

CRYSTAL  AMBER

Crystal Amber Fund Limited

Annual Report and Audited Financial Statements

For the year ended 30 June 2013

## Contents

	<i>Page</i>
Management and Administration	2
Highlights	4
Chairman's Statement	5
Investment Manager's Report	6
Investing Policy	19
Report of the Directors	21
Directors	28
Independent Auditor's Report	29
Statement of Comprehensive Income	30
Statement of Financial Position	31
Statement of Changes in Equity	32
Statement of Cash Flows	33
Notes to the Financial Statements	34

## Management and Administration

<b>Directors</b>	William Collins ( <i>Chairman</i> ) Sarah Evans ( <i>Senior Independent Director</i> ) Nigel Ward Mark Huntley ( <i>Resigned 12 October 2012</i> ) David Warr ( <i>Appointed 10 January 2013</i> )
<b>Registered Office</b>	Heritage Hall Le Marchant Street St. Peter Port Guernsey GY1 4HY
<b>Investment Manager</b>	Crystal Amber Asset Management (Guernsey) Limited Heritage Hall Le Marchant Street St. Peter Port Guernsey GY1 4HY
<b>Investment Adviser</b>	Crystal Amber Advisers (UK) LLP 29 Curzon Street London W1J 7TL
<b>Administrator and Secretary</b>	Heritage International Fund Managers Limited Heritage Hall Le Marchant Street St. Peter Port Guernsey GY1 4HY
<b>CISX Listing Sponsor</b>	Heritage Corporate Services Limited Heritage Hall Le Marchant Street St. Peter Port Guernsey GY1 4HY
<b>Nominated Adviser</b>	Sanlam Securities UK Limited 10 King William Street London EC4N 7TW
<b>Broker</b>	Numis Securities Limited The London Stock Exchange Building 10 Paternoster Square London EC4M 7LT
<b>Independent Auditor</b>	KPMG Channel Islands Limited 20 New Street St. Peter Port Guernsey GY1 4AN

**Management and Administration (continued)**

**Legal Advisers to  
the Company**

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**Custodian**

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**Registrar**

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## Highlights

- Strong performance over the year with Net Asset Value (“NAV”) per share rising by 26 per cent to 133.05p per share (105.59p at 30 June 2012)
- In August 2013, share placing raises £26.4 million (before expenses) and increases Fund size to over £100 million, with no dilution in NAV per share to existing shareholders
- Investment Manager’s fee structure revised to reinforce its alignment with shareholders’ interests. From April 2013, investment management fees are calculated using the lower of NAV and market capitalisation (please see Note 17)
- Aggregate realised gains of £4.9 million on Renishaw PLC, N Brown Group PLC and May Gurney Integrated Services PLC
- Continued focus on investment in strong, cash generating companies with opportunities for activism
- Successful share buy-back programme initiated to address share price discount to NAV, which moved from 19.6 per cent at 30 June 2012 to 0.4 per cent at 30 June 2013. The discount at the end of September 2013 was 6.3 per cent.
- Sustained engagement with the main investments; full agenda for activism in the year ahead
- Further gains in NAV per share in current financial year with 11 per cent rise in first quarter to 30 September 2013

**William Collins**, Chairman, commented:

“This has been a successful year for the Fund. The strong growth in net asset value has continued into the current year, with NAV increasing by more than 11 per cent in the first quarter, as our activist strategy continues to bear fruit. The successful £26.4 million fund raise in August has not only strengthened our firepower but has given us greater flexibility to deliver on our objectives. I look forward to the remainder of the year with confidence.”

## Chairman's Statement

I hereby present the sixth annual report of Crystal Amber Fund Limited ("the Fund") for the year to 30 June 2013.

Following the easing of the Euro crisis in July 2012 after European Central Bank President Mario Draghi's pledge to do 'whatever it takes', equity markets performed strongly. Investors took the view that political risk in Europe had reduced, particularly the danger of implosion of the Eurozone. Some saw the rising market as part of 'the great rotation' from low return bonds into equities. Initially, the rally favoured stocks with resilient free cash flows, that is, 'bond-like' defensive characteristics.

In May 2013, the US Federal Reserve raised the prospect of "tapering" – reducing the size of its monetary stimulus. This increased uncertainty in the markets and caused a small correction. Whilst "tapering" would be the natural consequence of a US economic recovery, it would result in higher bond yields and this could as a consequence lead to a correction in equity markets. On balance, economic signs point to a fragile recovery, and monetary authorities have insisted that tightening will only come when economic recovery is stronger.

This presented a challenging background for investors and for the Fund. Consequently, and within the parameters of our activist mandate, we maintained our focus on strong, cash generating companies with healthy balance sheets, and continued our strategy of close and active engagement with our investee companies.

The NAV at 30 June 2013 was £73.9 million, compared with an unaudited £70.8 million at 31 December 2012 and £63.4 million at 30 June 2012. Share buy-backs reduced the total NAV by £5.2 million. The NAV per share was 133.05p as at 30 June 2013 compared with 120.08p per share at 31 December 2012 and 105.59p at 30 June 2012. The rise in NAV was helped by strong contributions from Tribal Group PLC, Norcros PLC and United Drug PLC.

The Fund obtained the support of its shareholders and welcomed new investors in a £26.4 million equity issue that took place at no cost to existing investors. The placing, completed in August, increased the Fund's net assets to just over £100 million.

Over the year, following discussions with shareholders, a number of changes to the Manager's fees were agreed by the Board and the Manager and approved by shareholders. At the Fund's interim results, the Board announced that management fees would, from 1 April 2013, be calculated using the lower of NAV and market capitalisation. As part of the fundraising, additional changes have been implemented. The basis of the calculation of the management fee was changed so that the rate of 2 per cent continues to apply to the market capitalisation of the Company at 30 June 2013 (£75.5 million) ("the Base Amount") and to the extent that an amount equal to the lower of the Company's NAV and market capitalisation, at the relevant time of calculation, exceeds the Base Amount ("the Excess amount"), the applicable fee rate on the Excess Amount will be 1.5 per cent. In addition, the performance fee hurdle rate has been increased from 7 per cent to 8 per cent per annum. Any performance fees will be paid in shares if the shares are trading at a premium to NAV, or in cash if the shares are trading at a discount. If the latter, these monies will be used by the Investment Manager to buy Fund shares in the market. Finally, it was announced that the continuation vote of 2016 has been brought forward to 2015 and will be held every two years thereafter.

During the financial year, the Fund purchased 4.5 million of its own shares, as part of an effort to narrow the share price discount to NAV and we are pleased that as a result of this action the discount has been reduced substantially. The share buy-back programme has continued since the year end.

Despite central banks' continued stimulatory efforts and a return of risk appetite to the markets, a sustainable economic recovery remains elusive. We believe that the Fund is well positioned, with its focus on special situation holdings less dependent upon macroeconomic recovery and more upon a combination of self-help and our active engagement. That said, some uncertainty remains about the behavioural consequences for investors, banks and borrowers as the relaxed monetary policy regime of the past four years starts to change. Independent of this environment, the Fund continues its engagement with investee companies, in pursuit of shareholder value and is confident that it can continue to deliver attractive returns.

William Collins  
*Chairman*

23 October 2013

## Investment Manager's Report

### Performance

The Fund's Net Asset Value (NAV) per share increased by 26 per cent over the year. Together with the 0.5p dividend paid in July 2012, total returns per share for the year were 26.6 per cent. This compares to the FTSE 250 total returns of 30.1 per cent and FTSE Small Cap total returns of 31.6 per cent. Over the year, the Fund was on average 87.5 per cent invested, with the balance held in cash and options, implying a return of 30.4 per cent for the invested portion of the portfolio. Month by month returns are shown in the table below.

Month	Fund total returns	FTSE 250 total returns	FTSE Small Cap total returns
June 2013	-1.0%	-3.6%	-3.2%
May 2013	4.5%	3.2%	3.7%
April 2013	0.4%	0.7%	0.9%
March 2013	3.3%	1.9%	1.9%
February 2013	0.2%	5.3%	3.1%
January 2013	3.1%	5.4%	6.4%
December 2012	2.5%	3.0%	4.6%
November 2012	5.0%	1.0%	0.8%
October 2012	4.4%	1.9%	1.6%
September 2012	2.0%	3.1%	3.1%
August 2012	-0.1%	2.8%	4.2%
July 2012	-0.1%	2.1%	1.1%

Key performance contributors were Tribal Group PLC (5.8 per cent contribution), Norcross PLC (4.1 per cent), United Drug PLC (3.5 per cent), N Brown Group PLC (2.9 per cent) and 4imprint Group PLC (2.7 per cent). The only material detractors were JJB Sports PLC (-4.4 per cent), and TT Electronics PLC (-0.2 per cent). The Fund has continued its policy of purchasing derivative options to protect the NAV against significant falls in the stock market; in aggregate, the derivative options purchased cost the Fund two per cent of its NAV.

### Portfolio

Over the financial year, the Fund reduced its exposure to its top holdings, and in June 2013 the largest ten accounted for 71 per cent of NAV (2012: 78 per cent). Six of those positions were also amongst the top ten holdings last year, and two positions, Smiths News PLC and 4imprint Group PLC, were investee companies of the Fund at the beginning of the year. Investments in Northgate PLC and Thorntons PLC were initiated during the year.

Of the other four positions that were top ten holdings in the previous year, Omega Insurance Holdings Limited was sold as part of its takeover by Canopus Group. The holdings in Renishaw PLC and N Brown Group PLC were substantially reduced following strong share performances. JJB Sports PLC went into administration in September 2012 and the value of this holding has been written off. Cash, accruals and money market funds accounted for 8 per cent of NAV at 30 June 2013 (2012: 3 per cent).

## Investment Manager's Report (continued)

### Portfolio (continued)

<i>Top ten holdings</i>	<i>Pence per share</i>	<i>Percentage of investee equity held</i>
TT Electronics PLC	13.2	3.1%
Tribal Group PLC	12.9	4.4%
Norcros PLC	12.7	7.3%
API Group PLC	11.2	11.5%
Sutton Harbour Holdings PLC	11.2	28.6%
Devro PLC	8.4	1.0%
4imprint Group PLC	7.9	3.2%
Smiths News PLC	6.5	1.3%
Northgate PLC	5.5	0.7%
Thorntons PLC	4.7	4.3%
Total of ten largest holdings	94.2	
Other investments	28.9	
Cash, accruals and money market funds	10.0	
<b>Total NAV</b>	<b>133.1</b>	

### Strategy

Due to the uncertain economic background, the Fund maintained a cautious strategy throughout the year. This caution encompassed stock selection, higher levels of cash holdings and resulted in purchases of some derivative options to protect the Fund against a market sell-off.

The Fund focused on investments with self-help potential, leading global franchises and asset backed businesses that stood to benefit from lower interest rates. As outlined in the following section, the Fund engaged with management of all its investee companies to advocate shareholder interests.

Self-help measures, mainly plant consolidation, underpin earnings growth of TT Electronics PLC and API Group PLC. Other improvements in production throughput should similarly benefit Norcros PLC. Structural tailwinds support revenue growth of global leaders, Devro PLC and Renishaw PLC, although the holdings in the latter have now been substantially sold. The former should benefit from the conversion from gut to collagen sausage casing and the latter from increasing automation in manufacturing. Northgate PLC, an asset rental company, was identified as a beneficiary of lower interest rates. The Fund also remains focused on realising value from earlier investments, including Sutton Harbour Holdings PLC, an investment with tangible asset backing.

### Activist investment process

The Fund originates ideas from its screening processes and its network of contacts, including its shareholders. Companies are valued with focus on their replacement value, cash generation ability and balance sheet strength. During the process, the Fund's goal is to examine the company both 'as it is' and under the lens of 'as it could be' to maximise shareholder value. Investments are normally made after an initial engagement, which in some cases may have been preceded by the purchase of a modest position in the company, to allow the Investment Adviser to meet the company as a shareholder. Engagement includes dialogue with the company chairman and management, and normally also several non-executive directors, as we build a network of knowledge around our holdings. Site visits are undertaken to deepen our research and, where appropriate, independent research is commissioned. Investee company annual general meetings are often attended to maintain close contact with the board and other stakeholders.

## Investment Manager's Report (continued)

### Activist investment process (continued)

For all portfolio holdings, the Fund strives to develop an activist angle and aims to contribute to the companies' strategy. Where value is hidden or trapped, the Fund looks for ways to release it. The activist approach in some cases requires long holding periods, which facilitate effective engagement.

Most of the Fund's activism takes place in private, but we are willing to make our concerns public when appropriate. The response of management and boards to our suggestions has generally been encouraging. We remain determined to ensure that our investments deliver their full potential for all shareholders, and are committed to engage to the degree required to achieve this.

The opportunities for engagement with management are supported by a continued improvement in the corporate governance of UK listed companies, and the positive perception of active ownership in government reports such as the Kay Review. Amongst under-researched or misunderstood UK small and mid-cap companies, the opportunities to deliver gains by focusing on shareholder value are promising.

### Investee companies (Top ten holdings)

#### TT Electronics PLC ("TT")

TT develops and manufactures sensors, components and electronic systems. Its key markets are passenger cars (41 per cent of group revenues), industrial applications (26 per cent) and defence and aerospace (12 per cent). Production sites in Germany, China, Romania and Mexico supply a similar global customer base. Customer domicile suggests a high exposure to Europe, as it derives 65 per cent of revenue here, yet its end markets are more diversified. Its top European clients, such as premium automakers Volkswagen or Daimler, sell to global markets. For those clients, TT has developed pressure, position or temperature sensors, custom engineered to meet each platform's requirements. Once a product design is accepted, TT's module is expected to last for the remainder of the product's life. The high cost of product failure for the original equipment manufacturer (OEM) constitutes a barrier to entry for new suppliers. Increased safety requirements, emissions regulations and efficiency needs are behind estimates for electronic sensors and controls growth of 7 to 10 per cent per annum.

Since the arrival of current management in 2008, TT has been turned from an industrial conglomerate to a business with fewer target markets. Its balance sheet has been strengthened, moving to a £9 million net cash position. Thanks to an extensive reorganisation, margins have increased from 4.6 per cent in 2008 to 6 per cent in 2012.

Current margins, however, are still more typical of lower value added electronics businesses, and management has produced a detailed action plan that should see them increase to 8-10 per cent by 2015. Changes include moving production to Mexico and Romania, where labour and suppliers are more flexible and less expensive. Exiting legacy loss-making contracts will also contribute to higher margins. Having sold its secure power division for £40 million, TT has released ample cash to invest in production reorganisation and acquire complementary technology to bolt on its global sales platform. The Fund supports this strategy.

For 2012, TT reported a 40 basis points margin improvement despite a decline in sales caused by the challenging economic backdrop. The ability of TT to deliver margin progress against volume reductions points to the opportunity for profit growth when production picks up again.

Since purchasing the stake in TT, we have engaged with its management and board and other shareholders. Following discussions around the need to prioritise site consolidation above acquisitions, we were pleased with the announcement in June 2013 that TT will invest £30 million to that effect. In our view, the scope for savings in production costs is considerable and would follow the path taken by its main competitor Sensata. Resulting savings should help TT move beyond its previous 10 per cent margin target within the company's stated timeframe.

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## Investment Manager's Report (continued)

### TT Electronics PLC ("TT") (continued)

A failure to execute this strategy and deliver margins corresponding to its technological strength would weaken management and make the company susceptible to a corporate action. Having largely disposed of its peripheral assets, TT is now a more attractive focused electronics business.

Over the year and taking advantage of share price strength, and in light of weaker trading in the automobile industry, the Fund reduced its holding to rebalance the portfolio. However, at six times 2013 estimated EBIT, we believe that TT's valuation does not reflect either the upside from margin expansion or that from a pick-up in volumes.

### Tribal Group PLC ("Tribal")

Tribal is a leading education technology and services company active in the UK, Australasia, the Middle East and North America. Its systems and solutions include student records software, benchmarking services and school inspections. Its products are critical pieces of enterprise software, "the SAP of a university": they support student admissions and manage the academic progress of students through module-based courses. In the most advanced versions, they can generate predictive analytics of student outcomes. They also deliver tangible paybacks to customers: Trinity College Dublin is estimated to have improved its cash position by €6 million since it implemented Tribal's electronics admissions and fee collection system. Predictive analytics deployed for another customer should reduce student dropout rate, a drain on universities' revenues.

The educational market is populated by companies selling content and delivery mechanisms (e-learning), two fields in which Tribal does not participate, and by companies that have developed student management systems, mainly as an offshoot from HR and Finance software packages. The latter normally lack Tribal's deep expertise and focus in educational institutions, to Tribal's advantage. Education, which like healthcare is dominated by not-for-profit entities, is a favourable market for customer referrals and for sharing of good practice. With virtually no customer attrition, Tribal has grown to dominate the UK higher education market, with around 55 per cent market share. Progressively, highly profitable maintenance revenues have been growing and stand now at 15 per cent of total group revenues, or £16.8 million. New contract wins and their implementation revenues have grown faster in the meantime. The 12 to 18 months implementation period gives an indication of the complexity of the product.

From its UK base, Tribal initiated five years ago its international expansion targeting Australasia. Starting with the University of Sydney in 2009, additional wins followed and Tribal now generates around 20 per cent of its total revenues from the region. For the government of New South Wales, Tribal is developing a new model of integrated student and childcare management, extending from early years to higher education. This product will cover children's services, including wellbeing and early intervention programmes. The programme is expected to go live before the end of the year and it has the potential to be rolled out in other Australian states and back into the UK market. Early in 2013, Tribal acquired i-graduate, a student satisfaction surveying company. This complements the benchmarking capabilities of Tribal and brings relationships with top level officers at more than 500 higher education institutions around the world, many of which are in Tribal's target markets.

Until two years ago, Tribal's strengths in education were hidden beneath a conglomerate of public sector related businesses. In 2010, the arrival of government austerity hit its revenues and forced Tribal to retrace its past acquisitive history. In 2011, the remaining non-education related businesses were sold. Simultaneous to the restructuring, offers were received for the company, suggesting that the value of the educational assets had been recognised. Tribal was in an offer period for most of 2010.

## Investment Manager's Report (continued)

### Tribal Group PLC ("Tribal") (continued)

In its 2013 interims, Tribal announced a new contract with the University of British Columbia, a top Canadian university with over 50,000 students. As usual, its value is open ended: the university will order licences for additional modules as the previous ones are installed. The Canadian market is approximately 50 per cent bigger than the Australian one and, gives access to the larger US opportunity. With the 2011 results, Tribal announced the goal to double EPS in three years, from 2011's 7.9p to more than 15.8p by 2014. In parallel, the management has been incentivised to triple EPS over the same period, an ambition also based on overseas expansion and the opportunity to sell its product in other markets.

Having regained investors' trust in the solidity of its education assets, Tribal is now winning credence for its growth potential in international markets. Whilst on trailing results Tribal does not appear undervalued, we believe that the current price is not reflecting the growth prospects. The company appears to be on track to reach its target of doubling earnings within the three year period to 2014, and yet market estimates remain 24 per cent below Tribal's target. Uncertainty over the timing of earnings growth may centre on revenue recognition of software sales.

Since initiating the investment in 2010, we have maintained a very positive sustained engagement with the board including, over the last year, discussion of its growth strategy and product roadmaps, issues that in our view require continued monitoring. Since its long offer period in 2010, its education business has grown and is more attractive to other business services companies. However, during this growth phase, the on-going progress of an independent Tribal is in our view beneficial to the company and its shareholders.

### Norcros PLC ("Norcros")

Norcros in the UK makes electric showers under the Triton brand (24 per cent of group revenues), tiles under the Johnson brand (32 per cent) and adhesives (4 per cent). In South Africa it manufactures and retails both tiles and adhesives (37 per cent) and in Australia it distributes tiles.

Triton is the largest supplier of electric showers in the UK, with approximately half of the market, and holds third position in the mixer showers segment. Electric showers normally need to be replaced every five to six years, and so new build accounts for a small share of revenues, between 5 and 10 per cent. Electric showers are rare outside Britain. This, together with strict safety standards and the consumer's desire for a branded quality product creates barriers to entry and has protected pricing in the market.

Johnson is more reliant on construction activity and home transactions, yet for Norcros as a group, repair and maintenance sales have helped it to trade well during the house building downturn. Even so, an over-indebted Norcros had to raise equity in 2009, two years after floating, at a tenth of the IPO price.

In recent times, Norcros has invested in its tile-making facilities in Stoke-on-Trent to produce more sophisticated designs and finishes. With Triton, it has continued to invest in new products, including efficient showers that use less water and electricity.

The South African division has proved challenging, as manufacturing issues in its tile plant caused by poor management oversight compounded the country's depressed economic conditions. Following extensive management work, scrappage has reduced. The 2013 operating profit of £1 million remains behind management's target of 10 per cent return on assets, or £5 million.

The Fund has engaged with the board on the strategic issues facing the group. The large geographic reach of what is a relatively small company appears, in our view, unjustified by synergies. Neither are we convinced that the company has sufficient scale to maximise returns from South Africa. The arrival of a new chairman, Martin Towers, increased the board's willingness to engage, and we welcome his own activist approach to the role.

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## Investment Manager's Report (continued)

### Norcros PLC ("Norcros") (continued)

At its preliminary results, Norcros announced new strategic targets to double revenues by 2018, for overseas revenues to reach approximately 50 per cent of the total (2013: 48 per cent), and to sustain a return on capital employed between 12 and 15 per cent (2013: 12.6 per cent). Doubling revenues from the current £211 million base would require adding around £40 million of revenues per annum. In a first step to scale up, the company has spent £16 million to acquire Vado, which is a manufacturer and distributor of bathroom controls, with a strong international presence, and brings in around £26 million of sales. Additional acquisitions on adjacent segments will be necessary to complement organic growth offered, for example, by expanding Norcros' operations in Africa.

The decision to close its defined benefit pension scheme to future accrual is another proof of Norcros' regained decisiveness. At £419.5 million, pension liabilities are four times the size of the company's market capitalisation. Whilst the pension deficit is *only* £30 million, the decision to close to future accrual was long overdue.

In our view, gaining scale is a valid strategy to regain investors' enthusiasm, where there remains scope for improvement as signalled by the shares trading at only 8.4 times next year's earnings estimates. Although the share price remains below our estimated value for the sum of the parts, we have recently banked an 80 per cent profit on some of our holding as we see Norcros benefiting from government plans to provide a short-term fillip to the UK housing market.

### API Group PLC ("API")

API manufactures and distributes laminates (49 per cent of group revenues), foils (44 per cent) and holographics (7 per cent) to printers and packaging manufacturers from the UK and the US. These decorative finishes are used to enhance the visual appeal of branded consumer goods and are sold in the UK (26 per cent of revenues), the rest of Europe (49 per cent), Americas (19 per cent) and Asia Pacific (6 per cent). API's holographics and foil distribution businesses deal with a fragmented and regional supplier base. In contrast, API Laminates business is the main supplier in Europe, with an estimated 40 per cent market share, which is even higher in products such as tobacco, alcoholic drinks, and personal care.

The company produces over 80,000km per year of laminated material, which is sufficient for approximately 38,000 consumer goods items in the average supermarket.

Due to their relatively low cost, decorative supplies normally become tied to the lifecycle of a brand's product; once the supply is approved and qualified, it tends to last for several years. The customer's focus on supplier reliability and quality creates moderate barriers to entry for large-scale imports. The holographics market is estimated to be over \$1 billion in size, growing at seven per cent per year, with a fragmented and regional supply base. With laminates and holographics, API's challenge is to move from a component supplier to a business marketing its capabilities direct to clients such as brand owners of Fast Moving Consumer Goods. Similarly, in foils, API's strategy has been to increase direct sales to customers, acquiring or growing its own distribution hubs in local markets to capture their 20 per cent product margin.

The current management team arrived in 2007 and, following a £8 million fund-raise, started a business turnaround. Since 2008, revenues have risen from £87 million to £112 million, and a £4 million annual loss has turned into a £6 million profit. Net debt has fallen to £2.6 million from £17 million in 2009. More recently, API completed the refurbishment of its holographic site to achieve high security accreditation, which will allow it to bid for higher margin contracts. In the Foils Americas division, the company is considering a radical reorganisation of production that could enhance margins by over 250 basis points. In 2012, API announced a new laminates contract with a major tobacco company. Having completed product qualification, this is expected to add over 10 per cent to volumes over 2013, a magnitude that should make a major contribution to earnings.

## **Investment Manager's Report (continued)**

### **API Group PLC (“API”) (continued)**

Activist issues have been prominent at API since February 2012, when its board received a request from its two largest shareholders to explore the sale of the business. Steel Partners and Wynnefield Capital together hold 62 per cent of the equity and have board representation. The Fund supported the management's strategy and, at the end of September 2012, API initiated a sale process by inviting tenders. In February 2013, after the board announced that indicative bids were below 90p per share, we wrote to the chairman indicating that, in our opinion, an offer at that level would not reflect the value of the company. With management only part-way through its revival plan, we believe that more shareholder value will be released by allowing the benefits of this to become apparent. The board confirmed its agreement with our position and the sale process was terminated.

With the distraction of the sale process behind, the Fund held discussions with management around key issues including the reintroduction of a dividend, the composition of the board and the establishment of new strategic targets. Our assessment is that the business is now cash generative and is in a position to embark on a significant, sustainable and growing dividend distribution policy. The consolidation of the two API Foils Americas sites also could release considerable value from the Rahway freehold property, and be significantly accretive to margins. At its final results, API confirmed that it intended to initiate a 'meaningful' progressive dividend payment at its next interim results.

It is our belief that the reorganisation, investment and marketing initiatives combine to offer upside well in excess of 100p. We intend to continue our engagement with the board and management to ensure that full value is delivered.

### **Sutton Harbour Holdings PLC (“Sutton”)**

Sutton owns and operates Sutton Harbour in the Barbican, Plymouth's historic old port. This includes a leisure marina, the second largest fresh fish market in England and an estate of investment properties around the harbour. The marina can berth securely 450 vessels thanks to its tidal lock that shelters them from the elements, and it is considered to be one of the best deep water harbours in the South West. The company has recently added 171 berths to its estate by opening the King Point Marina, in the neighbouring Millbay site. Sutton Harbour also owns a 25 per cent share of a leasehold interest in Plymouth's 113 acre former airport site.

2013 has been the first full year since Sutton re-focused on its core activities. During the 2000s, the company expanded into air transport, acquiring a long lease for Plymouth City Airport and operating airline routes through a new subsidiary, Air Southwest. The airline turned loss-making and was sold in 2010. In 2011, Plymouth City Council agreed to the closure of the airport. In addition to running an airline, Sutton Harbour had carried out property regeneration projects in the past, but these were halted due to the depressed property markets and the company's indebtedness that resulted from the airline venture.

In 2011, we were dissatisfied with the pace of progress and believed that decisive action was required. At Sutton's AGM, the Fund voted against the authority to issue shares, (which resulted in the resolution being vote down) to signal our view that a specific plan was needed. Following this, the board announced the departure of the CEO. Furthermore, our view was that a capital raise was necessary to allow the company to pursue its investment opportunities. In December 2011, the company proceeded with a £6 million equity fund-raise, at a 57 per cent discount to the company's then net asset value. We engaged intensely both on the terms of the raising and the importance of avoiding higher risk projects. As a result of the fundraising, the Fund's stake in Sutton increased to 25 per cent.

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## Investment Manager's Report (continued)

### Sutton Harbour Holdings PLC (“Sutton”) (continued)

The fund-raising has allowed Sutton to build its new marina in Millbay and to make a modest investment to reconfigure berths in Sutton Harbour to cater for larger vessels. In our view, growing the berthing capacity has strengthened Sutton Harbour as a leisure destination in the South West. Sutton also made progress in disposing of non-core property assets, as suggested by the Fund.

Over the last year, Sutton has consolidated its strategic progress. Weak economic conditions have reduced the occupancy levels at the marina from 90 per cent to 84 per cent, resulting in a 2.6 per cent fall in revenues. The arrival of higher fee paying larger vessels and the income that the new King Point Marina will generate, should help a recovery of revenues. A more conservative valuation of the property estate resulted in a £6.2 million deficit, which reduced the NAV per share to 38p (2012: 43.1p). The company announced an indicative master-plan for the development of the 113 acre former airport site, making progress in the lengthy planning process. Potential uses include retail and residential. A refinancing of its £17.4 million net debt has reduced near term financial risk. In recent months, there has been more interest in regional property. The outlook for Sutton's assets is improving, as the university and the city council move their attention to the seafront, supporting the company's strategy. The East Quays site is no longer reserved for the BBC and putting it to use could be a near term catalyst to increase asset value.

Over its investment period, the Fund has pro-actively advocated shareholders' interests. In May 2013, the Fund indicated to Sutton its preference for a change of board leadership to take the company into a new phase. In June, the board announced the search for a new board chairman, and in September Graham Miller was appointed. Though the balance sheet has been strengthened and its property assets have been more conservatively valued, Sutton's shares trade at a 36 per cent discount to NAV and we are working to reduce this.

### Devro PLC (“Devro”)

Devro is a specialist manufacturer of collagen casings for sausages. These casings are used instead of sheep gut, and deliver improvements in quality and productivity for the meat processor. Devro produces from sites in Europe, USA and Australia, to a global customer base, with 35 per cent of revenues from continental Europe, 29 per cent from Asia/Pacific, 24 per cent from the Americas and 12 per cent from the UK. Long-term growth is supported by increased meat consumption in emerging economies and a switch from gut technology in developed ones. Devro has only one global competitor, Viscofan, and one focused on the Chinese market, Shanghai. The company's strategy has been to focus the business in its core strength, collagen casings, investing in product development and disposing of non-core operations. It has progressively improved selling prices and margins and launched a premium casing range, Select. The latter commands a 50 per cent higher price and costs less to produce than the usual casing. Over £100 million of capital expenditure was invested over the period 2010-2012 to upgrade production lines. As these enter production, returns should benefit accordingly. Devro has reported robust trading though foreign exchange is now a headwind, as is the higher cost of energy and of Devro's source of collagen, cattle hides.

The Fund has been a longstanding investor in Devro. Following site visits and additional market research, we had some direct exchanges with the company's board. We urged more clarity in making the investment case for Devro, and suggested additional explanation of its opportunities for improved profitability through capital investment. Believing that the outlook for the business is favourable, our aim is to help Devro to maximise its potential and to set appropriately stretching goals for its management. We look forward to a continuation of this engagement process and continue to review options to bring about a rerating.

In our view, Devro is substantially undervalued, as the market does not recognise its global growth opportunities or the potential for further margin progress from new high efficiency lines. This is a defensive food business with high revenue visibility in a sector with technological barriers to entry. In our opinion, it ought to be trading at a premium commensurate with its high replacement value.

## Investment Manager's Report (continued)

### 4imprint Group PLC (“4imprint”)

4imprint distributes and supplies promotional products in the US and UK, such as client-branded stationery or coffee cups. In its Direct Marketing distributor division (92 per cent of group revenues with 90 per cent coming from the US), 4imprint takes orders for product direct from the customer, prepares the artwork and gives the order to a large network of suppliers that will print them and send to the customer. The small order sizes, around \$500 on average, mean that decisions are normally taken by individuals for whom the ease of purchase and customer service are the most important variables. Before processing the order, customers contact 4imprint 4-5 times to finalise the artwork. As 4imprint does not produce or hold the inventory, it is in some regards similar to marketing platforms such as eBay or Amazon Marketplace, putting customers in contact with suppliers. Its key assets are the customer database and the analytics it has developed to optimise customer recruitment and retention. In 2012 it processed 530,000 orders, with an average order value of \$500, covering millions of items. No single customer accounted for more than one per cent of sales.

4imprint recruits customers with conventional catalogues sent to customer lists, which it has purchased, and with online advertising. Sample product boxes are sent to generate repeat orders; it is cheaper to retain existing customers than to acquire new ones. Revenue growth is largely a function of marketing spend to acquire and retain customers, posing a trade-off to management. Pressing the growth accelerator reduces profits, as those customer acquisition costs are fully expensed.

The board's strategy is to grow organically at stable operating margins of seven per cent; having doubled revenues between 2006 and 2011, it is targeting to double them again over the next five year period.

Growing marketing spend as it grows in size, the company has gone from acquiring around 40,000 customers per year in 2005 to almost that number of new customers in a single quarter in 2013. Benefits of scale accrue to the company, in its relations with suppliers and its marketing effort, and translate to a broader product range, better prices and more efficient marketing. As revenue growth compounds, so does marketing spend, the customer base and the value of the business. With a one per cent share of the \$23bn promotional products market in the US and Canada, the company is the largest direct distributor and faces little competition in its consolidation prospects. Over half of the market is estimated to be with 20,800 distributors with less than \$2.5 million of annual sales. Entry barriers are low but the investment required to scale up is high.

4imprint's supplier business, SPS, is solely UK based and generates around eight per cent of the group's revenues. In this industry, suppliers manufacture or import blank products and print them with a customer's artwork. They compete for orders from distributors, either direct distributors like 4imprint's own operation, or corporate programmes holding inventory for large clients.

Whilst 4imprint managed to find the secret of direct marketing success, it failed to maintain the success of its supplier division. When it acquired Supreme Group in 2006, 4imprint's supplier business was generating a combined £26 million of sales and operating profits of around £3 million. Those dwindled quickly, and in 2012 revenues stood at £16 million and operating profits were below £1 million. The acquisition of Supreme was originally undertaken with the goal of gaining scale and selling off the supplier division. In our view, the success of the direct marketing division reinstates the need to pursue this strategy.

4imprint is a UK listed company with over 90 per cent of revenues and profits from the US. It is delivering impressive growth that, in due course, should facilitate its move to a US listing, or sale to a larger marketing platform.

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## Investment Manager's Report (continued)

### Smiths News PLC (“Smiths News”)

Smiths News is the UK's largest newspaper and magazine wholesaler, and a leading book wholesaler and education consumables supplier. 70 per cent of the group's profits are generated by the core news division, which supplies around 30,000 customers daily from 48 depots around the UK. Since demerging from WH Smith in 2006 and despite the structural decline of printed media, Smiths News has grown profits by taking out cost and winning the Dawson News contracts. It now has 55 per cent of the UK market, with the rest supplied by J Menzies; however in the regions in which it operates, its share is virtually 100 per cent. The business operates on long-term contracts with publishers. Depots represent 80 per cent of operating costs of the news division, and since 2011, Smiths News has closed five depots and continues to take costs out. Cash generated by this mature business has been used to acquire and grow its other divisions and to pay dividends. The latter have grown by six per cent a year over the last five years.

Bertrams Books was acquired in 2009 and with additional bolt-ons now generates 14 per cent of the group's profit. It distributes printed and digital books to high street and online retailers, libraries and academic institutions internationally. Bertrams manages the long tail of book publications that online retailers offer, and it does so without taking the inventory risk.

The Consortium is the most recent addition to Smiths News's specialist distribution platform. It is a one-stop-shop servicing 30,000 customers, with around 40,000 stock keeping units (SKUs), most of them low ticket consumables. Its customer base is predominantly schools and care centres. As with 4imprint, orders are made by end users rather than professional procurement personnel and consequently customer service is key.

Acquisitions have taken net debt to £110 million, but with the cash generated by the business this is expected to fall by around £15 million per year.

Over the last year, Smiths News has continued its success at driving incremental efficiencies in a declining industry – newspaper distribution profits rose 2.6 per cent in the first half of the 2013 financial year when revenues fell three per cent. Furthermore, with new contracts from Associated News, the Telegraph and COMAG it has secured £800 million per year of revenues stretching out to 2019 (compared to £1,804 million group revenues in 2012). Consortium has been integrated into the group and in the first half reported pro-forma revenue growth of 3.2 per cent and operating profit growth of 9.1 per cent, close to its target of 10 per cent a year. A number of initiatives such as a new CRM system and a new website could improve its performance.

Trading at over 11 per cent free cash flow yield, Smiths News was identified as a deep-value investment, with the potential to engage with management over the use of cash and its aggressive acquisitions strategy. The latter has proved to be a rare example of diversification without “diworsification”, and the Fund remains supportive of management turning their thoughts towards further acquisitions to drive this growth ahead.

### Northgate PLC (“Northgate”)

Northgate owns a fleet of commercial vehicles in the UK and Spain, which it rents out to a range of businesses including support services, manufacturing and construction. Its rates are higher than comparable leasing agreements or fixed term hires, and users can return vehicles at any time. To maintain high levels of utilisation, Northgate has over the last few years disposed of a significant number of vehicles through its own second-hand dealership, VanMonster.

One of the initial attractions of this investment was the opportunity to lower costs materially by refinancing the company's debt facilities. This has now been completed with £599 million borrowings and facilities at seven per cent interest costs being replaced by £443 million at 2.8 per cent. Reflecting the reduction in group debt over recent years, the headroom facility has been reduced and borrowing restrictions relaxed.

## Investment Manager's Report (continued)

### Northgate PLC (“Northgate”) (continued)

Recent interim results indicate a clear operational direction for the group's two markets. In the UK, Northgate will be building its presence by the addition of 20 new depots over the next three years and increasing customer numbers by expanding the sales force. Additionally, the fragmented nature of this market provides opportunities to consolidate and add to its 20 per cent market share.

In Spain, the company has responded to the weakness in the corporate sector by building business in the SME sector particularly, with concerted use of business-to-consumer advertising campaigns.

The share price performance since mid-year suggests not only that the benefits of the re-financing have been understood but also that the growth opportunities in the UK whilst limiting the downside risk in Spain provide an attractive mix.

### Thorntons PLC (“Thorntons”)

Thorntons is a manufacturer and retailer of chocolates. From its factory in Derby, it supplies its own shops and third party grocers with a range of boxed chocolates and other specialties. Thorntons is the UK market leader in the £205 million inlaid boxed chocolate category, with a 35 per cent share. Despite years of underinvestment in product and stores, Thorntons remains a well-recognised brand, and our survey research confirmed that there remains considerable consumer goodwill towards it.

Thorntons listed in 1988, reporting £64 million of revenues and £6.4 million of profits. Around that time, Thorntons was embarked on the construction of its chocolate factory, a grandiose project that would necessitate a considerable growth in sales to become economic. The resulting chocolate factory is believed to be the most efficient of its kind in managing the complexities of mass producing inlaid boxed chocolates. To achieve sufficient utilisation of its new factory, Thorntons, which used to sell its products exclusively through its own shops and Marks & Spencer, initiated a strategy to “max-out” its retail footprint. The company grew its store numbers from 188 to a peak of 410 in the year 2000. A quarter of those had been added in just three years, following the arrival of a new CEO. Location and size of Thorntons stores changed from small shops near the high street to include bigger sites in prime locations. Costs grew faster than revenues, and profits were squeezed. In the meantime, customers moved their food purchases in the opposite direction to Thorntons, away from speciality grocers in the high street and towards supermarkets, where the Thorntons brand was not available. A much higher cost base compressed margins and, when austerity hit revenues, Thorntons' profit vanished.

In 2011, the company set out a new strategy to halve its retail estate and grow commercial sales. This implicitly acknowledged the change in consumer behaviour and the need to maintain factory volumes. Thorntons has been fortunate in that, following its intense period of acquisition of new store leases during the 1990s, many of them are coming up for renewal now, and will instead be terminated. The cost base is therefore expected to reduce as more profitable commercial sales take off. Thorntons also set out to refresh its product range, which had suffered from years of short-termism and poor management.

This strategy appears very sensible to us, as it acknowledges the changing habits of consumers and reduces the operational gearing in the business. The product refresh should revitalise this century old British brand and allow its ability to deliver affordable quality treats to shine through again. Margins should grow from the cost base reduction and more efficient production of a reduced product range. We believe that current operating margins can more than double.

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## Investment Manager's Report (continued)

### Thorntons PLC ("Thorntons") (continued)

Two years into the new management's strategy, store count is down and profitability has improved modestly. During 2013, results have benefited from seasonal weather and lower commodity prices. A poor execution of its online trading strategy held back sales in that channel by around ten per cent, particularly over the key 2012 Christmas period and despite the growth in online retailing seen across the UK. We are encouraged by the success of the commercial team in growing the channel by 14 per cent over the year.

Over the year we have engaged with management and the board, other shareholders, suppliers and customers. We have expressed our support for the stated strategy and urged management to take decisive action to achieve it.

In our view, the brand and the manufacturing site could be attractive to an overseas confectioner with limited UK presence. By reducing its stores and the associated operating leases, the business will become more attractive to other confectioners. However, in our view, to maximise shareholder value the company should remain independent while it delivers tangible improvements.

### Other holdings (over 3% of NAV)

#### *Hansard Global PLC ("Hansard") (3.4% of NAV)*

Hansard is a life insurance company based in the Isle of Man and specialises in long-term savings products. It writes policies in over 170 countries via a network of more than 500 independent financial advisers. Its core customers are affluent individuals looking to invest/place their savings away from their home country. Hansard's platform funnels policyholders' savings to external fund managers. Whilst the products are insurance policies, Hansard's liabilities are matched by its asset holdings (unit-linked products). There is little of the insurance risk associated with annuities or with-profits books of business.

Hansard is nimble in its operations and selective in its business. This strategy together with significant investment in its IT systems has delivered impressive margins, well ahead of its UK and European competitors. Its new policies have an attractive payback of around two and a half years and an internal rate of return in excess of 15 per cent. Despite this, an unexpected cut in the dividend disappointed investors and resulted in a sell-off. This is when the Fund took advantage of the resultant share price weakness to acquire a holding. At the year end, Hansard was trading at around 40 per cent discount to embedded value and generating an eight per cent dividend yield. Since the Fund invested in Hansard, the founder, Dr Leonard Polonsky, has stepped down from his executive role. Having engaged with the Senior Independent Director over this and other matters, we believe that Hansard is well positioned to take advantage of its growth opportunities.

### Realisations

During the year, Canopus Group completed its takeover for Omega Insurance Holdings Limited. The realised loss on our holding was £2.5 million, which was disappointing. On the positive side, Kier's bid for May Gurney Integrated Services PLC generated profits of £1.4 million on our holding. The Fund substantially exited its positions in Renishaw PLC and N Brown Group PLC, realising gains of £2.3 million and £1.2 million respectively.

Partial realisations from United Drug PLC and Northgate PLC resulted in profits of £0.8 million and £0.7 million, respectively, outweighing losses from TT Electronics PLC (£0.3 million). The Fund's total realised gains since inception now amount to £39.2 million. Previous significant profitable exits include Pinewood Shepperton PLC, 3i Quoted Limited Private Equity, Delta PLC, Kentz Corporation Limited, Tate & Lyle PLC and Chloride Group PLC.

## **Investment Manager's Report (continued)**

### **Outlook**

Though economic conditions remain fragile, the Fund's outlook is encouraging as it focuses on acting as a catalyst to correct perceived undervaluations. The portfolio includes companies which have very attractive opportunities to deliver value and in which we believe an activist stance is making a difference.

Crystal Amber Asset Management (Guernsey) Limited

23 October 2013

## Investing Policy

Crystal Amber Fund Limited (“the Company” or “the Fund”) is an activist fund which aims to identify and invest in undervalued companies and, where necessary, take steps to enhance their value. The Company aims to invest in a concentrated portfolio of undervalued companies which are expected to be predominantly, but not exclusively, listed or quoted on UK markets (usually the Official List or AIM) and which have a typical market capitalisation of between £100 million and £1,000 million. Following investment, the Fund and its advisers will also typically engage with the management of those companies with a view to enhancing value for all their shareholders.

### Investment objective

The Fund’s objective is to provide its shareholders with an attractive total return, which is expected to comprise primarily capital growth but with the potential for distributions, including distributions arising from the realisation of investments, if this is considered to be in the best interests of its shareholders.

At the date of signing of these financial statements the investment strategy and investment restrictions which applied to the Company following Admission and after the passing of Resolution 1 at the EGM held on 15 August 2013, were as follows:

### Investment strategy

The Fund focuses on investing in companies which it considers to be undervalued and will aim to promote measures to correct the undervaluation. In particular, it aims to focus on companies which the Company’s Investment Manager and Investment Adviser believe may have been neglected by fund managers and investment funds due to their size or where analyst coverage is inadequate or where analysts have relied on traditional valuation techniques and/or not fully understood the underlying company. The Fund and its advisers seek the co-operation of the target company’s management in connection with such corrective measures as far as possible. Where a different ownership structure would enhance value, the Company will seek to initiate changes to capture such value. The Company may also seek to introduce measures to modify existing capital structures and introduce greater leverage and/or seek divestiture of certain businesses of the investee company.

Pending investment of the type referred to above, the Company’s funds will be placed on deposit but the Company also has the flexibility to make other investments which are considered to be reasonably liquid in order to ensure that its funds are appropriately deployed (including in money market instruments). The Company may, in certain circumstances, acquire stakes in target companies from investors in exchange for Shares in the Company.

Where it considers it to be appropriate the Company may (i) utilise leverage for the purpose of investment and enhancing returns to Shareholders and/or (ii) enter into derivative transactions, for example to provide portfolio protection against significant falls in the market or for the purposes of efficient portfolio management, in seeking to manage its exposure to interest rate and currency fluctuations through the use of currency and interest rate hedging arrangements, and to acquire exposure to target companies through contracts for difference.

## Investing Policy (continued)

### Investment restrictions

It is not intended that the Company will invest, save in exceptional circumstances, in:

- companies with a market capitalisation of less than £100 million at the time of investment;
- pure technology based businesses; or
- unlisted companies or companies in pre-IPO situations.

It is expected that no single investment in any one company will represent more than 20 per cent of the Gross Asset Value of the Company at the time of investment. However, there is no guarantee that this will be the case after any investment is made, or where the Directors and the Advisers believe that an investment is particularly attractive.

### Dividend Policy

The primary objective of the Company is to achieve an attractive total return primarily through capital growth. The Company's investment objective and strategy means that the timing and amount of investment income cannot be predicted. There can therefore be no guarantee as to the timing and amount of any distribution payable by the Company, although it is the intention of the Board to distribute a proportion of the dividends received to shareholders from the Fund's realised distributable reserves. The level of dividend receipts will vary based on the composition of the portfolio from time to time. The Company will have the ability, in certain circumstances, to make distribution payments out of realised investments if considered to be in Shareholders' interests.

### Composition of the portfolio

The Fund's Board, investment manager and investment adviser believe that the number of potential target companies is high with more than 2,000 companies quoted on AIM or the Official List and they consider that a significant number of these are in the Fund's targeted range.

Target investee companies typically operate in one or more of the following sectors:

- consumer products;
- industrial products;
- retail;
- support services;
- healthcare; or
- financial services.

However, the Fund is in no way restricted to these sectors and investment decisions are taken based on market conditions and other investment considerations at the time.

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## Report of the Directors

### Incorporation

The Company was incorporated on 22 June 2007 and commenced operations on 17 June 2008.

### Principal activities

The Company is a Guernsey registered closed ended company established to provide shareholders with an attractive total return, which is expected to comprise primarily capital growth but with the potential for distributions. This will be achieved through investment in a concentrated portfolio of undervalued companies which are expected to be predominantly, but not exclusively, listed or quoted on UK markets and which mostly have a market capitalisation of between £100 million and £1,000 million.

The Company was admitted to trading on AIM, the market of that name operated by the London Stock Exchange, on 17 June 2008. The Company was also listed on the Channel Islands Stock Exchange ("CISX") on 17 June 2008.

The Company became a member of The Association of Investment Companies ("AIC") on 26 March 2009.

### Business review

A review of the business together with the likely future developments is contained in the Chairman's Statement on page 5 and the Investment Manager's Report on pages 6 to 18.

### Results and dividend

The results for the year are set out in the Statement of Comprehensive Income on page 30.

On 6 July 2012 the Company declared an interim dividend of £300,000 equating to 0.5p per Ordinary share, which was paid on 20 August 2012 to shareholders on record on the register on 20 July 2012.

On 4 July 2013 following the year end, the Company declared an interim dividend of £277,165, equating to 0.5p per Ordinary share, which was paid on 19 August 2013 to shareholders on record on the register on 19 July 2013.

### Going concern

As previously announced and bearing in mind that the Company's continuation vote is scheduled to take place in June 2015, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and do not consider there to be any threat to the going concern status of the Company. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

### Financial risk profile

The Company's main financial instruments at the year end include investments, cash and cash equivalents and various items such as receivable and payables that arise directly from the Company's operations.

Details about the main risks associated with these instruments are given in note 14 to the financial statements.

### Directors

The Directors of the Company who served during the year and as at 30 June 2013 are shown on page 2. Biographies of the Directors holding office as at 30 June 2013 and at the date of signing these financial statements are shown on page 28.

## Report of the Directors (continued)

### Directors' interests

The interests of the Directors in the share capital of the Company at the year end and as at the date of this report are as follows:

	2013		2012	
	<i>Number of Ordinary Shares</i>	<i>Total Voting Rights</i>	<i>Number of Ordinary Shares</i>	<i>Total Voting Rights</i>
William Collins	25,000	0.05%	25,000	0.04%
Sarah Evans	25,000	0.05%	25,000	0.04%
<b>Total</b>	50,000	0.10%	50,000	0.08%

### Directors' remuneration

During the year the Directors received the following remuneration in the form of Directors' fees from the Company:

	2013	2012
	£	£
William Collins	30,000	30,000
Sarah Evans	25,000	25,000
Nigel Ward	20,000	20,000
Mark Huntley ( <i>Resigned 12 October 2012</i> )	5,652	20,000
David Warr ( <i>Appointed 10 January 2013</i> )	9,445	–
<b>Total</b>	90,097	95,000

### Substantial interests

As at 30 September 2013, the following persons had interests in 3 per cent or more of the issued share capital of the Company:

	<i>Number of Ordinary Shares</i>	<i>Percentage of Total Voting Rights</i>
Invesco Perpetual Asset Management Limited	21,664,111	29.73%
Baring Asset Management Limited	11,731,667	16.10%
Wirral BC	10,140,786	13.92%
Reliance Mutual	5,000,000	6.86%
Rathbones	4,006,158	5.50%
Credit Suisse	3,450,655	4.74%
Robert Keith	2,310,196	3.17%
Hargreave Hale Limited	2,262,100	3.10%
<b>Total</b>	60,565,673	83.12%

### Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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## Report of the Directors (continued)

### Statement of Directors' responsibilities (continued)

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

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

### Disclosure of information to the auditors

The Directors each confirm that they have complied with the above requirements in preparing the financial statements. They also confirm that so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and they have taken all the steps they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Corporate governance

As a Guernsey registered company, whose share capital is admitted to trading on AIM and quoted on CISX, the Company is not required to comply with the UK Corporate Governance Code published by the Financial Reporting Council (the "FRC Code") (available from the Financial Reporting Council's website, [www.frc.org.uk](http://www.frc.org.uk)). The FRC Code became effective for reporting periods beginning on or after 29 June 2010 and has been updated for periods beginning on or after 1 October 2012. However, the Directors recognise the value of sound corporate governance and it is the Company's policy to comply with best practice on good corporate governance that is applicable to investment companies.

The Board has considered the principles and recommendations of the AIC Code of Corporate Governance (the "AIC Code") and has decided to follow the AIC's Corporate Governance Guide for Investment Companies (the "AIC Guide") dated October 2010. The AIC Code and AIC Guide were updated in February 2013 to take into account the updated FRC Code, and the Company will use this revised AIC Code for the financial year ended 30 June 2014.

The Guernsey Financial Services Commission ("GFSC") Code came into force in Guernsey on 1 January 2012. Under the GFSC Code, the Company shall be deemed to satisfy the GFSC Code provided that it continues to conduct its governance in accordance with the requirements of the AIC Code.

The Board now comprises four non-executive Directors, all of whom are considered to be independent of the Investment Manager and Investment Adviser and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. Mark Huntley, who served as a non-executive Director for part of the year, is a Director of the Investment Manager, Managing Director of the Administrator and the CISX Listing Sponsor. Board appointments have been made based on merit, against objective criteria.

## Report of the Directors (continued)

### Corporate governance (continued)

The Board monitors developments in corporate governance to ensure the Board remains aligned with best practice especially with respect to the increased focus on diversity. The Board acknowledges the importance of diversity, including gender, for the effective functioning of the Board and commits to supporting diversity in the boardroom. It is the Board's ongoing aspiration to have a well diversified membership; in addition to gender diversity, the Board also values diversity of business skills and experience which bring a wide range of perspectives to the Company.

The Chairman of the Board is William Collins. In considering the independence of the Chairman, the Board has taken note of the provisions of the AIC Code relating to independence, and has determined that Mr Collins is an Independent Director. The Company has no employees and therefore there is no requirement for a chief executive.

A biography for the Chairman and all the other Directors follows in the next section, which sets out the range of investment, financial and business skills and experience represented. The Directors believe that the current mix of skills, experience, ages and length of service of the Directors is appropriate to the requirements of the Company.

Internal evaluation of the Board, the Audit Committee and individual Directors has taken the form of peer appraisal, questionnaires and discussions to determine the effectiveness and performance in various areas as well as the Directors' continued independence.

The AIC Code recommends that a board should appoint one independent Non Executive Director to be the Senior Independent Director. Sarah Evans is the Senior Independent Director to the Company and fulfils the role of deputy chairman and takes the lead in the annual evaluation of the Chairman.

In view of the Board's non-executive nature and the requirement of the Articles of Incorporation that one third of Directors retire by rotation at least every three years, the Board considers that it is not appropriate for the Directors to be appointed for a specified term as recommended by principle 3 of the AIC Code. At the forthcoming Annual General Meeting, Nigel Ward will be retiring and offering himself for re-election. In addition David Warr, who was appointed by the Board during the year, offers himself for re-election, in accordance with the Company's articles.

Any Director who has held office with the Company, for a continuous period of nine years or more at the date of the meeting, shall retire from office and may offer themselves for re-appointment by the members. However, the Company will consider whether there is any risk that such Director might reasonably be deemed to have lost independence through such long service. At the date of this report no Director has held office for more than six years.

None of the Directors have a contract of service with the Company. The Company has no executive Directors and no employees. However, the Board has engaged external companies to undertake the investment management, administrative and custodial activities of the Company. Clear documented contractual arrangements are in place between these firms which define the areas where the Board has delegated responsibilities to them.

### *Board responsibilities*

The Board is responsible to shareholders for the overall management of the Company. The Board has adopted a set of reserved powers which set out the particular duties of the Board. Such reserved powers include decisions relating to the determination of investment policy and oversight of the Manager and their advisers, strategy, risk assessment, Board composition, capital raising, statutory obligations and public disclosure, financial reporting and entering into any material contracts by the Company.

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## Report of the Directors (continued)

### Corporate governance (continued)

The Directors have access to the advice and services of the Administrator and Secretary, who are responsible to the Board for ensuring that Board procedures are followed and that it complies with Guernsey Law and applicable rules and regulations of the Guernsey Financial Services Commission, the London Stock Exchange and the CISX. Where necessary, in carrying out their duties, the Directors may seek independent professional advice at the expense of the Company.

The Company maintains appropriate Directors' and Officers' liability insurance in respect of legal action against its Directors on an ongoing basis. Investment Advisory services are provided to the Company by Crystal Amber Advisers (UK) LLP. The Board is responsible for setting the overall investment policy and monitors the actions of the Investment Adviser and Investment Manager at regular Board meetings. The Board has also delegated administration and company secretarial services to Heritage International Fund Managers Limited but retains accountability for all functions it delegates.

The Directors are responsible for overseeing the effectiveness of the internal controls of the Company, designed to ensure that proper accounting records are maintained, that the financial information on which business decisions are made and which is issued for publication is reliable and that the assets of the Company are safeguarded. A formal review of the effectiveness of the Company's risk management and internal control systems is conducted at least once a year and this was completed successfully during the period under review.

The Board meets formally on a quarterly basis to review the performance of the Company and its investments. Prior to each of its quarterly meetings, the Board receives reports from the Investment Adviser and Administrator covering activities during the period, performance of relevant markets, performance of the Company's assets, finance, compliance matters, working capital position and other areas of relevance to the Board. The Board also considers from time to time reports provided by the Manager and other service providers. There is regular contact between the Board, the Investment Manager and the Administrator. The Directors maintain overall control and supervision of the Company's affairs. The Board is responsible for the appointment and monitoring of all service providers and conducts a formal review of them on an annual basis.

There may be a requirement to hold Board meetings outside the scheduled quarterly meetings in order to review and consider investment opportunities and/or formal execution of documents and to consider ad hoc business.

### *Audit committee*

Due to the size of the Board all Directors are members of the Audit Committee.

The responsibilities of the Audit Committee include reviewing the Annual Report and Financial Statements, the Interim Report and Financial Statements, the system of internal controls and risk management, and the terms of the appointment of the auditor, together with their remuneration. It is also the forum through which the auditor reports to the Board. The Audit Committee also reviews the objectivity and independence of the auditor. The Board considers KPMG Channel Islands Limited to be independent of the Company.

The Board considers that an internal audit function specific to the Company is unnecessary and that the systems and procedures employed by the Investment Manager and the Administrator, including their own internal audit functions, provide sufficient assurance that a sound system of internal control, which safeguards the Company's assets, is maintained. Formal terms of reference for the Audit Committee are available on the Company website [www.crystalamber.com](http://www.crystalamber.com).

## Report of the Directors (continued)

### Corporate governance (continued)

Although the AIC Code recommends that companies appoint Remuneration and Nomination Committees, the Board has not deemed this necessary, as being wholly comprised of non-executive Directors, the whole Board considers these matters.

The Board has also chosen not to establish a Management Engagement Committee. However, the Board reviews the arrangements for the provision of management and other services to the Company on an ongoing basis. The Company receives regular reporting from the Investment Adviser and regular valuations of the Company's investments, which allows the Board to form a judgement as to the performance of its portfolio.

#### *Board meetings, Committee meetings and Directors' attendance*

The number of meetings of the full Board and the Audit committee attended by each Director is set out below.

	<i>Board &amp; Board Committee</i>		<i>Audit Committee</i>	
	<i>Held</i>	<i>Attended</i>	<i>Held</i>	<i>Attended</i>
William Collins	5	5	2	2
Sarah Evans	5	5	2	2
Nigel Ward	5	5	2	2
Mark Huntley (Resigned 12 October 2012)	2*	2	2	N/A
David Warr (Appointed 10 January 2013)	2*	2	2	1

\*Number of meetings held during period of tenure

In addition there were 2 Board committee meetings during the year.

#### *Relations with shareholders*

The Board welcomes the views of shareholders and places great importance on communication with them. Senior members of the Investment Adviser make themselves available at all reasonable times to meet with principal shareholders and key sector analysts. The Chairman and other Directors are also available to meet with shareholders, if required.

All shareholders have the opportunity to put questions to the Company at the registered address. The Annual General Meeting of the Company provides a forum for shareholders to meet and discuss issues with the Directors and Investment Adviser. Company information is also available to the shareholders through the Company's website [www.crystalamber.com](http://www.crystalamber.com).

The Board regularly monitors the shareholder profile of the Company and receives comprehensive shareholder reports from the Company's broker at all quarterly board meetings. A post-results programme of visits to major shareholders is conducted by the Company's Broker and Investment Adviser.

## Report of the Directors (continued)

### **AIFM Directive**

The Directors have considered the impact of the EU Alternative Investment Fund Managers Directive (no. 2011/61/EU) (“AIFM Directive”), which became effective in the United Kingdom on 22 July 2013, on the Company and its operations. As at the date of this document, the Board is considering which of the Manager or the Company is the most appropriate entity to be the AIFM. The AIFM Directive may result in increased costs for the Company, particularly in relation to registration with any applicable supervisory authorities of EU Member States into which the AIFM wishes to market the Shares (in the absence of transitional provisions) and reporting (both to such supervisory authorities and to the Shareholders); however, at this stage, the Company is unable to quantify exactly what increased costs there will be.

### **Independent auditor**

KPMG Channel Islands Limited have agreed to offer themselves for re-appointment as auditor of the Company and a resolution proposing their reappointment and authorising the Directors to determine their remuneration will be presented at the Annual General Meeting.

### **Annual General Meeting**

The Annual General Meeting of the Company will be held on 20 November 2013 at the Registered Office of the Company, Heritage Hall, Le Marchant Street, St. Peter Port, Guernsey.

On behalf of the Board

**William Collins**

*Chairman*

23 October 2013

**Sarah Evans**

*Director*

23 October 2013

## Directors

### **William Collins (aged 64), Guernsey Resident, Non-Executive Chairman**

William Collins has over 40 years' experience in banking and investment. Since September 2007 he has been with Bank J. Safra Sarasin (formerly Bank Sarasin) in Guernsey as Director – Private Clients and prior to that he worked for Barings in Guernsey for over 18 years. In 1995 he was appointed a Director and from 2003 to August 2007 was Managing Director of Baring Asset Management (C.I.) Limited. Mr Collins is an associate of the Institute of Financial Services, a member of the Institute of Directors and holds other non-executive positions.

### **Sarah Evans (aged 58), Guernsey Resident, Senior Independent Director**

Sarah Evans is a chartered accountant and is a non-executive Director of several investment funds, listed and unlisted. She is a member of the Institute of Directors and has been resident in Guernsey for over six years. She spent six years with the Barclays Group, firstly as a treasury Director responsible for the securitisation of the bank's UK assets. From 1996 to 1998 she was Finance Director of Barclays Mercantile (a Barclays Bank subsidiary providing large and middle ticket leasing finance) where she was responsible for all aspects of financial control and operational risk management. In her last two years with Barclays she moved to group treasury as a treasury director. Prior to joining Barclays she ran her own consultancy business advising UK financial institutions on all aspects of securitisation. From 1982 to 1988, she worked at Kleinwort Benson Limited as deputy chief accountant and head of group finance.

### **David Warr (aged 60), Guernsey Resident, Non-Executive Director**

David Warr qualified as a Chartered Accountant in 1976 and is a fellow of the Institute of Chartered Accountants in England and Wales. He became a partner at the accountancy practice Reads & Co in 1981 and held a variety of executive positions within the firm until the business was sold in 1999. He currently holds a number of non-executive director positions on publicly listed companies. Previously he served as President of Guernsey Round Table, Chairman of the Association of Guernsey Charities and in 2006 was Captain of the Royal Guernsey Golf Club. In addition he enjoys contributing to the charitable sector in a variety of ways and is a director of the Guernsey Community Foundation LBG.

### **Nigel Ward (aged 57), Guernsey Resident, Non-Executive Director**

Nigel Ward is currently a full time independent non-executive Director on the board of several offshore funds and companies, including London and CISX listings. Investment mandates include property, agricultural land, student accommodation, UK equities, European SME credit, and distressed debt. He has over 38 years' experience of international investment markets, credit and risk analysis, corporate and retail banking, corporate governance, compliance and the managed funds industry. He spent 20 years at Baring Asset Management, and also at TSB Bank, National Westminster Bank and Bank Sarasin. He is a founding Commissioner of the Guernsey Police Complaints Commission, an Associate of the Institute of Financial Services, a member of the Institute of Directors and holds the IoD Diploma in Company Direction.

In addition to their directorships of the Company, the Directors currently hold the following directorships of listed companies;

#### **William Collins**

Dexion Absolute Limited  
Advance Developing Markets Fund Limited

#### **David Warr**

Acorn Income Fund Limited  
Breedon Aggregates Limited  
The Horizon Fund PCC Limited  
UK Select Trust Limited  
Schroder Real Estate Investment Trust Limited  
Uni-Hedge Global Equity IC Limited  
Uni-Hedge Diversified IC Limited  
Uni-Hedge Concentrated Long/Short Equity IC Limited

#### **Sarah Evans**

HICL Infrastructure Company Limited  
Harbourvest Senior Loans Europe Limited  
CQS Diversified Fund Limited

#### **Nigel Ward**

Acorn Income Fund Limited  
Braemar Group PCC Limited

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## **Independent Auditor's Report To the Members of Crystal Amber Fund Limited**

We have audited the financial statements of Crystal Amber Fund Limited (the "Company") for the year ended 30 June 2013 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as issued by the IASB.

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

### **Respective responsibilities of directors and auditor**

As explained more fully in the Statement of Directors' Responsibilities set out on pages 22 and 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2013 and of its result for the year then ended;
- are in accordance with International Financial Reporting Standards as issued by the IASB; and
- comply with the Companies (Guernsey) Law, 2008

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

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

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

KPMG Channel Islands Limited  
*Chartered Accountants*

**Statement of Comprehensive Income**  
For the year ended 30 June 2013

		2013			2012		
	Notes	Revenue £	Capital £	Total £	Revenue £	Capital £	Total £
<b>Income</b>							
Dividend income from listed investments		1,493,661	–	<b>1,493,661</b>	1,355,881	–	<b>1,355,881</b>
Director's fees received	15	9,835	–	<b>9,835</b>	46,201	–	<b>46,201</b>
Fixed deposit interest		9,527	–	<b>9,527</b>	38,043	–	<b>38,043</b>
		1,513,023	–	<b>1,513,023</b>	1,440,125	–	<b>1,440,125</b>
<b>Net gains on financial assets at fair value through profit or loss</b>							
<b>Equities</b>							
Realised gains	9	–	864,867	<b>864,867</b>	–	12,592,346	<b>12,592,346</b>
Movement in unrealised gains/(losses)	9	–	16,736,780	<b>16,736,780</b>	–	(13,153,615)	<b>(13,153,615)</b>
<b>Debt instruments</b>							
Movement in unrealised gains	9	–	20,346	<b>20,346</b>	–	–	–
<b>Money Market Investments</b>							
Realised gains	9	–	7,411	<b>7,411</b>	–	–	–
Movement in unrealised gains	9	–	7,928	<b>7,928</b>	–	–	–
<b>Derivative Financial Instruments</b>							
Realised losses	9	–	(2,142,230)	<b>(2,142,230)</b>	–	(249,635)	<b>(249,635)</b>
Movement in unrealised gains	9	–	876,800	<b>876,800</b>	–	–	–
<b>Total income/(expense)</b>		1,513,023	16,371,902	<b>17,884,925</b>	1,440,125	(810,904)	<b>629,221</b>
<b>Expenses</b>							
Transaction costs	4	–	318,295	<b>318,295</b>	–	495,861	<b>495,861</b>
Exchange movements on revaluation of investments		–	(161,474)	<b>(161,474)</b>	–	211,079	<b>211,079</b>
Management fees	15,17	1,325,531	–	<b>1,325,531</b>	1,215,135	–	<b>1,215,135</b>
Directors' remuneration	16	90,097	–	<b>90,097</b>	95,000	–	<b>95,000</b>
Administration fees	15	84,510	–	<b>84,510</b>	78,454	–	<b>78,454</b>
Consultancy fees		–	–	–	50,000	–	<b>50,000</b>
Custodian fees		35,318	–	<b>35,318</b>	30,282	–	<b>30,282</b>
Audit fees		18,125	–	<b>18,125</b>	18,080	–	<b>18,080</b>
Other expenses		191,132	–	<b>191,132</b>	185,945	–	<b>185,945</b>
		1,744,713	156,821	<b>1,901,534</b>	1,672,896	706,940	<b>2,379,836</b>
<b>Return/(loss) for the year</b>		(231,690)	16,215,081	<b>15,983,391</b>	(232,771)	(1,517,844)	<b>(1,750,615)</b>
Basic and diluted earnings/(loss) per share (pence)	5	(0.39)	27.56	<b>27.17</b>	(0.39)	(2.53)	<b>(2.92)</b>

All items in the above statement derive from continuing operations

The total column of this statement represents the Company's Statement of Comprehensive Income prepared in accordance with International Financial Reporting Standards. The supplementary information on the allocation between income return and capital return is presented under guidance published by the Association of Investment Companies.

The Notes to the Financial Statements form an integral part of these financial statements.

**Statement of Financial Position**  
As at 30 June 2013

	<i>Notes</i>	<i>2013</i> £	<i>2012</i> £
<b>ASSETS</b>			
Cash and cash equivalents	7	1,363,484	1,959,506
Trade and other receivables	8	289,331	337,421
Financial assets designated at fair value through profit or loss	9	72,438,513	61,369,130
<b>Total assets</b>		<b>74,091,328</b>	<b>63,666,057</b>
<b>LIABILITIES</b>			
Trade and other payables	10	238,117	309,586
<b>Total liabilities</b>		<b>238,117</b>	<b>309,586</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity shareholders</b>			
Share capital	11	600,000	600,000
Treasury shares	12	(5,186,651)	–
Distributable reserve		55,847,261	56,147,261
Retained earnings		22,592,601	6,609,210
<b>Total equity</b>		<b>73,853,211</b>	<b>63,356,471</b>
<b>Total liabilities and equity</b>		<b>74,091,328</b>	<b>63,666,057</b>
<b>Net asset value per share (pence)</b>	6	<b>133.05</b>	<b>105.59</b>

The financial statements were approved by the Board of Directors and authorised for issue on 23 October 2013.

**William Collins**  
*Chairman*

**Sarah Evans**  
*Director*

23 October 2013

23 October 2013

The Notes to the Financial Statements form an integral part of these financial statements.

**Statement of Changes in Equity**  
**For the year ended 30 June 2013**

2013	Notes	Share Capital £	Treasury Shares £	Distributable Reserve £	Capital £	Retained earnings Revenue £	Total £	Total Equity £
Opening balance at 1 July 2012		600,000	–	56,147,261	5,296,710	1,312,500	6,609,210	63,356,471
Purchase of Company shares into Treasury	12	–	(5,186,651)	–	–	–	–	(5,186,651)
Dividends paid in the year	13	–	–	(300,000)	–	–	–	(300,000)
Return for the year		–	–	–	16,215,081	(231,690)	15,983,391	15,983,391
Balance at 30 June 2013		600,000	(5,186,651)	55,847,261	21,511,791	1,080,810	22,592,601	73,853,211

**For the year ended 30 June 2012**

2012	Notes	Share Capital £	Distributable Reserve £	Capital £	Retained earnings Revenue £	Total £	Total Equity £
Opening balance at 1 July 2011		600,000	56,447,261	6,814,554	1,545,271	8,359,825	65,407,086
Dividends paid in the year	13	–	(300,000)	–	–	–	(300,000)
Return for the year		–	–	(1,517,844)	(232,771)	(1,750,615)	(1,750,615)
Balance at 30 June 2012		600,000	56,147,261	5,296,710	1,312,500	6,609,210	63,356,471

The Notes to the Financial Statements form an integral part of these financial statements.

**Statement of Cash Flows**  
For the year ended 30 June 2013

	<i>Notes</i>	<i>2013</i> £	<i>2012</i> £
<b>Cashflows from operating activities</b>			
Dividend income received from listed investments		1,537,438	1,370,606
Directors' fees received		6,447	49,589
Fixed deposit interest received		4,260	21,141
Bank interest received		7,934	15,903
Management fees paid		(1,325,531)	(1,215,135)
Consultancy fees paid		–	(50,000)
Directors' fees paid		(90,097)	(95,000)
Other expenses paid		(320,394)	(312,503)
<b>Net cash outflow from operating activities</b>		<b>(179,943)</b>	<b>(215,399)</b>
<b>Cashflows from financing activities</b>			
Purchase of Company shares into Treasury		(5,186,651)	–
Dividends paid		(300,000)	(300,000)
<b>Net cash outflow from financing activities</b>		<b>(5,486,651)</b>	<b>(300,000)</b>
<b>Cashflows from investing activities</b>			
Purchase of investments		(43,462,003)	(61,277,213)
Sale of investments		53,453,500	60,180,438
Purchase of derivative financial instruments		(2,678,280)	–
Sale of derivative financial instruments		75,650	–
Purchase of loan notes		(2,000,000)	–
Transaction charges on purchase and sale of investments		(318,295)	(495,861)
<b>Net cash inflow/(outflow) from investing activities</b>		<b>5,070,572</b>	<b>(1,592,636)</b>
Net decrease in cash and cash equivalents during the year		(596,022)	(2,108,035)
Cash and cash equivalents at beginning of year		1,959,506	4,067,541
<b>Cash and cash equivalents at end of year</b>	<b>7</b>	<b>1,363,484</b>	<b>1,959,506</b>

The Notes to the Financial Statements form an integral part of these financial statements.

## **Notes to the Financial Statements**

### **For the year ended 30 June 2013**

#### **General Information**

Crystal Amber Fund Limited is a company incorporated and registered in Guernsey on 22 June 2007 and is governed under the provisions of the Companies (Guernsey) Law, 2008. The address of the registered office is given on page 2. The Company has been established to provide shareholders with an attractive total return which is expected to comprise primarily capital growth but with the potential for distributions. The Company will achieve this through the investment in a concentrated portfolio of undervalued companies which are expected to be predominantly, but not exclusively, listed or quoted on UK markets and which have a typical market capitalisation of between £100 million and £1,000 million.

The Company was listed and admitted to trading on AIM, the market of that name operated by the London Stock Exchange on 17 June 2008. The Company was also listed on the CISX on 17 June 2008. The Company is also a member of the AIC.

#### **1. SIGNIFICANT ACCOUNTING POLICIES**

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

#### **Basis of preparation**

The financial statements give a true and fair view, are in accordance with International Financial Reporting Standards (“IFRS”) as issued by the IASB and the AIC’s Statement of Recommended Practice “Financial Statements of Investment Trust Companies and Venture Capital Trusts” issued in January 2009 and comply with the Companies (Guernsey) Law, 2008. The financial statements are presented in Sterling, the Company’s functional currency.

These financial statements have been prepared under the historic cost convention with the exception of financial assets designated at fair value through profit or loss which are measured at fair value.

#### **Use of estimates and judgements**

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of the reported amounts in these financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. During the year no assumptions or estimates have been made that are significant to the financial statements.

#### **Segmental reporting**

The Company has adopted IFRS 8, ‘Operating Segments’ as of 1 January 2009. This standard requires a ‘management approach’, under which segment information is presented on the same basis as that used for internal reporting purposes.

The Board has considered the requirements of IFRS 8 ‘Operating Segments’, and is of the view that the Company is domiciled in Guernsey and is engaged in a single segment of business, being investment mainly in UK equity instruments, and mainly in one geographical area, the United Kingdom, and therefore the Company has only a single operating segment.

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**Notes to the Financial Statements**  
**For the year ended 30 June 2013 (continued)**

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Segmental reporting (continued)**

The Board, as a whole, has been determined as constituting the chief operating decision maker of the Company. The key measure of performance used by the Board to assess the Company's performance and to allocate resources is the total return on the Company's Net Asset Value ("NAV"), as calculated under IFRS, and therefore no reconciliation is required between the measure of profit or loss used by the Board and that contained in these financial statements.

The Board of Directors has overall management and control of the Company. Material changes to the investment objective or investment policy can only be made by shareholders. The Board of Directors has delegated the day to day implementation of this strategy to its Investment Manager but retain responsibility to ensure that adequate resources of the Company are directed in accordance with their decisions. The investment decisions of the Investment Manager are reviewed on a regular basis to ensure compliance with the policies and legal responsibilities of the Board. The Investment Manager has been given full authority to act on behalf of the Company, including the authority to purchase and sell securities and other investments on behalf of the Company and to carry out other actions as appropriate to give effect thereto. Whilst the Investment Manager may make decisions on a day to day basis regarding the allocation of funds to different investments, any changes to the investment strategy or major allocation decisions have to be approved by shareholders, even though they may be proposed by the Investment Manager. The Board therefore retains full responsibility as to the major allocations decisions made on an ongoing basis. The Investment Manager will always act in accordance with the investment policy and investment restrictions set out in the Company's latest Prospectus which cannot be radically changed without the approval of shareholders.

The Company has a diversified portfolio of investments from which it receives dividends from time to time and no single investment accounts for more than 20 per cent of the Fund's gross assets at the time of investment. However, there is no guarantee that this will be the case after any investment is made, particularly during the early life of the Company or where it is believed that an investment is particularly attractive. All the Fund's assets are classified as current assets.

The Company also has a diversified shareholder population. Shareholders with holdings greater than 3 per cent are detailed on page 22.

**Foreign currency translation**

Monetary assets and liabilities are translated from currencies other than Sterling ("foreign currencies") to Sterling (the "functional currency") at the rate prevailing on the reporting date. Income and expenses are translated from foreign currencies to Sterling at the rate prevailing at the date of the transaction. Exchange differences are recognised in the Statement of Comprehensive Income.

**Financial instruments**

Financial instruments comprise investment in equity, debt instruments, money market funds, derivatives, trade and other receivables, cash and cash equivalents, and trade and other payables. Financial instruments are recognised initially at fair value. Subsequent to initial recognition financial instruments are measured as described below.

**Investments**

All the Company's investments are designated at fair value through profit or loss. They are initially recognised at fair value, being the cost incurred in their acquisition. Transaction costs are expensed in the Statement of Comprehensive Income. Gains and losses arising from changes in fair value are presented in the Statement of Comprehensive Income in the period in which they arise.

**Notes to the Financial Statements**  
**For the year ended 30 June 2013 (continued)**

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investments (continued)**

Purchases and sales of investments are recognised using trade date accounting. Quoted investments are valued at the bid price on the reporting date or at the realisable value if the Company has entered into an irrevocable commitment to sell the investment prior to the reporting date. Where investments are listed on more than one securities market, the price on the market on which the security was originally purchased is used. If the price is not available as at the accounting date, the last available price is used.

During the year, the Company invested into money market funds in order to increase the yield on its cash reserves.

**Derivative financial instruments**

When considered appropriate the Company will enter into derivative contracts to manage its price risk and provide protection against the volatility of the market. The Company does not issue derivatives for trading or speculative purposes.

The Company's holdings of derivatives are designated at fair value through profit or loss. They are initially recognised at fair value, being the cost incurred in their acquisition.

Quoted derivatives are valued at the bid price on the reporting date. Where derivatives are listed on more than one securities market, the price on the market on which the security was originally purchased is used. If the price is not available as at the accounting date, the last available price is used. Gains and losses arising from changes in fair value are presented in the Statement of Comprehensive Income in the period in which they arise.

**Derecognition of financial instruments**

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised), and consideration received (including any new asset obtained less any new liability assumed) is recognised in the Statement of Comprehensive Income.

The Fund derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. Any gain or loss on derecognition is recognised in the Statement of Comprehensive Income.

**Cash and cash equivalents**

The Company considers all highly liquid investments with original maturities of less than 90 days when acquired to be cash equivalents.

**Share issue expenses**

Share issue expenses of the Company directly attributable to the issue and listing of the shares are charged to the distributable reserve.

**Notes to the Financial Statements**  
**For the year ended 30 June 2013 (continued)**

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Share capital**

Ordinary shares are classified as equity where there is no obligation to transfer cash or other assets.

**Income**

Investment income and interest income have been accounted for on an accruals basis using the effective interest method. Dividends receivable are taken to the Statement of Comprehensive Income when the relevant security is quoted ex-dividend. The Company currently incurs withholding tax imposed by non UK countries on dividend income; these dividends are recorded gross of withholding tax in the Statement of Comprehensive Income. Withholding tax is recorded in 'Other expenses' in the Statement of Comprehensive Income.

**Expenses**

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

- expenses which are incidental to the acquisition and disposal of an investment are charged to capital; and
- expenses are split and presented partly as capital items where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated and accordingly the performance fee is charged to capital, in order to reflect the Directors' expected long-term view of the nature of the investment returns of the Company.

**Treasury shares**

The Company has adopted the principles outlined in IAS 32 'Financial Instruments: Presentation' and has treated the consideration paid including directly attributable incremental cost for the repurchase of Company shares ("Treasury shares") as a deduction from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. No gain or loss is recognised in profit or loss in the purchase, sale, issue or cancellation of the Company's own equity investments.

Any consideration received, net of any directly attributable incremental transaction costs upon sale or reissue of such shares, is included in equity attributable to the Company's equity holders.

**Notes to the Financial Statements**  
**For the year ended 30 June 2013 (continued)**

**2. NEW STANDARDS AND INTERPRETATIONS**

At the date of authorisation of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were issued but not yet effective:

<b>New standards</b>	<b>Effective for periods beginning on or after</b>
IFRS 9     Financial Instruments: Classification and Measurement – deferral of mandatory effective date of IFRS 9 and amendments to transition disclosures	1 January 2015
IFRS 10    Consolidation Financial Statements – includes the concept of “ <i>de facto</i> ” control and replaces the consolidation guidance in IAS 27: Consolidation and Separated Financial Statements and SIC 12: Consolidation – Special Purpose Entities	1 January 2013
IFRS 10    Consolidation Financial Statements – amendments for investment entities	1 January 2014
IFRS 11    Joint Arrangements – includes the concepts of joint operations (resulting in consolidation of entity’s share of assets and liabilities) and joint ventures (resulting in equity method of accounting); the new standard replaces IAS 31: Interest on Joint Ventures	1 January 2013
IFRS 12    Disclosure of Interests in Other Entities – requires enhanced disclosures for related parties (consolidated and unconsolidated entities)	1 January 2013
IFRS 12    Disclosure of Interests in Other Entities – amendments for investment entities	1 January 2014
IFRS 13    Fair Value Measurement	1 January 2013
<b>Revised and amended standards</b>	<b>Effective for periods beginning on or after</b>
IFRS 7     Financial Instruments: Disclosures – amendments related to the offsetting of assets and liabilities	1 January 2013 and interim periods within those periods
IFRS 7     Financial Instruments: Disclosures – deferral of mandatory effective date of IFRS 9 and amendments to transition disclosures	1 January 2015
IAS 27     Separated Financial Statements – the requirements for separated financial statements remains unchanged	1 January 2013
IAS 27     Separated Financial Statements – amendments for investments entities	1 January 2014
IAS 28     Investment in Associates and Joint Ventures – incorporates changes required due to IFRS 10, 11 and 12	1 January 2013
IAS 32     Financial Instruments: Presentation – amendments relating to the offsetting of assets and liabilities	1 January 2014

In addition, in May 2012, the IASB issued the annual improvements to IFRS 2009–2011 Cycle which affect five IFRS. Most amendments are effective for annual periods beginning on or after 1 January 2013, although entities are generally permitted to adopt them earlier.

**Notes to the Financial Statements**  
**For the year ended 30 June 2013 (continued)**

**2. NEW STANDARDS AND INTERPRETATIONS (continued)**

The Directors anticipate that the adoption of these standards and interpretations in future periods will not have a material impact on the Financial Statements of the Company.

IFRS 9 'Financial Instruments' was issued in December 2009. This addresses the classification and measurement of financial assets and is not likely to affect the Company's accounting for financial assets. The standard is not applicable until 1 January 2015 but it is available for early adoption. The standard is not expected to have a significant impact on the financial statements since the majority of the Company's financial assets are designated at fair value through profit or loss.

**3. TAXATION**

The Company is exempt from taxation in Guernsey under the provisions of the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 2008 and is charged an annual fee of £600.

**4. TRANSACTION COSTS**

The transaction charges incurred in relation to the acquisition and disposal of investments during the year were as follows:

	<i>2013</i>	<i>2012</i>
	£	£
Stamp duty	130,377	280,674
<b>Commissions and custodian transaction charges:</b>		
In respect of purchases	141,308	139,864
In respect of sales	46,610	75,323
	<u>318,295</u>	<u>495,861</u>

**5. BASIC AND DILUTED EARNINGS/(LOSS) PER SHARE**

Earnings/(loss) per share is based on the following data:

	<i>2013</i>	<i>2012</i>
Return for the year	£15,983,391	£(1,750,615)
Weighted average number of issued Ordinary shares	58,825,775	60,000,000
Basic and diluted earnings/(loss) per share (pence)	<u>27.17</u>	<u>(2.92)</u>

**6. NET ASSET VALUE PER SHARE**

Net asset value per share is based on the following data:

	<i>2013</i>	<i>2012</i>
Net asset value per statement of financial position	£73,853,211	£63,356,471
Total number of issued Ordinary shares (excluding Treasury shares) at 30 June	55,508,000	60,000,000
Net asset value per share (pence)	<u>133.05</u>	<u>105.59</u>

**Notes to the Financial Statements**  
For the year ended 30 June 2013 (continued)

**7. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise cash held by the Company available on demand and on deposit with maturities of less than 90 days. Cash and cash equivalents were as follows:

	2013	2012
	£	£
Cash available on demand	1,321,566	1,917,584
Cash on deposit with maturities of less than 90 days	41,918	41,922
	<u>1,363,484</u>	<u>1,959,506</u>

Cash available on demand earns interest at a rate based on the bank call deposit rate while short-term placements earned interest ranging from 0.15 per cent to 0.25 per cent per annum during the year.

**8. TRADE AND OTHER RECEIVABLES**

	2013	2012
	£	£
Trade receivables	274,056	315,102
Prepayments	15,275	22,319
	<u>289,331</u>	<u>337,421</u>

There are no past due or impaired receivable balances outstanding at the year end (2012: £nil).

**9. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS**

	2013	2012
	£	£
Equity investments	65,068,693	61,369,130
Debt instruments	2,020,346	–
Money Market investments	4,012,274	–
Derivative financial instruments	1,337,200	–
	<u>72,438,513</u>	<u>61,369,130</u>

**Equity investments**

Cost brought forward	91,656,377	77,985,395
Purchases	29,386,877	60,803,794
Sales	(43,450,435)	(59,725,158)
Realised gain	864,867	12,592,346
Cost carried forward	78,457,686	91,656,377
Unrealised losses brought forward	(30,103,591)	(16,949,976)
Movement in unrealised gains/(losses)	16,736,780	(13,153,615)
Unrealised losses carried forward	(13,366,811)	(30,103,591)
Effect of exchange rate movements	(22,182)	(183,656)
<b>Fair value of equity instruments</b>	<u>65,068,693</u>	<u>61,369,130</u>

**Notes to the Financial Statements**  
For the year ended 30 June 2013 (continued)

**9. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS  
(continued)**

	2013 £	2012 £
<b>Debt instruments</b>		
Cost brought forward	–	–
Purchases	2,000,000	–
Cost carried forward	2,000,000	–
Unrealised gains brought forward	–	–
Movement in unrealised gains	20,346	–
Unrealised gains carried forward	20,346	–
Effect of exchange rate movements	–	–
<b>Fair value of debt instruments</b>	<b>2,020,346</b>	<b>–</b>
<b>Money Market investments</b>		
Cost brought forward	–	–
Purchases	14,000,000	–
Sales	(10,003,065)	–
Realised gain	7,411	–
Cost carried forward	4,004,346	–
Unrealised gains brought forward	–	–
Movement in unrealised gains	7,928	–
Unrealised gains carried forward	7,928	–
Effect of exchange rate movements	–	–
<b>Fair value of money market investments</b>	<b>4,012,274</b>	<b>–</b>
<b>Derivative financial instruments</b>		
Cost brought forward	–	–
Purchases	2,678,280	704,915
Sales	(75,650)	(455,280)
Realised losses	(2,142,230)	(249,635)
Cost carried forward	460,400	–
Unrealised gains brought forward	–	–
Movement in unrealised gains	876,800	–
Unrealised gains carried forward	876,800	–
Effect of exchange rate movements	–	–
<b>Fair value of derivative financial instruments</b>	<b>1,337,200</b>	<b>–</b>
<b>Total financial assets designated at fair value through profit or loss</b>	<b>72,438,513</b>	<b>61,369,130</b>

**Notes to the Financial Statements**  
**For the year ended 30 June 2013 (continued)**

**9. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)**

On 18 April 2013, the Company purchased £2 million of convertible loan notes (“loan notes”) from Hurricane Energy PLC. Interest on these loan notes is accrued at a rate equal to 5 per cent per annum, compounded monthly. These loan notes give the holder the right to convert into shares in the following events:

- in the case of a listing, the admission price less a discount equal to 30 per cent of the admission price; or
- in the case of a sale, the sale price less a discount equal to 30 per cent of the sale price.

Unless previously converted, Hurricane Energy PLC will redeem the loan notes outstanding held by the Company at an amount equal to the principal loan note outstanding plus any accrued interest on the final maturity date which is twelve months from purchase. Hurricane Energy PLC is currently in discussions with holders of the loan notes with regards an extension of the maturity date. These loan notes have been classified as debt instruments and are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loan notes are measured at fair value through profit and loss.

At the reporting date the Company’s derivative financial instruments consisted of 3 (2012: nil) FTSE 100 Index Put Option contracts, purchased as protection against a significant market sell-off.

**10. TRADE AND OTHER PAYABLES**

	2013	2012
	£	£
Accruals	81,747	78,090
Unsettled trade purchases	156,370	231,496
	238,117	309,586

The carrying amount of trade payables approximates to their fair value.

**11. SHARE CAPITAL AND RESERVES**

**Capital risk management**

The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern in order to provide returns to shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

As per the Company’s memorandum and articles of association the retained earnings are distributable by way of dividend in addition to distributable reserve held on the Company’s statement of financial position at the year end. The distributable reserve represents the amount transferred from the share premium account which was approved by the Royal Court of Guernsey on 18 July 2008.

**Notes to the Financial Statements**  
**For the year ended 30 June 2013 (continued)**

**11. SHARE CAPITAL AND RESERVES (continued)**

**Externally imposed capital requirement**

There are no capital requirements imposed on the Company.

The authorised share capital of the Company is 300 million Ordinary shares of £0.01 each.

The issued share capital of the Company is comprised as follows:

	2013		2012	
	Number	£	Number	£
Allotted, called up and fully paid				
Ordinary shares of £0.01 each	60,000,000	600,000	60,000,000	600,000

**12. TREASURY SHARES**

	2013		2012	
	Number	£	Number	£
Opening balance	–	–	–	–
Treasury shares purchased during the year	4,492,000	5,186,651	–	–
Closing balance	4,492,000	5,186,651	–	–

The total number of Treasury shares as at 30 June 2013, which were purchased at an average price of 115.46p per share, is 4,492,000 (2012: nil). Since the year end, a further 920,000 shares have been repurchased at an average price of 137.21p per share and transferred to Treasury.

**13. DIVIDENDS**

On 6 July 2012, the Company declared an interim dividend of £300,000, equating to 0.5p per Ordinary share, which was paid on 20 August 2012 to shareholders on the register on 20 July 2012.

Subsequent to the year end, on 4 July 2013, the Company declared an interim dividend of £277,165 equating to 0.5p per Ordinary share, which was paid on 19 August 2013 to shareholders on the register on 17 July 2013.

**14. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS**

**Financial risk management objectives**

The Manager, Crystal Amber Asset Management (Guernsey) Limited and the Administrator, Heritage International Fund Managers (“HIFM”), provide advice to the Company which allows it to monitor and manage financial risks relating to its operations through internal risk reports which analyse exposures by degree and magnitude of risks. The Manager and the Administrator report to the Board on a quarterly basis. The risks relating to the Company’s operations include credit risk, liquidity risk, and the market risks of interest rate risk, price risk and to a certain extent foreign currency risk.

**Credit risk**

Credit risk refers to the risk that the counterparty to a financial instrument will default on its contractual obligations that it has entered into with the Company resulting in financial loss to the Company. At 30 June 2013 the major financial assets which were exposed to credit risk included financial assets designated at fair value through profit or loss, debt instruments and cash and cash equivalents.

**Notes to the Financial Statements**  
**For the year ended 30 June 2013 (continued)**

**14. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS (continued)**

**Credit risk (continued)**

The carrying amounts of financial assets best represent the maximum credit risk exposure at 30 June 2013. The Company's credit risk on liquid funds is minimised because the counterparties are banks with high credit ratings assigned by an international credit-rating agency.

The table below shows the cash balances at the statement of financial position date and the Standard & Poor's credit rating for each counterparty.

	<i>Location</i>	<i>Rating</i>	<i>Carrying Amount 2013 £</i>	<i>Carrying Amount 2012 £</i>
ABN AMRO (Guernsey) Limited	Guernsey	A	1,310,034	1,902,352
HSBC Bank Plc – Guernsey Branch	Guernsey	AA-	51,918	51,922
Barclays Bank Plc – Isle of Man Branch	Isle of Man	A-	1,532	5,232
			1,363,484	1,959,506

The credit ratings disclosed above are the credit ratings of the parent entities of each of the counterparties namely ABN AMRO Bank N.V., HSBC PLC and Barclays Bank PLC.

The Company's credit risk on financial assets designated at fair value through profit or loss is considered minimal as these assets are quoted equities.

The Company is also exposed to credit risk on the financial assets with its brokers for unsettled transactions. This risk is considered minimal due to the short settlement period involved and the high credit quality of the brokers used.

At 30 June 2013 £68,399,073 (2012: £63,271,482) of the financial assets of the Company were held by the Custodian, ABN AMRO (Guernsey) Limited. Bankruptcy or insolvency of the Custodian may cause the Company's rights with respect to financial assets held by the Custodian to be delayed or limited. The Company monitors its risk by monitoring the credit quality and financial position of the Custodian. The parent of the Custodian has a Standard & Poor's credit rating of A.

The Company also has exposure to credit risk through its investment in the loan notes issued by Hurricane Energy PLC. The Directors through the Investment Manager monitor the financial performance of the borrower and believe that the risk of default is minimal.

**Liquidity risk**

Liquidity risk is the risk that the Company will be unable to meet its obligations arising from financial liabilities. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate framework for the management of the Company's liquidity requirements.

The Company adopts a prudent approach to liquidity risk management and maintains sufficient cash reserves to meet its obligations. All the Company's investments are listed and are subject to a settlement period of three days.

**Notes to the Financial Statements**  
For the year ended 30 June 2013 (continued)

**14. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS (continued)**

**Liquidity risk (continued)**

The following tables detail the Company's expected maturity for its financial assets and liabilities:

2013	<i>Weighted average interest rate</i>	<i>Less than 1 year £</i>	<i>1-5 years £</i>	<i>5+ years £</i>	<i>Total £</i>
<b>Assets</b>					
Non-interest bearing	–	70,707,498	–	–	70,707,498
Variable interest rate instruments	0.25%	1,363,484	–	–	1,363,484
Fixed interest rate instruments	5.00%	2,020,346	–	–	2,020,346
<b>Liabilities</b>					
Non-interest bearing	–	(238,117)	–	–	(238,117)
		73,853,211	–	–	73,853,211

2012	<i>Weighted average interest rate</i>	<i>Less than 1 year £</i>	<i>1-5 years £</i>	<i>5+ years £</i>	<i>Total £</i>
<b>Assets</b>					
Non-interest bearing	–	61,706,551	–	–	61,706,551
Variable interest rate instruments	0.25%	1,959,506	–	–	1,959,506
<b>Liabilities</b>					
Non-interest bearing	–	(309,586)	–	–	(309,586)
		63,356,471	–	–	63,356,471

**Market risk**

The Fund is exposed through its operations to market risk which encompasses interest rate risk, price risk and foreign exchange risk.

**Interest rate risk**

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk as it has funds held on deposit and current account balances. The Company's exposure to interest rates is detailed in the liquidity risk section of this note.

The Manager monitors market interest rates and will place interest bearing assets at best available rates but also taking into consideration the counterparty's credit rating and financial position.

**Notes to the Financial Statements**  
**For the year ended 30 June 2013 (continued)**

**14. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS (continued)**

**Interest rate sensitivity analysis**

The sensitivity analysis below has been based on the exposure to interest rates for financial assets held at the statement of financial position date. An increase/decrease of 0.15 per cent represents management's assessment of a reasonably possible change in interest rates. If interest rates had been 0.15 per cent (2012: 0.15 per cent) higher/lower and all other variables were held constant:

- the Company's return for the year ended 30 June 2013 would have increased/decreased by £5,740 (2012: £15,766);
- there would have been no impact on the other equity reserves.

**Price risk**

Price risk is the risk that the fair value of investments will fluctuate as a result of changes in market prices. This risk is managed through diversification of the investment portfolio across business sectors. Generally the Company will seek not to invest more than 20 per cent of the Company's gross assets in any single investment at the time of investment. However, there is no guarantee that this will be the case after any investment is made, particularly where it is believed that an investment is exceptionally attractive.

During the year to 30 June 2013 the Company entered into various index put derivative option contracts to protect the Company's value against a potential fall in the market. At 30 June 2013, £1,337,200 (2012: £nil) of these contracts were outstanding.

As at 30 June 2013, the following tables detail the Company's investments. Shareholders requiring further information about the portfolio should apply in writing to the Company's registered office.

<i>Equity Investments</i>	<i>Sector</i>	<i>Value</i> £	<i>Percentage of</i> <i>Gross Assets</i>
TT Electronics PLC	Industrial	7,347,750	10
Tribal Group PLC	Consulting Services	7,184,077	10
Norcros PLC	Industrial	7,048,670	10
API Group PLC	Basic Materials	6,242,660	8
Sutton Harbour Holdings PLC	Transportation Services	6,201,940	8
Devro PLC	Consumer	4,688,332	6
4imprint Group PLC	Consumer	4,385,536	6
Smiths News PLC	Communications	3,630,000	5
Northgate PLC	Transportation Services	3,073,525	4
Thorntons PLC	Consumer	2,601,620	4
Hansard Global PLC	Insurance	2,482,138	3
United Drug PLC	Consumer	1,976,055	3
Other	Various	8,206,390	11
<b>Total</b>		<b>65,068,693</b>	<b>88</b>

**Notes to the Financial Statements**  
For the year ended 30 June 2013 (continued)

**14. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS (continued)****Price risk (continued)**

<i>Debt Instruments</i>	<i>Sector</i>	<i>Value</i> £	<i>Percentage of</i> <i>Gross Assets</i>
Hurricane Energy PLC	Oil and Gas	2,020,346	3
<b>Total</b>		<b>2,020,346</b>	<b>3</b>

<i>Money Market Investments</i>	<i>Sector</i>	<i>Value</i> £	<i>Percentage of</i> <i>Gross Assets</i>
ICS Institutional Sterling			
Liquidity Fund	Investment Management	4,012,274	5
<b>Total</b>		<b>4,012,274</b>	<b>5</b>

*2012*

<i>Equity Investments</i>	<i>Sector</i>	<i>Value</i> £	<i>Percentage of</i> <i>Gross Assets</i>
TT Electronics PLC	Industrial	11,417,410	18
Renishaw PLC	Industrial	6,300,000	10
Brown N Group PLC	Retail	5,201,477	8
Sutton Harbour Holdings PLC	Transportation Services	5,180,236	8
Omega Insurance Holdings Ltd	Insurance	5,150,209	8
Devro PLC	Consumer	4,545,012	7
Tribal Group PLC	Consulting Services	3,388,813	5
API Group PLC	Basic Materials	3,253,800	5
Norcros PLC	Industrial	2,964,500	5
JJB Sports PLC	Retail	2,817,470	4
United Drug PLC	Consumer	2,243,743	4
Young & Co's Brewery PLC	Consumer	1,715,000	3
Smiths News PLC	Communications	1,714,500	3
Other	Various	5,476,960	8
<b>Total</b>		<b>61,369,130</b>	<b>96</b>

At the statement of financial position date and assuming all other variables are held constant:

- If market prices had been 25 per cent higher, the Company's profit and net assets for the year ended 30 June 2013 would have increased by £15,956,642 (2012: £15,342,282);
- If market prices had been 25 per cent lower, the Company's profit and net assets for the year ended 30 June 2013 would have decreased by £3,055,142 (2012: £15,342,282). The decrease at 30 June 2013 is lower due to the mitigating effects of the derivative financial instruments held at this date. At 30 June 2012 the Company did not hold any derivative financial instruments;
- there would have been no impact on the other equity reserves.

**Notes to the Financial Statements**  
**For the year ended 30 June 2013 (continued)**

**14. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS (continued)**

**Foreign exchange risk**

Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates and arises when the Company invests in financial instruments and enters into transactions that are denominated in currencies other than its functional currency. During the year the Company was exposed to foreign exchange risk arising from equity investments held in Euro.

The table below illustrates the Company's exposure to foreign exchange risk at 30 June 2013:

	2013	2012
	£	£
<b>Financial assets designated at fair value through profit and loss:</b>		
Listed equity securities denominated in Euros	-	3,135,845
<b>Total Assets</b>	<b>-</b>	<b>3,135,845</b>

If the Euro weakened/strengthened by 10 per cent against GBP with all other variables held constant, the effect on the fair value of equity investments would increase/decrease by £nil (2012: £313,584).

**Fair value measurements**

IFRS 7 establishes a fair value hierarchy that prioritises the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under IFRS 7 are as follows:

- Level 1: Quoted price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques for which all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Company. The Company considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

**Notes to the Financial Statements**  
For the year ended 30 June 2013 (continued)

**14. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS (continued)**

**Fair value measurements (continued)**

The following tables analyse within the fair value hierarchy the Company's financial assets measured at fair value at 30 June 2013 and 30 June 2012:

2013	<i>Level 1</i> £	<i>Level 2</i> £	<i>Level 3</i> £	<i>Total</i> £
<b>Financial assets designated at fair value through profit and loss:</b>				
Equity investments – Listed equity securities	65,068,693	–	–	65,068,693
Debt instruments – Loan notes	–	–	2,020,346	2,020,346
Money Market investments				
– Listed securities	4,012,274	–	–	4,012,274
Derivatives – Listed securities	1,337,200	–	–	1,337,200
	70,418,167	–	2,020,346	72,438,513

2012	<i>Level 1</i> £	<i>Level 2</i> £	<i>Level 3</i> £	<i>Total</i> £
<b>Financial assets designated at fair value through profit and loss:</b>				
Equity investments – Listed equity securities	61,369,130	–	–	61,369,130
	61,369,130	–	–	61,369,130

The Level 1 equity investments were fair valued with reference to the closing bid prices of each investee company on the reporting date.

The loan notes have been classified as Level 3 debt instruments as there is no observable market data. In determining this, management has considered evidence of any events or new information regarding the underlying issuer in order to establish whether fair value at the transition date is still representative of the circumstances of the investment at the reporting date. A reconciliation of opening and closing fair values on debt investments is provided in note 9. The convertible note of Hurricane Energy PLC is the only investment held in this category.

As Hurricane Energy Plc is in the process of obtaining listing status and that the investments in loan notes were purchased in close proximity to the year end, these investments have been valued at fair value approximated as cost plus accrued interest.

**15. RELATED PARTIES**

Mark Huntley is Managing Director of the Company's Administrator, Heritage International Fund Managers Limited, Managing Director of the CISX Listing Sponsor and a Director of the Investment Manager. He stood down as Director of the Company on 12 October 2012. During the year the Company incurred administration fees of £84,510 (2012: £78,454) of which £22,034 (2012: £19,064) was outstanding at the year end. Mark Huntley also received a Director's fee, for the period until he stood down, of £5,652 (2012: £20,000) of which £nil (2012: £5,000) was outstanding at the year end.

**Notes to the Financial Statements**  
**For the year ended 30 June 2013 (continued)**

**15. RELATED PARTIES (continued)**

Richard Bernstein is a Director and a member of the Investment Manager, a member of the Investment Advisor and a holder of 610,000 (2012: 780,000) Ordinary shares, representing 1.10 per cent (2012: 1.30 per cent) of the voting share capital of the Company at the year end. During the year, Richard Bernstein was a non-executive Director of JJB Sports PLC which is now in administration and is still one of the Company's investments. During the year, the Company earned £9,835 (2012: £46,201) in relation to this directorship.

During the year the Company incurred management fees of £1,325,531 (2012: £1,215,135) none of which was outstanding at the year end. The Investment Manager did not earn a performance fee during the year (2012: £Nil). As at 30 June 2013 the Investment Manager held 1,630,000 shares (2012: 1,115,000) of the Company, representing 2.94 per cent (2012: 1.86 per cent) of the voting share capital.

All related party transactions are carried out on an arm's length basis.

**16. DIRECTORS' REMUNERATION**

	2013	2012
	£	£
William Collins	30,000	30,000
Sarah Evans	25,000	25,000
Nigel Ward	20,000	20,000
Mark Huntley ( <i>Resigned 12 October 2012</i> )	5,652	20,000
David Warr ( <i>Appointed 10 January 2013</i> )	9,445	–
<b>Total</b>	<b>90,097</b>	<b>95,000</b>

**17. MATERIAL AGREEMENTS**

The Company has entered into the following material agreements:

**Crystal Amber Asset Management (Guernsey) Limited (the "Manager")**

Under the pre-existing management agreement, the Manager received a management fee at the annual rate of 2 per cent of the NAV of the Company payable quarterly in advance.

Following discussions with the Investment Manager, the Board has approved a new management remuneration structure. With effect from 1 April 2013, under the addendum to the management agreement, the Manager receives a management fee at the annual rate of 2 per cent of the NAV or the Market Capitalisation, whichever is lower. The management fee is payable quarterly in advance and calculated on the NAV or the Market Capitalisation on the relevant quarterly accounting date.

In addition, the Manager is entitled to a performance fee in certain circumstances. This fee is payable in cash by reference to the increase in NAV per Ordinary share over the course of each performance period.

Payment of the performance fee is subject to:

1. the achievement of a performance hurdle condition: the NAV per Ordinary share at the end of the relevant performance period must exceed an amount equal to the placing price increased at a rate of 7 per cent per annum on an annual compounding basis up to the end of the relevant performance period ("the Basic Performance Hurdle"); and

**Notes to the Financial Statements**  
**For the year ended 30 June 2013 (continued)**

**17. MATERIAL AGREEMENTS (continued)**

**Crystal Amber Asset Management (Guernsey) Limited (the “Manager”) (continued)**

2. the achievement of a “high watermark”: the NAV per Ordinary share at the end of the relevant performance period must be higher than the highest previously reported NAV per Ordinary share at the end of a performance period in relation to which a performance fee, if any, was last earned. If no performance fee has been earned since admission, the NAV per Ordinary share must be higher than the placing price.

If the Basic Performance Hurdle is met, and the high watermark exceeded, the performance fee is an amount equal to 20 per cent of the excess of the NAV per Ordinary share at the end of the relevant performance period over the higher of:

1. the Basic Performance Hurdle;
2. the NAV per Ordinary share at the start of the relevant performance period; and
3. the high water mark.

The above arrangements were in place during the year ended 30 June 2013. With effect from 21 August 2013, the above arrangements were modified as set out in Note 19 below.

**Heritage International Fund Managers Limited (the “Administrator”)**

The Administrator has been appointed to provide administration and company secretarial services to the Company. For these services, the Administrator will be paid an annual fee of 0.12 per cent (2012: 0.12 per cent) of the NAV (subject to a minimum of £75,000 per annum.)

**ABN AMRO (Guernsey) Limited**

Under the custodian agreement, the Custodian receives a fee, calculated and payable quarterly in arrears at the annual rate of 0.05 per cent (2012: 0.05 per cent) of the NAV per annum, subject to a minimum fee of £25,000 per annum. Transaction charges of £100 per trade for the first 200 trades processed in a calendar year and £75 per trade thereafter are also payable.

**18. ULTIMATE CONTROLLING PARTY**

In the opinion of the Directors, on the basis of the shareholdings advised to them, the Company has no ultimate controlling party.

**19. POST BALANCE SHEET EVENTS**

The Company purchased 920,000 of their own Ordinary shares between the period 1 July 2013 and 23 October 2013. These shares are held as Treasury shares. Following these purchases, the total number of Ordinary shares held as Treasury shares by the Company is 5,412,000.

On 4 July 2013, the Company declared an interim dividend of £277,165, equating to 0.5p per Ordinary share, which was paid on 19 August 2013 to shareholders on record on the register on 19 July 2013.

On 7 August 2013 the Company reported that its unaudited NAV at 31 July 2013 was 136.14p per share.

On 15 August 2013 the Company reported that its audited NAV at 8 August 2013 was 140.70p per share.

On 6 September 2013 the Company reported that its unaudited NAV at 31 August 2013 was 141.21p per share.

**Notes to the Financial Statements**  
**For the year ended 30 June 2013 (continued)**

**19. POST BALANCE SHEET EVENTS (continued)**

On 8 October 2013 the Company reported that its unaudited NAV at 30 September 2013 was 148.11p per share.

On 21 August 2013 the Company issued 18,229,665 new Ordinary shares on AIM and CISX. Following this issue, the basis of the calculation of the management fee was changed so that the rate of 2 per cent continues to apply to the market capitalisation of the Company at 30 June 2013 (£75.5 million) (“the Base Amount”) and to the extent that an amount equal to the lower of the Company’s NAV and market capitalisation, at the relevant time of calculation, exceeds the Base Amount (“the Excess amount”), the applicable fee rate on the Excess Amount will be 1.5 per cent.

The conditions for the payment of the performance fee also changed following the issue. The hurdle condition has now increased from 7 per cent to 8 per cent for the period after issue to the end of the relevant performance period. Prior to issue, the performance fee was payable in cash, from issue it depends on whether Ordinary shares are trading at a discount or premium to the Company’s NAV per Ordinary share:

- If Ordinary shares are trading at a discount to the NAV per Ordinary share, the performance fee shall be payable in cash. Within a period of one calendar month after receipt of such cash payment, the Manager shall be required to purchase Ordinary shares in the market of a value equal to such cash payment.
- If Ordinary shares are trading at, or at a premium to, the NAV per Ordinary share, the performance fee shall be satisfied by the sale of Ordinary shares out of Treasury or by the issue of new fully paid Ordinary shares. The number of Ordinary shares that shall become payable shall be a number equal to the performance fee payable divided by the closing mid-market price per Ordinary share on the date on which such performance fee became payable.

Additionally, the calculation of Administration fees changed so that the Administrator is paid an annual fee of 0.12 per cent of that part of the NAV of the Company up to £150 million and 0.1 per cent of that part of the NAV over £150 million (subject to a minimum of £75,000 per annum).

More information can be found in the Investment Manager’s Report on page 6.

