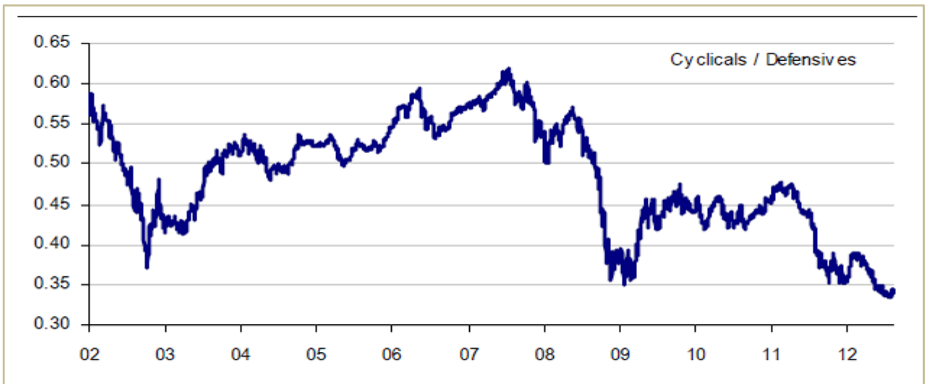
In the event of any breach of the investment restrictions applicable to the Company, shareholders will be informed of the remedial actions to be taken by the Board and the Investment Manager by an announcement issued through a Regulatory Information Service approved by the FSA.

Benchmark Index

Performance is measured against the FTSE All-Share Index. The Company sources index and price data from Proquote International, which is a division of the London Stock Exchange plc.

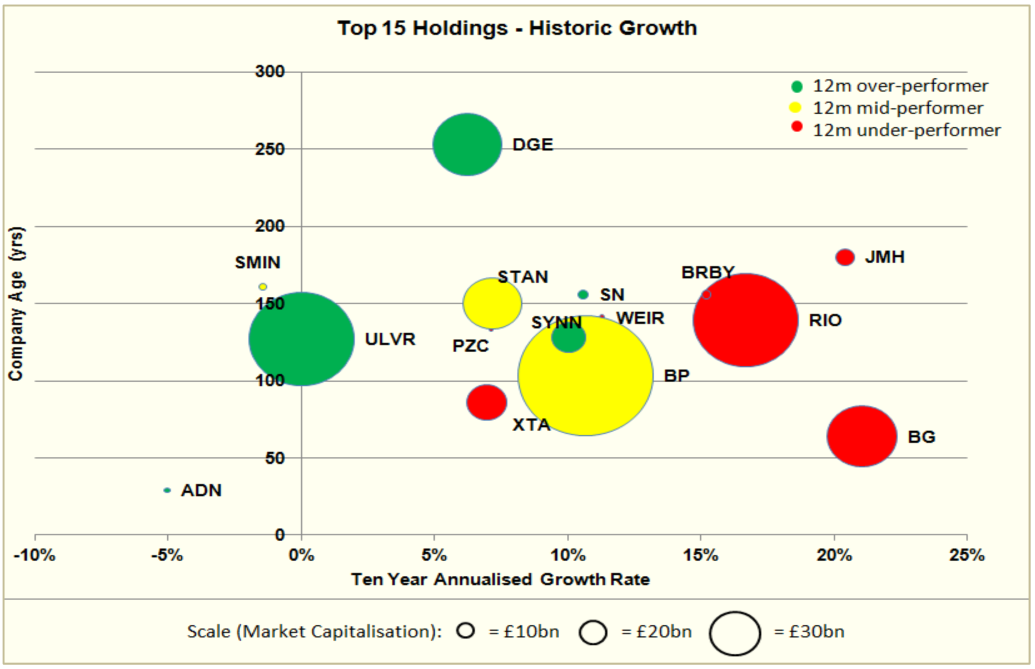
Investment Manager's Review

We entered the period geared, focused on growth (and hence cyclicals) and with exposure to emerging markets. The period was marked by a risk off movement into developed market, safe haven fixed income and highly defensive yield paying equities. In effect, there was an unprecedented shift away from cyclicals to defensives (as shown in the chart below) hence we suffered materially.



Source: UBS European Equity Strategy (Ratio is calculated based on European equity universe excl. energy and insurance, but includes banks. Excluding banks, the above ratio sits near the 2003 level, i.e. higher, but still at a level materially below historic average.)

The best way to understand why we were surprised about how materially the market moved against us is explained by the chart below:



Source: Manchester & London Investment Trust plc

Note that the chart represents our top fifteen holdings which aggregates to over 85.6 per cent of our group assets.

The 'y' axis shows the number of years that the stock has been established. This indicates that we have well established holdings.

The 'x' axis shows the historic ten year revenue growth rate of the top 15 holdings. This indicates our holdings have a history of growth.

The size of the bubble represents the stock's market capitalisation. Reviewing the scale shows all our holdings are not insubstantial.

The colour of the bubble shows how the stock performed. This perversely illustrates that the stocks with the lower historic growth rates performed relatively better.

Investment Manager's Review (continued)

The key question this chart throws out is, are these stocks now ex-growth? The answer is that we don't believe so as the weighted forecast earnings per share, compound annual growth rate for the next three years is greater than 8 per cent.

In addition to this, we believe that over fifty per cent of the portfolio by value has the potential to become an 'Event Driven' situation over the next five years. In particular, we would highlight PZ Cussons, Burberry, Standard Chartered, Smiths Group, Smith & Nephew, Afren, Weir and BG Group as takeover targets. Last year we didn't mention Xstrata in this list.

We have remained overweight in the consumer goods sector and maintained a high weighting to PZ Cussons. This does cause us many concerns, but we think the medium term opportunities outweigh these concerns. Nigeria and Indonesia may be high risk propositions but their socio-demographics may offer some of the most attractive growth prospects in the world. As has been noted in the Chairman's statement, we don't believe growth and opportunity can be devalued endlessly particularly in an inflationary environment.

We maintain a material exposure to the mining sector as, despite the heavy attention paid to a short term economic slowdown in China, commodities remain an attractive investment in the medium term due to population growth, urbanisation, resource depletion and inflation. In addition many metals now trade at or below their marginal cost, a situation which we do not believe is sustainable for an extended period of time and a factor we do not see adequately reflected in valuations.

We remain underweight in Banks, Financials and Insurance by 8.9 per cent which are leveraged sectors and often involve more risks than are presented fairly to shareholders.

To add to the issues of asset allocation this year, we have been hit by a poor investment in Essar Group and specific adverse issues with PZ Cussons, Standard Chartered, BG and Weir. We can't foresee how any of these specific situations will pan out, but a good company with a decent management team will normally overcome these hurdles in time. This recovery almost always doesn't happen immediately and we shouldn't expect it to do so if we are taking a long-term investment view. If the facts change or become clearer to us, we will change our mind.

The result of all of the above mentioned factors led to a material and disappointing underperformance for the fund as broken down below:

Underperformance of Mining investments	7.0%
Underperformance of Industrial Engineering investments	2.9%
Underperformance of PZ Cussons plc	2.7%
Underperformance of Essar Energy plc (now divested)	2.3%
Underperformance due to entering the period geared and focused on growth stocks rather than defensives	4.9%
Total underperformance	19.8%

Market conditions were more fortunate for our trading activities which generated a trading income this year of £934,000 compared with £552,000 last year.

Our strategy remains to be focused on global blue chips which are growing, cash generative and liquid in preference to UK/EU centric value stocks.

Investment Manager
Midas Investment Management Ltd

Principal Portfolio Holdings

PZ Cussons plc (“PZ Cussons”)

PZ Cussons operates in the personal goods sector manufacturing and distributing cleansing fluids, soaps, detergents and health & beauty products through their 30 plus brands which include Imperial Leather, Carex, Cussons Baby and Morning Fresh. The company operates from the UK, Africa, Asia, United Arab Emirates, Central Europe and Australia. PZ Cussons is positioning itself as an attractive distributor of personal goods into growth markets across the developing world.

PZ Cussons has endured a challenging year, first with the unrest in Nigeria and then a disappointing trading performance in Australia. This has offset good momentum in Indonesia and the new Beauty division, which is starting to build a strong portfolio of high quality brands. However, we expect a return to growth in 2012/2013 as some stability is regained in Nigeria and cost saving measures bear fruit. PZ Cussons has a five year compound earnings per share ("EPS") growth rate of 8.6 per cent.

Smith & Nephew plc ("Smith & Nephew")

Smith & Nephew is a global medical devices company focusing on orthopaedics, endoscopy and advanced wound management. The company has distribution channels in over 90 countries, generating annual sales of over $4 billion.

Smith & Nephew remains attractively placed to benefit from the changing demographics and personal activity levels across the world. The stock is inexpensive against its historic trading multiples and with further consolidation expected in the sector it is a prime takeover candidate. Smith & Nephew has a five year compound EPS growth rate of 10.5 per cent.

Weir Group plc (“Weir”)

Weir is a global leader in the manufacture of specialised pumps. The Minerals division which supplies slurry pump equipment to most major mining companies is the largest, accounting for around 54 per cent of revenues. The Oil & Gas division manufactures pumps and safety-critical equipment with a heavy focus on the US shale industry.

With low gas prices causing a shift in activity from gas to liquids rich shale plays, the US pressure pumping market found itself in transition this year. While oil plays require the same high pressure pumps, the logistics of moving the fleets across the country reduced utilisation rates. While it is unclear how long this will weigh on the market, the long-term picture for shale drilling remains unchanged, with demand for hydrocarbons supported by emerging market urbanisation and global population growth. The Minerals division is also well placed to benefit from the same drivers. Weir has a five year compound EPS growth rate of 36.9 per cent.

Xstrata plc (“Xstrata”)

Xstrata is a global, diversified mining group with an attractive portfolio of assets across key commodities such as copper, coal, zinc and nickel. The group is undergoing a transformational growth programme, that should also see it move significantly down the cost curve. A well publicised merger with Glencore is currently on the table which, if successful, should create a global mining and trading champion. Despite this, the group currently trades at a discount to book value.

Standard Chartered plc (“Standard Chartered”)

Standard Chartered is engaged in consumer and wholesale banking globally and has a strong focus on the Asia-Pacific, Middle East and African regions which provide approximately 90 per cent of the group's profit. The bank has been a strong historic performer and has delivered 10 successive years of record profits, with a five year compound growth rate of 15.9 per cent.

Though the bank suffered a recent setback with the Iranian payments scandal, underlying earnings momentum remains good, and the current valuation of <1.5x book value seems an undeserved discount to its historic average of around 2.5x.

Principal Portfolio Holdings (continued)

Diageo plc ("Diageo")

Diageo is a global alcoholic beverages company, and the world's largest producer of premium spirits. The company holds an enviable portfolio of iconic brands such as Johnnie Walker, Smirnoff, Baileys and Guinness.

Diageo continues to benefit from the growth of the middle class in emerging economies and their increasing demand for premium brands. The company has targeted medium-term organic sales growth of 6 per cent per annum and has a five year compound EPS growth rate of 9.3 per cent.

BG Group plc ("BG")

BG is a global diversified oil & gas E&P company, with key assets in the Santos Basin (Brazil), Australia and the North Sea. The group remains focused on delivering rapid production growth over the next several years, targeting compound volume growth of 6-8 per cent out to 2020. The group's LNG arm also remains an attractive business, capitalising on large global price differences by transporting gas in liquid form from producing nations to high demand regions such as Asia.

BG has a five year compound EPS growth rate of 22.5 per cent and trades at a significant discount to its NAV.

Rio Tinto plc ("Rio Tinto")

Rio Tinto is one of the world's largest producers of high quality iron ore. Its rapidly expanding operations in Pilbara (Australia) combine lowest quartile cash costs with prime locations to serve the Asian markets. Whilst the slower growth outlook for China has taken its toll on the iron ore price, we do not believe the urbanisation and industrialisation story in Asia has fully played out. Furthermore, current spot prices sit well below the cost of production for Rio Tinto's Chinese competitors, a situation which is unsustainable in the longer term.

The company trades on an enterprise value/earnings before interest, tax, depreciation and amortisation ("EV/EBITDA") of just 5x and has a five year compound EPS growth rate of 8.0 per cent.

BP plc ("BP")

BP is an international oil and gas company operating in over 80 different countries. With the full liability related to the 2010 Macondo oil spill not yet quantified, the stock continues to trade at a significant discount to its fair asset value.

Whilst a favourable out of court settlement of these liabilities would be an obvious catalyst to close this valuation gap, a sale of the group's TNK-BP stake also looks to be a good way to release value, which can then be returned to shareholders or used to acquire assets that will give the company more meaningful growth going forward.

Syngenta AG ("Syngenta")

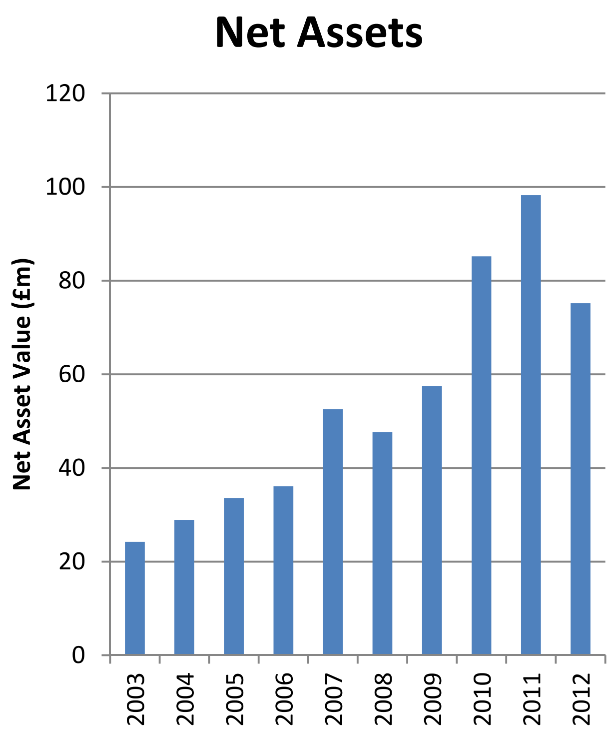
Syngenta is a global agri-science business engaged in crop protection and seeds. Urbanisation and changing dietary preferences across the middle classes of the developing nations is forcing the agricultural industry to increase yields.

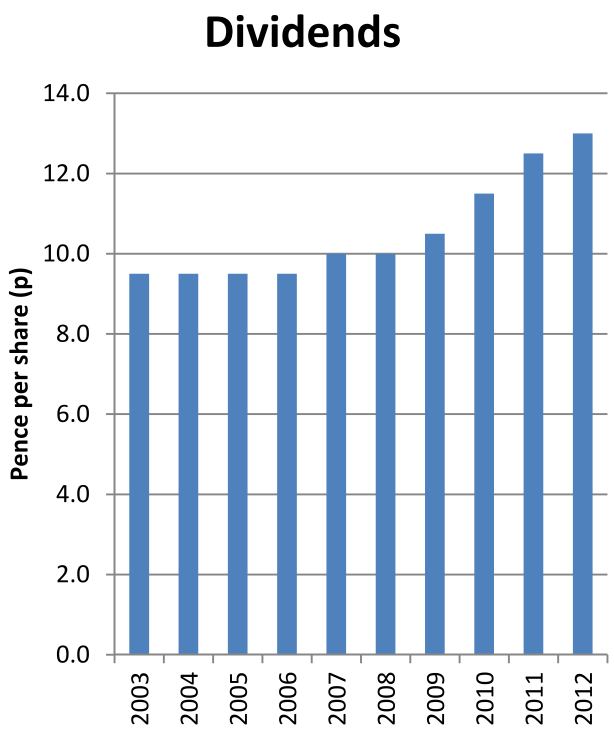
The strong sector outlook, the group's technological edge and their enviable product pipeline suggest the shares are attractively valued, particularly if Syngenta achieve their target to increase sales in key crop areas to $25bn by the end of the decade. Syngenta has a five year compound EPS growth rate of 17.0 per cent.

Investment Record of the Last Ten Years

Year ended	Total Return £'000	Return per ordinary share Basic p	Return per ordinary share Fully diluted p	Dividend per ordinary share p	Total assets less liabilities £'000	Net Asset Value per 25p share Basic p	Net Asset Value per 25p share Fully diluted p
31st July 2003	2,384	31.79	23.30	9.50	24,238	323.17	237.89
31st July 2004	5,512	73.49	53.15	9.50	28,901	385.35	282.39
31st July 2005	5,426	72.35	52.33	9.50	33,611	448.15	327.34
31st July 2006	3,206	42.75	31.14	9.50	36,107	481.43	351.17
31st July 2007	5,799	41.58	41.58	10.00	52,554	376.80	376.80
31st July 2008	(3,490)	(25.02)	(25.02)	10.00	47,669	341.80	341.80
31st July 2009	645	4.43	4.43	10.50	57,495	328.44	328.44
31st July 2010	13,151	71.75	71.75	11.50	85,203	379.40	379.40
31st July 2011	15,691	69.87	69.87	12.50	98,267	437.60	437.60
31st July 2012	**(19,945)**	**(88.81)**	**(88.81)**	**13.00**	**75,515**	**336.26**	**336.26**

In 2006, the Company adopted International Financial Reporting Standards ("IFRS"). As a result, the data has been restated to reflect the change to IFRS. It is not practical to restate 2003 and prior periods for the effect of transaction costs on total return.





In the period from 1981 to 2002, total assets less liabilities increased from £241,000 to £22,800,000. Net Assets per share increased from 24.1p to 304.0p.

Report of the Directors

The Directors present their report and financial statements for the year ended 31st July 2012.

The Chairman's Statement on page 7 forms part of the report of the Directors.

Business Review

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

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

Status

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

The Company is also governed by the Listing Rules and Disclosure and Transparency Rules of the Financial Services Authority.

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

Company registered number: 01009550.

Principal activities

The Company carries on business as an Investment Company. A review of investment activities for the year ended 31st July 2012 and the outlook for the coming year is given by the Investment Manager on pages 12 and 13. The Company's subsidiaries, OSP Limited (formerly Osprey Smaller Companies Income Fund Limited) ("OSP") and Stakeholders' Momentum Investment Limited (formerly Stakeholders' Momentum Investment Trust plc) ("SMIL") carry on business as a dealing subsidiary and as an investment subsidiary, respectively.

OSP, a company incorporated in Guernsey, is the sole branch outside of the United Kingdom.

Performance and key performance indicators

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

The Board considers the most important key performance indicator to be the comparison with its benchmark index, the FTSE All-Share Index. This is referred to in the Financial Summary on page 5.

Total net assets at 31st July 2012 amounted to £75,515,000 compared with £98,267,000 at 31st July 2011, a decrease of 23.2 per cent, whilst the fully diluted net asset value per ordinary share decreased to 336.3p from 437.6p. This decrease of 23.1 per cent compared with a decrease over the period of 3.3 per cent by the FTSE All-Share Index, equated to an underperformance by the Company of 19.8 per cent.

Report of the Directors (continued)

Group net revenue after taxation for the year was £3,221,000, an increase of 28.9 per cent.

The share price during the period under review has been quoted at discounts to net asset value of (0.9) to 16.5 per cent which the Directors consider to be satisfactory in the context of the discounts applicable to other investment trusts and was achieved without using the Company's powers to acquire its own shares in the market.

Ongoing charges set out on page 5 is a measure of the total expenses (including those charged to capital) expressed as a percentage of the average net assets over the year. The Board regularly reviews the ongoing charges measure and monitors Group expenses.

Principal risks and uncertainties associated with the Company

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

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

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

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

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

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

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

The Company's policy of charging 65 per cent of the Company's investment advisory fees to the Company's capital account may result in the diminution of the asset value of the Company.

Whilst the use of borrowings by the Company should enhance the net asset value of the ordinary shares when the value of the Company's underlying assets is rising, it will have the opposite effect when the underlying asset value is falling.

Report of the Directors (continued)

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

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

Risk management

The risks with regards to financial instruments, and the Company's policies for management of these risks, are detailed in note 19 to the financial statements - "Risks – Derivatives, other financial instruments and other risks". The Company manages the risks inherent in portfolio management by investing in approximately 20 to 40 securities of companies operating in a range of industrial sectors and varying the extent of cash holdings or gearing in relation to the Investment Manager's assessment of overall market conditions.

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

The Board reviews the internal control procedures of its third party service providers and assesses the reliability of these procedures as part of its risk management strategy.

Further details with regards to the Board's risk management procedures are detailed in the "Internal Financial Control" section of the Report of the Directors.

Gearing

The company operates a Flexible Revolving Loan Facility with a limit of £11m with Pershing Securities Limited, a subsidiary of The Bank of New York Mellon Corporation. No arrangement fee is payable on this facility and interest is charged at the Bank of England Base Rate plus three per cent per annum on drawdowns.

By the year end the portfolio had been geared, using this facility and CFDs, to a level whereby gross investments represented 87.9 per cent of net assets. In addition, the weighted average percentage of gearing (calculated as net debt divided by market capitalisation) held by the individual companies in the portfolio on their own balance sheets was 14.3 per cent, resulting in a combined see through gearing in the portfolio of 100.5 per cent.

Management

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

Future development

The Company continues to look for strategies to increase shareholders' returns including the dividend and to increase the liquidity of its shares. A commentary on the trends and factors likely to affect the future development, performance and position of the Company, which include market sentiment and the effectiveness of government intervention, is set out in the Chairman's Statement and is released monthly in a fund factsheet published via the Company's website.

Report of the Directors (continued)

Investment objective and policy

The Company's investment objective and policy, stated on pages 10 and 11, has not changed during the year under review.

Results

The Group's total comprehensive loss for the year, after taxation, amounted to £19,945,000 (2011: £15,691,000 total comprehensive income).

Total net assets at 31st July 2012 amounted to £75,515,000 compared with £98,267,000 at 31st July 2011, whilst the fully diluted net asset value per ordinary share decreased to 336.3p from 437.6p.

Ordinary dividends

An interim dividend of 5.2p per ordinary share was paid on 30th April 2012 (2011: 5.2p) and the Directors are recommending a final dividend of 7.8p per ordinary share (2011: 7.3p), a total for the year of 13.0p per ordinary share (2011: 12.5p).

Subject to shareholders' approval at the Annual General Meeting, the final dividend will be paid on 30th November 2012 to shareholders registered on 9th November 2012. The shares will be declared ex-dividend on 7th November 2012.

Share valuations

On 31st July 2012, the middle market quotation and the net asset value per ordinary 25p share were 292.0p and 336.3p, respectively. This indicates that the discount on the Company's shares was 13.2 per cent. This is not uncommon as the share prices of closed-end funds are often traded at a discount to their net asset values.

Events after the reporting period

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

Report of the Directors (continued)

Corporate Governance

Application of Association of Investment Companies Code Principles

The Directors attach great importance to ensuring that the Company operates to high ethical and compliance standards. Accordingly, the Board has put in place a framework for Corporate Governance which it believes appropriate for an investment trust and which seeks to observe the principles set out in the Code of Corporate Governance, as published by the Association of Investment Companies (the “AIC Code”), established specifically for investment trust companies and endorsed by the Financial Reporting Council (“FRC”) in September 2010. By following the Code, the Company continues to meet its obligations in relation to the FRC's UK Corporate Governance Code. The AIC Code provides a guide to best practice in certain areas of governance where the specific characteristics of investment trusts suggest that alternative approaches to those set out in the UK Corporate Governance Code may be preferable.

The Board considers that the Company has complied with the provisions set out in the UK Corporate Governance Code throughout the year to 31st July 2012 except as referred to below. The following statement describes how the Company has applied the relevant principles of Corporate Governance.

The Board and Committees

The Board currently comprises three non-executive Directors, two of whom are considered to be independent of the Company's Investment Manager. Mr B S Sheppard is related to Mr M B B Sheppard who has a controlling interest in Midas Investment Management Ltd and, accordingly, offers himself for re-election annually. As the Board is composed entirely of non-executive Directors and executive responsibility for investment management has been delegated to the Company's Investment Manager, there is no Chief Executive Officer. The senior independent Director is Mr P H A Stanley.

The Board regularly reviews the independence of its members and considers Mr P H A Stanley and Mr D Harris to be independent in character and judgement within the meaning set out in the Code, having examined each Director against the independence criteria described in the Code.

All the Directors of the Company are resident in the UK and their biographical details on page 6 of this report demonstrate the wide range of skills and experience that they bring to the Board. Non-executive Directors are not appointed for a specific term, as the Board believes that long service does not detract from their independence and that a detailed knowledge of the business has a beneficial impact on the running of the Company. All Directors are subject to re-election by rotation, one-third of their number each year, and their re-election is subject to shareholders' approval. All non-executive Directors stand for election at the Annual General Meeting following their appointment. No Director has been in office for more than three years without having offered himself for re-election.

The Board has established both a nominations and a remuneration committee, comprising the entire Board. The nominations committee is responsible for considering the appointment of new directors, agents and advisers, and evaluating the overall composition of the Board from time to time, taking into account the existing balance of skills and knowledge. Mr B S Sheppard, being the only non-independent director of the board, is not included in any decisions when appointing any new independent director. There are procedures for a new Director to receive relevant information on the Company together with appropriate induction. The remuneration committee is responsible for considering all material elements of remuneration policy which is set out in the Directors' Remuneration Report on page 30. Mr P H A Stanley is Chairman of both committees.

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

Report of the Directors (continued)

Corporate Governance (continued)

A management engagement committee has been established, comprising of Mr P H A Stanley (Chairman of the committee) and Mr D Harris. This management engagement committee is responsible for ensuring that the Investment Manager of the Company complies with the terms of the management agreement entered into with the Company, and that the provisions of the management agreement follow industry practice and remain competitive and in the best interests of shareholders. Having a controlling interest in the Investment Manager, Mr B S Sheppard is excluded from being a member of the management engagement committee which is in accordance with the AIC Code and NAPF Investment Trust policy guidelines. The Directors maintain regular contact with the Investment Manager.

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

The Audit Committee, which consists of Mr P H A Stanley and Mr D Harris, and is chaired by Mr D Harris, has specific terms of reference. Its primary role is to review the accounting policies and the contents of the Annual Report, the adequacy and scope of the external audit and compliance with regulatory and financial reporting requirements. The Audit Committee regularly monitors and reviews the auditor's independence (including the provision of non-audit services), objectivity and effectiveness. The Audit Committee is also responsible to the Board for making recommendations in relation to the appointment of the external auditor. Details of the membership are set out on page 6 and the committee members are regarded as having recent and relevant financial experience. The Audit Committee has direct access to the external auditor and they are invited to attend the Board Meeting at which the Annual Reports and Financial Statements are approved. All reports received from the auditor are given full consideration.

The Audit Committee has considered the need for an internal audit function and has recommended that, in view of the size of the Company and the internal controls in place, this is not necessary at present.

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

	Board Meetings	Nomination Committee	Remuneration Committee	Management Committee	Audit Committee
Number of meetings during the year	4	1	1	1	2
P H A Stanley	4	1	1	1	2
B S Sheppard	4	1	1	N/A	N/A
D Harris	4	1	1	1	2
Membership summary:					
P H A Stanley		●	●	●	●
B S Sheppard		●[1]	●		
D Harris		●	●	●	●

[1]Mr B S Sheppard being the only non-independent Director of the board is not included in any decisions when appointing any new independent director.

Report of the Directors (continued)

Corporate Governance (continued)

Accountability and audit

The Directors' Responsibilities Statement in respect of the financial statements is set out on page 29. The Report of the Independent Auditor is on pages 31 to 32.

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

Internal Financial Control

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

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

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

The Board has contractually delegated responsibility for management of the investment portfolio and the provision of accounting services to external agencies. This is after full and proper consideration by the Board of the quality and cost of services offered including the financial control systems in operation insofar as they relate to the affairs of the Company. As such, the Board believes that there is no necessity for an internal audit function. This matter is subject to regular review.

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

- Investment management is provided by Midas. The Board is responsible for setting the overall investment policy and monitors the activity of the Investment Manager at regular Board meetings. The Investment Manager provides reports at these meetings, which cover investment performance and compliance issues.
- Midas is responsible for the provision of administration duties. It also reports to the Board on risk control issues for the Company as a whole.
- Custody of assets is undertaken by Pershing Securities Ltd.
- The duties of investment management and custody of assets are segregated. The procedures of the individual parties are designed to complement one another.
- The non-executive Directors of the Company clearly define the duties and responsibilities of their agents and advisers in terms of their contracts. The appointment of agents and advisers is conducted by the Nominations Committee after consideration of the quality of the parties involved and the Board monitors their ongoing performance and contractual arrangements.
- Mandates for authorisation of investment transactions and expenses payments are set by the Board.
- The Board reviews in detail the financial information produced by the Investment Manager and Company Secretary on a regular basis.

Report of the Directors (continued)

Corporate Governance (continued)

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

Investment Manager

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

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

Exercise of voting powers

The Company has approved a Corporate Governance voting policy which, in summary, is based on the governance recommendations of the Combined Code with the intention of voting in accordance with best practice whilst maintaining a primary focus on financial returns.

Capital Structure

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

Transfer of Securities

There are:

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

Going Concern

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

Relations with shareholders

Communications with shareholders are given a high priority, with information provided regularly in interim and annual financial statements. The information contained therein is supplemented by regular net asset value announcements and a monthly fact sheet available on the Company's website. In addition, any issues of concern can be addressed to the Board by any shareholder.

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

Report of the Directors (continued)

Corporate Governance (continued)

Social, Ethical and Environmental Policy

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

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

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

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

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

Substantial holdings in the Company

At 16th October 2012, the Company had been notified of the following beneficial interests of 3 per cent and over in the Company's ordinary share capital carrying unrestricted voting rights:

	Number	%
Pershing Nominees Limited	7,448,005*	33.2
Manchester & Metropolitan Investment Limited	4,656,260	20.7
Rathbone Nominees Limited	1,177,115	5.2
The Bank of New York (Nominees) Limited	1,055,105	4.7
N W Brown Nominees Limited	986,388	4.4

** This holding includes 6,669,370 (29.7%) shares of which Manchester & Metropolitan Investment Limited is the beneficial owner.*

Manchester & Metropolitan Investment Limited is controlled by the immediate family of Mr B S Sheppard.

Directors

The members of the Board who served during the year to 31st July 2012, together with their biographical details, are listed on page 6.

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

Mr B S Sheppard is a former director of the Company's Investment Manager. In accordance with the Listing Rules of the UK Listing Authority of the Financial Services Authority, he retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

Mr D Harris, who was elected to the Board in October 2009, will retire at the forthcoming Annual General Meeting and, being eligible offers himself for re-election in accordance with the recommendations of the AIC Code.

Report of the Directors (continued)

Corporate Governance (continued)

Directors' interests

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

	31st July 2012 Ordinary shares of 25p	31st July 2011 Ordinary shares of 25p
Beneficial interests		
Mr P H A Stanley (Chairman)	8,250	8,250
Mr B S Sheppard	9,000	-
Mr D Harris	-	-
Non-beneficial interests		
Mr B S Sheppard	243,117	243,117

No other changes in the above interests occurred between 31st July 2012 and 16th October 2012.

The interests of Mr B S Sheppard in Manchester & Metropolitan Investment Limited are detailed in the financial statements and report of that company.

Disclosable interests

Details of contracts of significance during the year in which Mr B S Sheppard had a material interest are disclosed in notes 3 and 20 to the financial statements.

Supplier terms

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

The Group had trade payables of £106,000 (2011: £72,000) at the year end. Trade payables are settled by the due date for payment. Payables in respect of investment purchases are settled in accordance with Stock Exchange regulations.

Explanation of the Annual General Meeting Special Resolutions

The resolutions stated below are important and require your immediate attention. If you are in any doubt as to what action you should take, you should consult an appropriate independent adviser.

If you have sold or otherwise transferred all of your shares in Manchester & London Investment Trust plc ("MLIT") you should pass this document to the person through whom the sale or transfer was effected for transmission to the purchaser or transferee.

There are four items of special business to be considered at the forthcoming Annual General Meeting:

- to seek a renewal of the authority of the Company to issue shares;
- to seek a renewal of the authority to authorise the Directors to allot new shares for cash without offering them first to shareholders in proportion to their existing holdings of shares;
- to seek a renewal of the authority of the Company to purchase its own shares; and
- to seek amendment to the Company's current Articles of Association to allow distributions to be made from Capital Reserves.

Report of the Directors (continued)

Explanation of the Annual General Meeting Special Resolutions (continued).

Resolution 8 Authority to issue shares

Resolution 8, which will be put as a special resolution would, if passed, permit the Company to allot up to 6,737,113 ordinary shares, which is an authority to allot up to approximately 30 per cent of the total ordinary share capital in issue at the date of this report.

The Directors consider it to be in the Company's best interests that they would have the authority to be able to issue new ordinary shares as consideration should investment opportunities arise. The power to allot shares would only be used by the Directors if they believe that to do so would be advantageous to the Company.

The Directors have no present intention of using the authority. Shareholders should note that UK Listing Rules require that the issue of further shares at a price which is at a discount to the net asset value per share would require a further approval from shareholders.

Resolution 9 Authority to issue shares

Resolution 9, which will be put as a special resolution would, if passed, permit the Directors to allot up to 1,122,852 of such shares (a nominal amount of £280,713) for cash without offering them first to shareholders in proportion to their existing holdings of shares ("Section 561 Authority") which would be an authority for up to 5 per cent of the total ordinary share capital in issue at the date of this report.

The proposed level of Section 561 Authority is within Investor Protection Committee guidelines. The Section 561 Authority would also permit the Directors to sell treasury shares for cash without first offering them to existing shareholders in proportion to their holding.

The power to allot shares for cash on a non pre-emptive basis would only be used by the Directors if they believe that to do so would be advantageous to the Company. The Directors have no present intention of using the authority.

The authority contained in resolution 9 will continue, if granted, until the next Annual General Meeting of the Company after the passing of this resolution or for 15 months, whichever is the sooner, when the Directors intend seeking further renewal of the authority.

Resolution 10 Renewal of authority for the Company to purchase its own shares

The Directors are seeking shareholders' authority to be able to purchase up to 3,366,310 of the Company's own ordinary shares (representing 14.99 per cent of the issued ordinary share capital at the date of this report) in the market at a minimum price of 25p and a maximum price (exclusive of expenses) of the higher of: 5 per cent above the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange daily official list) for the 5 business days before the relevant purchase was made and; the price of the last independent trade and the highest current independent bid for an ordinary share on the London Stock Exchange prior to the purchase.

This authority will, if granted, expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, or 15 months from the date of this resolution, whichever is earlier.

The Directors would use this authority with the objective of enhancing shareholder value. Purchases would only be made, within guidelines established from time to time by the Board, through the market for cash at prices below the prevailing net asset value per ordinary share. The main purpose of any share buy-back would be to enhance the net asset value of the remaining ordinary shares.

Report of the Directors (continued)

Resolution 10 Renewal of authority for the Company to purchase its own shares (continued)

The Directors' current intention would be to hold any bought back shares in treasury. If the Company subsequently wished to sell such treasury shares for cash, special resolution number 9 would permit the disapplication of pre-emption rights on such shares up to the limits referred to in that resolution. Last year, no use was made of this authority.

The Directors consider that it would be advantageous to shareholders that they have the authority to make such purchases as and when they consider the timing to be favourable. However, use of this authority, if given, would depend upon market conditions and the Board's judgement as to its likely effectiveness in increasing net asset value per share and/or reducing the discount.

It is proposed that any purchase of ordinary shares would be funded from the Company's own cash resources or, if appropriate, from short term borrowings.

Resolution 11 Amendment to Articles of Association

The Directors are seeking shareholders' authority to amend the Company's Articles of Association to remove the prohibition on distributing capital gains to shareholders in accordance with changes published in The Investment Trust Regulations 2011.

The Directors believe this will provide the Company additional flexibility to manage all eventualities. Assuming approval, these new rules will apply for the Company's next financial year beginning on 1st August 2012.

The Directors would like to highlight that based on the Audited Financial Statements, as set out in the Consolidated and Company Statements of Changes in Equity on page 34, the company reported a substantial revenue reserve of £27.2m, approximating to over 9 times the total dividends proposed this year.

Directors' responsibilities in relation to the Company's Auditor

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

By Order of the Board
Mr P Thomas
Secretary

16th October 2012

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

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

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

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

- properly select suitable accounting policies and apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosure when compliance with the specific requirements of IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Company's financial position and financial performance;
- state that the Group and Company have complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- make an assessment of the ability of the Group and Company to continue on a going concern basis.

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

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

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

To the best of the knowledge of each of the Directors, whose names are set out on page 6:

(a) the financial statements, prepared in accordance with the IFRS adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

(b) the Directors' Report includes a fair review of the development and performance of the fund and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Each of the Directors accepts responsibility accordingly.

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

16th October 2012

Directors' Remuneration Report

This report has been prepared by the Board in accordance with the requirements of the Companies Act 2006 in respect of the year ended 31st July 2012. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

Company law requires the Company's Auditor to audit certain information set out in this report. Where information has been audited it is indicated as such. The Auditor's opinion is included in their report on pages 31 to 32.

Remuneration policy

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

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

Non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

Terms of Directors' Appointment

All Directors hold service contracts with the Company requiring six months' notice of termination (under normal circumstances).

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

Directors' emoluments for the year (audited)

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

	Fees 2012 £	**Fees 2011 £**
Mr P H A Stanley (Chairman)	18,000	17,000
Mr B S Sheppard	12,000	12,000
Mr D Harris	15,000	14,000
	45,000	43,000

Approval

The Directors' Remuneration Report was approved by the Board of Directors on 16th October 2012 and signed on its behalf by:

Mr P H A Stanley
Chairman

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

We have audited the financial statements of Manchester & London Investment Trust plc for the year ended 31st July 2012 which comprise the Group Statement of Comprehensive Income, the Group and Parent Company Statement of Financial Position, the Group and Parent Company Statement of Cash Flows, the Group and Parent Company Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (“IFRSs”) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and Auditor

As explained more fully in the Director’s responsibilities statement set out on page 29, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group’s and the Parent Company’s circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report.

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Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company’s affairs as at 31st July 2012 and of the Group’s loss for the year then ended;

- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Director's Statement contained within the Directors' Report in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance within the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Philip Whiteway (Senior Statutory Auditor)

For and on behalf of
CLB Coopers
Statutory Auditor
Manchester

17th October 2012

Consolidated Statement of Comprehensive Income

For the year ended 31st July 2012

	Note	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000
Gains							
(Losses)/gains on investments at fair value through profit or loss	**10**	-	(22,488)	(22,488)	-	13,809	13,809
Trading income	**2**	934	-	934	552	-	552
Investment income	**2**	2,690	-	2,690	1,984	-	1,984
Gross return		3,624	(22,488)	(18,864)	2,536	13,809	16,345
Expenses							
Investment management fee	**3**	(145)	(268)	(413)	(171)	(318)	(489)
Cost of investment transactions		(8)	(43)	(51)	-	(138)	(138)
Other operating expenses	**4**	(250)	-	(250)	135	-	135
Total expenses		(403)	(311)	(714)	(36)	(456)	(492)
Return before finance costs and tax		3,221	(22,799)	(19,578)	2,500	13,353	15,853
Finance costs	**6**	-	(367)	(367)	(1)	(161)	(162)
Return on ordinary activities before tax		3,221	(23,166)	(19,945)	2,499	13,192	15,691
Tax expense	**7**	-	-	-	-	-	-
Return on ordinary activities after tax		3,221	(23,166)	(19,945)	2,499	13,192	15,691
Earnings per ordinary share (pence)							
Basic	**9**	14.34	(103.15)	(88.81)	11.13	58.74	69.87
Fully diluted	**9**	14.34	(103.15)	(88.81)	11.13	58.74	69.87

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

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

All items in the above statement derive from continuing operations.

The notes on pages 39 to 52 form part of these financial statements.

Consolidated and Company Statements of Changes in Equity

For the year ended 31st July 2012

Group

	Share capital £'000	Share premium £'000	Other reserves £'000	Capital reserve (unrealised) £'000	Capital reserve (realised) £'000	Retained earnings £'000	Total £'000
Balance at 1st August 2010	5,614	35,132	(79)	17,280	23,756	3,500	85,203
Changes in equity for 2011							
Total comprehensive income	-	-	-	-	-	15,691	15,691
Transfer of capital profits	-	-	-	9,891	3,301	(13,192)	-
Ordinary dividend paid (note 8)	-	-	-	-	-	(2,627)	(2,627)
Balance at 31st July 2011	5,614	35,132	(79)	27,171	27,057	3,372	98,267
Changes in equity for 2012							
Total comprehensive loss	-	-	-	-	-	(19,945)	(19,945)
Transfer of capital loss	-	-	-	(19,025)	(4,141)	23,166	-
Ordinary dividend paid (note 8)	-	-	-	-	-	(2,807)	(2,807)
Balance at 31st July 2012	5,614	35,132	(79)	8,146	22,916	3,786	75,515

Company

	Share capital £'000	Share premium £'000	Other reserves £'000	Capital reserve (unrealised) £'000	Capital reserve (realised) £'000	Retained earnings £'000	Total £'000
Balance at 1st August 2010	5,614	35,295	(79)	16,741	821	26,981	85,373
Changes in equity for 2011							
Total comprehensive income	-	-	-	-	-	15,092	15,092
Transfer of capital profits	-	-	-	10,430	2,435	(12,865)	-
Ordinary dividend paid (note 8)	-	-	-	-	-	(2,627)	(2,627)
Balance at 31st July 2011	5,614	35,295	(79)	27,171	3,256	26,581	97,838
Changes in equity for 2012							
Total comprehensive loss	-	-	-	-	-	(19,851)	(19,851)
Transfer of capital loss	-	-	-	(19,092)	(4,145)	23,237	-
Ordinary dividend paid (note 8)	-	-	-	-	-	(2,807)	(2,807)
Balance at 31st July 2012	5,614	35,295	(79)	8,079	(889)	27,160	75,180

The notes on pages 39 to 52 form part of these financial statements.

Consolidated Statement of Financial Position

At 31st July 2012

	Note	2012 £'000	2012 £'000	2011 £'000	2011 £'000
Non-current assets					
Investments at fair value through profit or loss	**10**		79,966		102,198
Derivative financial instruments – longs	**19**		23,443		22,074
			103,409		124,272
Current assets					
Trade and other receivables	**12**	81		203	
Derivative financial instruments – shorts	**19**	34,637		-	
Cash and cash equivalents	**13**	11,432		7,693	
			46,150		7,896
Gross Assets			**149,559**		**132,168**
Current liabilities					
Borrowings	**14**		(9,899)		(10,868)
Trade and other payables	**15**		(176)		(317)
Provisions for other liabilities and charges	**16**		(1,876)		-
Derivative financial instruments	**19**		(62,093)		(22,716)
Net assets			**75,515**		**98,267**
Equity attributable to equity holders					
Ordinary share capital	**17**		5,614		5,614
Share premium			35,132		35,132
Other reserves					
Capital reserve – realised			22,916		27,057
Capital reserve – unrealised			8,146		27,171
Goodwill reserve			(79)		(79)
Retained earnings			3,786		3,372
Total equity			**75,515**		**98,267**
Net asset value per share					
Ordinary shares – basic	**18**		**336.3p**		**437.6p**
Ordinary shares – fully diluted	**18**		**336.3p**		**437.6p**

The financial statements on pages 33 to 52 were approved by the Board of Directors and authorised for issue on 16th October 2012 and are signed on their behalf by:

Mr P H A Stanley (Chairman)
Mr B S Sheppard

Directors

The notes on pages 39 to 52 form part of these financial statements.

Company Statement of Financial Position

At 31st July 2012

	Note	2012 £'000	2012 £'000	2011 £'000	2011 £'000
Non-current assets					
Investments at fair value through profit or loss	**10**		79,009		102,198
Derivative financial instruments – longs	**19**		23,443		14,937
Investments in subsidiaries	**11**		2,180		2,180
			104,632		119,315
Current assets					
Trade and other receivables	**12**	83		1,433	
Derivative financial instruments – shorts	**19**	34,637		-	
Cash and cash equivalents	**13**	11,336		4,823	
			46,056		6,256
Gross Assets			**150,688**		**125,571**
Current liabilities					
Borrowings	**14**		(9,899)		(10,868)
Trade and other payables	**15**		(3,516)		(1,552)
Derivative financial instruments	**19**		(62,093)		(15,313)
Net assets			**75,180**		**97,838**
Equity attributable to equity holders					
Ordinary share capital	**17**		5,614		5,614
Share premium			35,295		35,295
Other reserves					
Capital reserve – realised			(889)		3,256
Capital reserve – unrealised			8,079		27,171
Goodwill reserve			(79)		(79)
Retained earnings			27,160		26,581
Total equity			**75,180**		**97,838**

The financial statements on pages 33 to 52 were approved by the Board of Directors and authorised for issue on 16th October 2012 and are signed on their behalf by:

Mr P H A Stanley (Chairman)
Mr B S Sheppard

Directors

The notes on pages 39 to 52 form part of these financial statements.

Consolidated Statement of Cash Flows
For the year ended 31st July 2012

	2012 £'000	2011 £'000
Cash flow from operating activities		
Return on operating activities before taxation	(19,945)	15,691
Loss/(profit) on investments	17,288	(14,509)
Decrease in receivables	122	137
Increase/(decrease) in payables	1,829	(1,508)
Decrease in derivative financial instruments	3,371	868
Net cash generated from operating activities	2,665	679
Cash flow from investing activities		
Purchase of investments	(6,759)	(30,886)
Sale of investments	11,703	27,540
Net cash generated from/(used in) investing activities	4,944	(3,346)
Cash flow from financing activities		
Equity dividends paid	(2,807)	(2,627)
(Repaid to)/Drawn from loan facility	(969)	10,868
Net cash (used in)/generated from financing activities	(3,776)	8,241
Net increase in cash and cash equivalents	3,833	5,574
Cash and cash equivalents at beginning of year	7,599	2,025
Cash and cash equivalents at end of year	**11,432**	**7,599**

The notes on pages 39 to 52 form part of these financial statements.

Company Statement of Cash Flows

For the year ended 31st July 2012

	2012 £'000	2011 £'000
Cash flow from operating activities		
Return on operating activities before taxation	(19,851)	15,092
Loss/(profit) on investments	17,596	(14,185)
Decrease/(increase) in receivables	1,350	(1,053)
Increase in payables	1,964	879
Decrease in derivative financial instruments	3,637	514
Net cash generated from operating activities	4,696	1,247
Cash flow from investing activities		
Purchase of investments	(4,353)	(29,889)
Sale of investments	9,946	24,215
Net cash generated from/(used in) investing activities	5,593	(5,674)
Cash flow from financing activities		
Equity dividends paid	(2,807)	(2,627)
(Repaid to)/Drawn from loan facility	(969)	10,868
Net cash (used in)/generated from financing activities	(3,776)	8,241
Net increase in cash and cash equivalents	6,513	3,814
Cash and cash equivalents at beginning of year	4,823	1,009
Cash and cash equivalents at end of year	**11,336**	**4,823**

The notes on pages 39 to 52 form part of these financial statements.

Notes Forming Part of the Financial Statements

For the year ended 31st July 2012

1. Accounting policies

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

Manchester & London Investment Trust plc is a public limited company, which is listed on the London Stock Exchange and is incorporated and domiciled in the United Kingdom. The consolidated financial statements of the Company for the year ended 31st July 2012 comprise the Company and its subsidiaries (together referred to as the 'Group' and individually as 'Group entities').

a) Basis of preparation and statement of compliance

In accordance with European Union regulations, these financial statements have been prepared in accordance with IFRS issued by the International Accounting Standards Board ("IASB"), as adopted for use in the EU effective at 31st July 2012.

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

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

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

b) Basis of consolidation

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

As permitted by Section 408 of the Companies Act 2006, the parent Company's statement of comprehensive income has not been included in these financial statements. The parent Company's comprehensive loss after tax for the year was £19,851,000 (2011: £15,092,000 comprehensive profit).

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

c) Presentation of Statement of Comprehensive Income

In order to reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the statement of comprehensive income between items of a revenue and capital nature has been presented alongside the statement of comprehensive income. In accordance with the Company's status as a UK investment company under Section 833 of the Companies Act 2006, net capital returns may not be distributed by way of dividend. Additionally, the net revenue is the measure the Directors believe appropriate in assessing the Group's compliance with certain requirements set out in Section 1162 Corporation Tax Act 2010.

d) Intangible assets - goodwill

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

Notes Forming Part of the Financial Statements (continued)
For the year ended 31st July 2012

e) Valuation of investments

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

After initial recognition, investments, which are classified as at fair value through profit or loss, are measured at fair value. Gains or losses on investments designated as at fair value through profit or loss are recognised as a capital item, and material transaction costs on acquisition or disposal of investments are expensed and included in the capital column of the statement of comprehensive income. For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business at the end of the reporting period.

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

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

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

f) Derivative financial instruments

Contracts for Differences are valued with reference to the investment's underlying bid price at the end of the reporting period and are held at fair value through profit or loss.

g) Revenue recognition

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

Income from trading activity includes gains and losses on the trading of options, futures and contracts for difference, net of commissions expensed.

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

The group marks to market all open sold call options that are extant at any period end and provides for these as a liability. This liability is set against any trading profits for the period from trading in options that the group has undertaken.

All trading is undertaken through the group's offshore subsidiary OSP Limited.

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

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

Where the Group has elected to receive its dividends in the form of additional shares rather than cash, the amount of cash dividend foregone is recognised as income. Any excess in the value of shares received over the amount of cash dividend foregone is recognised in capital reserves.

Notes Forming Part of the Financial Statements (continued)

For the year ended 31st July 2012

h) Expenses

All expenses are accounted for on the accruals basis. In respect of the analysis between revenue and capital items presented within the statement of comprehensive income, all expenses have been presented as revenue items except as follows:

- material transaction costs which are incurred on the purchase or sale of an investment designated as fair value through profit or loss are expensed and included in the capital column of the statement of comprehensive income; and

- expenses are split and presented partly as capital items where a connection with the maintenance or enhancement of the value of the investments can be demonstrated. In this respect, the investment management charge and related costs have been allocated 35 per cent (2011: 35 per cent) to revenue and 65 per cent (2011: 65 per cent) to capital reserve-realised in order to reflect the Directors' long-term view of the nature of the expected investment returns.

i) Finance costs

Finance costs are accrued at the effective interest rate.

j) Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

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

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

k) Dividends payable to shareholders

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

l) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank, short-term deposits with an original maturity of three months or less and cash held in highly liquid investment accounts.

Notes Forming Part of the Financial Statements (continued)

For the year ended 31st July 2012

m) Capital reserve

Capital reserve - realised
The following are accounted for in this reserve:

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

Capital reserve - unrealised
The following are accounted for in this reserve:

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

n) Foreign currencies

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

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

o) Financial instruments and derivatives used for trading purposes

Derivatives entered into for trading purposes include futures, options and a combination of these. Derivatives used for trading purposes are measured at fair value and any gains or losses are included in the statement of comprehensive income. Fair values are based on quoted market prices in an active market.

p) New standards and interpretations not applied

The IASB and IFRIC have issued the following standards and interpretations with an effective date of adoption after the date of these financial statements:

Accounting Standards		***Effective date***
IFRS 7	Financial Instruments: Disclosures	1st January 2013
IFRS 9	Financial Instruments: Classification and Measurement	1st January 2013
IFRS 10	Consolidated Financial Statements	1st January 2013
IFRS 12	Disclosure of Interest in Other Entities	1st January 2013
IFRS 13	Fair Value Measurement	1st January 2013
IAS 1	Presentation of Financial Statements	1st July 2012
IAS 12	Income Taxes	1st January 2012
IAS 19	Employee Benefits	1st January 2013
IAS 27	Consolidated and Separate Financial Statements	1st January 2013
IAS 32	Financial Instruments: Presentation	1st January 2013
IAS 34	Interim Financial Reporting	1st January 2013

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

Notes Forming Part of the Financial Statements (continued)

For the year ended 31st July 2012

2. Income

	2012 £'000	2011 £'000
Trading income	934	552
Income from investments		
Dividend income	2,681	1,975
Other income		
Deposit interest	9	9
Investment income	2,690	1,984
Total income	3,624	2,536
Total income comprises		
Trading income	934	552
Dividends	2,681	1,975
Interest	9	9
	3,624	2,536
Income from investments		
Listed	2,681	1,975
	2,681	1,975

3. Investment management fee

	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000
Investment management fee	145	268	413	171	318	489

Midas provides investment services to the Company under a management agreement with a termination period of three months. The annual fee is 0.5 per cent of the total portfolio value including cash and short term deposits, payable quarterly in arrears. The fee is not subject to Value Added Tax ("VAT"). Transactions with Midas during the year are disclosed in note 20.

The investment management fee is chargeable 35 per cent to revenue and 65 per cent to capital.

Notes Forming Part of the Financial Statements (continued)

For the year ended 31st July 2012

4. Other operating expenses

	2012 £'000	2011 £'000
Directors' fees	70	68
Staff costs (note 5)	-	-
Auditors' remuneration - audit	28	33
Registrar fees	9	6
Exchange rate variances	4	10
Other expenses	139	(252)
	250	(135)
Directors' fees – subsidiaries	25	25
Directors' fees – Company	45	43
	70	68
Fees payable to the Company's auditor for the audit of the parent company and consolidated financial statements	25	25
Fees payable to the Company's auditor for other services :		
• the audit of the Company's subsidiaries pursuant to legislation	3	8
• other services relating to taxation	8	7
	36	40

Other operating expenses include irrecoverable VAT where appropriate.

5. Staff numbers and costs

Excluding Directors, the Group employs no members of staff.

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

	2012 £'000	2011 £'000
P H A Stanley (Chairman)	18	17

6. Finance costs

	2012 £'000	2011 £'000
Interest paid	367	162

Notes Forming Part of the Financial Statements (continued)

For the year ended 31st July 2012

7. Taxation

	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000
Current UK corporation tax	-	-	-	-	-	-

The charge for the year can be reconciled to the profit per the income statement as follows:

	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000
Profit/(loss) before tax	3,221	(23,166)	(19,945)	2,499	13,192	15,691
Tax at the UK corporation tax rate of 24% (2011: 27.33%)	773	(5,560)	(4,787)	683	3,605	4,288
Tax effect of non-taxable UK dividends/unrealised profits	(643)	-	(643)	(540)	-	(540)
Income not subject to UK corporation tax	(213)	-	(213)	(146)	-	(146)
Brought forward management expenses utilised during the period	-	-	-	6	-	6
Brought forward losses utilised during the period	(1)	-	(1)	-	-	-
Gains and losses on investments that are not taxable	-	5,495	5,495	-	(3,692)	(3,692)
Excess management expenses	84	65	149	(3)	87	84
Current year tax charge	-	-	-	-	-	-

The Company's taxable income exceeded its management expenses, which include the capital and revenue elements of the management fee. The Company has surplus management expenses at 31st July 2012 of £1,951,000 (2011: £2,395,000).

At 31st July 2012, there is an unrecognised deferred tax asset, measured at the standard rate of 24 per cent, of £468,000 (2011: £623,000). This deferred tax asset relates to surplus management expenses. It is unlikely that the Group will generate sufficient taxable profits in the future to recover these amounts and therefore the asset has not been recognised in the year, or prior years.

As at 31st July 2012, the Company has unrelieved capital losses of £9,330,000 (2011: £9,330,000). There is therefore, a related unrecognised deferred tax asset, measured at the standard rate of 24 per cent, of £2,239,000 (2011: £2,426,000). These capital losses can only be utilised to the extent that the Company does not qualify as an investment trust in the future and, as such, the asset has not been recognised.

Notes Forming Part of the Financial Statements (continued)

For the year ended 31st July 2012

8. Dividends

	2012 £'000	2011 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31st July 2011 of 7.3p (2010: 6.5p) per share	1,639	1,460
Interim dividend for the year ended 31st July 2012 of 5.2p (2011: 5.2p) per share	1,168	1,167
	2,807	2,627

A final dividend in respect of 2012 of 7.8p per share which, together with the interim dividend, amounts to a total dividend of £2,919,415, is to be proposed at the Annual General Meeting on 22nd November 2012 and has been excluded as a liability in these financial statements in accordance with IFRS.

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

	2012 £'000	2011 £'000
Interim dividend for the year ended 31st July 2012 of 5.2p (2011: 5.2p) per share	1,168	1,168
Proposed final dividend for the year ended 31st July 2012 of 7.8p (2011: 7.3p) per share	1,751	1,639
	2,919	2,807

9. Return per ordinary share

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

	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000
Return:						
Basic and fully diluted	3,221	(23,166)	(19,945)	2,499	13,192	15,691

Basic revenue, capital and total return per ordinary share is based on the net revenue, capital and total return for the period and on the weighted average number of ordinary shares in issue of 22,457,042 (2011: 22,457,042).

Notes Forming Part of the Financial Statements (continued)

For the year ended 31st July 2012

10. Investments at fair value through profit or loss

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Investments as below	79,966	102,198	79,009	102,198

	Group Listed £'000	Group Unlisted £'000	Group Total £'000	Company Listed £'000	Company Unlisted £'000	Company Total £'000
Opening cost at 1st August 2011	74,971	56	75,027	74,971	56	75,027
Opening unrealised appreciation at 1st August 2011	27,116	55	27,171	27,116	55	27,171
Opening fair value at 1st August 2011	102,087	111	102,198	102,087	111	102,198
Purchases at cost	6,759	-	6,759	4,353	-	4,353
Sales proceeds	(11,703)	-	(11,703)	(9,946)	-	(9,946)
Realised loss on sales	(2,276)	-	(2,276)	(2,517)	-	(2,517)
Increase/(decrease) in unrealised appreciation	(15,027)	15	(15,012)	(15,094)	15	(15,079)
Closing fair value at 31st July 2012	79,840	126	79,966	78,883	126	79,009
Closing cost at 31st July 2012	67,751	56	67,807	66,861	56	66,917
Closing unrealised appreciation at 31st July 2012	12,089	70	12,159	12,022	70	12,092
Closing fair value at 31st July 2012	79,840	126	79,966	78,883	126	79,009

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Realised (losses)/gains on disposals	(2,276)	4,618	(2,517)	3,754
Trading gains on short duration holdings	(231)	-	-	-
(Decrease)/Increase in unrealised appreciation	(15,012)	9,891	(15,079)	10,430
Derivatives movement	(4,969)	(700)	(4,969)	(700)
	(22,488)	13,809	(22,565)	13,484

11. Subsidiary undertakings

	Company 2012 £'000	Company 2011 £'000
Shares at fair value	2,180	2,180

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

Notes Forming Part of the Financial Statements (continued)

For the year ended 31st July 2012

Subsidiary undertakings (continued)

The Company has investments in the following subsidiary undertakings:

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

All these subsidiary undertakings are included in the consolidation.

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

12. Trade and other receivables

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Receivables from subsidiary undertakings	-	-	8	1,300
Dividends receivable	61	26	61	26
Other receivables	6	160	-	90
Prepayments	14	17	14	17
	81	203	83	1,433

13. Cash and cash equivalents

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Cash & cash equivalents	11,432	7,693	11,336	4,823

For the purposes of the statements of cash flows, cash and cash equivalents are stated net of overdrafts and other bank borrowings.

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Cash & cash equivalents	11,432	7,693	11,336	4,823
Overdrafts and other bank borrowings	-	(94)	-	(94)
	11,432	7,599	11,336	4,729

Notes Forming Part of the Financial Statements (continued)

For the year ended 31st July 2012

14. Borrowings

The Company operates a Flexible Revolving Loan Facility with a limit of £11m with Pershing Securities Limited ("Pershing"), a subsidiary of The Bank of New York Mellon Corporation. No arrangement fee is payable on this facility and interest is charged at the Bank of England Base Rate plus three per cent per annum on drawdowns. This facility is secured against the Company's investments.

In respect of this loan Pershing have a floating charge on the assets it holds for the group in custody alongside any margin requirements in respect of group investments.

As at 31st July 2012, the balance on the Loan facility was £9,899,000 (2011: £10,868,000).

15. Trade and other payables

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Bank overdrafts	-	94	-	94
Trade payables and accruals	176	223	171	140
Payables to subsidiary undertakings	-	-	3,345	1,318
	176	317	3,516	1,552

16. Provisions for other liabilities and charges

	Group 2012 £'000	Company 2012 £'000
Balance as at 1st August	-	-
Net payment	-	-
Provisions made/(released) in year	1,876	-
Balance as at 31st July	1,876	-

As at 31st July 2012 OSP Limited had certain sold option positions open. Provision is made to the extent of the Directors' estimation of costs required to cancel such obligations.

17. Share Capital

Ordinary share capital	No. ('000)	2012 £'000	No. ('000)	2011 £'000
Authorised				
Ordinary shares of 25p each	28,000	7,000	28,000	7,000
Non-voting Convertible Preference shares of £1 each	1,000	1,000	1,000	1,000
Ordinary shares of 25p each issued and fully paid				
Balance as at 1st August	22,457	5,614	22,457	5,614
Balance as at 31st July	22,457	5,614	22,457	5,614

Each ordinary share carries the right to one vote in any circumstances and the right to dividends paid.

Notes Forming Part of the Financial Statements (continued)

For the year ended 31st July 2012

18. Net asset value per share

	Net asset value per share 2012 p	Net asset value per share 2011 p	Net assets Attributable 2012 £'000	Net assets Attributable 2011 £'000
Ordinary shares: basic and fully diluted	336.3	437.6	75,515	98,267

The basic net asset value per ordinary share is based on net assets at the year end and 22,457,042 (2011: 22,457,042) ordinary shares in issue, adjusted for any shares held in treasury.

19. Risks - Derivatives, other financial instruments and other risks

In order to manage its portfolio efficiently and to enable the Investment Manager to pursue the investment objectives as set out on pages 10 and 11, the Company holds derivatives and other financial instruments. All derivative transactions and financial instruments are accounted for at fair value and comprise securities, cash balances, trade receivables and trade payables arising directly from financial operations.

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

The Board regularly reviews and agrees policies for managing these risks as summarised below.

Market price risk

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

Details of the investments held at 31st July 2012 are shown in the 'Portfolio Investments' table on page 8.

If the price of these investments and the derivative financial instruments had increased by 3 per cent at the reporting date with all other variables remaining constant, the capital return in the statement of comprehensive income and the net assets attributable to equity holders of the Company would increase by £3,098,000.

A 3 per cent decrease in share prices would have resulted in an equal and opposite effect of £3,098,000, on the basis that all other variables remain constant.

At the year end the Group's assets exposed to market price risk were as follows:

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Non-current assets				
Investments at fair value through profit and loss	79,966	102,198	81,189	104,378
Derivative financial instruments – longs	23,443	22,074	23,443	14,937
Current assets				
Derivative financial instruments – shorts	34,637	-	34,637	-
	138,046	124,272	139,269	119,315

During the year the Company transacted in CFDs, and its subsidiaries traded in various derivative investments.

Notes Forming Part of the Financial Statements (continued)

For the year ended 31st July 2012

Derivatives and other financial instruments (continued)

The position held in CFDs as at the year end is as follows:

	Group		Company	
	2012	**2011**	**2012**	**2011**
	£'000	**£'000**	**£'000**	**£'000**
Non-current assets				
Derivative financial instruments – longs	23,443	22,074	23,443	14,937
Current assets				
Derivative financial instruments – shorts	34,637	-	34,637	-
Current liabilities				
Derivative financial liabilities	(62,093)	(22,716)	(62,093)	(15,313)
	(4,013)	(642)	(4,013)	(376)

Interest rate risk

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

At 31st July 2012, there is a flexible loan facility within the Group.

See note 14 for further details.

Liquidity risk

The Directors have minimised liquidity risk by investing in a portfolio of quoted companies that are readily realisable.

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

As at 31st July 2012 the financial liabilities comprised:

	Group		Company	
	2012	**2011**	**2012**	**2011**
	£'000	**£'000**	**£'000**	**£'000**
Balance due to brokers	62,093	22,716	62,093	15,313
Loan facility	9,899	10,868	9,899	10,868
Provisions	1,876	-	-	-
Trade payables and accruals	176	317	171	234
	74,044	33,901	72,163	26,415

	Group		Company	
	2012	**2011**	**2012**	**2011**
	£'000	**£'000**	**£'000**	**£'000**
Of the above liabilities the following are due within one month	72,168	33,901	72,163	26,415

All the above liabilities are stated at fair value.

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

Notes Forming Part of the Financial Statements (continued)

For the year ended 31st July 2012

Currency rate risk

At 31st July 2012, all the Group's financial instruments were mainly denominated in sterling and so there was no significant currency risk. The only material foreign currency holdings are Jardine Matheson stock and HMS Hydraulics stock with market values of £4,003,000 and £2,216,000 respectively, denominated in US Dollars, and Syngenta stock with a market value of £5,182,000, denominated in CHF.

The combined value represents 11.0 per cent of the Group's investments.

The Group manages currency rate risk through maintenance of foreign currency accounts, enabling the Group to translate balances as and when exchange rates are favourable to the Group.

20. Related party transactions

The Investment Manager of the Company is Midas Investment Management Limited ("Midas"), a Company controlled by Mr B S Sheppard and his immediate family. Midas receives a quarterly investment management fee for these services which in the year under review amounted to a total of £413,000 (2011: £489,000) excluding VAT, together with a corporate fee for acting as financial adviser amounting to £30,000 (2011: £30,000) excluding VAT to the Company and commission fees of £100,000 (2011: £132,000) excluding VAT to the Group. The balance owing to Midas at 31 July 2012 was £102,000 (2011: £67,000).

The Company's subsidiaries are listed in note 11. Trading activity is carried on in OSP Limited whilst Stakeholders' Momentum Investment Limited remains an investment company.

To support revenue recognition in line with accounting policy, during the year derivative positions of £2,430,000 (2011: £Nil) were transferred from OSP into MLIT. In addition dividends of £1,050,000 (2011: £625,000) were paid from subsidiaries.

As at 31st July 2012, the Company had the following outstanding interest free loans:

i. £2,837,000 due to OSP Limited (2011: £1,292,000 due from OSP).

ii. £491,000 due to Stakeholders' Momentum Investment Limited (2011: £1,301,000 due to SMIL).

iii. £10,000 due to Saintclose Limited (2011: £10,000).

iv. £8,000 due from Manchester & London Securities Limited (2011: £8,000).

v. £7,000 due to Beacontree Plaza Limited (2011: £7,000).

21. Capital Management

There are no externally imposed capital requirements. The capital managed is noted in the Statements of Changes in Equity on page 34 and managed in accordance with the Investment Policies and Objectives on pages 10 and 11.

22. Ultimate control

The holding company and ultimate parent throughout the year and the previous year was Manchester & Metropolitan Investment Limited, a company incorporated in England and Wales. This company was controlled throughout the year and the previous year by the immediate family of Mr B S Sheppard.

A copy of the consolidated financial statements of Manchester & Metropolitan Investment Limited can be obtained by writing to The Company Secretary, 2nd Floor, Arthur House, Chorlton Street, Manchester M1 3FH.

Shareholder Benefits

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

Centre Court

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

Ways of Investing in Manchester & London Investment Trust plc

The shares of Manchester & London Investment Trust plc ("MLIT" or "the Company") are listed on the Official List and traded on the London Stock Exchange. Private investors can buy or sell shares by placing an order either directly with a stockbroker or through an Independent Financial Adviser. Alternatively, investments can be made through the Company's Share Savings Plan or the MLIT Individual Savings Account ("ISA").

1. THE MLIT INVESTMENT PLAN

MLIT operates a zero-charge Savings Plan and all cash (whether from subscriptions or dividends) is reinvested in the Company's shares on the earliest dealing day. Investors have the option of making a lump sum payment to the Plan or regular payments, on a monthly or quarterly basis, whichever is preferred. The Plan can be held jointly or be set up for the benefit of children and there is no upper limit on the amount which can be invested.

2. THE MLIT ISA

Like the Savings Plan, the MLIT zero-charge ISA consists solely of MLIT shares and all cash (whether from subscriptions or dividends) is reinvested in the Company's shares on the earliest dealing day. There are no commissions or annual administration charges on the ISA. Subscriptions may be made either by lump sum or by either monthly or quarterly payments, whichever is preferred. The current lump sum minimum payment is £1,500 and the maximum subscription for the current tax year is £11,280.

3. THE TRANSFER OF OTHER ISAs INTO THE MLIT ISA

Equity ISAs and cash ISAs which are currently held by other managers may be transferred into an MLIT ISA free of charge. The costs of selling the existing holdings and purchasing the MLIT shares will also be free of charge.

DISPOSAL OF OTHER SHAREHOLDINGS

MLIT offers a facility whereby holders may sell any of their existing shares without incurring any stockbroking costs as long as the full proceeds are reinvested into MLIT shares. The purchases will also be undertaken free of commission.

Please contact Midas on 0161 228 1709 should you require further details on these savings plans and for our full terms and conditions.

Shareholders Notes