Downing Strategic Micro-Cap Investment Trust PLC

Annual Report and Financial Statements

29 February 2024

Downing

The investment objective of the Company until 28 February 2024 was to generate capital growth for shareholders over the long term from active involvement in a focused portfolio of UK micro-cap companies (those whose market capitalisations are under £150 million at the time of investment) targeting a compound return of 15% per annum over the long term. At a General Meeting of the company held on 28 February 2024 shareholders voted to adopt a new investment policy as described on page 32.

Strategy

We are value investors who seek to achieve the investment objective by making investments in listed micro-cap companies. We believe that this universe offers attractive investment opportunities and is highly inefficient, which will aid the realisation of the return target. Additionally, the Investment Manager seeks 'strategic' involvement in their investee companies – a process through which the Investment Manager has proven to be effective at delivering returns in the past.

Universe

- The Investment Manager considers the micro-cap universe to be companies with a market capitalisation of less than £150 million, at the time of investment.
- By definition, this comprises over 50% of UK listed companies.
- On average, there are fewer than two analysts covering any one of these companies, leading to pricing inefficiencies.
- The Investment Manager expects these inefficiencies to become greater due to regulatory change in the financial sector.

Portfolio

- The Company's portfolio of investments typically comprises between 12 and 18 holdings when fully invested.
- The Company typically seeks to hold between 3% and 25% of the equity of these investee companies, notwithstanding the ability to use debt instruments alongside equity.
- Typically, investments are appraised over a three to seven-year investment horizon.

Process

- The Investment Manager's investment process is bottom up and value driven. This means that they focus on company fundamentals rather than macro-economic drivers, and that they aim to invest in line with value principles.
- The Investment Manager focuses on cash generation and return on capital metrics.

Strategic involvement

- The Investment Manager seeks to invest in companies which are materially undervalued and where there is scope for strategic involvement going forward.
- Strategic mechanisms typically include but are not limited to: providing funding for organic and inorganic growth; providing capital for restructuring operations; implementing incentive plans to align management over the long term; and rectifying sub-optimal corporate governance practices.

Discount control

- The Company has a buyback procedure which, in normal markets, seeks to manage the discount of the Company's share price against the underlying net asset value ('NAV') per share.

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Downing

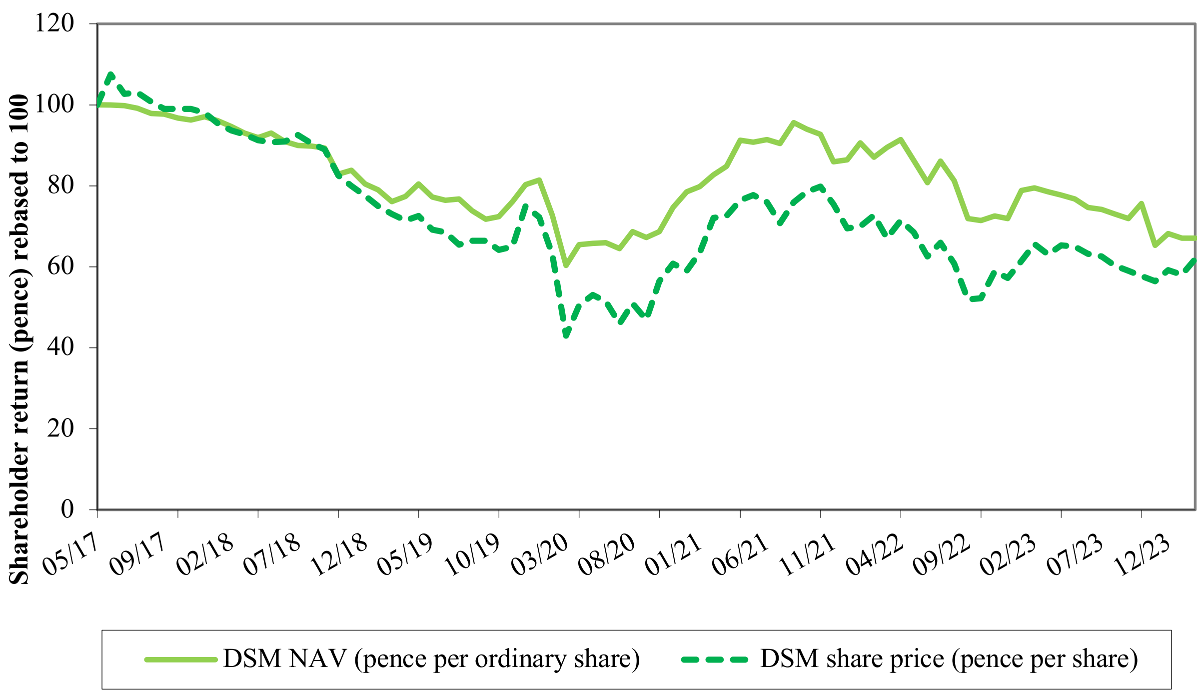
Financial highlights

Assets	29 February 2024	28 February 2023	Change %
Net assets (£'000)	**30,627**	**38,355**	(20.15)
Net asset value ('NAV') per Ordinary Share[1]	**65.71p**	**77.99p**	(15.75)
Mid-market price per Ordinary Share	**62.00p**	**65.70p**	(5.63)
Discount[1]	**5.65%**	**15.76%**	

[1] Alternative Performance Measure (see page 34)

Revenue	Year ended 29 February 2024	Year ended 28 February 2023
Revenue return per Ordinary Share	**(1.52p)**	**(1.32p)**
Capital return per Ordinary Share	**(11.45p)**	**(6.22p)**
Total return per Ordinary Share	**(12.97p)**	**(7.54p)**

Performance from 9 May 2017 to 29 February 2024



Source: Downing LLP

Ordinary shares admitted to trading on 9 May 2017 at 100p per ordinary share. Starting NAV of 98.04p per ordinary share.

Dividends paid have been ignored in the above chart.

Operational highlights

The Company held positions in the following businesses at the end of the reporting period:

Centaur Media PLC (Centaur)	Journeo PLC (Journeo)
Digitalbox PLC (Digitalbox)	National World PLC (National World)
Equals Group PLC (Equals Group)	Norman Broadbent PLC (Norman Broadbent)
FireAngel Safety Technology PLC (Fireangel)	Ramsdens Holdings PLC (Ramsdens)
Flowtech Fluidpower PLC (Flowtech)	Real Good Food PLC (RGF)
Hargreaves Services PLC (Hargreaves)	Synectics PLC (Synectics)
Inspecs Group PLC (Inspecs)	TheWorks.co.uk PLC (TheWorks)
	Volex PLC (Volex)

Highlights

- Results of shareholder approved managed wind-down exceeded the board's expectations with distribution of 74% of the reported year end NAV, either announced or in train.
- Post period-end a payment of 30p per share was made to shareholders by way of a Special Interim Dividend on 26 April 2024. A second Special Interim Dividend of 12p per share will be paid on 21 June 2024. In addition, the board announced on 30 May 2024 the intention to pay a Third Special Interim Dividend of at least 7p per share by mid/late July 2024.
- 30% of remaining assets are held in companies where there is a bid situation.
- Portfolio is held in profitable companies with strategic catalysts for value creation.
- Investments have progressed through classic hockey stick formation and are now in either late-stage turnaround or value realisation phase.
- Wind up approved by majority of shareholders following 15.75% decrease in NAV and 5.6% decrease in the share price, compared to a 12.6% decrease in the FTSE AIM All-Share TR index over the 12 months to 29 February 2024, driven by continued negative sentiment towards UK smaller companies and a realised loss on unquoted assets.

Chairman's Statement

To date, the results of the shareholder approved managed wind-down of your company's portfolio have exceeded the board's expectations. We have already paid a dividend of 30p per share, declared a further 12p per share and indicated another 7p per share following Government approval of a bid for one of our investments. Together those distributions would result in your company distributing some 74% of the reported year end NAV, with further distributions indicated. Having distributed 30p per share, the remaining NAV was 40.02p per share as at 31 May 2024 giving a view for continuing shareholders of over 70p per share of worth, comfortably ahead of the year end. Of that remaining 40p, 19p is already slated for distribution in June and July with an indication of more dividends in August and thereafter.

In November 2023 we said, *the board had been considering what would be the best and fairest way to meet its commitment of returning capital to shareholders, realising best value for them equitably, and concluded that it would advantage all shareholders equally and fairly to commence a managed wind down of the company's investment portfolio in an orderly manner'*. At a general meeting of the company held on 28 February 2024, shareholders approved the managed wind-down of the company and, since that date, our manager has sought to realise all of the company's remaining assets in a prudent manner, consistent with the principles of good investment management, and with a view to an orderly return of cash to shareholders.

Having already distributed £13.98 million, 46.0% of the company's NAV at 29 February 2024 (the date the company commenced its managed wind down) the company is ready to distribute a further 12p per share which it declared as a dividend on 28 May 2024 for payment on 21 June 2024 and which amounts to another 18% of that NAV. Given the takeover of FireAngel we have already announced our intention to distribute a further 7p per share in July and together those distributions would amount to approximately 74% of the company's net assets as at 29 February 2024, which is more than we estimated in our announcements made in December 2023 and February 2024. At current market valuations there would still remain something over 20p per share after those three distributions. Realisations have been achieved within the spread of market prices; there have been no sales at any undervalue to the market. Value uplifts, anticipated in my report in November 2023, have been captured as have the uplifts from subsequent events in the portfolio. In current markets we hope for further uplift.

In its financial year, despite one investment going into administration, on which I comment briefly later, DSM's mid-market price per share held up well. It was 62.0p at the year-end compared with 60.25p at the half year and 65.7p at the last year end. As I have said, currently, with the 30p per share distribution already made plus today's NAV for the remaining portfolio at 40.02p per share, the potential for continuing shareholders looks to be over 70p per share, less relatively modest costs; and there is further value still to be realised (see manager's report). In its managed wind down your company is realising value, limiting costs and distributing realisations as cash.

As to the remaining portfolio, the manager's report reviews the stocks, about which their view remains positive, and sets out where further potential value may be realised. To date, the board is satisfied that the manager has struck the appropriate balance in maximising returns to shareholders whilst also ensuring that such returns are made in a timely manner.

That means that regardless of the events, which I set out below, we are currently on course to return cash well in excess of the company's NAV as at 29 February 2024, meeting the timelines set out in the circular to shareholders dated 2 February 2024, and still able to benefit from indications of further bid interest in our portfolio. From time to time, if the discount has gone much wider than 15%, we have authorised modest buybacks.

Events following the announcement of a proposed wind down

Following the announcement of the proposed managed wind-down in November 2023, the company received alternative proposals from four counterparties, one of which was Milkwood Capital Limited ("**Milkwood**"). Each of the four proposals had a different purpose. Only one, from an investment company with similar objectives, offered any significant return of capital. Milkwood made it clear that its particular purpose was to secure for itself the contract for the future management of the company's portfolio. Your company therefore undertook market soundings in January 2024 with its then four largest shareholders to gauge those shareholders' appetite for each of the alternative proposals that had been put to us. The feedback indicated a clear preference that the company should proceed with its managed wind-down as originally proposed and return cash to shareholders.

Chairman's Statement

That view was then supported by the broader shareholder response to the wind down proposal put to the February general meeting at which voting shareholders overwhelmingly voted in favour of a change to the company's articles so as to realise all remaining assets and return cash to shareholders. The votes were approximately 86.6% in favour, with the only significant vote against being lodged by Milkwood. A further general meeting was needed to approve the implementation of a B share scheme, which would ensure a tax efficient capital return, and such a meeting was called for 3 April 2024. In the meantime, Milkwood built up a shareholding of approximately 28 per cent in the company by, among other things, acquiring stakes held by two of the company's institutional shareholders (Directors Report, page 42) both of which had indicated strong support for the company's managed wind-down and concomitant return of cash to shareholders. At the general meeting held on 3 April 2024, Milkwood used those acquired stakes to vote against the resolution to implement the B share scheme designed to ensure that distributions would be treated as capital receipts for all shareholders. Notwithstanding that the resolution still received the support of more than 50% of the shareholders who cast votes (which amounted to approximately 56.7% of the company's issued share capital) the resolution had to be a special resolution, requiring 75% of the votes cast in order to pass, and hence it was not carried. However over 99.7% of the other voting shareholders (i.e. non-Milkwood) still voted for that resolution to achieve full realisation and tax efficient distribution. That indicated a continuing and overwhelming vote of support for the managed wind-down of the company and for the distribution of cash proceeds.

Your board, committed to doing the right thing for all shareholders, was, therefore, blocked, by a new shareholder with its own agenda, from distributing cash in a particularly tax efficient way.

Mindful of the other shareholders' vote for a return of cash proceeds, the board therefore proceeded to declare special dividends to shareholders which, while not our preferred route, has the merit of fulfilling the mandate we were given to wind down the company and return cash. With the remainder of the portfolio looking, as the manager puts it, readily realisable at carrying value, full realisation is anticipated with, in current markets, some further uplift.

We have met Milkwood several times. They are a small team with whom we have had reasoned discussions. We and our advisers know little of their investment credentials, and we have asked, more than once, for verification material on which to do some diligence. At the time of writing, this information has not been received. It is not for self-interest that we cannot see for what reason we would recommend them; we are, after all, on track to wind up DSM. If shareholders wish to invest in Milkwood, or otherwise, then through the timely return of realisation proceeds they are free to do so.

The board will continue to attend to its mandate of returning cash to shareholders until such time as the managed wind-down is complete or shareholders, as a collective, direct otherwise.

<u>Portfolio performance</u>
Most of the portfolio has held its value and companies have generally had a positive reporting season during Q1 2024. The knock-back last year was Real Good Food, for which we already had a provision, but which issued in October 2023 a comparatively upbeat RNS on future performance. It was then (one might note after the pre-Christmas sales) put into administration by its bankers and sold via a pre-pack administration to Backels Bakery. The write-off for us has been £3.8 million.

The stocks that remain valued in the portfolio are all listed and traded. By and large those amounts not yet realised are there because the manager notes some interesting catalysts (private equity interest in Equals, approaches to Centaur, new and historically effective chairman in Synectics, Flowtech re-rated as examples). The manager is therefore balancing realisation against value enhancement. A matrix of price against prospects is set out in the manager's report.

Chairman's Statement

Expenses

There is one large legal charge. A while ago we reported wrongdoing at Real Good Food to the AIM team, who at least fined them. Recently we reported another investment where the balance sheet was repeatedly misstated. Sadly, no action. As I said last November, 'We are resolutely intolerant of misstatements or misleading statements by investee boards and their companies. Had we not decided to wind up DSM, we would have pursued that latter case in which our King's Counsel was confident that he was reading up on fraud.

Dividends

The dividend of 30p per share paid on 26 April seems to have been well received. A further 12p declared on 28 May 2024 with a Third Special Interim Dividend of 7p proposed for July (see above) and indications of another in August will hopefully be welcome, with more to be anticipated as the manager's work continues.

Governance

We review ourselves rigorously. That comes from a free and open speaking board. As the company is well on its way to being wound up, which is proceeding well with all the board actively involved, we have not repeated the immensely thorough board appraisal on which we reported last year, but we observe its findings. Progress to wind-down is such that the AIC tenure recommendation is not relevant. I am the only director standing for re-election under our established policy.

Will Dawkins

The board has reduced its directorships to three. Will Dawkins volunteered to step down and as a result we have lost a first-class director with a distinguished, international record as Foreign Editor of the FT and a subsequent career at Odgers and then Spencer Stuart where he was head of UK board appointments. He has been a valuable contributor to this board, helping focus and clarity. We are very sorry to lose him.

Forward View

As for the UK economy, the country continues to lack direction. I noted the following in the company's last half-yearly report, and believe it needs repeating:

> The UK desperately needs growth and the creation of economic and social values to fund ever increasing liabilities. That will have to come from the foundation of entrepreneurial business, managerial determination (just go visit the US, never mind its politics, to see real determination at work) re-thinking of productivity, depth of technology, process, skill levels, training and education. All that will take far longer than an electoral span to achieve and hence barely features in UK politics and establishment drive. Meantime short-term muddle and often ineffectual initiatives continue. Corporate UK needs more drive, determined entrepreneurs, investment in the future and, wherever possible, constructively challenging governance. As an optimistic perspective, I said.... small companies are the seedbed of growth for the UK. Our institutions and our future well-being needs that growth. Desperately. The UK can punch way above its weight in a range of knowledge intensive, highly skilled industry and research. That is underrated in the application of national and institutional resources. It appears only in political humbug. Centrally the country has become so bound by departmental statements that cold feet respond to opportunity and a confused 'establishment' fails to foster the personal and local determination that drives growth. Success demands determination (vide, again, the USA) not a country that is stuck in something akin to administration (for those familiar with the Insolvency Acts) with decisions taken, effectively, by the bank manager – HM Treasury. I would suggest that over the last 75 years that Treasury fixation has run its course. The 'private' governance of public money has not been very clever.

The country's needs and liabilities will not wait for introverted economics and a blinkered Treasury. I make no comment on politics of any colour.

Chairman's Statement

Thanks

This has been a very time-consuming and not at all an easy year. My thanks go to all the fellow board members who have given far more time than is usual for investment companies, to our advisers, to our manager team who have risen to the challenge of wind-down and whose matrices of progress, which we monitor, have proved reliable. Thank you for continued focus and working with the board.

AGM

The AGM will be held at 12:00 pm on 21 August 2024 at Downing's office at St Magnus House, 3 Lower Thames Street, London EC3M 6HD. We ask shareholders intending to attend to register by email to dsmagm@downing.co.uk so that the Registrars have your details. The notice of the AGM is set out on page 91 of this report. We encourage shareholders to submit their proxy votes in advance of the deadline of 19 August 2024.

Hugh Aldous
Chairman
5 June 2024

Investment Manager's Report

Hunting Value, Enabling Transformation

In the year to 29 February 2024 the NAV of the company fell 15.75% against the wider FTSE AIM Index which fell by 12.6%. This reflected the underperformance of a larger position in the company (Real Good Food Plc) and the wider volatility in smaller company markets.

In November 2023 the board and manager announced the managed wind-down of the company and the intention to return at least 20% of NAV to shareholders in early 2024. Since then, authority to change the mandate of the company and proceed with wind down has been approved by shareholders, and the payment of a 30p dividend (42% of the NAV as at the time of the November announcement of intention to return capital), has been repaid to shareholders by way of special dividend. The remaining portfolio is valued at a NAV of 40.02p per share (as at 31 May 24).

In the period, there were realisations of £11.6 million across the portfolio realising net gains on cost of £2.0 million. Write downs of unlisted assets resulted in a realised loss of £3.8 million in the period.

The main contributors and detractors in the year included;
Journeo Plc which had realised and unrealised gains of £1.5 million in the period of which £1.3 million were realised.

Synectics Plc also made a positive contribution to performance with unrealised gains of £0.96 million in the period. As did **Equals Plc** which booked realised and unrealised gains of £0.54 million in the period of which £0.17 million were realised.

A full realisation was made in **OntheMarket Plc** which was subject to a trade sale from an international buyer, which returned a gain in the period of £1.1 million.

The main detractors included:
Real Good Food Plc, which fell into administration which led to a near 100% write off and realised loss in the period of £3.8 million. The current holding value is £0.275 million although there is a prospect of a further modest return of capital from the administration process given the prior ranking status of the loan note instrument held. However, the outcome of this and quantum is too uncertain to recognise within the valuation.

FlowTech Fluid Power Plc also saw a significant unrealised loss in the period of £1 million as it underwent management changes and restructuring. We have confidence in the longer-term prospects of this business which is now proving resilient against challenging industrial market headwinds.

Centaur Media Plc also subjected the portfolio to a £1 million unrealised loss in the period, mainly due to market sentiment. We believe that this company is undervalued in relation to the quality of earnings and its ability to generate free cash flow. This was evidenced by a speculative private equity bid that was announced during April, which has subsequently fallen away.

Outlook and Post Balance Sheet events
As at 31 May 2024, the net assets were £18.3 million or 40.02 per share post the payment of the special interim dividend of 30p per share on 26 April 2024. The remaining portfolio amounts to £12.7 million, and cash was £5.6 million.

Since the year end, as at 31 May 2024, FireAngel (12.8% of NAV) is now under a mandatory offer subject to shareholder support, which should it be approved, alongside other realisations would return a minimum of 8p per share to shareholders in DSM later in the summer of 2024.

As highlighted below the remaining portfolio, is held in companies that are profitable, cash generative, reporting positive operational trading momentum and where we believe that they sit at a material discount to intrinsic value with clear catalysts in place.

Investment Manager's Report

A summary of the remaining positions at 31 May 2024 and our belief of their intrinsic value is highlighted in the table below. The share price target is the market analyst expectations of fair value over the course of the next 12 months.

Company	Current share price	Analyst Target	Catalyst	Upside	% of NAV
Centaur Media	39.0p	78p	Earnings	100%	9.5%
DigitalBox	3.6p	7.6p	Earnings	111%	4.5%
Equals	118.0p	160p	Corporate activity/earnings	36%	5.6%
FireAngel	6.5p	7.4p	Corporate activity	14%	12.8%
National World	14.5p	40p	Earnings	175%	8.5%
Norman Broadbent	8.5p	12-18p**	Earnings	41%-111%	0.4%
Synectics	180.0p	277p	Earnings	54%	18.7%
Volex	350.0p	441p	Earnings	26%	7.5%

** based on Downing internal estimates predicated on the achievement of the incentive scheme.

Given the inherent value of the portfolio, the manager feels very confident that further meaningful distributions can be achieved post the Summer, whilst maintaining the optimum outcome for value return to shareholders in a timely manner.

Judith MacKenzie
Head of Downing Fund Managers and partner of Downing LLP
5 June 2024

Investments

As at 29 February 2024

	As at 29 February 2024		As at 28 February 2023	
	Market Value (£'000)	% of Total Assets	Market Value (£'000)	% of Total Assets
Synectics plc	3,362	10.98	2,402	6.26
Volex plc	2,541	8.30	1,568	4.09
Centaur Media plc	2,479	8.09	3,484	9.08
Flowtech Fluidpower plc	2,046	6.68	3,273	8.53
Fireangel Safety Technology plc	1,986	6.48	1,904	4.96
Equals Group plc	1,705	5.57	1,494	3.90
National World plc	1,401	4.57	2,040	5.32
Ramsdens Holdings plc	1,011	3.30	2,520	6.57
Journeo plc	832	2.71	1,419	3.70
Digitalbox plc	805	2.63	1,724	4.50
Theworks.co.uk plc	694	2.27	868	2.26
Norman Broadbent plc	609	1.99	334	0.87
Hargreaves Services plc	317	1.04	3,269	8.52
Inspecs Group plc	291	0.95	1,769	4.61
Real Good Food 12% Loan Notes[1] *	275	0.90	1,420	3.70
Real Good Food 10% Loan Notes[1] *	-	-	2,528	6.59
Adept Technology Group plc	-	-	2,394	6.24
Onthemarket plc	-	-	1,445	3.77
Tactus Holdings Limited[1] *	-	-	760	1.98
Norman Broadbent 10% Loan Notes[1]	-	-	215	0.56
Real Good Food plc	-	-	97	0.25
Total investments	**20,354**	**66.46**	**36,927**	**96.26**
Cash	10,463	34.16	1,505	3.93
Other net current liabilities	(190)	(0.62)	(77)	(0.19)
Total assets	**30,627**	**100.00**	**38,355**	**100.00**

[1] Unquoted.

* in administration

All investments are in Ordinary Shares and traded on AIM unless indicated. The total number of holdings as at 29 February 2024 was 15 (28 February 2023: 18). Details of the equity interests comprising more than 3% of any company's share capital are set out in note 17. As at 29 February 2024, loan note principal represented 0.90% (28 February 2023: 9.64%) of total assets and the total of loan note principal and interest represented 0.90% (28 February 2023: 10.85%).

Portfolio Distribution

As at 29 February 2024

Synectics	10.98%
Volex	8.30%
Centaur	8.09%
Flowtech Fluidpower	6.68%
Fireangel Safety Technology	6.48%
Equals Group	5.57%
National World	4.57%
Ramsdens	3.30%
Journeo Plc	2.71%
Digitalbox	2.63%
TheWorks.co.uk	2.27%
Norman Broadbent	1.99%
Hargreaves Services	1.04%
Inspecs Group	0.95%
Real Good Food	0.90%
Other net current assets	33.54%

Unquoted Investments
As at 29 February 2024

		As at 29 February 2024			As at 28 February 2023	
	Cost (£'000)	Market Value (£'000)	% of Total Assets	Cost (£'000)	Market Value (£'000	% of Total Assets
Real Good Food 12% Loan Notes	1,507	275	0.90	1,232	1,420	3.70
Real Good Food 10% Loan Notes	2,051	-	-	2,051	2,528	6.59
Tactus Holdings Limited *	1,227	-	-	1,002	760	1.98
Norman Broadbent 10% Loan Notes*	-	-	-	200	215	0.56
Total investments	**4,785**	**275**	**0.90**	**4,485**	**4,923**	**12.83**

Background to the investments – top 10 positions

(unless otherwise stated all information provided as at 29 February 2024)

Key: GREEN: Good RED: Negative ORANGE: Neutral

Centaur Media PLC (Centaur) (8.09% of net assets)

Cost: £3.58 million Value as at 29 February 2024: £2.48 million

Background

Centaur Media is an international provider of business information, training and consultancy, creating value through premium content, analytics and market insight within the Marketing and Legal segments. Centaur operates under several flagship brands, namely The Lawyer, MW Mini MBA, Influencer Intelligence and Econsultancy, with the latter three brands forming part of their marketing arm, XEIM.

Update to the investment case

- Comfortably exceeded MAP23 EBITDA margin objective
- Strong growth in EBITDA and EBITDA margin
- Revenue down slightly on the year prior
- Higher quality revenue streams demonstrate resilience
- Speculative approach from private equity which has not developed into a bid

Progress against investment case

Centaur issued its preliminary results for the year ended 31 December 2023 and reported that the group's performance was the culmination of its Margin Acceleration Plan (MAP) 23 strategy which achieved its three clear objectives: to implement a simple, efficient and scalable operating model, develop high-quality, trusted products which are the leaders in their markets, and build the credibility of Centaur's management team for delivering on its strategic and financial commitments. Centaur has significantly grown its profitability and built a business with an impressive proportion of higher-quality revenue, providing it with a scalable platform for long-term sustainable future growth.

Centaur generated an adjusted EBITDA margin of 26% (up from 21% in 2022 and 12% in 2020), comfortably exceeding the MAP23 target and resulting in net cash of £9.5 million at 31 December 2023 after paying ordinary and special dividends of £8.9 million in the year. Revenue of £37.3 million was slightly down from £38.4 million in 2022 after a softening in the macroeconomic environment trading conditions and inflationary pressures. The group recorded good performance across its higher quality revenue streams in Premium Content and Training and Advisory, which now collectively represent 80% of the business, up from 76% in 2022.

The group issued a response to recent media speculation on 10 April 2024 and confirmed that it has received an expression of interest from Waterland Private Equity Investments regarding the proposed acquisition of its entire issued share capital. Waterland subsequently declined to formalise their intention to make an offer for Centaur.

Background to the investments (continued)

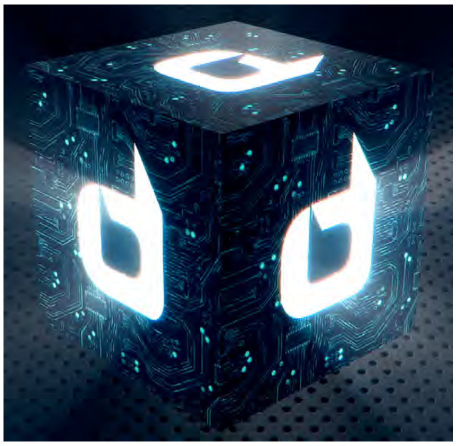
(unless otherwise stated all information provided as at 29 February 2024)

Digitalbox PLC (Digitalbox) (2.63% of net assets)

Cost: £1.13 million Value as at 29 February 2024: £0.81 million

Background

Digitalbox is a 'pure-play' digital media business with the aim of profitable publishing at scale on mobile platforms. The business generates revenue from the sale of advertising in and around the content it publishes. Its optimisation for mobile enables it to achieve revenues per session significantly ahead of market norms for publishers on mobile.



Update to the investment case

- Challenging markets impacted revenues
- Significantly reduced profitability
- Algorithm changes
- Scaled up the portfolio to five operational brands
- Acquisition of tvguide.co.uk and onboarding of Graphene platform
- Acquired Media Chain assets growing the social follower base to over 20 million

Progress against investment case

Digitalbox published its final results for the year ended 31 December 2023. While headline financial performance metrics were down on the previous year, the group traded profitably and generated £193k in operating cash in 2023, while experiencing some very challenging market conditions. Despite the difficult backdrop, the group further scaled the Digitalbox portfolio from four to five operational brands in the period. In addition, it completed the acquisition of tvguide.co.uk and onboarded to the Graphene platform, acquired Media Chain assets, growing the group's social follower base to over 20 million. The Daily Mash premium ad-free subscription experience continues to grow with an uplift of over 180% taking its current base to over 4,000. There was a significant focus on the diversification of the audience sourcing model, helping to lessen the impact of algorithmic changes made by the major platforms.

Performance of the acquired properties - The Daily Mash, The Tab, The Poke and TV Guide has proved the potential of the Digitalbox operating model and its Graphene platform as it builds a larger portfolio of successful profitable digital brands. Trading for the current financial year remains in line with expectations and the company expects advertising markets to bounce back in 2025.

Background to the investments (continued)

(unless otherwise stated all information provided as at 29 February 2024)

Equals PLC (Equals) (5.57% of net assets)

Cost: £1.03 million Value as at 29 February 2024: £1.70 million

Background

Equals Group is a technology-led international payments group augmented by highly personalised service for the payment needs of SMEs, whether these be FX, card payments or via Faster Payments. Founded in 2007, the group listed on AIM in 2014 and currently employs around 265 staff across sites in London and Chester.

Update to the investment case

- Strong trading performance
- Strong growth in the Solutions business
- Strategic review underway.
- Private equity showing interest in acquiring Equals.

EQUALS Group

Progress against investment case

Equals issued an update on current trading and an update on the Strategic Review on 20 March 2024. Trading has continued the strong growth trajectory of FY 2023, with revenues in the period reaching £22.2 million, an increase of 28% over the same period the year prior. In keeping with recent trends, trading has been robust across the business with particularly strong growth from Solutions.

The board announced that it is conducting a review of strategic options that would deliver greater value to Equals' shareholders than pursuing a standalone independent strategy. This process is ongoing and is considered to be in the best interests of shareholders and could lead to the group being acquired.

Background to the investments (continued)

(unless otherwise stated all information provided as at 29 February 2024)

FireAngel Safety Technology Group PLC (FireAngel) (6.48% of net assets)

Cost: £6.54 million Value as at 29 February 2024: £1.99 million

Background
FireAngel designs, sells and markets smoke detectors, carbon monoxide detectors and home safety products under the FireAngel, FireAngel Pro, FireAngel Connect, AngelEye and SONA brands.

We were attracted to FireAngel because of its dominant share of the UK fire safety market, with products that are endorsed throughout Europe. We also saw an opportunity from changing legislation that we believe FireAngel will benefit from. Legislative guidance is for the purchase of smoke alarms with a 7– 10-year lifespan, and we are already beginning to see a replacement cycle on the installed base in more mature markets.

FireAngel SAFETY TECHNOLOGY

Update to the investment case

- Sales volumes down as group tackles trading challenges
- New management concentration on refocusing the business
- Improvement of operational and sales processes
- Bid received from ISE

Progress against investment case
FireAngel provided an update on trading in the year ended 31 December 2023 and on its strategic review. The group expects to report sales of approximately £41.0 million, down 28.8% on the preceding year. As anticipated, the measures taken by the board to manage the trading challenges and significant inflationary pressures experienced, have come at the expense of a significant reduction in sales volume. Whilst the recent restructuring of its sales team will ensure that FireAngel is well positioned to build momentum in 2024, the changes have inevitably had some impact in the short term, particularly in UK Trade performance. International sales also remained comparatively depressed in H2 2023 as new legislation in Benelux in 2022, which had led to a surge in customer demand in the region for products during 2022, was not carried into 2023 as customers looked to reduce inventory intake.

Throughout H2 2023, the group remained focused on the ongoing strategic review to return it to profitability as quickly as possible. This has included exploring all options available to realise value for shareholders. Further progress has been made by the new management team on refocusing the business to recover sales performance and increase cash generation. There has been significant improvement in both operational and sales processes.

On 27 October 2023, the boards of Intelligent Safety Electronics PTE. LTD ("ISE") and FireAngel announced that they had reached an agreement on a recommended cash offer for FireAngel. ISE is a company incorporated in Singapore and is wholly owned by Siterwell, a leading manufacturer of intelligent security protection. ISE currently holds approximately 17.46% of FireAngel's issued share capital.

The offer was conditional upon, among other things, the satisfaction of a condition relating to a material official authorisation or regulatory clearance, in this instance being the National Security and Investment Act 2021.

On 30 May 2024 it was confirmed that the timetable in respect of the recommended offer has resumed, following the approval of the conditions required by the Secretary of State. The date by which all conditions in respect of the Offer must either be satisfied or waived is now 27 June 2024.

Background to the investments (continued)

(unless otherwise stated all information provided as at 29 February 2024)

Flowtech Fluidpower PLC (Flowtech) (6.68% of net assets)

Cost: £2.42 million Value as at 29 February 2024: £2.05 million

Background

Flowtech is a value-added distributor of hydraulic and pneumatic components into a wide array of sectors predominantly in the UK and Ireland. The group sits between much larger global manufacturers and a highly fragmented and localised cohort of smaller distributors. The company's high service levels, broad stock offering and exposure to maintenance, repair and overhaul markets were key attractions, and these attributes facilitate Flowtech's relatively high gross margins of over 35%.

Update to the investment case

- Revenue down 2.4% on the year prior
- Simplified operating model to unlock full margin potential
- New leadership team in place
- Continued focus on working capital management delivering £1.8 million improvement
- Improvement in product distribution stock availability

Progress against investment case

Flowtech issued its results for the full year ended 31 December 2023 and reported a challenging period for the business. Management believes that it has addressed the root causes of underperformance in Product Distribution and is confident that 2024 will see the beginnings of a return to stronger historic EBITDA margins. Flowtech has achieved significant growth in Ireland and despite the continued challenging external market, there are reasons for optimism. The group has a new and energised leadership team, with a performance improvement plan that is beginning to deliver measurable results and clarity of strategy which serves to unlock its full potential across six defined EBITDA growth engines.

Background to the investments (continued)

(unless otherwise stated all information provided as at 29 February 2024)

Journeo PLC (Journeo) (2.71% of net assets)

Cost: £0.34 million Value as at 29 February 2024: £0.83 million

Background

Journeo provides solutions in the transport sector, including displays and passenger management. This is a sector that we are particularly enthusiastic about. The underinvestment in UK infrastructure, particularly transport, is well-known and we as managers have capitalised on this in other investments over the last decade. The sector tends to be serviced by a number of niche/small companies, and therefore a smart buy-and-build strategy can yield attractive returns if executed by a management team focused on return on investment.

Update to the investment case

- Set to benefit from long-term government spending trends in the transport sector
- Strong trading
- New contract wins
- Acquisitions performing well
- Strong order book and growing sales pipeline

Progress against investment case

Journeo announced strong final results for the year ended 31 December 2023 and reported revenue up 118%, gross profit up 84%, and adjusted profit before tax up 325%. It has a strong balance sheet with cash and cash equivalents of £8.1 million. Operationally, the acquisitions of Infotec and MultiQ are expanding the reach of Journeo's solutions into new markets, both domestic and international. There has been continued investment into R&D and increasing capacity at the group's Ashby-based Infotec manufacturing and production facility. The group has secured several significant new contract wins throughout the year, including a £1 million award from Transport for Wales (TfW) for a country-wide content management solution. The Arriva framework to supply CCTV and associated services for new and retrofit vehicles was also extended.

Background to the investments (continued)

(unless otherwise stated all information provided as at 29 February 2024)

National World PLC (National World) (4.57% of net assets)

Cost: £2.92 million Value as at 29 February 2024: £1.40 million

Background

National World was a reverse into the regional publishing assets of the old Johnston Press, the third largest newspaper publisher in the UK. The business is highly cash-generative and unencumbered by legacy assets typical of other large publishers. This leads to improved cash generation and cash flow can be re-invested into content and a digital transition which will offer more opportunities for growth and higher margins.

Update to the investment case

- Adjusted EBITDA up 6%
- Digital revenues up 13%
- Strong balance sheet with financial flexibility
- Seven acquisitions completed in the period
- Restructuring generating significant cost savings.

Progress against investment case

National World announced its results for the year ended 30 December 2023 and highlighted adjusted EBITDA 6% above expectations at £9.5 million, and digital revenues up 13%. The group reported strong revenue growth and annualised cost savings of £6.0 million, with restructuring costs of £3.6 million expensed in the period. NWOL has a strong balance sheet with financial flexibility and a closing cash balance of £10.7 million. This follows a £12.9 million cash consideration for seven acquisitions, a £2.5 million final deferred consideration payment for JPI Media, and the repayment of £1.0 million loan note.

In Q1 2024, the group's EBITDA was slightly higher than management expectations, with total revenue slightly lower. There is still some continuing market volatility as audience and programmatic yields are impacted by algorithm changes by global social media platforms. The board believes that with the introduction of further consolidation plus cost efficiency and productivity enhancements, the pace of the operating model change has accelerated, with initiatives embedded in both the heritage portfolio and newly acquired assets. The future model is based on original and expert content in specific sectors and genres to better serve both consumers and advertisers. Examples are business information, including events and the transformation of premium brands to populate all platforms reaching a wider, increasingly global audience.

Background to the investments (continued)

(unless otherwise stated all information provided as at 29 February 2024)

Ramsdens Holdings PLC (Ramsdens) (3.30% of net assets)

Cost: £0.93 million Value as at 29 February 2024: £1.01 million

Background

Ramsdens is a growing, diversified, financial services provider and retailer, operating in the four core business segments of foreign currency exchange, pawnbroking loans, precious metals buying and selling and retailing of second-hand and new jewellery. Ramsdens does not offer unsecured high-cost short-term credit. Headquartered in Middlesbrough, the group operates from 157 owned stores within the UK and has a growing online presence.

Update to the investment case

- Trading strong and in line with expectations
- Strong balance sheet conservatively managed
- Store estate expanded to 167 stores

Progress against investment case

Ramsdens issued a trading update for the financial year to date for the five months from 1 October 2023 to 29 February 2024. Trading has remained strong and in line with the board's expectations. Foreign currency gross profit increased c.3% YoY with encouraging momentum building ahead of the key summer trading period. The pawnbroking loan book has continued to grow, increasing by £0.4 million, however, jewellery retail revenue was broadly flat compared with the prior year. The group's strategic expansion has continued, with two further stores opened and the total estate now comprises 167 stores (including two franchised stores).

Background to the investments (continued)

(unless otherwise stated all information provided as at 29 February 2024)

Synectics PLC (Synectics) (10.98% of net assets)
Cost: £3.98 million Value as at 29 February 2024: £3.36 million

Background

Synectics is a leader in the design, integration and support of advanced security and surveillance systems. The group has deep industry experience across gaming, energy, urban transport, public space and critical infrastructure projects. Its expert engineering teams work in partnership with customers to create integrated product and technology platforms, proven in the most complex and demanding operating environments.

SYNECTICS

Update to the investment case

- Significant turnaround in performance
- Strong order book
- New contract wins
- Solid net cash position
- New Chairman announced

Progress against investment case

Synectics announced strong results for the year ended 30 November 2023 and reported revenue increased 26% to £49.1 million. There was a substantial increase in underlying operating profit to £3.1 million and underlying EBITDA increased by 50% to £4.8 million. The group highlighted its strong order of £29.2 million, up 20% on the same period the year prior. Net cash was £4.6 million with no bank debt. The business performed well over the period, exceeding market expectations, and this was underpinned by growing demand from the oil and gas sector. Synectics has a strong order book, reinforced by sound order intake and significant contract wins across all sectors, with continued momentum into 2024. Management retains its focus on specialist, core markets - gaming, oil and gas, public space, transport and critical infrastructure – all of which offer significant growth opportunities. Post reporting period end, the group completed its agreement with National Grid, with contracts of £4.0 million signed to upgrade more sites across its estate.

Background to the investments (continued)

(unless otherwise stated all information provided as at 29 February 2024)

Volex PLC (Volex) (8.30% of net assets)
Cost: £1.46 million Value as at 29 February 2024: £2.54 million

Background

Volex manufactures complex cable assemblies and power cords through a global manufacturing base for a wide variety of industries. The business has been growing sales in high structural growth sectors such as electric vehicles and data centres.

Update to the investment case

- Electric Vehicles and Consumer Electricals performance improving but revenues below FY2023 levels
- Strong FY trading, slightly ahead of analyst expectations
- Operating profits improved in H2
- Strong organic growth
- Structural growth drivers in place

Progress against investment case

Volex issued a trading update for the financial year ended 31 March 2024. The group highlighted that full-year performance is ahead of market expectations, with revenue now expected to be at least $900 million, representing an increase of at least 25% over the prior year. This includes seven months' contribution from the acquisition of Murat Ticaret. Underlying operating profit[1] is also anticipated to be slightly ahead of analyst expectations[1]. This performance underscores Volex's ability to secure additional customer commitments and deliver new projects, whilst maintaining robust financial and operational discipline.

The group's strong organic growth has been driven by attractive positions in diversified end markets that have structural growth characteristics. The board is confident that exposure to a number of growth sectors will allow the business to make strategic progress even in volatile market conditions. The acquisition of Murat Ticaret also delivered significant incremental revenue, in a largely new end-market. In response to increasing customer demand, the group invested in the further expansion of its global manufacturing base, creating additional capacity to facilitate growth as part of its five-year growth plans which target revenues of $1.2 billion by the end of FY2027.

[1] Underlying operating profit is before adjusting items which are one-off in nature and significant (such as restructuring costs, impairment charges or acquisition-related costs), the amortisation and impairment of acquired intangible assets and share-based payment charges. This trading update is based upon unaudited management accounts information. Forward-looking statements have been made by the directors in good faith using information available up until the date that they approved this statement. Forward-looking statements should be regarded with caution because of the inherent uncertainties in economic trends and business risks.

Our expectations of the investee companies

When we invest in companies we expect, in return, rigorous and effective corporate governance; directors who understand their duties and who are familiar with the General Duties section of the Companies Act 2006 and the UK Corporate Governance Code from the Financial Reporting Council.

- **Directors' responsibilities:** in our view directors' responsibilities are demanding. They stand accountable for the culture, foresight and success of the company, to which they should apply the best of their knowledge and ability to enquire and act in the interests of the company as a whole for its current and future shareholders. A company's success depends on investment in its long-term, sustainable advantage as well as its financial strength and profitability. A company's return on investment underpins its shareholders' returns.

- **Constructive challenge:** we look for alert, questioning, competent boards that constructively challenge management, help develop strategy and long-term objectives, monitor performance, ensure the build-up of necessary assets, skills and capable management and lead in setting a culture of integrity. We will take action if we do not find that level of competence.

In particular, we would expect to find:

- **Leadership:** every investee company should be headed by an independent chairman leading an effective, questioning, challenging board that sees itself as collectively responsible for the long-term success of the company. We will encourage that if it is missing. We will seek to take appropriate action if we do not think the chairman is up to the job.

- **Effectiveness:** the board and its committees should be engaged with the business and have the skills, experience, independence and knowledge to enable them to challenge constructively and fully undertake their duties. It should be clear to investors why each director is on the board, what skills and contribution that director is there to provide, and all directors and senior management should regularly update and refresh their skills and knowledge. There should be a rigorous process for the appointment of new directors.

- **The chairman:** should lead the board, create the conditions for overall board and individual director effectiveness, ensure that the board gets information in a form and of a quality sufficient to discharge its duties and should undertake a formal annual evaluation of the board and each director's performance.

- **Accountability:** We expect all directors to appreciate that accountability for culture, integrity, the 'tone from the top', the creation of value, of corporate and shareholder value, and the company's success lies with them.

- **ESG:** We expect our investee companies to be familiar with the QCA's work on Corporate Governance and with their ESG Guide.

It is with those expectations of the boards of directors that we invest.

Investment team

Judith MacKenzie
Partner and Head of
Downing Fund Managers

Judith joined Downing in October 2009. Previously she was a partner at Acuity Capital, a buy-out from Electra Private Equity, where she managed AIM-quoted IHT and VCT investments and a small-cap activist fund. Prior to Acuity, Judith spent seven years with Aberdeen Asset Management Growth Capital as Co-Fund Manager of the five Aberdeen VCTs, focusing on technology and media investments in quoted and unquoted sectors. She is a non-executive director of the Quoted Companies Alliance and is an active member on boards both in the public and private arenas.

Nicholas Hawthorn
Fund Manager

Nick joined Downing in September 2015 from BP Investment Management. Prior to this, he worked for Aberdeen Asset Management and has over nine years of experience in the investment management industry. Alongside day-to-day fund management duties, Nick fulfils observer right duties on portfolio companies. He holds a MSc in Finance and Investment from Durham University and a MA in Accounting and Economics from the University of Aberdeen.

Josh McCathie
Fund Manager

Josh joined Downing as an analyst in 2018. Previously he had worked at BRI Wealth Management where he worked in the UK Equities team, focusing on FTSE 350 companies. He is a CFA Charterholder, CISI Level 7 Chartered Wealth Manager and holds the Investment Management Certificate. Josh was named in the Citywire 2018 Top 30 under 30.

Cheryl Vickers
Portfolio Manager

Cheryl joined Downing in 2010 from Rathbones, where she gained over 12 years' experience working on VCT, EIS and IHT portfolio services. She provides portfolio support and oversight to all of the Downing Fund Managers portfolios. Cheryl graduated from Keele University and is a Chartered FCSI.

Biographies of Directors' serving during the year

Hugh Aldous
Chairman, Chairman of the Management Engagement Committee

Hugh is currently a director of two UK listed public companies and investment director of an engineering technology company. He has a wealth of experience, having held numerous chairman and executive chairman positions over more than 20 years and his career includes 40 years as a director of a wide selection of companies from nationalised industries to private equity and across a range of sectors. He recently retired from the board of a US NASDAQ listed chemicals company and from the board of Polar Capital Holdings, the UK fund management group. He spent 10 years as managing partner, and latterly head of Financial Services, of Robson Rhodes (now Grant Thornton), 16 years of various appointments as a DTI Companies Act Inspector and was a member of the UK Monopolies & Mergers and Competition Commissions.

Linda Bell
Director

Linda Bell has extensive management experience leading technically based companies serving global industrial markets. She was the CEO of PhosphonicS Ltd (acquired by Carbosynth Holdings Ltd in January 2017), the CEO of MIRICO Ltd, a venture capital backed company commercialising novel laser dispersion spectroscopy into industrial applications, and a former non-executive director of TOMRA Systems ASA, with an earlier career at ICI, Servomex, part of Spectris Plc, Inca Digital Printers, part of Dainippon Screen, and DS Smith. She is an Oxford graduate in Natural Sciences (Chemistry) and a DPhil in Inorganic Chemistry with an MBA from the Open University and is a Fellow of the Royal Society of Chemistry.

William Dawkins
Director (retired 14 May 2024)

Will is an adviser and former head of the board and CEO practice of Spencer Stuart, a global executive search and leadership consulting firm, prior to which he spent 23 years in a variety of posts for the Financial Times, including foreign correspondent with postings in Brussels, Paris and Tokyo, deputy managing editor, foreign editor and later publishing editor. He is a Cambridge graduate with a master's degree in English literature from Trinity College and attended the Advanced Management Programme at INSEAD. Will is a Trustee, Director and former chair of the Evelyn Trust, a medical research grant giving charity based in Cambridge, and is a governor and director of The Perse School, Cambridge.

Robert Legget
Senior Independent Director, Chairman of the Audit Committee

Robert has extensive industry experience, having co-founded Progressive Value Management Limited (PVML) in 2000. PVML specialised in creating value and liquidity for institutional investors out of holdings in underperforming companies. He stepped down as Chairman of PVML in 2023 and is senior independent director of R & Q Insurance Holdings Limited. Robert was formerly a director of Quayle Munro Holding plc, the Edinburgh-based merchant bank, Sureserve Group plc, Trian Investors 1 Limited and CT Private Equity Trust plc (formerly BMO Private Equity Trust plc). He is a member of the Institute of Chartered Accountants of Scotland and is well respected for his extensive experience of creating value for shareholders

Strategic Report

The directors present the Strategic Report of the company for the year ended 29 February 2024. The aim of theStrategic Report is to provide shareholders with the information required to assess how the directors have performed their duty to promote the success of the company during the year.

Business model

The company invests in accordance with its investment objective which was reset by shareholders on 28 February 2024 (see below). The board is collectively responsible to shareholders for the long-term success of the company. There is a clear division of responsibility between the board and the investment manager. Matters reserved for the board include setting the company's strategy, implementing the investment objective and policy, capital structure, governance and appointing and monitoring the performance of service providers, including the investment manager.

As the company's business model follows that of an externally managed investment company, it does not have any employees and outsources its activities to third-party service providers, including the investment manager, who is the principal service provider.

Status of the company

The company is registered as a public limited company in England and Wales (Registered Number 10626295) and is an investment company within the terms of Sections 832 and 833 of the Companies Act 2006. Its shares are listed on the premium segment of The Official List of the UK Listing Authority and traded on the main market of the London Stock Exchange, being a regulated market as defined in Section 1173 of the Companies Act 2006.

The company has been approved by HM Revenue & Customs as an investment trust company (for the purposes of Sections 1158 and 1159 of the Corporation Tax Act 2010) for the period ended 28 February 2018 and future years. The directors have no reason to believe that this approval will be withdrawn. The company is not a close company for taxation purposes.

As an investment company managed and marketed in the United Kingdom, the company is an Alternative Investment Fund ('AIF') under the provisions of the Alternative Investment Fund Manager's Directive ('AIFMD'). The company was also registered by the FCA as a Small Registered UK Alternative Investment Fund Manager ('AIFM') with effect from 16 March 2017.

The company currently conducts its affairs so that the shares issued by the company can be recommended by independent financial advisers to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future.

Section 172 Statement – Directors' duty to promote the success of the company

Companies are required to state how their directors have followed their duty to promote the success of the company, as set out in s.172 of the Companies Act 2006, and when making decisions for the long term have regard to a range of matters including:

- the likely consequences of any decisions in the long term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the environment and community;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly between shareholders of the company.

As part of its decision making, the board seeks to understand the views and requirements of the company's stakeholders. As the company has no employees, no customers in the traditional sense and delegates its day-to-day management and administration to third parties, the directors consider the key stakeholders of the company to be its current and potential shareholders, as well as third-party service providers and other advisers.

Section 172 Statement – Directors' duty to promote the success of the company (continued)

In promoting the success of the company, the board's principal concern has been, and continues to be, portfolio management, which the board monitors in line with the company's objectives and the interests of current and potential shareholders. This is supported by the manager in regularly engaging with major shareholders, by producing half-yearly newsletters and monthly factsheets and reporting back to the board on developments in the portfolio.

The chairman visits, or speaks with, the larger shareholders at least twice a year and the board encourage all shareholders to attend the AGM and welcomes any other communication from shareholders.

The board has a responsible governance culture that it seeks to impart to other stakeholders, such as its service suppliers and investee companies, and it gives due regard to the expectations of its regulators. The investment manager also promotes good corporate governance at the portfolio level and supports the investee companies in improving their own reporting on such matters.

The impact of key decisions on stakeholders in the year	
The key decisions and actions during the year and to date which have required the directors to consider applicable Section 172 factors include:	
Strategic review and publication of proposals	The board performed a strategic review of the company, conferred with shareholders, and considered the best means by which the company could meet its commitment to return capital to shareholders and concluded that it would advantage all shareholders equally if the company were to commence a managed wind down of its investment portfolio. After consultation with its advisers as to the most tax efficient way in which this could be achieved the board published a circular recommending a wind down of the company and the adoption of a new investment policy. The recommendations were voted on by shareholders in a general meeting on 28 February 2024 at and received the backing of 86.58% of shareholders. On 3 April 2024 the proposals to return capital to shareholders through a tax efficient B share scheme did not secure the required level of approval. In the light of this result, and in order to give immediate effect to the plan overwhelmingly supported by shareholders at the February General Meeting to adopt the managed wind-down investment policy and return cash to shareholders, the board decided to make a distributions to shareholders by way of Special Dividends.
Share buyback management	The board closely monitors the level of the company's share price discount to NAV and looks to manage the value through a programme of share buybacks. In order to seek to manage the share price discount, the board will from time to time, subject to liquidity and other considerations, buy in the company's own shares as they become available in the market. The board will keep share buybacks under review to ensure that they continue to offer the best returns for the company's long-term shareholders.

Section 172 Statement – Directors' duty to promote the success of the company (continued)

The impact of key decisions on stakeholders in the year	
Communication with shareholders	The board communicates with its shareholders in a number of ways including but not limited to: - through the company's annual and half yearly reports; - regulatory announcements; - meetings with the company's major shareholders; - information on the company's website; - regular webinars; - General Meetings and - the Annual General Meeting. The board encourages all shareholders to attend the AGM and welcomes communication from shareholders. The board is pleased to continue to hold the 2024 AGM in person at the offices of Downing as shown on page 89 to facilitate this interaction. In person AGMs will continue, where possible, to allow shareholders to ask questions and hear updates from the board and investment manager.
ESG considerations	The board acknowledge the investment manager's close relationship with each of the portfolio companies and recognise that the investment manager can assist an investee company's approach to Environmental, Social and Governance (ESG) matters. The investment manager also recognises the importance of ESG considerations in its investment assessments and employs an ESG analyst to develop these considerations further.

Investment policy from 28 February 2024

On 28 February 2024 shareholders voted to amend the Investment Policy as detailed below.

The company will be managed with the intention of realising all remaining assets in the company's portfolio in a prudent manner consistent with the principles of good investment management and with a view to returning cash to shareholders in an orderly manner.

The company will pursue its investment objective by effecting an orderly realisation of its assets in a manner that seeks to maximise the value received from those assets within a reasonable timescale, having regard to both catalytic corporate events and markets generally. This process might include sales of individual assets or running-off the portfolio in accordance with the existing terms of the assets, or a combination of both.

The company will cease to make any new investments or to undertake capital expenditure except where, in the opinion of both the board and the investment manager (or, where relevant, the investment manager's successors):

- the investment is a follow-on investment made in connection with an existing asset in order to comply with the company's pre-existing obligations; or
- failure to make the follow-on investment may result in a breach of contract or applicable law or regulation by the company; or
- the investment is considered necessary to protect or enhance the value of any existing investments or to facilitate orderly disposals.

Any cash received by the company as part of the realisation process prior to its distribution to shareholders will be held by the company as cash on deposit and/or as cash equivalents.

Investment policy until 28 February 2024

The company invests in UK publicly quoted companies that are defined by the investment manager as micro-cap, reflecting a market capitalisation of under £150 million of the investee company at the time of investment. The investment manager intends to hold a concentrated portfolio of between 12 and 18 investments (when fully invested).

The investment manager:

- deploys a private-equity style diligence approach to investing, focusing on the future value of free cash flows, sustainability of margins and strength of the management team;
- takes advantage of the inefficiencies within the micro-cap market which include lack of analyst coverage;
- has the ability to invest up to 10% of the gross assets at the time of investment in one or more unquoted companies;
- procures that the company invests where analysis indicates an ability to create shareholder value of 15% compound growth per annum over a 3–7 year investment horizon;
- favours a proactive style of engagement with management, aiming to maximise shareholder value over the long term, particularly where diligence highlights a strength of management, an entry value that is a discount to the investment manager's calculation of intrinsic value, and where active engagement is likely to mitigate some of the inefficiencies presented by the micro-cap market.

The investment manager believes that this is best achieved by the company taking strategic shareholdings of between 3% and 25% of the equity of the investee company, although the company may hold larger or smaller stakes where it deems appropriate (including up to a maximum of 29% of the equity of any one company at the time of investment, but only where the company holds an additional right of conversion (e.g. option rights or convertible loan notes) that would, on exercise, result in the company holding above 25% of the equity).

It is likely that the majority of the investments held in the company's portfolio will be quoted on AIM and will typically be drawn from the constituents of the FTSE AIM All Share Index.

Investment policy until 28 February 2024 (continued)

No single investment will represent materially more than 15% of the Gross Assets at the time of investment, save that the company may make a follow-on investment into an existing investee company where such investment may result, due to fluctuation in market conditions, in a single investment representing up to 15.5% of Gross Assets at the time of investment, where this is likely to maximise the value of the company's existing investment for shareholders.

The company's portfolio is expected to be diversified by industry and market, but stock selection will be determined by the results of extensive due diligence rather than a weighting in any particular index. However, the investment manager will not invest on behalf of the company in early-stage technology, mining and extraction companies and early-stage biotech (unless the company can see a defined route to profitability) and does not intend to invest in initial public offerings, unless in exceptional circumstances where it has a historic relationship with and an in-depth knowledge of the investee company. The company does not invest in other closed-ended investment funds.

The company may use derivative instruments including index-linked notes, contracts for difference, covered options and other equity-related derivative instruments for efficient portfolio management, gearing and investment purposes. Any use of derivative instruments for investment purposes will be made on the basis of the same principles of risk spreading and diversification that apply to the company's direct investments, as described above, although the company would not hold more than 5% of net assets in a derivative of any single investee company. The company will not enter into uncovered short positions.

If companies in the portfolio achieve organic growth or grow through corporate activity such as acquisitions, and consequently have a market capitalisation that would place them outside the investable universe (described above), the investment manager will not be obliged to sell those holdings, but the proportion of the portfolio in such companies will be carefully monitored by the investment manager and the board so that the overall investment policy to invest in the smallest quoted or traded companies is not materially altered.

Gearing

The company may deploy borrowing to enhance long-term capital growth. Gearing will be deployed flexibly up to 15% of the net asset value, at the time of borrowing. In the event this limit is breached as a result of market movements, and the board considers that borrowing should be reduced, the investment manager shall be permitted to realise investments in an orderly manner so as not to prejudice shareholders. As at 29 February 2024 the company had no borrowings (2023: £nil).

Performance

Details of the company's performance are set out in the Financial Highlights section on page 5 and the Chairman's Statement on pages 7 to 10.

A review of developments during the year, as well as information on investment activity within the company's portfolio, are included in the Investment Manager's Report on pages 11 and 12.

Results and dividend

The results of the company are set out in the Statement of Profit or Loss and Other Comprehensive Income on page 67 and analysed in the Chairman's Statement in detail on page 7, along with an analysis of the company's investment portfolio and net asset position.

The return for the year after taxation was a loss of £6.1 million (2023: loss of £3.7 million), equivalent to a loss of 12.97p per share (2023: loss of 7.54p per share). This comprised a revenue loss of £718,000 (2023: loss of £653,000), equivalent to a loss of 1.52p (2023: loss of 1.32p) per share, and a capital loss of £5.4 million (2023: loss of £3.1 million) equivalent to a loss of 11.45p (2023: loss of 6.22p) per share.

The directors are not recommending the payment of a final dividend.

Dividend policy

As a result of the shareholder vote on 28 February 2024 approving the new investment policy, on 3 April 2024 the board declared a distribution to Shareholders by way of the First Special Interim Dividend of 30 pence per share, equivalent to £13.98 million.

The First Special Dividend was paid on 26 April 2024 to Shareholders on the Company's register of members at close of business on 12 April 2024. The Company's shares ex-dividend date was 11 April 2024.

On 28 May 2024 the board declared a Second Special Interim dividend of 12 pence per share, equivalent to, in aggregate, £5.5 million (the "Second Special Interim Dividend").

On 30 May 2024 the Company announced the intention to return the value of its investment in FireAngel to shareholders as soon as possible and expects to be able to do so by way of a third special interim dividend of at least 7 pence per share, equivalent to, in aggregate, £3.2 million (the "Third Special Interim Dividend"). It is expected that the Third Special Interim Dividend would be paid to shareholders by mid-late July 2024.

Key Performance Indicators ('KPIs')

A number of performance indicators are used to monitor and assess the company's success in achieving its objectives and to measure its progress and performance. The principal KPIs are described below:

- **Share price discount to NAV per share** – the board closely monitors the level of the company's share price discount to NAV and considers this to be an Alternative Performance Measure. The level of the discount at the year ended 29 February 2024 was 5.65% (28 February 2023: 15.76%).
- **Share price movements** – the company's Ordinary Share price decreased by 5.63% (2023: 9.69%) over the period under review. This is largely attributable to the performance of the portfolio during the period as detailed further within the Chairman's Statement and Investment Manager's Report.
- **Ongoing charges** – the ongoing charges represent the company's management fee and all other operating expenses excluding any finance costs, expressed as a percentage of the average daily net assets during the year. The board consider the ongoing charges figure to be an Alternative Performance Measure. The ongoing charges for the year ended 29 February 2024 were 2.00% (2023: 1.94%). The board considers this level to be satisfactory.

The net asset value per share is defined as an Alternative Performance Measure and the Board considers it to be the primary measure of shareholder value.

Principal and emerging risks

The company is exposed to a variety of risks and uncertainties. The Directors have carried out a robust assessment of the principal risks facing the company, as well as a review of emerging risks which may have arisen during the year, including those which could threaten its business model, future performance, solvency or liquidity.

The board identifies risks and mitigating actions to reduce the potential impacts should any of the risks materialise. The Audit Committee and the board regularly monitor the effective operation of the controls. Risks are updated on an ongoing basis, with new risks added as they are identified. Listed below is a summary of the principal and emerging risks identified by the board and the action taken to mitigate those risks.

Strategic Report (continued)

Principal and emerging risks (continued)

Risk	Mitigation
Investment performance	
The investment objective of the company may not be achieved as returns are reliant on the performance of the portfolio.	The company is reliant on the investment manager's investment process. The board has set investment restrictions and guidelines which the investment manager monitors and regularly reports on. The board monitors the implementation and results of the investment process with the investment manager. The investment manager attends all board meetings and provides the board with information including performance data, an explanation of stock selection decisions, portfolio exposure and the rationale for the portfolio composition.
The company will invest primarily in the smallest UK quoted or traded companies, by market capitalisation. Smaller companies can be expected, in comparison to larger companies, to have less mature businesses, a more restricted depth of management and a higher risk profile.	The investment manager has significant experience in small-cap investing and deploys an approach that is designed to maximise the potential for the investment objective to be achieved over the longer-term.
The lasting economic consequences of the coronavirus pandemic remain unclear, however lagging performance of the UK economy has the potential to impact market conditions and depress market prices.	The company has a small, focused portfolio which allows the investment manager to work closely with each portfolio company and provide active support where it can.
The price of the company's shares trade at either a discount or premium relative to the underlying NAV of its shares. Shareholders could become dissatisfied with a continuing discount to NAV.	The board actively monitors the company's share price discount to the published NAV and continually engages with the company's corporate broker regarding share trading volumes, comparative data from the company's peer group and significant buyers and sellers. The board look to manage the value through a programme of share buybacks, subject to liquidity and other considerations, whilst seeking to broaden the interest in the company's shares through a series of marketing activities.
Operational	
The company relies on external service providers. In the event that these parties are unable or unwilling to perform in accordance with the terms of their appointment, this could have a detrimental impact on the company's performance. Disruption to the accounting, payment systems or custody records could lead to inaccurate reporting and monitoring of the company's financial position.	Due diligence is undertaken before contracts are executed with potential service providers. The board monitors the performance of service providers together with the associated costs. The board also reviews reports on the effective operation of the internal controls of service providers. The company's assets are subject to a strict liability regime and in the event of a loss of financial assets held in custody, assets of an identical type or the corresponding amount must be returned unless the loss was beyond the reasonable control of the custodian.

Principal and emerging risks (continued)

Risk	Mitigation
Operational	
The security of the company's assets, dealing procedures, accounting records and adherence to regulatory and legal requirements are reliant on the effective operation of the control systems of the service providers	The board also considers the business continuity arrangements of the company's key service providers. The board may terminate all key contracts on normal market terms
Financial	
The company's investment activities expose it to a variety of financial risks that include market risk, liquidity risk, and credit and counterparty risk.	Further details of these risks are disclosed in Note 14 to the Financial Statements, together with a summary of the policies for managing these risks.
Legal and compliance	
Non-compliance with investment trust eligibility conditions. The company has been accepted by HM Revenue & Customs as an investment trust, subject to continuing to meet the relevant conditions.	The investment manager monitors investment movements and the amount of proposed dividends, if any, to ensure that the relevant provisions of the Corporation Tax Act 2010 are not breached. A report is provided to the Board at each meeting.
Non-compliance with Companies Act 2006, the Alternative Investment Fund Manager's Directive ('AIFMD'), the UK Listing Rules and Disclosure & Transparency Rules and the Market Abuse Regulations, the UK adopted international accounting standards and the AIC SORP.	The company secretary and administrator, along and the company's professional advisers, provide reports to the board in respect of compliance with all applicable rules and regulations and ensure that the board is made aware of any changes to such rules and regulations. Compliance with applicable accounting standards and best practice reporting for investment trusts are also reviewed on an ongoing basis, with recommendations made to the board by the administrator.
Emerging risks	
Geopolitical risks	
The continuing conflict in Ukraine and the impact of sanctions placed on Russian businesses and individuals may have some impact on the returns of the Company.	The investment manager's approach of having a strategic involvement with the investee companies ensures that the manager is well placed to assess the exposure of the business to the Ukraine conflict and associated developments. Exposure is considered to be low and any direct impact on the company's performance not expected to be significant. The manager will continue to review the evolving situation as part of its ongoing activities.
Interest rate rises and Inflation	
The company's investments could be impacted negatively as a result of increasing interest rates and continued high inflation, particularly on wages and other costs.	The investment manager's close relationship with the investee companies allows it to ensure that the businesses properly assess the potential impact of increasing costs, particularly wages, and the extent to which these may or may not be able to be passed on to the end customer. The manager currently considers the net impact to be at a manageable level and continues to monitor developments closely with all investee companies.

Strategic Report (continued)

Principal and emerging risks (continued)

Risk	Mitigation
Emerging risks (continued)	
Climate change	
The effects of climate change or those of changing legislation as the world looks to transition towards net zero emissions may impact the returns generated by the portfolio companies.	Whilst the company itself, as an investment entity, has negligible exposure to climate change risk, the investment manager works closely with investee companies to ensure that climate change risk and transition risk is appropriately addressed. The manager believes that the risks within the current portfolio to be manageable and gives consideration to this in reviewing new investment decisions and will continue to assess developments in legislation and their potential impact on portfolio companies. Developments in accounting and disclosure regulations impacting the company are monitored by the investment manager and administrator to ensure full compliance.

Viability statement

The board proposed, and shareholders overwhelmingly supported, a change in the company's objective on 28 February 2024 to wind down the portfolio and distribute cash back to shareholders after meeting all costs. The manager prepares forecasts of their intended process to achieve that objective and the board monitors progress to ensure that stocks of adequate liquidity and cash are retained to meet costs.

The company is an investment trust with the new objective as set out above. The directors have assessed the viability of the company as follows:

- the long-term nature of the company's revised investment objective
- Forward projections by the manager including anticipated costs;

and concluded that the appropriate period to assess viability is between 12 -18 months. The directors confirm that they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over its foreseeable life.

Strategic Report (continued)

Future prospects

The board's main focus is to implement the new investment policy voted for by shareholders on 28 February 2024. The outlook for the company is discussed in both the Chairman's Statement on page 9 and the Investment Manager's Report on pages 11 and 12.

Employees, social, community, human rights and environmental matters

The principal activity of the company is to invest in accordance with the Investment Policy set out on page 32. The company has no employees, and all of its directors are non-executive, the day-to-day activities being carried out by third parties. Therefore, there are no disclosures to be made in respect of employees, and accordingly it has no direct social, human rights or environmental impact from its operations. In carrying out its investment activities and relationships with suppliers, the company aims to conduct itself responsibly, ethically,and fairly.

Board diversity

When recruiting a new director, the board's policy is to appoint individuals on merit. The board believes diversity is important in bringing an appropriate range of skills, knowledge and experience to the board and gives that consideration when recruiting new directors. As at 29 February 2024, there were three male directors and one female director on the board.

The Chairman's Statement on pages 7 to 10, together with the Investment Manager's Report and portfolio information on pages 11 and 12 form part of the Strategic Report.

The Strategic Report was approved by the board on 5 June 2024.

For and on behalf of the board

Hugh Aldous
Chairman
5 June 2024

Directors' Report

The directors present their report and the audited Financial Statements of the company for the year ended 29 February 2024.

Directors

Since the company's objective is to wind-up and that is anticipated to be achieved within the next 12 to 18 months, the re-election of directors under the requirements of the articles is recognised and is set out as follows, but the expectation is now that realising the portfolio and winding-up the company is a first priority.

Hugh Aldous was last re-elected at the 2021 AGM and will therefore stand for re-election by shareholders at the forthcoming AGM, in accordance with the provisions of the company's Articles of Association.

Linda Bell was last re-elected at the 2022 AGM and therefore will stand at the 2025 AGM, also in accordance with the provisions of the company's Articles of Association.

Robert Legget was last re-elected at the 2023 AGM and therefore will stand at the 2026 AGM, also in accordance with the provisions of the company's Articles of Association.

William Dawkins retired from the board on 14 May 2024.

There were no contracts subsisting during the year under review or up to the date of this report in which a director of the company is or was materially interested and which is or was significant in relation to the company's business.

None of the directors is entitled to compensation for loss of office on the takeover of the company. None of the directors has a service contract with the company.

The board accordingly recommends the re-election of the Chairman Hugh Aldous.

Conflicts of interest

The company's Articles of Association permit the board to consider and, if appropriate, to authorise situations where a director has an interest that conflicts, or might possibly conflict, with the company. The board has a formal system in place for the directors to declare situations for authorisation by those directors not interested in the situation. Any situations considered and any authorisations subsequently given are appropriately recorded.

The board believes that the system it has in place for reporting, considering, and recording situations where a director has an interest that conflicts, or might possibly conflict, with the company operates effectively and operated effectively during the period under review.

Directors' remuneration report and policy

The directors' remuneration report is set out on pages 55 to 58. An advisory ordinary resolution to approve this report will be put to shareholders at the company's forthcoming AGM. The company is also required to put the director's Remuneration Policy to a binding shareholder vote every three years. The company's Remuneration Policy was last put to shareholders at the AGM in 2021. Directors 'Remuneration was however reduced as part of the reduction of costs for the wind-up and that was set out in the circular to shareholders of 2 February 2024, an ordinary resolution to approve the policy will next be put to shareholders at the forthcoming AGM.

Directors' responsibilities

The directors' responsibilities in preparing these Financial Statements are noted on page 59.

Investment management and administration

Management

The company's investment manager is Downing LLP ('the investment manager'). The investment manager is responsible for providing management services to the company in accordance with the company's investment policy and the terms of the management agreement dated 23 March 2017. The management fee during the year was payable monthly in arrears and is equal to one twelfth of 1% of the market capitalisation of the company, calculated on the last business day of each month. Further details are provided in note 4 on pages 75 and 76.

Directors' Report (continued)

Investment management and administration (continued)

Downing LLP has agreed to rebate any management fee payable in order for the company to maintain an ongoing charges ratio of 2% or lower.

On 28 February 2024 the shareholders voted in favour of the board's proposal for a managed wind down of the company which included an amendment to the investment manager's fee arrangement. Full details of the amendment are shown in note 4.

The board believes that the revised fee structure is appropriate for an investment company in this sector.

The Investment Management Agreement is terminable by the company, or the investment manager, providing not less than six months' written notice or the completion of realisation of the portfolio, whichever is the sooner. Part of the fee is only payable on completion of realisation of the portfolio.

Company secretarial and administration
Downing LLP was appointed as administrator under an administration agreement ('the Downing LLP Administration Agreement') with effect from 1 April 2020. Grant Whitehouse, a Downing LLP partner, was appointed as company secretary on the same date.

On 1 February 2024, following Grant's retirement, ISCA Administration Services Limited were appointed as Administrator and company secretary to the company.

The administrator provides general fund valuation, accounting and investment operation services to the company, AIFM support services and company secretarial services for a total minimum annual fee of £80,000 (exclusive of VAT where applicable).

The Administration Agreement is terminable by the company, or the administrator, providing not less than six months' written notice.

Custodian
The Northern Trust Company has been appointed as custodian pursuant to the Custody Agreement. The Custody Agreement may be terminated by either party giving 30 days' written notice.

The custodian receives a safe-keeping fee and transaction fees which vary by market, subject to a minimum fee of £7,500 per annum.

Registrar
Computershare Investor Services PLC has been appointed as registrar to the company under the Registry Services Agreement. The Registrar is entitled to a fee calculated on the basis of the number of shareholders and the number of transfers processed. The Registry Services Agreement may be terminated on not less than six months' notice.

The Registrar is also entitled to reimbursement of all disbursements and out of pocket expenses.

Appointment of the investment manager

The board, through the Management Engagement Committee, considers arrangements for the provision of investment management and other services to the company on an ongoing basis, and a formal review is conducted annually. As part of this review, the board considers the quality and continuity of individuals responsible for the company's affairs, the investment process and the performance achieved. The specialist nature of the company's investment remit is, in the board's view, best served by Downing LLP, who have a proven track record in small cap investing.

It is the opinion of the directors that the continued appointment of the investment manager is in the interests of shareholders as a whole.

Change of control
There are no agreements to which the company is a party that might be affected by a change in control of the company.

Exercise of voting rights in investee companies
The exercise of voting rights attached to the company's portfolio has been delegated to the investment manager, whose voting policy states:

- We intend to vote at all shareholder meetings of companies in which our clients are invested. In cases where there are significant obstacles to voting such as share-blocking or requirements for a power of attorney, we will review the resolutions to assess the extent of the restrictions on voting against the potential benefits.
- We will vote in favour of proposals which we expect to enhance shareholder value, and on routine issues where we are supportive of a company's management.
- We will vote against proposals which we believe may damage shareholders' rights or economic interests.

In all situations the economic interests of our clients will be paramount.

Further details of the investment manager's Proxy Voting and Engagement Principles may be found at www.downingstrategic.co.uk.

Results and dividends

	£'000	Pence per share
Loss for the year ended 29 February 2024	(6,126)	(12.97)
Dividends paid during the year ended 29 February 2024:	-	-

The directors are not recommending the payment of a final dividend.

Basis other than going concern
As stated on page 32 at a General Meeting of the company held on 28 February 2024 shareholders voted to adopt a new investment policy and the Company will be managed with the intention of realising all remaining assets in the Company's portfolio in a prudent manner consistent with the principles of good investment management and with a view to returning cash to shareholders in an orderly manner. Once this process has been completed the directors' intention would be to place the company into liquidation. Given this, the Financial Statements have been drawn up on a basis other than that of a going concern.

In preparing the Financial Statements on a basis other than that of a going concern the following amendments have been made:

- As the investments are expected to be realised within 12 months from the reporting date, they have been reclassified from non-current to current assets. The board has concluded that no adjustments to the value of investments is required and that the bid price remains appropriate.
- A provision for the costs of liquidation of £25,000 has been made and is shown in note 11 on page 78.

The board's review of the company's longer-term viability is also set out in the viability statement, on page 37.

Directors' Report (continued)

Share capital

Details of the company's issued share capital are given in note 12 on page 79. The Ordinary Shares carry the right to receive dividends and have one voting right per Ordinary Share. There are no restrictions on the voting rights of the Ordinary Shares. The company also has one non-redeemable preference share in issue with no voting rights. There are no shares which carry specific rights with regard to the control of the company.

Substantial share interests

As at 29 February 2024 the company had received notification, in accordance with the FCA's Disclosure and Transparency Rule 5.1.2R, of the following interests (by virtue of being the beneficial owner or managing the shares on behalf of a third party) in 3% or more of the voting rights attaching to the company's issued share capital.

	Number of Ordinary Shares	% of total voting rights
Foresight Group LLP	10,388,816	22.3%
EQ Investors Limited	4,100,624	8.8%
Asset Value Investors	3,300,000	7.1%
Milkwood Holdings Limited	3,150,627	6.8%
William Black	1,500,000	3.2%

Since the year end the company has been informed of the following changes to the notified interests between 29 February 2024 and the date of this report. Milkwood Holdings Limited 11,906,900 shares (26.1%), Thames Ventures VCT 2 plc, as part of Foresight Group LLP disclosure Nil and EQ Investors, Nil. Percentages at the date of this Report.

Share repurchases and discount management

The directors will consider repurchasing Ordinary Shares in the market if they believe it to be in shareholders' interests and as a means of correcting any imbalance between the supply and demand for Ordinary Shares. Purchases of Ordinary Shares will be made at the discretion of the board within guidelines established from time to time and regularly reviewed by the board. Any such purchases will be funded from available cash resources of the company at prices below the relevant prevailing NAV (cum-income) per Ordinary Share.

Ordinary Shares purchased by the company may be held in treasury or cancelled. During the year, the company purchased 2,568,113 of its own shares at an average price of 62.36p per share. All shares repurchased during the year were held in treasury at the year end and cancelled on 2 April 2024.

The directors recognise that taking steps to keep the discount of the company's share price to its underlying NAV (per Ordinary Share) competitive with its peer group is in the best interest of the company's shareholders. The directors closely monitor the level of the discount and take steps to manage it through share buybacks, subject to liquidity and other considerations.

Treasury shares

The company may hold Ordinary Shares acquired by way of market purchases in treasury. The company normally intends to hold less than 10% of the issued Ordinary Shares at any time in this way. As at 29 February 2024, the company held 5,125,819 Ordinary Shares in treasury, or 9.91 % of the company’s Ordinary Shares in issue. These shares were cancelled on 2 April 2024.

Ordinary Shares held in treasury may subsequently be cancelled or sold for cash. No Ordinary Shares will be sold at a price less than the NAV (cum income) per existing Ordinary Share at the time of their sale.

Companies Act 2006 and Disclosure & Transparency Rules

(“DTRs”) Disclosures

In accordance with Schedule 7 of the Large and Medium Size Companies and Groups (Accounts and Reports) Regulations 2008 and the DTRs, the Directors disclose the following information:

- The structure of the company’s capital is summarised above and in Note 12 and the voting rights are contained on page 42. There are no restrictions on voting rights or any agreement between holders of securities that result in restrictions on the transfer of securities or on voting rights.
- There are no securities carrying special rights with regard to the control of the company.
- The company does not operate an employee share scheme.
- The company’s Articles of Association and the Companies Act 2006 contain provisions relating to the appointment and replacement of directors, amendment of the Articles of Association and powers to issue or buy back the company’s shares.
- No agreements exist to which the company is a party that may affect its control following a takeover bid.
- There are no agreements in place between the company and its directors providing for compensation for loss of office in any event.

The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008

Details of the financial risk management objectives and policies of the company together with information on exposure to credit, price, liquidity and cash flow risks are contained in Note 14 on pages 79 to 82.

Post Balance Sheet Events

Following the shareholder vote at the General Meeting on 28 February 2024 the directors proposed a return of capital to shareholders through a tax efficient B share scheme. At a General Meeting held on 3 April 2024 these proposals for the issue of the B shares did not secure the required approval of shareholders. In the light of this result, and in order to give immediate effect to the plan overwhelmingly supported by shareholders at the February General Meeting to adopt the managed wind-down investment policy and return cash to shareholders, the board decided to make a distribution to shareholders by way of the First Special Dividend of 30 pence per share, equivalent to £13.98 million.

The First Special Dividend was paid on 26 April 2024 to shareholders on the company's register of members at close of business on 12 April 2024. The Company's shares ex-dividend date was 11 April 2024.

On 28 May 2024 the board declared a Second Special Interim dividend of 12 pence per share, equivalent to, in aggregate, £5.5 million (the "Second Special Interim Dividend").

The Second Special Interim Dividend will be paid on 21 June 2024 to shareholders on the company's register of members at close of business on 7 June 2024. The company's shares will go ex-dividend on 6 June 2024.

On 30 May 2024 the company announced the intention to return the value of its investment in FireAngel to shareholders as soon as possible and expects to be able to do so by way of a third special interim dividend of at least 7 pence per share, equivalent to, in aggregate, £3.2 million (the "Third Special Interim Dividend"). It is expected that the Third Special Interim Dividend would be paid to shareholders by mid-late July 2024.

Streamlined Energy and Carbon Reporting (the 'SECR')

As the company has no employees and primarily conducts its business at the London office of the investment manager and administrator, the company is not directly responsible for the consumption of electricity and gas in the UK, nor is the company directly responsible for greenhouse gas emissions related to transport in the UK. As the company did not consume more than 40,000 kWh of energy during the year ended 29 February 2024, it has nothing to report under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

Global greenhouse gas emissions

As the company has no employees, does not own or lease property and delegates its day-to-day management and administration to third parties, the company has no greenhouse gas emissions to report from its operations, nor does it have direct responsibility for other emission producing sources. As a result, the company has nothing to report under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Modern Slavery Act 2015 ('the MSA')

The MSA requires companies to prepare a slavery and human trafficking statement for each financial year of the organisation.

As an investment vehicle, the company does not have any employees or provide goods and services in the normal course of business. Accordingly, the directors consider that the company is not required to make a slavery and human trafficking statement under the MSA.

Articles of Association

Any amendments to the company's Articles must be approved by special resolution.

Annual General Meeting

This year's AGM will take place on Wednesday 21 August 2024 at 12:00pm at Downing's office at 6th Floor, St Magnus House, 3 Lower Thames Street, London EC3R 6HD. Shareholders intending to attend the meeting are requested to register by sending an email to **dsmagm@downing.co.uk** stating that you wish to register for the AGM.

The notice of the AGM is set out on page 91 of this report and notes in respect of special business to be proposed at the meeting on page 90.

Corporate governance

Full details are given in the Corporate Governance Statement on pages 46 to 51. The Corporate Governance Statement forms part of this Directors' Report.

Auditor

The auditor, BDO LLP, has indicated its willingness to continue in office. Resolutions to reappoint BDO LLP and to authorise the Audit Committee to determine their remuneration for the year ended 28 February 2025 will be proposed at the forthcoming AGM.

Directors' Report (continued)

Statement as to disclosure of information to auditor

As required by Section 418 of the Companies Act 2006 the directors in office at the date of the report have confirmed, as far as they are aware, that there is no relevant audit information of which the auditor is unaware. Each of the directors has confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Listing Rule 9.8.4

Listing Rule 9.8.4 requires the company to include certain information in a single identifiable section of the Annual Report or a cross reference table indicating where the information is set out. The directors confirm that there are no disclosures to be made in this regard.

By order of the board

ISCA Administration Services Limited
Company Secretary
5 June 2024

Corporate Governance Statement

This report, which is part of the Directors' Report, explains how the board has addressed its responsibility, authority and accountability during the year under review.

The board has considered the principles and recommendations of the 2019 Association of Investment Companies Code of Corporate Governance (“AIC Code”). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the 2018 UK Corporate Governance Code (“UK Code”), as well as setting out additional principles and recommendations on issues that are of specific relevance to investment companies.

The AIC Code has been endorsed by the Financial Reporting Council (FRC), meaning that by reporting against the AIC Code, the company is able to meet its obligations in respect of the UK Code (and associated disclosure requirements under paragraph 9.8.6 of the Listing Rules).

As investment trust companies differ in many ways from other listed companies, the board considers that reporting against the principles and recommendations of the AIC Code will provide better information to shareholders.

Statement of compliance

The board has made the appropriate disclosures in this report to ensure that the company meets its continuing obligations. It should be noted that, as an investment trust, most of the company’s day-to-day responsibilities are delegated to third parties, the company has no employees, and all of the directors are non-executive. Therefore, not all of the provisions of the UK Code are directly applicable to the company.

Rather than all directors seeking re-election at every AGM the re-election of directors has continued on a three-year rotation as prior years and is considered appropriate as the company reduces in size and progresses through its winding down phase.

Other than this, the board considers that the company has complied with the provisions and recommendations of the AIC Code for the year ended 29 February 2024.

As an investment company managed by third parties, the Company does not employ a chief executive, nor any executive directors. The systems and procedures of the Investment Manager and the Administrator and the annual statutory audit as well as the size of the Company’s operations, gives the Board confidence that an internal audit function is not appropriate. The Company is therefore not reporting further in respect of these areas.

The AIC Code is available on the AIC website (www.theaic.co.uk). It includes an explanation of how the AIC Code adapts the Principles and Provisions set out in the UK Code to make them relevant for investment companies.

Information on how the company has applied the principles of the AIC Code is set out below.

The board

The board is collectively responsible for the success of the company. It is accountable to shareholders for the direction and control of all aspects of the company’s affairs and is ultimately responsible for framing and executing the company’s strategy and closely monitoring risks.

The board aims to run the company in a manner that is responsible and ensures engagement with investors. The directors are committed to maintaining high standards of financial reporting, transparency and business integrity.

At the year end the board consisted of four non-executive directors and all directors are considered to be independent of the investment manager. The directors’ biographies, including details of their other significant commitments, are provided on page 28. The biographical details demonstrate that the directors possess a breadth of investment, commercial and professional experience, and a wide range of business and financial expertise relevant to the stewardship of the company. William Dawkins retired from the board with effect from 14 May 2024.

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Corporate Governance Statement (continued)

As stated in the AIC Code, the chair of an investment company presides over a board which does not have a chief executive or other executive directors. The directors consider that the chairman was independent on appointment and continues to be independent

Delegation of responsibilities

The Investment Management Agreement between the company and Downing LLP sets out the matters delegated to the investment manager, which include the management of the company's assets and the exercise of voting rights attached to the securities held in the portfolio. Further details of the terms of the agreement are set out on pages 75 and 76. The review of the investment manager's performance is an ongoing duty and responsibility of the board, which is carried out at every board meeting. In addition, a formal review is undertaken annually, details of which are set out in the section concerning the company's Management Engagement Committee, on page 50.

The provision of accounting, company secretarial and administration services has been delegated to Downing LLP under the terms of the Administration Agreement, with effect from 1 April 2020. With effect from 1 February 2024 ISCA Administration Services Limited were appointed as company secretary and administrator to the Company.

The assets of the company have been entrusted to the custodian for safekeeping. The custodian is The Northern Trust Company. The address at which the business of the custodian is conducted is given on page 89.

A formal schedule of matters reserved to the board for decision has been approved. This includes monitoring of the company's investment objectives and policy, its future strategic direction, gearing policy, management of the capital structure, appointment and removal of third-party service providers, review of key investment and financial data and the company's corporate governance and risk control arrangements.

Internal control

The board has established an ongoing process for identifying, evaluating, and managing the significant risks faced by the company. The process conforms to the recommendations of the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting and is subject to regular review by the board. The board is responsible for the company's system of internal controls and for reviewing its effectiveness. However, such a system can only be designed to manage rather than eliminate the risk of failure to achieve business objectives and therefore can only provide reasonable, but not absolute, assurance against fraud, material misstatement or loss.

The board maintains a detailed risk and internal control assessment which is the basis for the Audit Committee and the board to regularly monitor the effective operation of the controls, and is updated on an ongoing basis, with new risks added as they are identified. The review covers all material financial, operational and legal and compliance controls and risk management systems.

Investment management, custody of assets and all administrative services are provided to the company by the investment manager, custodian, and administrator, respectively. The company monitors the services provided by these service providers and the operating controls established by them.

The board, through the Audit Committee, has reviewed the effectiveness of the company's system of internal controls for the period under review and to the date of this report. During the course of this review, no significant failings or weaknesses were identified.

As the company's investment management, administration and custodial activities are carried out by third party services providers, the board does not consider it necessary to have an internal audit function or whistleblowing procedures. The Audit Committee reviews annually the whistleblowing procedures of the investment manager and the administrator.

Financial reporting

The statement of directors' responsibilities in respect of the Annual Report and Financial Statements is set out on page 59, the report of the Independent Auditor on page 60 to 65 and the statement that the company is not a going concern on page 41.

Corporate Governance Statement (continued)

Board structure and management

The board meets regularly, usually on a quarterly basis to review investment performance, financial reports and other reports of a strategic nature. Board or board committee meetings are also held on an ad hoc basis to consider matters as they arise. Key representatives of the investment manager, and the company secretary, attend each board meeting. The investment manager, company secretary and the board have a constructive and co-operative relationship. Communication between meetings is maintained between the board, investment manager, company secretary and other service providers.

The attendance record for each scheduled meeting held during the period under review is set out below

	Year ended 29 February 2024					
	Meetings of the Board		Audit Committee Meetings		Management Engagement Committee Meetings	
Director	Number held	Number attended	Number held	Number attended	Number held	Number attended
Hugh Aldous	3	3	2	2	-	-
Robert Legget	3	3	2	2	-	-
Linda Bell	3	3	2	2	-	-
William Dawkins	3	3	2	2	-	-

In addition, other ad hoc meetings were held during the year where necessary and a General Meeting on 28 February 2024.

Role of the chairman

With the support of the company secretary, the chairman sets the agenda for meetings, manages the meeting timetable and facilitates open and constructive dialogue both during and between meetings.

Directors' appointment, retirement and succession

Details on the appointment, retirement and rotation of directors are set out in the Directors' Report on page 39.

The board's individual independence, including that of the chairman, has been considered and all directors are considered independent in both character and judgement. This independence allows all of the directors to sit on the company's various committees.

The board's view on tenure is that length of service is not necessarily an impediment to independence or good judgement and does not therefore have a formal policy requiring directors to stand down after a fixed period. It considers that a long association with the company and experience of a number of investment cycles is valuable and does not compromise a director's independence.

Appointments will be reviewed as part of the regular board performance evaluations. Directors must be able to demonstrate their commitment, including in terms of time, to the company. The board will seek to ensure that it is well balanced and refreshed regularly by the appointment of new directors with relevant skills and experience.

The board has appointed Robert Legget as Senior Independent Director in accordance with the provisions of the AIC Code. He leads the evaluation of the performance of the chairman and is available to shareholders if they have concerns that cannot be resolved through discussion with the chairman.

Diversity

The directors are aware of the need to have a board which, as a whole, comprises an appropriate balance of skills and experience combined with diversity of thinking, perspective and background. Any board appointment will be based on merit against the required criteria, the current and future needs of the company and having regard to the diversity criteria under the Listing Rules. The board place great importance on diversity and independent thinking when assessing its composition although being externally managed and comprising of only four non-executive directors there is reduced scope to fully comply with the requirement.

The board is required to disclose their compliance in relation to the targets on board diversity set out under paragraph 9.8.6R (9) of the Listing Rules which are as follows:

1. at least 40% of the individuals on the Board of Directors are women;
2. at least one of the senior positions on the Board of Directors is held by a woman; and
3. at least one individual on the Board of Directors is from a minority ethnic background.

The table below sets out the composition of the board at the year end based on the prescribed criteria.

Gender identity	Number of Board Members	Percentage of Board	Number of senior positions on Board
Men	3	75%	2
Women	1	25%	-
White British or other White (including minority White groups)	4	100%	100%
Mixed Multiple Ethnic Groups	-	-	-
Asian/Asian British	-	-	-
Other ethnic group including Arab	-	-	-
	-	-	-
Not specified/prefer not to say	-	-	-

The board therefore does not currently meet the criteria above. More details on the directors can be found in the Board of Directors section on page 28.

Directors' induction training and development

When a director is appointed, he or she will be offered an induction programme, organised by the investment manager, and will be provided with key information on the company's policies, regulatory and statutory requirements, internal controls and the responsibilities of a director.

Directors are encouraged to keep up to date with industry developments and attend training courses on matters directly relevant to their involvement with the company. The directors receive regular briefings from the company secretary regarding any proposed developments or changes in applicable laws and regulations which could impact the company.

Provision of information and support

There is an agreed procedure for directors, in the furtherance of their duties, to take independent professional advice, if necessary, at the company's expense. All directors have access to the company secretary, who is responsible for ensuring compliance with applicable laws and regulations.

The chairman, with the assistance of the company secretary, ensures that the directors receive accurate, timely and clear information. All directors receive appropriate documentation in advance of each board and committee meeting, including detailed briefings on all appropriate matters, to support the directors in discharging their duties effectively. The appointment and removal of the company secretary is a matter for the whole board.

Performance evaluation

The board undertakes an annual self-evaluation of its performance, that of its committees and individual directors, including the chairman. The reviews were led by William Dawkins, in the case of the board, and the relevant chair for each committee. Each committee chair, assisted by the company secretary, determined the scope and format for the review, which was predominantly through questionnaires and focused discussions. As reported in the Chairman's Statement the outcome of the previous thorough formal review process was continued during the current year rather than undertaking it again. There were no matters of concern requiring corrective action arising from the previous evaluation process or any discussion held during this financial year and it was agreed that the composition of the board, at that time, reflected a suitable mix of skills and experience, and that the board as a whole, the individual directors and its committees were functioning effectively.

Board structure and management (continued)

Directors' liability insurance
The company provides director's and officer's liability insurance, giving appropriate cover for legal action brought against its directors, and has also agreed to indemnify directors in circumstances where they are not considered to be culpable. The indemnity, which is a qualifying third-party indemnity provision for the purpose of the Companies Act, is for the benefit of all of the company's current directors.

Board committees

The board has delegated authority to the committees detailed below and has put in place terms of reference for each committee, which are available on the company's website and from the registered office.

Remuneration committee
The company's policy on directors' remuneration, as well as the details of the remuneration of each director, is set out in the Directors' Remuneration Report on pages 55 to 59. As stated in the Directors' Remuneration Report, the full board determines the level of directors' fees and, accordingly, there is no separate remuneration committee.

Nomination Committee
As the board is small and all of the directors are non-executive, a separate nomination committee has not been established. The full board will review its structure and composition. Appointments of new directors will be made on a formalised basis, with the board agreeing the selection criteria and the method of selection, recruitment and appointment. Board diversity, including gender, will be taken into account in establishing the criteria.

Audit Committee
The Audit Committee, which is chaired by Robert Legget, consists of all the directors of the company. Further details are provided in the Report of the Audit Committee on pages 52 to 54.

Management Engagement Committee
The company's Management Engagement Committee comprises all directors and is chaired by Hugh Aldous. The Committee considers the performance, terms, fees and other remuneration payable to the investment manager, the administrator and other service providers. Annually, it reviews the appropriateness of the investment manager's continued appointment, together with the terms and conditions of the Investment Management Agreement. During the year the review and amendment to the Investment Management Agreement was considered as part of the changes to the Investment Objective as voted on by shareholders on 28 February 2024.

Shareholder relations

The board is committed to ensuring that there is open and effective communication with the company's shareholders. The investment manager and the company's broker maintain regular dialogue with major shareholders and provide the board with reports and feedback.

All shareholders are encouraged to attend and vote at the company's Annual General Meeting. The board, including the chairman, and the investment manager will be available at the Annual General Meeting to discuss issues affecting the company and to answer any questions. The Notice of Annual General Meeting and any related papers are sent to shareholders at least 20 business days before the meeting.

Shareholders may contact the board through the investment manager or the office of the company secretary. The contact details are given on page 89.

Basis other than going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on pages 7 to 10, the Investment Manager's Report on pages 11 and 12, the Strategic Report on pages 29 to 38 and the Directors' Report on pages 39 to 45.

Basis other than going concern (continued)

The financial position of the company, its cash flows, liquidity position and borrowing facilities are shown in the Statement of Financial Position on page 69 and the Statement of Cash Flows on page 70. In addition, note 14 to the financial statements includes the company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments, and its exposures to credit risk and liquidity risk.

As stated on page 32 at a General Meeting of the company held on 28 February 2024 shareholders voted to adopt a new investment policy and the company will be managed with the intention of realising all remaining assets in the company's portfolio in a prudent manner consistent with the principles of good investment management and with a view to returning cash to shareholders in an orderly manner. Once this process has been completed the directors' intention would be to place the company into liquidation. Given this, the Financial Statements have been drawn up on a basis other than that of a going concern.

In preparing the Financial Statements on a basis other than that of a going concern the following amendments have been made:

- As the investments are expected to be realised within 12 months from the reporting date, they have been reclassified from non-current to current assets. The board has concluded that no adjustments to the value of investments is required and that the bid price remains appropriate.
- A provision for the costs of liquidation of £25,000 has been made and is shown in note 11 on page 78.

Bribery Prevention Policy

The company has zero tolerance towards bribery and is committed to carrying out business fairly, honestly and openly. The board takes its responsibility to prevent bribery seriously and its service providers are contacted in respect of their anti-bribery policies.

Criminal Finances Act 2017

The board has a zero-tolerance approach to the facilitation of tax evasion.

For and on behalf of the board

Hugh Aldous
Chairman
5 June 2024

Report of the Audit Committee

The company has established a separately chaired Audit Committee that meets at least twice a year and operates within written terms of reference detailing its scope and duties.

Composition

Given that the board is small, it is considered appropriate for all of the directors to sit on the Audit Committee, including the chairman of the company. The members of the Audit Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the committee. The chairman of the Audit Committee, Robert Legget, and chairman of the Board, Hugh Aldous, both have recent and relevant financial experience and the Audit Committee as a whole has experience relevant to the sector.

Role of the Audit Committee

The role of the Audit Committee is to assist the board in applying financial reporting and internal control principles and to maintain an appropriate relationship with the auditors. The Audit Committee formally reports to the board.

Responsibilities

During the period, the principal activities of the Audit Committee included:

- considering and recommending to the board for approval the contents of the half-yearly and Annual Report and Financial Statements and considering the quality of the Independent Auditor's Report thereon;
- reviewing the appropriateness of the company's accounting policies;
- following the completion of the audit, the committee will review the effectiveness of the external audit process, the quality of the audit engagement partner, the audit team and based on the review will make a recommendation to the board on the re-appointment of the auditor;
- reviewing and approving the external auditor's plan for the financial period, with a focus on areas of audit risk and the consideration of the appropriateness of the level of audit materiality;
- considering the audit and non-audit services fees payable to the external Auditor and the terms of their engagement; and
- reviewing the adequacy of the internal control systems and evaluating the need for an internal audit function as set out in the Corporate Governance Statement on page 47.
- Reviewing the appropriateness of using the going concern basis for the preparation of the Financial Statements and ultimately agreeing that the accounts should be prepared on a basis other than a going concern.

The fees paid to the external Auditor are set out in note 5 on page 76.

Non-audit services

All requests for services to be provided by the external auditor will be submitted to the Committee in order to ensure that the scope and nature of the proposed work does not affect the auditor's independence or objectivity and will be determined on a case-by-case basis.

The Auditor did not provide any non-audit services during the year.

Change of auditor, auditor appointment and tenure

The committee reviews the scope and results of the external audit, its effectiveness and cost effectiveness and the independence and objectivity of the external auditor. In the opinion of the committee, the auditor is independent of the company. The committee also has primary responsibility for making recommendations to the board on the re-appointment and removal of the external auditor.

Following a formal audit tender process, the appointment of BDO LLP as auditor was formalised in November 2019, with notification being sent to all shareholders in accordance with the Companies Act. Including the audit of the company's Financial Statements for the year ended 29 February 2024, BDO LLP have acted as external auditor for five accounting periods.

Report of the Audit Committee (continued)

Change of auditor, auditor appointment and tenure (continued)

BDO LLP will be required to re-tender, at the latest, by 2030. Due to the short period since the appointment of the auditor, it is not considered appropriate to review the auditor's succession at this juncture. The audit partner for the year under review is Neil Fung-On, who is in the role for the fifth year of a maximum five-year term.

Representatives of the company's auditor attend the Audit Committee meeting at which the draft Annual Report and Financial Statements are considered, in addition to engaging with the directors as and when required.

Having reviewed the performance of BDO LLP, including assessing the quality of work, timing of communications and work with the investment manager, the committee has considered it appropriate to recommend the auditor's reappointment. The board is in support of this recommendation and a resolution will be put to shareholders at the forthcoming AGM.

Significant matters considered in preparing the Annual Report and Financial Statements

During the year, the Audit Committee considered a number of significant matters and key audit areas in respect of the Annual Report and Financial Statements. The Audit Committee reviewed the external audit plan at an early stage and concluded that the key audit areas had been identified and that suitable procedures had been put in place to obtain reasonable assurance that the Financial Statements as a whole would be free of material misstatements. The table below sets out the areas identified, and the steps taken to minimise the audit risk in each area.

Significant matter/key audit area	Mitigation
Valuation, existence and ownership of investments	The valuation of investments is undertaken in accordance with the accounting policies disclosed in Note 2, on pages 71 to 74. Controls are in place to ensure that quoted prices are accurately reflected in the company's records on a daily basis. In the case of unquoted investments, valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation ('IPEV') Guidelines and detailed valuation assessments are provided to the auditor on a timely basis. Existence of the portfolio is verified through regular reconciliations to the custodian's records. The custodian remains responsible for the oversight of the custody of the company's assets.
Recognition of investment income	The board relies on the administrator and the investment manager to calculate and record income accurately and takes comfort from both the control environment in respect of income recognition and the fact that the information required in order for income to be calculated correctly is made public by the investee companies. The board reviews income forecasts and receives explanations from the investment manager for any variations or significant movements from previous forecasts. The board also considers the recoverability of accrued income. Subjective elements of income such as special dividends have been reviewed by the board to agree the accounting treatment.

Significant matters considered in preparing the Annual Report and Financial Statements
(continued)

Significant matter/key audit area	Mitigation
Maintenance of investment trust status	The investment manager and administrator have reported to the Audit Committee to confirm continuing compliance with the requirements for maintaining investment trust status. Compliance is also discussed with the auditor as part of the audit process.
Impact of the continued conflict in Ukraine and additional sanctions	The Audit Committee notes the investment manager's approach of having a strategic involvement with the investee companies which ensures that the manager is well placed to assess the exposure of the business to the Ukraine conflict and associated developments. The Audit Committee will continue to review the evolving situation and risks faced by the company as they develop.
Impact of rising interest rates and inflation	As a result of the investment manager's close relationship with the investee companies, the manager ensures that businesses properly assess any potential impact and the extent to which these may be minimised. Working alongside the investment manager, the Audit Committee considers the net impact to be at a manageable level and shall continue to monitor developments on the portfolio.
The preparation of the Financial Statements and whether the going concern basis is still appropriate.	The Audit Committee agreed that the company could meet all liabilities as and when due for a period of at least 12 months from the date of signing the report and considered the implications of the vote by Shareholders on 28 February 2024 to change the Investment Policy to a realisation of all remaining assets in an orderly manner. After discussion the Committee concluded that the Financial Statements should be prepared on a basis other than a going concern. Details of how this affects the Financial Statements are shown on page 51.

Conclusions in respect of the Annual Report and Financial Statements
Having taken all available information into consideration and having discussed the content of the Annual Report and Financial Statements with the investment manager, company secretary and other third-party service providers, the Audit Committee has concluded that the Annual Report and Financial Statements for the year ended 29 February 2024 as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position, performance, business model and strategy, and has reported these findings to the board. The board's conclusions in this respect are set out in the statement of directors' responsibilities on page 59.

Robert Legget
Chairman of the Audit Committee
5 June 2024

Directors' remuneration report

The board presents the directors' remuneration report for the year to 29 February 2024, which has been prepared in accordance with the requirements of Sections 420-422 of the Companies Act 2006 ('the Act') and Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended ('the Regulations').

By law, the company's auditors are required to audit certain disclosures made in its Annual Report. Where disclosures have been audited, it is indicated as such. The Auditor's opinion is included in the Independent Auditor's report on pages 60 to 65.

As the company has no employees and all of the directors are non-executive, the board has not established a separate remuneration committee. The board, as a whole, fulfils the function of the remuneration committee and may amend the level of remuneration paid to individual directors within the parameters of the remuneration policy.

The Directors' Remuneration Report is subject to an annual advisory vote and an ordinary resolution to approve this report will be put to shareholders at the forthcoming AGM.

Directors' Remuneration policy

There have been no changes to the remuneration policy during the financial year under review and no changes are proposed for the year ending 29 February 2024. The Remuneration Policy was approved by shareholders at the AGM in 2021 in accordance with Section 439A of the Companies Act 2006. The law requires that the Remuneration Policy is subject to a triennial binding vote, therefore an ordinary resolution to approve the policy will next be put to shareholders at the 2024 AGM.

Directors' Remuneration Policy terms

1) Remuneration consists of a fixed fee each year and the directors of the company are entitled to such rates of annual fees as the board at its discretion determines.
2) In accordance with the company's Articles of Association, if a director is requested to perform extra or special services, they will be entitled to receive such additional remuneration as the board considers appropriate.
3) In accordance with the company's Articles of Association, the directors are also entitled to be reimbursed for out-of-pocket expenses and any other reasonable expenses incurred in the proper performance of their duties.
4) Directors' fees are set to:
   - be sufficient to attract and retain individuals of a high calibre with suitable knowledge and experience to promote the long-term success of the company;
   - reflect the time spent by the directors on the company's affairs;
   - reflect the responsibilities borne by the directors;
   - recognise the more onerous roles of the Chairman of the board and the Chairman of the Audit Committee through the payment of higher fees.
5) Fees payable to the directors will be reviewed annually. A number of factors will be considered to ensure that the fees are set at an appropriate level. These will include the average rate of inflation during the period since the last fee increase, the level of directors' remuneration for other investment trusts of a similar size and complexity of the directors' responsibilities.
6) Total remuneration paid to the non-executive directors is subject to an annual aggregate limit of £150,000, in accordance with the company's Articles of Association. Any changes to this limit will require shareholder approval by ordinary resolution.

Directors' remuneration report (continued)

Directors' Remuneration policy (continued)

There are no performance-related elements to the directors' fees. Directors do not receive bonus payments or pension contributions from the company or any option to acquire shares. There is no entitlement to exit payments or compensation on loss of office. None of the directors has a service contract with the company and their terms of appointment are set out in a letter provided on joining the board. These letters are available for inspection at the company's registered office.

Consideration of shareholders' views

In accordance with the requirements of the Companies Act 2006, shareholder approval for the remuneration report will be sought at the forthcoming AGM. Shareholders will have the opportunity to express their views and raise any queries on the policy at this meeting.

At the AGM held on 6 July 2023, of votes cast, 99.27% were in favour of (or granted discretion to the chairman who voted in favour of) the resolutions to approve the Directors' Remuneration Report. Of the votes cast 0.45% were against the resolutions.

Details of voting on the Remuneration Report at the 2024 AGM will be provided in the Annual Report for the year ending 28 February 2025.

Remuneration Policy Implementation Report (Audited)

The single total remuneration figure for each director who served during the year ended 29 February 2024 is set out below.

	Year ended 29 February 2024	% change in gross fee	Year ended 28 February 2023	% change in gross fee	Year ended 28 February 2022	% change in gross fee	Year ended 28 February 2021	% change in gross fee	Year ended 29 February 2020
	£		£		£		£		£
Hugh Aldous (appointed 17/02/17)	35,000	-	35,000	-	35,000	33.3%	26,250	(25.0)%	35,000
Robert Legget (appointed 22/07/19)	30,000	-	30,000	-	30,000	33.3%	22,500	26.0%	17,853
Linda Bell (appointed 19/09/19)	25,000	-	25,000	-	25,000	33.3%	18,750	(25.0)%	25,000
William Dawkins (appointed 07/11/19 - retired 14/05/24)	25,000	-	25,000	-	25,000	33.3%	18,750	143.8%	7,692
Stephen Yapp (resigned 31/08/19)	-	-	-	-	-	-	-	(100.0)%	15,000
Andrew Griffiths (resigned 11/10/19)	-	-	-	-	-	-	-	(100.0)%	15,449
	115,000		115,000		115,000		86,250		115,994

No taxable benefits or discretionary payments were made during the year ended 29 February 2024.

Overall fees will be reduced as set out in the circular to shareholders on 2 February 2024. On 3 April 2024, the Board announced the following measures to reduce administration costs in line with the reduction in the size of the Company as cash proceeds are paid out to Shareholders: (i) a reduction of the size of the Board, with one Director stepping down; and (ii) a reduction of fees paid to each remaining Director by £5,000 per annum, both with effect from 1 May 2024. All pay is fixed.

Any feedback from shareholders is taken into account by the board when setting remuneration levels.

Directors' remuneration report (continued)

Remuneration Policy Implementation Report (Audited) (continued)

In the year under review, directors' fees were maintained at the following rates:

- Chairman - £35,000;
- Chair of the Audit Committee - £30,000; and
- all other directors - £25,000.

As the company has no employees, the total remuneration costs and benefits paid by the company are those set out in the table on the previous page.

Relative importance of spend on remuneration

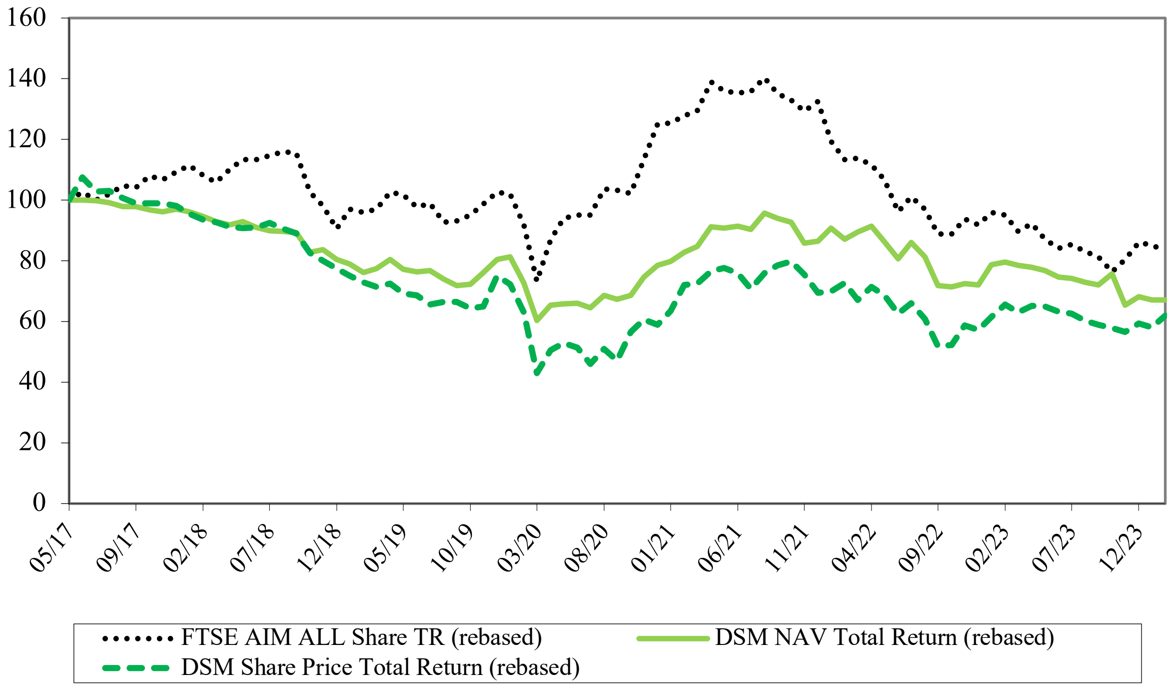
The following table shows the proportion of the company's income spent on remuneration during the year ended 29 February 2024.

	Year ended 29 February 2024	Change	Year ended 28 February 2023	Change	Year ended 28 February 2022	Change %	Year ended 28 February 2021	Change	Year ended 29 February 2020
	£	%	£	%	£	%	£	%	£
Management fees payable in the year	236,000	(23.62)%	309,000	(19.74)%	385,000	31.40%	293,000	(22.65)%	378,800
Total remuneration payable to Directors	115,000	0.00%	115,000	0.00%	115,000	33.33%	86,250	(25.64)%	115,994
(Loss)/return on ordinary activities after tax	(6,126,000)	(64.02)%	(3,735,000)	(254.34)%	2,420,000	(57.57)%	5,703,000	593.34%	(1,156,000)

Performance

The company does not have a specific benchmark against which performance is measured. The graph below compares the company's NAV and share price on a total return basis (with dividends reinvested) with the total return on an equivalent investment in the FTSE AIM All Share TR Index, where the majority of the investments held in the company's portfolio are drawn from and which is therefore considered the closest broad index against which to measure the company's performance.

Performance from 9 May 2017* to 29 February 2024



*The company commenced trading on the main market of the London Stock Exchange on 9 May 2017.
Source: Downing LLP. Index: FTSE AIM All Share TR. All figures rebased to 100 pence as at 9 May 2017.

Directors’ remuneration report (continued)

Directors’ interests in shares (Audited) (continued)

There are no requirements for the directors to own shares in the company.

The director’s interests and those of their connected persons in the Ordinary Shares of the company are set out in the table below. All of the holdings are beneficial and all of the directors held office during the full period under review.

Directors’ holdings in the company’s Ordinary Shares of 0.1 pence per share		
Director	**29 February 2024**	**28 February 2023**
Hugh Aldous[1]	249,700	250,000
Linda Bell	20,386	20,386
William Dawkins[2]	37,000	37,000
Robert Legget	12,500	12,500

[1] includes 69,791 shares held by Mrs Aldous

[2] includes 7,300 shares held by Mrs Dawkins

There were no other changes in the above holdings between the company’s year end and the date of this report.

The Directors’ Remuneration Report was approved by the board on 5 June 2024.

For and on behalf of the board

Hugh Aldous
Chairman
5 June 2024

Statement of Directors' responsibilities in respect of the Annual Report and Financial Statements

The directors are responsible for preparing the Annual Report and the Financial Statements in accordance with UK adopted international accounting standards and applicable law and regulations.

Company law requires the directors to prepare Financial Statements for each financial year. Under that law the directors are required to prepare the company Financial Statements in accordance with UK adopted international accounting standards. Under company law the directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss for the company for that period.

In preparing these Financial Statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with UK adopted international accounting standards, subject to any material departures disclosed and explained in the Financial Statements;
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the company will continue in business. As stated in note 2 on page 71 the directors do not consider the company to be a going concern and have prepared the Financial Statements on a basis other than that of a going concern;
- prepare a directors' report, a strategic report and directors' remuneration report which comply with the requirements of the Companies Act 2006.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the Financial Statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for ensuring that the annual report and accounts, taken as a whole, are fair, balanced, and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

Website publication
The directors are responsible for ensuring the Annual Report and the Financial Statements are made available on a website. Financial Statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of Financial Statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the Financial Statements contained therein.

Directors' responsibilities pursuant to DTR4
The directors confirm to the best of their knowledge:

- The Financial Statements have been prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and loss of the company.

The Annual Report includes a fair review of the development and performance of the business and the financial position of the company, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the board

Hugh Aldous
Chairman
5 June 2024

Independent auditor's report to the members of Downing Strategic Micro-Cap Investment Trust PLC

Opinion on the Financial Statements

In our opinion the Financial Statements:

- give a true and fair view of the state of the company's affairs as at 29 February 2024 and of its loss for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements of Downing Strategic Micro-Cap Investment Trust PLC (the 'company') for the year ended 29 February 2024 which comprise the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

Following the recommendation of the audit committee, we were appointed by board of directors on 6 January 2020 to audit the Financial Statements for the year ended 28 February 2020 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 5 years, covering the years ended 28 February 2020 to 29 February 2024. We remain independent of the company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the company.

Emphasis of matter – Financial Statements prepared on a basis other than going concern

We draw attention to Note 2 to the Financial Statements which explains that the Directors intend to liquidate the investment portfolio and return cash to shareholders and therefore do not consider the Company to be a going concern. Accordingly, the Financial Statements have been prepared on a basis other than that of a going concern as described in Note 2. Our opinion is not modified in this respect of this matter.

In relation to the company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the Financial Statements about whether the directors considered it appropriate to adopt the going concern basis of accounting. As stated in the Note 2 the directors do not consider the company to be a going concern and have prepared the Financial Statements on a basis other than that of a going concern.

Overview

Key audit matters	Valuation and ownership of investments	2024 ✓	2023 ✓
Materiality	*Company Financial Statements as a whole* £306,000 (2023: £383,000) based on 1% (2023: 1%) of *Net assets*		

Independent auditor's report to the members of Downing Strategic Micro-Cap Investment Trust PLC

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the company and its environment, including the Company's system of internal control, and assessing the risks of material misstatement in the Financial Statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the directors that may have represented a risk of material misstatement.

Key audit matters

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

Key audit matter		**How the scope of our audit addressed the key audit matter**
Valuation and ownership of investments (Accounting policy note page72-73, and note 9 and note 15)	The investment portfolio at the year-end comprised of quoted equity investments and unquoted investments held at fair value through profit or loss. We considered the valuation and ownership of investments to be a significant audit area as investments represent the most significant balance in the Financial Statements and underpins the principal activity of the entity. There is a risk that the bid price used as a proxy for fair value of investments held at the reporting date is inappropriate. Given the nature of the portfolio is such that it comprises solely of listed level 1 investments, we do not consider the use of bid price to be subject to significant estimation uncertainty. There is an inherent risk of management override arising from the unquoted investment valuations being prepared by the investment manager, who is remunerated based on the performance of the company. There is also a risk of error in the recording of investment holdings such that those recording do not appropriate reflect the property of the company. For these reasons and the materiality to the Financial Statements as a whole, they are considered to be a key area of our overall audit strategy and allocation of our resources and hence a Key Audit Matter.	We responded to this matter by testing the valuation and ownership of the whole portfolio of quoted investments. We performed the following procedures: - Confirmed the year-end bid price was used by agreeing to externally quoted prices; - Assessed if there were contra indicators, such as liquidity considerations, to suggest bid price is not the most appropriate indication of fair value by considering the realisation period for individual holdings; - Recalculated the valuation by multiplying the number of shares held per the statement obtained from the custodian by the valuation per share; and - Obtained direct confirmation of the number of shares held per equity investment from the custodian regarding all investments held at the balance sheet date. In respect of unquoted investment valuations and ownership, we have: - Corroborated title and existence of the unquoted investments by referencing to a range of information including share certificates; - Considered whether the valuation methodology is the most appropriate in the circumstances under the International Private Equity and Venture Capital Valuation ("IPEV") Guidelines and in accordance with applicable accounting standards; and - Considered whether the valuation is in line with the liquidator statement. Key observations: Based on our procedures performed we did not identify any matters to suggest the valuation or ownership of the quoted and unquoted equity investments was not appropriate.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the Financial Statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the Financial Statements as a whole.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole and performance materiality as follows:

	Company Financial Statements	
	2024 £	2023 £
Materiality	306,000	383,000
Basis for determining materiality	1% of Net assets	
Rationale for the benchmark applied	As an investment trust, the net asset value is the key measure of performance for users of the Financial Statements.	
Performance materiality	£ 229,000	£ 287,000
Basis for determining performance materiality	75% of materiality	
Rationale for the percentage applied for performance materiality	The level of performance materiality applied was set after having considered a number of factors including the expected total value of known and likely misstatements and the level of transactions in the year.	

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £6,000 (2023: £8,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report other than the Financial Statements and our auditor's report thereon. Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the Financial Statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report to the members of Downing Strategic Micro-Cap Investment Trust PLC

Corporate governance statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the Financial Statements or our knowledge obtained during the audit.

Going concern and longer-term viability	• The Directors' statement with regards to the appropriateness of adopting the basis other than a going concern basis of accounting and any material uncertainties identified set out on page 50 and 51; and • The Directors' explanation as to their assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on page 37.
Other Code provisions	• Directors' statement on fair, balanced and understandable set out on page 54; • Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 34; • The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 47; and • The section describing the work of the Audit Committee set out on pages 52 to 54.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	In our opinion, based on the work undertaken in the course of the audit: • the information given in the Strategic report and the Directors' report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and • the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.
Directors' remuneration	In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: • adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or • the 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.

Independent auditor's report to the members of Downing Strategic Micro-Cap Investment Trust PLC

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the Financial Statements

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

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Non-compliance with laws and regulations

Based on:

- Our understanding of the company and the industry in which it operates;
- Discussion with the investment manager and administrator and those charged with governance; and
- Obtaining and understanding of the company's policies and procedures regarding compliance with laws and regulations.

we considered the significant laws and regulations to be Companies Act 2006, the FCA listing and DTR rules, the principles of the AIC Code of Corporate Governance, industry practice represented by the AIC SORP, the applicable accounting framework, and qualification as an Investment Trust under UK tax legislation as any non-compliance of this would lead to the Company losing various deductions and exemptions from corporation tax.

Our procedures in respect of the above included:

- Agreement of the financial statement disclosures to underlying supporting documentation;
- Enquiries of management and those charged with governance relating to the existence of any non-compliance with laws and regulations;
- Reviewing minutes of meeting of those charged with governance throughout the period for instances of non-compliance with laws and regulations; and
- Reviewing the calculation in relation to Investment Trust compliance to check that the company was meeting its requirements to retain their Investment Trust Status. This included a review of other qualitative factors and ensuring compliance with these.

Fraud
We assessed the susceptibility of the Financial Statements to material misstatement due to fraud.

Our risk assessment procedures included:
- Enquiry with the investment manager, the administrator and those charged with governance also considered Audit Committee regarding any known or suspected instances of fraud;
- Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud; and
- Discussion amongst the engagement team as to how and where fraud might occur in the Financial Statements.

Our procedures in respect of the above included:
- In addressing the risk of management override of control, we:
  - Performed a review of estimates and judgements applied by management in the Financial Statements to assess their appropriateness and the existence of any systematic bias;
  - Considered a risk of bias in estimates and judgements by the investment manager in relation to the unquoted valuation as discussed in the Key audit matter section;
  - Considered the opportunity and incentive to manipulate accounting entries and target tested relevant adjustments made in the period end financial reporting process;
  - Reviewed for significant transactions outside the normal course of business; and
  - Performed a review of unadjusted audit differences, if any, for indications of bias or deliberate misstatement.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, who were deemed to have the appropriate competence and capabilities, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the Financial Statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the Financial Statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report
This report is made solely to the 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.

Neil Fung-on (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK
5 June 2024

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Making investment more rewarding

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 29 February 2024

	Year ended 29 February 2024			Year ended 28 February 2023		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Losses on investments at fair value through profit or loss (**note 9**)	**-**	**(5,219)**	**(5,219)**	-	(2,774)	(2,774)
Investment income (**note 3**)	**664**	**-**	**664**	1,088	-	1,088
	664	**(5,219)**	**(4,555)**	1,088	(2,774)	(1,686)
Investment management fee (**note 4**)	**(47)**	**(189)**	**(236)**	(62)	(247)	(309)
Loan interest written off	**(451)**	**-**	**(451)**	(1,196)	-	(1,196)
Other expenses (**note 5)**	**(884)**	**-**	**(884)**	(483)	(61)	(544)
	(1,382)	**(189)**	**(1,571)**	(1,741)	(308)	(2,049)
Return before taxation	**(718)**	**(5,408)**	**(6,126)**	(653)	(3,082)	(3,735)
Taxation (**note 7**)	-	-	-	-	-	-
Return for the year after taxation	**(718)**	**(5,408)**	**(6,126)**	(653)	(3,082)	(3,735)
	Revenue (p)	**Capital (p)**	**Total (p)**	Revenue (p)	Capital (p)	Total (p)
Basic and diluted return per Ordinary Share (**note 6**)	**(1.52)**	**(11.45)**	**(12.97)**	(1.32)	(6.22)	(7.54)

The total column of this statement represents the Statement of Profit or Loss and Comprehensive Income of the company prepared in accordance with the UK adopted international accounting standards and in conformity with the requirements of the Companies Act 2006.

The supplementary revenue and capital return columns are prepared under guidance published by the Association of Investment Companies ('AIC').

The return for the year disclosed above represents the company's total comprehensive income. The company does not have any other comprehensive income.

All items in the above statement are those of a single entity and derive from continuing operations. No operations were acquired or discontinued during the period.

The notes on pages 71 to 85 form an integral part of these Financial Statements.

Statement of Changes in Equity
for the year ended 29 February 2024

	Note	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 28 February 2022		**56**	**–**	**54,474**	**(12,126)**	**655**	**43,059**
Return for the year		–	–	–	(3,082)	(653)	(3,735)
Buyback of Ordinary Shares into treasury		–	–	–	(812)	–	(812)
Cancellation of treasury shares		(4)	4	–	–	–	–
Expenses for share buybacks		–	–	–	(8)	–	(8)
Dividends paid	**8**	–	–	–	-	(149)	(149)
As at 28 February 2023		**52**	**4**	**54,474**	**(16,028)**	**(147)**	**38,355**

	Note	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 28 February 2023		**52**	**4**	**54,474**	**(16,028)**	**(147)**	**38,355**
Return for the year		**–**	**–**	**–**	**(5,408)**	**(718)**	**(6,126)**
Buyback of Ordinary Shares		**–**	**–**	**–**	**(1,582)**	**–**	**(1,582)**
Expenses for share buybacks		**–**	**–**	**–**	**(20)**	**–**	**(20)**
As at 29 February 2024		**52**	**4**	**54,474**	**(23,038)**	**(865)**	**30,627**

The notes on pages 71 to 85 form an integral part of these Financial Statements.

Statement of Financial Position
as at 29 February 2024

	Note	29 February 2024 £'000	28 February 2023 £'000
Non-current assets			
Investments held at fair value through profit or loss	**9, 15**	-	36,927
		-	**36,927**
Current assets			
Investments held at fair value through profit or loss	**9, 15**	20,354	-
Trade and other receivables	**10**	63	88
Cash and cash equivalents		10,463	1,505
		30,880	**1,593**
Total assets		**30,880**	**38,520**
Current liabilities			
Trade and other payables	**11**	(253)	(165)
		(253)	**(165)**
Total assets less current liabilities		**30,627**	**38,355**
Net Assets		**30,627**	**38,355**
Represented by:			
Share capital	**12**	52	52
Capital redemption reserve		4	4
Special reserve		54,474	54,474
Capital reserve		(23,038)	(16,028)
Revenue reserve		(865)	(147)
Equity shareholders' funds		**30,627**	**38,355**
Net asset value per Ordinary Share	13	**65.71**	**77.99p**

The Financial Statements were approved by the board on 5 June 2024 and were signed on its behalf by:

Hugh Aldous
Chairman
Downing Strategic Micro-Cap Investment Trust
PLC Registered in England and Wales, no.
10626295

The notes on pages 71 to 85 form an integral part of these Financial Statements.

Statement of Cash Flows
for the year ended 29 February 2024

	Notes	Year ended 29 February 2024 £'000	Year ended 28 February 2023 £'000
Operating activities			
Return before taxation		(6,126)	(3,735)
Losses on investments at fair value through profit or loss	9	5,219	2,774
UK fixed interest income	3	(12)	(380)
Receipt of UK fixed interest income		27	-
Impairment expense		451	1,196
Decrease/(increase) in other receivables		25	(28)
Increase/(decrease) in other payables		88	(75)
Purchases of investments	9	(2,831)	(6,321)
Sales of investments	9	13,719	5,244
Net cash inflow/(outflow) from operating activities		**10,560**	(1,325)
Financing activities			
Buyback of Ordinary shares into treasury		(1,582)	(812)
Expenses for share buybacks		(20)	(7)
Dividends paid		-	(149)
Net cash outflow from financing activities		**(1,602)**	(968)
Change in cash and cash equivalents		**8,958**	(2,293)
Cash and cash equivalents at start of period		**1,505**	3,798
Cash and cash equivalents at end of period		**10,463**	1,505
Comprised of:			
Cash and cash equivalents		**10,463**	1,505

The notes on pages 71 to 85 form an integral part of these Financial Statements.

Notes to the Financial Statements
for the year ended 29 February 2024

1. General information
Downing Strategic Micro-Cap Investment Trust PLC ('the company') was incorporated in England and Wales on 17 February 2017 with registered number 10626295, as a closed-end investment company limited by shares.

The company commenced its operations on 9 May 2017. The company intends to carry on business as an investment trust company within the meaning of Chapter 4 of Part 24 of the Corporation Tax Act 2010.

2. Material Accounting policies
Basis of accounting
The annual Financial Statements of the company have been prepared in accordance with the UK adopted international accounting standards and in conformity with the requirements of the Companies Act 2006.

These Financial Statements are presented in Sterling (£) rounded to the nearest thousand. Where presentational guidance set out in the statement of recommended practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' ('SORP'), issued by the Association of Investment Companies ('AIC') in July 2022, is consistent with the requirements of the UK adopted international accounting standards, the directors have sought to prepare the Financial Statements on a consistent basis compliant with the recommendations of the SORP.

Basis other than going concern
As stated on page 32 at a General Meeting of the company held on 28 February 2024 shareholders voted to adopt a new investment policy and the company will be managed with the intention of realising all remaining assets in the company's portfolio in a prudent manner consistent with the principles of good investment management and with a view to returning cash to shareholders in an orderly manner. Once this process has been completed the directors' intention would be to place the company into liquidation. Given this, the Financial Statements have been drawn up on a basis other than that of a going concern basis.

In preparing the Financial Statements on a basis other than that of a going concern the following amendments have been made:
- As the investments are expected to be realised within 12 months from the reporting date, they have been reclassified from non-current to current assets. The board has concluded that no adjustments to the value of investments is required and that the bid price remains appropriate.
- A provision for the costs of liquidation of £25,000 has been made and is shown in note 11 on page 78.

Presentation of Statement of Profit or Loss and Other Comprehensive Income
In order to better reflect the activities of an investment trust and in accordance with guidance issued by the AIC, supplementary information which analyses the income statement between items of revenue and capital nature has been presented alongside the income statement. The revenue loss for the year is the measure the directors believe is appropriate in assessing the company's compliance with certain requirements set out in the Investment Trust (Approved Company) (Tax) Regulations 2011.

Segmental reporting
The directors are of the opinion that the company is engaged in a single segment of business, being investment business. The company only invests in companies quoted in the UK.

Accounting developments: new standards, interpretations and amendments adopted from 1 January 2023
Management have assessed all new standards and amendments to standards and interpretations that are effective for annual periods after 1 January 2023 and considered none to have a significant effect on these Financial Statements.

Accounting developments: new standards, interpretations, and amendments not yet effective
The Directors do not expect the adoption of the following amended standards or interpretations to have a significant impact on the Financial Statements of the company in future periods.
- IAS 7 Disclosures to add disclosure requirements, and 'signposts' within existing disclosure requirements about supplier finance arrangements – effective 1 January 2024
- IAS 21 The Effects of Changes in Foreign Exchange Rates – effective 1 January 2025

2. Accounting policies (continued)

Critical accounting estimates and judgements
The preparation of Financial Statements in conformity with the UK adopted international accounting standards requires management to make judgements, estimates and assumptions that affect the application of policies and the amounts reported in the Statement of Profit or Loss and Other Comprehensive Income and the Statement of Financial Position. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

The directors have made the following judgements and estimates that have had the most significant impact on the carrying values of assets and liabilities stated in these Financial Statements:

- ***Valuation and classification of unquoted loan notes:*** unquoted loan note investments, comprising loan note principal, interest, and any amounts of redemption premium, are held at fair value through profit or loss and are valued using a discounted cash flow methodology. Key contractual inputs, as well as assumptions regarding the nature, timing and amount of future cash flows are assessed as part of the discounted cash flow approach. The directors use judgement in selecting and applying the assumptions used, although such assumptions are based upon all available information which the directors deem to be reliable and are stress tested under a range of scenarios. The assessment of the valuation of unquoted loan notes by the directors take into account the dependability of the estimated EBITDA for the upcoming financial year. The valuation of the unquoted investment is based successful implementation of management's plan for the business in the next financial year. If the EBITDA estimate is not met, it would have a significant impact on the valuation of the unquoted loan notes. At the year-end the directors have valued all loan notes at nil other than the loan notes on Really Good Food which is currently in administration and has been valued at £275,000 reflecting the amount expected to be received from the Administrators. The directors consider all loan note investments to be current assets.

- There were no other significant accounting estimates or significant judgements applied in the current period.

Investments held at fair value
All investments held by the company (quoted and unquoted equity investments, redemption premium, unquoted loan notes and unpaid loan note interest) are classified at 'fair value through profit or loss' as the investments are managed and their performance evaluated on a fair value basis in accordance with the investment strategy and this is also the basis on which information about the investments is reported to the board. Investments are initially recognised at book cost, being the fair value of the consideration given, including any transaction fees. After initial recognition, investments are measured at fair value, with unrealised gains and losses on investments recognised in the statement of comprehensive income and allocated to capital. Realised gains and losses on investments sold are calculated as the difference between sales proceeds and the book cost.

For investments actively traded in organised financial markets, fair value is generally determined on a daily basis, with reference to quoted market bid prices at the close of business on the balance sheet date, without adjustment for transaction costs necessary to realise the asset. When a purchase or sale is made under a contract, the terms of which are required to be delivered within the time frame of the relevant market, the investments concerned are recognised or derecognised on the trade date.

Unquoted investments are valued by the directors at the balance sheet date based on recognised valuation methodologies, in accordance with International Private Equity and Venture Capital Valuation ('IPEV') Guidelines, such as dealing prices or third-party valuations where available, net asset values and other information as appropriate.

2. Accounting policies (continued)

Investments held at fair value (continued)

All investments for which fair value is measured or disclosed in the Financial Statements will be categorised within the fair value hierarchy in the notes of the Financial Statements, described as follows, based on the lowest significant applicable input:

- Level 1 reflects financial instruments quoted in an active market;
- Level 2 reflects financial instruments whose fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets; and
- Level 3 reflects financial instruments whose fair value is determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable market transactions in the same instrument and not based on available observable market data. For investments that are recognised in the Financial Statements on a recurring basis, the company determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorisation (based on the lowest significant applicable input) at the date of the event that caused the transfer.

Income

Dividends receivable on quoted equity shares are taken into account on the ex-dividend date. Where no ex-dividend date is quoted, they are brought into account when the company's right to receive payment is established. Special dividends will be taken to revenue or capital account depending on their nature. In deciding whether a dividend should be regarded as a capital or revenue receipt, the company will review all relevant information as to the reasons for and sources of the dividend on a case-by-case basis.

Dividend's receivable are initially recognised at the fair value of the consideration receivable by the company. This is subsequently measured at amortised cost using the effective interest method less any provision for impairment. The company recognises an annual loss allowance for expected credit losses ('ECL allowances'), in accordance with IFRS 9. ECL allowances are calculated on a specific basis and are deducted from the gross carrying values of the dividend receivables carried at amortised cost. ECL allowances are recognised in the Statement of Profit or Loss and Other Comprehensive Income, designated as revenue or capital in accordance with the categorisation of the income to which the allowance relates.

Fixed returns on debt securities are recognised on a time-apportioned basis so as to reflect the effective yield. and recorded in the revenue column of the Statement of Profit or Loss and Other Comprehensive Income.

Where, immediately before recognition is due, it is not considered probable that a return will actually be received the recognition of the return is deferred until the doubt is removed.

Where, subsequent to the recognition of an amount of income, it becomes clear that payment will not be received or the collectability becomes doubtful, an impairment provision to reduce the value of the asset to the recoverable amount is made. The provision in the year of £451,000 on the Real Good Food loan notes is recognised as an expense, rather than as an adjustment of the amount of income originally recognised and is shown separately in the Statement of Profit or Loss and Other Comprehensive Income on page 67.

Expenses

All expenses are accounted for on an accruals basis and gross of Value Added Tax ('VAT') where charged to the company. All expenses are charged to revenue within the statement of profit or loss and other comprehensive income, with the exception of the following:

- expenses which are incidental to the acquisition or disposal of an investment as an element of the purchase of sales consideration respectively, and therefore charged to capital. Details of transaction costs are given in note 9 of the annual report. All other expenses are allocated to revenue, with the exception of 80% of the investment manager's fee which is allocated to capital. This is in line with the board's expected long-term split of returns from the investment portfolio in the form of income and capital gains respectively.

2. Accounting policies (continued)

Cash and cash equivalents
Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

Repurchase of Ordinary Shares for cancellation or to be held in Treasury
The cost of repurchasing shares including the related stamp duty and transaction costs is made from total distributive reserves and is charged to capital reserves and dealt with in the Statement of Changes in Equity. Share repurchase transactions are accounted for on a trade date basis. Where shares are cancelled or held in Treasury and subsequently cancelled, the nominal value of those shares is transferred out of called up share capital and into Capital Redemption Reserve. Should shares held in Treasury be re-issued, the sales proceeds up to the purchase price of the shares will be transferred to capital reserves. The excess of the sales proceeds over the purchase price will be transferred to share premium.

Capital reserve
Capital reserve is a distributable reserve which includes:

- gains and losses on the disposal of investments;
- exchange difference of a capital nature;
- expenses, together with the related taxation effect, allocated to this reserve in accordance with the above policies; and
- increase and decrease in the valuation of investments held at period end.

Revenue reserve
This reserve includes profit or loss for the year recognised in the revenue column of the Statement of Profit or Loss and Other Comprehensive Income. This reserve is distributable.

Special reserve
The company cancelled its share premium account following a court order issued on 12 July 2017. As a result, a distributable special reserve was created. This reserve is distributable.

Capital redemption reserve
This reserve represents the repurchase and subsequent cancellation of the Ordinary Shares of the company. This reserve is not distributable.

Dividends payable to shareholders
Dividends to shareholders are recognised as a liability in the period in which they are paid. Dividends declared and approved by the company after the balance sheet date have not been recognised as a liability of the company at the balance sheet date.

3. Income

	Revenue £'000	Capital £'000	Year ended 28 February 2024 Total £'000	Year ended 28 February 2023 Total £'000
Income from investments				
UK dividend income	593	-	**593**	**688**
UK fixed interest income (**note 9**)	12	-	**12**	**380**
Bank interest income	59	-	**59**	**20**
Total	664	-	**664**	**1,088**

UK fixed interest income represents loan note interest receivable from Real Good Food plc and Norman Broadbent plc. Such amounts form part of the overall fair value of the loan note instruments and are therefore included within investments held at fair value through profit or loss on the Statement of Financial Position.

4. Investment management fee

In respect of its services provided under the previous Investment Management Agreement, the investment manager is entitled to receive a management fee, payable monthly in arrears, calculated at the rate of one twelfth of 1% of the market capitalisation as at the relevant calculation date.

Change to the Investment Manager's fee

From 1 January 2024, the board amended the terms of the investment manager's fee arrangement so as to ensure the investment manager is appropriately incentivised to maximise the value received from the company's assets in a timely manner.

The new fee structure will combine a reduction in the base fee with the introduction of further fees that incentivise the investment manager and will also align its interests with those of shareholders, to complete the wind down whilst seeking the best achievable values, at the point of realisation, in a timely fashion in order for the company to return cash to shareholders.

- To this end, the board and investment manager agreed that the investment manager's current fee arrangement will be replaced with:
- a basic management fee at the rate of 0.25 per cent. per annum of the company's market capitalisation payable monthly;
- a capital return fee which will be applied to the distributions made to shareholders during the Managed Wind-Down process, with this fee being calculated on a sliding scale dependent on the date of distribution so as to incentivise the investment manager towards early distributions on the following basis:

Period during which distributions take place shareholders	Rate of capital return fee on the total value of distributions made to within the period
Before 30 June 2024	0.95%
1 July 2024 to 31 December 2024	0.65%
1 January 2025 to 30 June 2025	0.2%
1 July 2025 and after	nil

This arrangement was modified on 3 April 2024 as discussed below.

- an equity appreciation fee payable only on completion of the investment manager's realisation process equal to 2.5 per cent. of all amounts (if any) by which total distributions to shareholders exceed the net asset value of the company as at the date shareholders approved the New Investment Policy to encourage achieving value appreciation,
- subject to an overall cap on total fees payable to the investment manager in any 12-month period equal to 4.9 per cent. of the market capitalisation (or NAV if lower) of the company as at the date shareholders approved the New Investment Policy.

On 3 April 2024 the board announced that it had agreed with the investment manager that the investment manager's capital return fee would be set at 0.5 per cent. of the total value of distributions made during the company's managed wind-down, instead of its former proposed sliding scale. This change will incentivise the investment manager to realise value for shareholders over the whole of the managed wind-down period.

The notice period that will be required to be given by the company in the event the company wishes to terminate the Investment Management Agreement will remain 6 months. Shorter notice may be provided so long as the investment manager receives payment in lieu of such notice on the basis of the basic management fee. All the other key commercial terms of the Investment Management Agreement will remain unchanged.

The investment manager is a related party to the company and this change to the fee arrangements constitutes a smaller related party transaction under Listing Rule 11.1.10R. No other changes are being made to the management arrangements at this time

The investment manager has agreed that, for so long as it remains the company's investment manager, it will rebate such part of any management fee payable to it so as to help the company maintain an ongoing charges ratio of 2% or lower.

	Year ended 29 February 2024 £'000	Year ended 28 February 2023 £'000
Investment management fee		
Revenue	**47**	62
Capital	**189**	247
Total	**236**	309

5. Other expenses

	Year ended 29 February 2024 £'000	Year ended 28 February 2023 £'000
Administration and secretarial fees	**79**	79
Auditor's remuneration:		
- audit services (excluding £9,000 of irrecoverable VAT)	**45**	43
Directors' fees	**115**	115
Safe custody fees	**8**	8
Legal fees (non-capital items)	**399**	7
Marketing fees	**12**	48
Advisory and consulting	**55**	47
Sundry fees (including £9,000 of irrecoverable VAT on audit services)	**166**	126
Taxation services	**5**	10
Revenue expenses	**884**	483
Capital expenses – legal fees	**-**	61
Total expenses	**884**	544

Legal fees include £25,000 in respect of the expected costs of winding up the company.

6. Basic and diluted return per Ordinary Share

Returns per Ordinary Share are based on the weighted average number of shares in issue during the year. As there are no dilutive elements on share capital, basic and diluted returns per share are the same.

	Year ended 29 February 2024		Year ended 28 February 2023	
	Net return £'000	**Per share Pence**	Net return £'000	Per share Pence
Revenue return	**(718)**	**(1.52)**	(653)	(1.32)
Capital return	**(5,408)**	**(11.45)**	(3,082)	(6.22)
Total return	**(6,126)**	**(12.97)**	(3,735)	(7.54)
Weighted average number of Ordinary Shares[1]		**47,242,771**		49,519,100

[1]Excluding treasury shares

7. Taxation

	Year ended 29 February 2024			Year ended 28 February 2023		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
UK corporation tax at 24.5% (2022: 19%)	**–**	**–**	**–**	–	–	–

The current taxation charge for the period differs from the standard rate of corporation tax in the UK of 25% (2022: 19%). The differences are explained below:

	Year ended 29 February 2024			Year ended 28 February 2023		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Return before taxation	**(718)**	**(5,408)**	**(6,126)**	(653)	(3,082)	(3,735)
Theoretical tax at UK corporation tax rate of 24.5%	**(176)**	**(1,325)**	**(1,501)**	(124)	(586)	(710)
Effects of:						
UK dividends not taxable	**(145)**	**-**	**(145)**	(131)	-	(131)
Capital items not taxable	**-**	**1,279**	**1,279**	-	527	527
Deferred tax not recognised	**321**	**46**	**367**	255	59	314
Actual current tax charge	**-**	**-**	**-**	–	–	–

Factors that may affect future tax charges:
The company has deferred tax not recognised carried forward of £4,139,800 (2023: £2,640,300), resulting in an unrecognised deferred tax asset of £1,035, 000. It is unlikely that the company will generate sufficient taxable profits in the future to utilise these expenses, therefore no provision for any deferred tax asset has been made in the current year. The company has not provided for deferred tax on capital gains or losses arising on the revaluation or disposal of investments as it is exempt from tax on these items because of its status as an investment trust.

8. Dividends

	Year ended 29 February 2024	**Year ended 28 February 2023**
	£'000	**£'000**
Dividends paid during the year	-	149

The Directors are not recommending the payment of a final dividend for the year ended 29 February 2024.

9. Investments

	Year ended 29 February 2024 £'000	Year ended 28 February 2023 £'000
Opening book cost	**42,440**	40,512
Opening UK fixed interest income at fair value through profit or loss	**466**	1,282
Opening investment holding (losses)	**(5,979)**	(2,353)
Opening valuation	**36,927**	39,441
Movements in the year		
UK Fixed interest income at fair value through profit or loss **(note 3)**	**12**	380
Receipt of UK fixed interest income	**(27)**	-
Write off of accrued loan note interest receivable	**(451)**	(1,196)
Investment purchases at cost	**2,831**	6,321
Disposals:		
Proceeds	**(13,719)**	(5,245)
Net realised gains on disposals	**2,051**	852
Movement in investment holding losses	**(7,270)**	(3,626)
Closing valuation	**20,354**	36,927
Closing book cost	**33,603**	42,440
Closing UK fixed interest income at fair value through profit or loss	**-**	466
Closing investment holding (losses)	**(13,249)**	(5,979)
	20,354	36,927
Realised losses on disposals	**2,051**	852
Movement in investment holding gains	**(7,270)**	(3,626)
(Losses) on investments held at fair value through profit or loss	**(5,219)**	(2,774)

Transaction costs

During the year the company incurred transaction costs of £3,000 (2023: £12,000) and £8,000 (2023: £4,000) on purchases and sales respectively. These amounts are included in gains on investments, as disclosed in the statement of comprehensive income.

10. Trade and other receivables

	29 February 2024 £'000	28 February 2023 £'000
Dividends receivable	**41**	75
Prepayments and accrued income	**22**	13
	63	88

11. Trade and other payables

	29 February 2024 £'000	28 February 2023 £'000
Other creditors	**253**	165

Other creditors include a provision for liquidation costs of £25,000.

12. Called-up share capital

	Number of Ordinary shares	Treasury shares	Preference Management shares	Total shares	Nominal value £'000
Allotted, called up and fully paid share capital comprises:					
At 28 February 2023	**49,176,599**	**2,557,706**	**1**	**51,734,306**	**52**
Shares purchased into treasury	**(2,568,113)**	**2,568,113**	**–**	**–**	**–**
At 29 February 2024	**46,608,486**	**5,125,819**	**1**	**51,734,306**	**52**

The company was incorporated on the 17 February 2017 with issued share capital of £50,002 represented by 50,000 Management shares ('Management shares') of £1.00 each and 2 Ordinary Shares of £0.001. On 9 May 2017, the company issued 55.6 million Ordinary £0.001 Shares at a £1 per share in a placing, offer for subscription and intermediaries offer, raising £54.5 million after expenses. The Management shares were redeemed immediately following admission of the Ordinary Shares on 9 May 2017, out of the proceeds of the issue.

During the year 2,568,113 (2023: 1,225,546) Ordinary Shares were bought back and placed in treasury for an aggregate consideration of £1,602,000, at an average price of 62.36p per share (2023: £812,000, at an average price of 66.29p per share). No Ordinary Shares held in treasury were re-issued into the market. During the period no Ordinary Shares held in treasury were cancelled (2023: 3,815,697).

The Ordinary Shares in issue at the year-end includes 5,125,819 (2023: 2,557,706) Ordinary Shares held in treasury. These Treasury Shares were cancelled on 2 April 2024.

Following the passing of a resolution at the General Meeting on 20 February 2023, the Board of Directors allotted one new non-redeemable Preference Management Share with no voting rights.

The Ordinary Shares can be redeemed by the company under the redemption process as set out in the Articles of Association.

13. Net Asset Value per Ordinary Share

NAV per Ordinary Share is based on net assets at the period end and 46,608,486 (28 February 2023: 49,176,599) Ordinary Shares, being the number of Ordinary Shares in issue excluding treasury shares at the period end.

	29 February 2024		28 February 2023	
	NAV per share Pence	**NAV attributable £'000**	NAV per share Pence	NAV attributable £'000
Ordinary Shares:				
Basic and diluted	**65.71**	**30,627**	77.99	38,355

14. Analysis of financial assets and liabilities

Investment objective and policy

The company's investment objective and investment policy are detailed on the inside front cover and in the Strategic Report on pages 32 and 33. The company's investing activities in pursuit of its investment objective involve certain inherent risks. The company's financial instruments can comprise:

- shares and debt securities held in accordance with the company's Investment Objective and investment policies;
- derivative instruments for efficient portfolio management, gearing and investment purposes; and cash, liquid resources and short-term receivables and payables that arise from its operations.

14. Analysis of financial assets and liabilities (continued)

Investment objective and policy (continued)

The risks identified arising from the company's financial instruments are market risk (which comprises market price risk, interest rate risk and foreign currency exposure risk), liquidity risk and credit and counterparty risk. The company may enter into derivative contracts to manage risk. The board reviews and agrees policies for managing each of these risks, which are summarised below.

Market risk

Market risk arises from uncertainty about future prices of financial instruments used in the company's business. It represents the potential loss the company might suffer through holding market positions by way of price movements, interest rate movements and exchange rate movements. The investment manager assesses the exposure to market risk when making each investment decision and these risks are monitored by the investment manager on a regular basis and the board at quarterly meetings with the investment manager.

Market price risk

Market price risk (i.e. changes in market prices other than those arising from currency risk or interest rate risk) may affect the value of investments.

The board manages the risks inherent to the investment portfolio by ensuring full and timely reporting of relevant information from the investment manager, including investment performance and exposure, which are reviewed at each board meeting.

The company's exposure to changes in market prices as at 29 February 2024 on its equity investments held at fair value through profit or loss was £20,079,000 (2023: £32,764,000).

The board has considered the market volatility, arising as a result of the current economic conditions and the Ukrainian conflict and the reasonable market movements that might be possible, in order for such movements to be reflected in a sensitivity analysis. It is considered that a 10% increase and a 50% decrease in market prices are appropriate levels. A 10% increase in market prices of its investments at 29 February 2024 would have increased net assets attributable to shareholders by £2.0 million (2023: £3.3 million). A 50% decrease in the market prices of its investments would have decreased the net assets and distributable reserves attributable to shareholders by £10.0 million (2023: £16.4 million). The analysis is based on closing balances only and is not representative of the period as a whole.

Interest rate risk

The company currently receives marginal interest on its cash deposits; therefore, interest rate movements are not expected to have a material impact on the level of cash deposits held by the company.

The company's financial assets may include investment in fixed interest securities, such as UK Corporate debt, whose fair value may be affected by movements in interest rates. The majority of the company's financial assets and liabilities, however, are either subject to a fixed rate of interest or are non-interest bearing. As a result, the company's financial assets and liabilities are not subject to significant amounts of risk due to fluctuations in market interest rates. There was no exposure to interest bearing liabilities during the year ended 29 February 2024 (2023: none).

The possible effects on the fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions. The board imposes borrowing limits to ensure gearing levels are appropriate to market conditions.

As at 29 February 2024, the company held the following interest-bearing securities:

	Year ended 29 February 2024 £'000	Year ended 28 February 2023 £'000
Real Good Food Loan Notes	275	3,948
Norman Broadbent Loan Notes	-	215

14. Analysis of financial assets and liabilities (continued)

Interest rate risk (continued)

The exposure, at 29 February 2024, of financial assets and liabilities to interest rate risk is shown by reference to:

- floating interest rates – when the rate is due to reset; and
- fixed interest rates – when the financial instrument is due for repayment.

An analysis of the company's exposure to fixed interest rates, as at 29 February 2024, is shown below:

	29 February 2024				28 February 2023			
	1 year £'000	1 to 2 years £'000	2 to 3 years £'000	Total £'000	1 year £'000	1 to 2 years £'000	2 to 3 years £'000	Total £'000
Exposure to fixed interest rates:								
Real Good Food Loan Notes	**275**	-	-	**275**	-	3,948	-	3,948
Norman Broadbent Loan Notes	-	-	-	-	-	215	-	215
Total	**275**	-	-	**275**	-	4,163	-	4,163

The fair values of the loan notes issued to Real Good Food have been based on the expected proceeds receivable from the administrator. Interest due on the loan notes of Real Good Food has been written off as a bad debt in the year. As the company has no exposure to floating interest rates, the Interest Rate Benchmark Reform has had no impact on its assets and liabilities.

Foreign currency risk

The company's assets, liabilities, income, and expenses are denominated in Sterling, being the functional currency of the company. Accordingly, the only currency exposure the company has is through the trading activities of its investee companies.

Liquidity risk

The company's assets, liabilities, income, and expenses are denominated in Sterling, being the functional currency of the company. Accordingly, the only currency exposure the company has is through the trading activities of its investee companies.

Credit and counterparty risk

Credit risk is the risk of financial loss to the company if the contractual party to a financial instrument fails to meet its contractual obligations.

Credit risk arises from two main sources. Firstly, the possibility that the issuer of a security will be unable to pay interest and principal in a timely manner. Secondly, there is the possibility of default of the issuer. Adhering to investment guidelines and avoiding excessive exposure to one particular issuer or scheme can limit credit risk.

The maximum exposure to credit risk as at 29 February 2024 was £10,779,000 (2023: £5,743,000). The calculation is based on the company's credit risk exposure as at 29 February 2024 and this may not be representative for the whole period.

	29 February 2024 £'000	28 February 2023 £'000
Dividends receivable	**41**	75
Cash and cash equivalents	**10,463**	1,505
Unquoted loan notes	**275**	4,163
Total	**10,779**	5,743

14. Analysis of financial assets and liabilities (continued)

Credit and counterparty risk (continued)

Credit risk relating to unquoted loan notes is considered to be part of market risk.

The company's quoted investments are held on its behalf by The Northern Trust company, acting as the company's custodian. Bankruptcy or insolvency of the custodian may cause the company's rights with respect to securities held by the custodian to be delayed. The board monitors the company's risk by reviewing the custodian's internal controls report.

Investment transactions are carried out with a number of brokers whose creditworthiness is reviewed by the investment manager. Transactions are ordinarily undertaken on a delivery versus payment basis whereby the company's custodian bank ensures that the counterparty to any transaction entered into by the company has delivered on its obligations before any transfer of cash or securities away from the company is completed.

Cash is only held at banks that have been identified by the board as reputable and of high credit quality.

None of the company's assets are past due or impaired.

15. Fair value hierarchy

Financial assets and financial liabilities of the company are carried in the statement of financial position at their fair value. The fair value is the amount at which the asset could be sold, or the liability transferred in a current transaction between market participants, other than a forced or liquidation sale. For investments actively traded in organised financial markets, fair value is generally determined by reference to Stock Exchange quoted market bid prices and Stock Exchange Electronic Trading Services ('SETS') at last trade price at the Statement of Financial Position date, without adjustment for transaction costs necessary to realise the asset.

The company measures fair values using the following hierarchy that reflects the significance of the inputs used in making the measurements. Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant assets as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume on an ongoing basis such that quoted prices reflect prices at which an orderly transaction would take place between market participants at the measurement date. Quoted prices provided by external pricing services, brokers and vendors are included in Level 1 if they reflect actual and regularly occurring market transactions on an arm's length basis.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 2 inputs include the following:

- Quoted prices for similar (i.e., not identical) assets in active markets.
- Quoted prices for identical or similar assets or liabilities in markets that are not active. Characteristics of an inactive market include a significant decline in the volume and level of trading activity, the available prices vary significantly over time or among market participants or the prices are not current.
- Inputs other than quoted prices that are observable for the asset (for example, interest rates and yield curves observable at commonly quoted intervals).
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means (market-corroborated inputs).

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

15. Fair value hierarchy (continued)

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
29 February 2024				
Quoted on the Main Market	**4,574**	-	-	**4,574**
Traded on AIM	**15,505**	-	-	**15,505**
Unquoted Loan Notes (including interest held at FVTPL)	-	-	**275**	**275**
Unquoted Equity	-	-	-	-
	20,079	-	**275**	**20,354**
28 February 2023				
Quoted on the Main Market	6,392	-	-	6,392
Traded on AIM	25,612	-	-	25,612
Unquoted Loan Notes (including interest held at FVTPL)	-	-	4,163	4,163
Unquoted Equity	-	-	760	760
	32,004	-	4,923	36,927

There were no transfers between Levels during the period. A reconciliation of fair value measurements in Level 3 is set out in the table below.

	Year ended 29 February 2024 £'000	Year ended 28 February 2023 £'000
Opening balance	4,923	6,056
Purchases	500	343
Sales	(207)	-
UK Fixed interest income at FVTPL (**notes 3, 9**)	12	380
Receipt of UK fixed interest income	(27)	-
Impairment of accrued loan note interest receivable (**note 9**)	(451)	(1,196)
Total gains or losses included in losses on investments in the Statement of Profit or Loss and Other Comprehensive Income:		
- on assets sold	7	-
- on assets held at the period end	(4,482)	(660)
Closing balance	275	4,923

Significant unobservable inputs for Level 3 valuations

The fair values of the unquoted loan notes and associated interest are established with reference to IPEV Guidelines using a discounted cash flow methodology which involves the use of unobservable inputs. Unobservable inputs include all relevant financial and non-financial information regarding the borrower, the expected dates of any partial or full redemptions and any risk-adjusted inputs which might be obtained from comparable companies. The fair values of the unquoted loan notes are highly sensitive to changes in the timing and amounts of future cash flows, and as a result the directors carefully consider a range of possible scenarios in assessing fair values. The loan notes have been valued at £275,000 as discussed above.

16. Capital management

The company's capital is as disclosed in the statement of financial position and is managed on a basis consistent with its investment objective and policies, as set out on the inside front cover and in the Strategic Report on pages 29 to 38. The principal risks and their management are disclosed in the Strategic Report.

17. Significant interests to update

As at 29 February 2024, the company held interests amounting to 3% or more of the equity in issue by the following investee companies.

	% of investee company
Digitalbox plc	19.50%
Norman Broadbent plc	13.78%
FireAngel Safety Technology plc	11.94%
Synectics plc	10.80%
Centaur Media plc	4.62%
Theworks.co.uk plc	4.48%
Flowtech Fluidpower plc	4.20%
National World plc	4.03%

18. Related parties and Investment Manager

Investment Manager

Downing LLP is the investment manager to the company. The relationship is governed by an agreement dated 23 March 2017.

The total investment management fee charged by Downing LLP for the period ended 29 February 2024 was £236,000 (2023: £309,000). The amount outstanding as at 29 February 2024 was £12,000 (2023: £26,000).

During the year under review, Judith MacKenzie was a non-executive director of Real Good Food plc, in which the company has an investment. An annual fee of £25,000 is paid to Downing LLP for Judith's services as a director of Real Good Food plc.

Administrator and Company Secretary

On 1 April 2020, Downing LLP was appointed as administrator to the company and Grant Whitehouse, a Downing LLP partner, was appointed as Company Secretary. During the period from 1 April 2023 to 29 February 2024, total fees of £72,500 (2023; £79,000) (inclusive of VAT where applicable) were charged by Downing LLP in connection with the provision of the Administration, AIFM Support and company secretarial services set out in the Downing LLP Administration Agreement. As at 29 February 2024, the amount outstanding was £3,400.

Directors

Disclosure of the directors' interests in the Ordinary Shares of the company and fees and expenses payable to the directors are set out in the Directors' Remuneration Report on pages 55 to 58. At 29 February 2024, there were no outstanding directors' fees (2023: none).

19. Contingent liabilities

There were no contingent liabilities at 29 February 2024 (2023: none).

20. Non-adjusting events after reporting date

In the period between 29 February 2024 and midday on the date of this report, the following non-adjusting events took place:

> The company has purchased 963,245 of its own Ordinary Shares, at an average price of 31.57 pence per share, all of which have been cancelled.

20. Non-adjusting events after reporting date (continued)

Following the shareholder vote at the General Meeting on 28 February 2024 the Directors proposed a return of capital to shareholders through a tax efficient B share scheme. At a General Meeting held on 3 April 2024 the special resolution to issue the B Shares s did not secure the required approval of shareholders. In the light of this result, and in order to give immediate effect to the plan overwhelmingly supported by Shareholders at the 28 February General Meeting to adopt the managed wind-down investment policy and return cash to Shareholders, the Board decided to make a distribution to Shareholders by way of the First Special Dividend of 30 pence per share, equivalent to £13.98 million.

The First Special Dividend was paid on 26 April 2024 to shareholders on the company's register of members at close of business on 12 April 2024. The company's shares ex-dividend date was 11 April 2024.

On 3 April 2024 the board announced the following measures to reduce administration costs in line with the reduction in the size of the company as cash proceeds are paid out to shareholders: (i) a reduction of the size of the Board, with one Director stepping down; and (ii) a reduction of fees paid to each remaining director by £5,000 per annum, both with effect from 1 May 2024. The board is committed, in principle, to further reductions in costs as and when appropriate given the progress of its cash return plan.

The board has also agreed with the investment Manager that the investment manager's capital return fee will now be set at 0.5 per cent. of the total value of distributions made during the company's managed wind-down, instead of its former proposed sliding scale. This change will incentivise the investment manager to realise value for Shareholders over the whole of the managed wind-down period.

On 28 May 2024, the board declared a second special interim dividend of 12 pence per share, equivalent to, in aggregate, £5.5 million (the "Second Special Interim Dividend").

The Second Special Interim Dividend will be paid on 21 June 2024 to shareholders on the company's register of members at close of business on 7 June 2024. The company's shares will go ex-dividend on 6 June 2024.

On 30 May 2024 the board announced that the timetable in respect of the recommended offer for FireAngel, one of DSM's investee companies, by Intelligent Safety Electronics Pte. Ltd (the "Offer") had resumed, following the approval of the conditions required by the Secretary of State. The date by which all conditions in respect of the Offer must either be satisfied or waived is now 27 June 2024. The company intends to return the value of its investment in FireAngel to shareholders as soon as possible and expects to be able to do so by way of a third special interim dividend of at least 7 pence per share, equivalent to, in aggregate, £3.2 million (the "Third Special Interim Dividend"). It is expected that the Third Special Interim Dividend would be paid to shareholders by mid-late July 2024.

Shareholder information

Financial Calendar

Company's year end	28 February
Annual Results announced	5 June 2024
Annual General Meeting	21 August 2024
Company's half-year end	31 August 2024
Half-yearly results announced	October/November 2024

Share Price and NAV

The Company's Ordinary Shares are listed on the main market of the London Stock Exchange. The market price of these shares can be found in the London Stock Exchange Daily Official List and in the Financial Times. The Company's NAV is published daily and released through a Regulatory Information Service and is also available through the AIC website.

Registrar enquiries

The register for the Ordinary Shares is maintained by Computershare Investor Services PLC. In the event of queries regarding your holding, please contact the registrar on 0370 707 1358.

Changes of name and/or address must be notified in writing to the registrar, whose address is:

Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ.

Common Reporting Standard

Under the Common Reporting Standard, financial institutions, including investment trust companies, are required to provide personal information to HMRC on investors who meet certain criteria set out in the legislation.

On an annual basis the company will provide information to the local tax authority on the tax residencies of non-UK based certificated shareholders and corporate entities. The local tax authority may exchange this information with the tax authorities of another country or countries in which the shareholder may be a tax resident, where those countries, or the tax authorities in those countries, have entered into agreements to exchange financial accountinformation.

New shareholders, excluding those whose shares are held in CREST, entered onto the company's share register, will be sent a certification form for the purposes of collecting this information.

Share dealing

Investors wishing to purchase more shares in the company or sell all or part of their existing holding may do so through their financial adviser, stockbroker or one of the platforms listed on the company's website: **www.downingstrategic.co.uk**

Nominee code

Where shares are held in a nominee company name, the company undertakes:

- to provide the nominee company with multiple copies of shareholder communications, so long as an indication of quantities has been provided in advance;
- to allow investors holding shares through a nominee company to attend general meetings, provided the correct authority from the nominee company is available; and
- nominee companies are encouraged to provide the necessary authority to underlying shareholders to attend the company's general meetings.

Shareholder information (continued)

Website

Your board is committed to shareholder engagement. To receive regular news and updates about your company please visit: **www.downingstrategic.co.uk**.

Useful information on the company, such as investor updates and half year and Annual Reports can be found on the company's website.

Company information

Downing Strategic Micro-Cap Investment Trust PLC is an investment company as defined under Section 833 of the Companies Act 2006.

The company is an investment company within the meaning of Section 833 of the companies Act 2006 and it has been approved by HM Revenue & Customs as an investment trust (for the purposes of Sections 1158 and 1159 of the Corporation Tax Act 2010) for the period ended 28 February 2018 and future years. The directors have no reason to believe that approval will not continue to be obtained. The company is not a close company for taxation purposes.

Country of incorporation: England.
Company Number: 10626295.
Registered office: The Office Suite, Den House, Den Promenade, Teignmouth, TQ14 8SY

AIC

The company is a member of the Association of Investment Companies.

Glossary

Discount and premium

If the share price of an investment trust is lower than the net asset value ('NAV') per share, the shares are trading at a discount to NAV. In this circumstance the price that an investor pays or receives for a share would be less than the value attributable to it by reference to the underlying assets. The discount is the difference between the share price (based on mid-market share prices) and the NAV, expressed as a percentage of the NAV.

A premium occurs when the share price is above the NAV. Investors would therefore be paying more than the value attributable to the shares by reference to the underlying assets.

Discounts and premia are generally the consequence of supply and demand for the shares on the stock market.

Gearing

Gearing is the process whereby a company can borrow to purchase additional investments with the expectation that the return on the investments purchased will exceed the interest cost of the borrowings.

Gearing is calculated by dividing total assets less cash or cash equivalents by shareholders' funds expressed as a percentage.

Intrinsic value

The actual value of a company or an asset based on an underlying perception of its true value including all aspects of the business in terms of both tangible and intangible factors. This value may or may not be the same as the current market value.

Intrinsic value is a core concept to value investors that seek to uncover hidden investment opportunities.

Margin of safety (safety margin)

The difference between the intrinsic value of a stock and its market price.

Net asset value per Share ('NAV') per Ordinary Share

The NAV is shareholders' funds expressed as an amount per individual share. Equity shareholders' funds are the total value of all of the company's assets, at current market value, having deducted all current and long-term liabilities and any provision for liabilities and charges.

The NAV is published daily.

Ongoing charges

Ongoing charges are expenses of a type that are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the investment company as a collective fund, excluding the costs of acquisition or disposal of investments, financing costs and gains or losses arising on investments. Ongoing charges are based on costs incurred in the year as being the best estimate of future costs and include the annual management charge. The calculation methodology is set out by the Association of Investment Companies.

Revenue return per share

The revenue return per share is the revenue return profit for the year divided by the weighted average number of ordinary shares in issue during the year.

Total return performance

This is the return on the share price or NAV taking into account both the rise and fall of share prices and the dividends and interest paid to shareholders. Any dividends received by a shareholder are assumed to have been reinvested in either additional shares (for share price total return) or the company's assets (for NAV total return).

Contact details of the Advisers

Directors
Hugh Aldous (Chairman)
Linda Bell
William Dawkins retired 14 May 2024
Robert Legget

Company Secretary
ISCA Administration Services Limited
The Office Suite
Den House
Den Promenade
Teignmouth TQ14 8SY

Administrator
ISCA Administration Services Limited
The Office Suite
Den House
Den Promenade
Teignmouth TQ14 8SY

Solicitor
Dickson Minto
Broadgate Tower
20 Primrose Street
London EC2A 2EW

Investment Manager
Downing LLP
6th Floor, St. Magnus House
3 Lower Thames Street
London EC3R 6HD

Registrar
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: 0370 702 0003

Custodian
The Northern Trust Company
50 Bank Street
Canary Wharf
London E14 5NT

Broker
Cavendish Capital Markets Limited
(formerly FinnCap Limited)
1 Bartholomew Close
London EC1A 7BL

Auditor
BDO LLP
55 Baker Street
London W1U 8EW

Company number: 10626295

Annual General Meeting

Notes in respect of special business at the Annual General Meeting

Resolutions relating to the following item of special business will be proposed at the forthcoming AGM to be held on 21 August 2024:

Resolution 7
Authority to make market purchase of the company's shares
The resolution to be proposed will seek to renew the authority granted to directors enabling the Company to purchase its own shares. The directors will only consider repurchasing shares in the market if they believe it to be in shareholders' interests and as a means of correcting any imbalance between supply and demand for the Company's shares. The directors are seeking authority to purchase up to 6,842,221 (being the equivalent of 14.99% of the issued ordinary share capital (excluding treasury shares) or such other amount as shall be equivalent to 14.99% of the Company's issued ordinary share capital (excluding treasury shares) as at the date of passing the resolution). This authority will expire at the conclusion of the AGM to be held in 2025 unless renewed prior to that date. Any ordinary shares purchased pursuant to Resolution 7 shall be cancelled immediately upon completion of the purchase or held, sold, transferred or otherwise dealt with as treasury shares in accordance with the provisions of the Companies Act 2006.

Notice of Annual General Meeting

Notice is hereby given that the seventh Annual General Meeting of Downing Strategic Micro-Cap Investment Trust plc will be held at 12:00 pm on 21 August 2024, at 6th Floor, St. Magnus House, 3 Lower Thames Street, London, EC3R 6HD.

If you wish to attend the meeting, please register by sending an email to **dsmagm@downing.co.uk** stating that you wish to register for the AGM.

The following business will be dealt with at the meeting:

Ordinary business

1. To receive the Directors' Report and the Financial Statements for the year ended 29 February 2024 with the report of the Auditor thereon.

2. To approve the Directors' Remuneration Report for the year ended 29 February 2024.

3. To approve the Directors Remuneration policy as set out in the Annual Report.

4. To re-elect Hugh Aldous as a director.

5. To re-appoint BDO LLP as auditor to the company to hold office from the conclusion of the annual general meeting of the company until the conclusion of the next general meeting at which Financial Statements are laid before the company.

6. To authorise the Audit Committee to determine the auditor's remuneration.

Special business

Special resolutions

7. THAT in substitution of any authorities previously granted to make market purchases of ordinary shares of 0.1 pence in the company (Ordinary Shares), the company be, and it is hereby authorised in accordance with section 701 of the Companies Act 2006 (the Act) to make market purchases of ordinary shares (within the meaning of section 693 of the Act) provided that:

a. the maximum number of Ordinary Shares hereby authorised to be purchased is 6,842,221 (being the equivalent of 14.99% of the issued ordinary share capital (excluding treasury shares) or such other amount as shall be equivalent to 14.99% of the company's issued ordinary share capital (excluding treasury shares) as at the date of passing the resolution;

b. the minimum price (exclusive of expenses) which may be paid for an Ordinary Share shall be the nominal value per share;

c. the maximum price (exclusive of expenses) which may be paid for any such ordinary share shall be the higher of (i) 105% of the average of the middle market quotations (as derived from the Official List) of the ordinary shares for the five dealing days prior to the date on which the market purchase is made and (ii) the higher of the price quoted for (a) the last independent trade of and (b) the highest current independent bid for, any number of ordinary shares on the trading venue where the purchase is carried out; and

d. unless revoked, varied or renewed prior to such time, the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the company to be held in 2025 save that the Company may, prior to such expiry enter into a contract to purchase ordinary shares which will or may be completed or executed wholly or partly after such expiry.

All Ordinary Shares purchased pursuant to the above authority shall either be:

(i) held, sold, transferred, or otherwise dealt with as treasury shares in accordance with the provisions of the Act; or

(ii) cancelled immediately upon completion of the purchase.

Dated 5 June 2024

By Order of the Board

ISCA Administration Services Limited
Secretary

Registered Office:
The Office Suite
Den House
Den Promenade
Teignmouth
TQ14 8SY

Notes

i. This Notice of Annual General Meeting (AGM) is sent to holders of Ordinary Shares, all of whom are entitled to attend, speak, and vote at the above AGM.

ii. Members entitled to attend and vote at the AGM are also entitled to appoint one or more proxies to exercise all or any of their rights to attend and speak and vote on their behalf. Where multiple proxies are appointed, they must be appointed to exercise the rights in relation to different ordinary shares. Proxies need not be members of the company.

iii. A form of proxy is sent to members with this notice. To be valid the form of proxy and any power of attorney or other authority (if any) under which it is signed (or a notarially certified copy of that power of attorney or authority) must be completed and returned to the office of the company's registrar as soon as possible but so as to arrive no later than 12:00 pm on 19 August 2024. Where multiple proxies are being appointed additional forms should be obtained from the company's registrar and a separate form completed for each proxy identifying that the proxy is a multiple form and the different ordinary shares that each proxy represents. Completion and return of form(s) of proxy will not preclude a member from attending, speaking, and voting in person at the AGM.

iv. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by utilising the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

v. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("EUI") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent Computershare (ID: 3RA50) by 12:00 pm on 19 August 2024. In this respect the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message in the manner prescribed by CREST.

vi. CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by the particular time the CREST member requires.

vii. The company may treat as invalid a CREST proxy instruction in the circumstances set out in regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

viii. A person who is not a member of the company and receives this notice of meeting as a person nominated by a member to enjoy information rights under Section 146 of the Companies Act 2006 ("Act") does not have a right to appoint proxies. However, if a nominated person has an agreement with the member who nominated them, the nominated person may have a right to be appointed as a proxy or a right to instruct the member as to the exercise of voting rights at the AGM.

ix. Shareholders entered on the register of members of the company at the close of business on 19 August 2024, or the close of business on the day two days prior to the time of an adjourned meeting, shall be entitled to attend and vote at the AGM. Any changes to the register of members after such dates shall be disregarded in determining the rights of any shareholders to attend and vote at the AGM.

x. Under section 319(A) of the Act, the company must cause to be answered any question relating to the business being dealt with at the AGM put by a member attending the AGM unless answering the question would interfere unduly with the preparation for the meeting, would involve the disclosure of confidential information, an answer has already been given on a website, or is undesirable in the interests of the company or the good order of the AGM.

xi. Members may not use any electronic address provided in this notice or any related document(s) to communicate with the company for any purpose other than as specifically stated.

xii. As at 4 June 2024, the latest practicable date prior to the publication of this notice, the company's issued share capital comprised 45,645,241 ordinary shares of 0.1 pence each, and 1 non-redeemable preference management share of 1 penny which carries no voting rights. Each ordinary share carries a right to one vote at general meetings of the company and accordingly the total number of voting rights in the company as at 4 June 2024 is 45,645,241.

xiii. Information regarding the AGM, including the information required by Section 311A of the Act, can be found on the company's website at **www.downingstrategic.co.uk**.

xiv. No director has a service agreement with the company. Directors' letters of appointment can be viewed by contacting the company secretary.

xv. Member(s) have a right in accordance with Section 338 of the Act to require the company to give to members of the company entitled to receive the above notice of meeting, notice of any resolution which they may properly move at the meeting. Under Section 338A of the Act member(s) may request the company to include in the business to be dealt with at the meeting any matter, other than a proposed resolution, which may be properly included in that business.

xvi. Members may require the company, under section 527 of the Act, to publish on a website a statement setting out any matter relating to the audit of the company's Financial Statements being laid before the meeting, including the auditor's report and the conduct of the audit at the company's expense. Where the company is required to place such a statement on a website it must forward the statement to the auditor not later than the time it makes the statement available on that website and include the statement in the business to be dealt with at the meeting.

June 2024

DSM3098

The Office Suite	020 7416 7780
Den House, Den Promenade	customer@downing.co.uk
Teignmouth TQ14 8SY	www.downingstrategic.co.uk