




BRAVEHEART
INVESTMENT GROUP

Braveheart Investment Group plc

Half-Yearly Report

2013



Our business is all about financing small and medium sized enterprises (SMEs).

For SMEs looking to raise money, we provide the following:

Equity Capital

This form of financing is typically long term and is usually appropriate for fast growing businesses or early stage companies. We will consider equity financings where the investment is a maximum of £2m although we are happy to participate in larger financings as part of a syndicate.

The money we invest comes from a variety of sources and is sometimes linked to particular geographical locations.

To the investor, we provide a one-stop-shop service to those in one of the following groups who are looking for exposure to SME investments:

Debt Finance

Typically short to medium term and for companies with cash flow to service the loan. Our unit size for this type of finance is up to £1m and we will usually provide junior debt which is unsecured but linked to an equity instrument.

- High net worth (HNW) individuals looking to build tax efficient Enterprise Investment Scheme (EIS) and Seed EIS portfolios;
- Family offices and private sector institutions; and
- The public sector.

Investors can choose between investment types ranging from self-build portfolios, to a full fund management service.

We have offices in Perth, Yorkshire and Belfast.

Key points

- Fee-based revenue remained steady at £1,321,000 in the period (six months ended 30 September 2012: £1,362,000);
- Loss before tax of £845,000 (2012: profit of £67,000);
- £805,000 of the losses were directly attributable to Envestors, the Group's wholly owned subsidiary, which encountered poor trading conditions and whose disposal was announced on 13 December 2013;
- Impairment charge of £610,000 to goodwill/intangibles in relation to Envestors;
- The Group's portfolio had a carrying value of £3.57m as at 30 September 2013 (2012: £3.52m) with an unrealised loss of £22,000 in the period (2012: gain of £209,000);
- Good progress made on exit potential of the portfolio; and
- Funds under management of £121m.

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Disclaimer

This half-yearly report contains certain forward-looking statements, which reflect the knowledge of and information available to the directors at the date of preparation of this half-yearly report. By their nature, these statements involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future and there are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements.

We are pleased to report to shareholders for the six months ending 30 September 2013.

Growth Loan Fund

In 2012, in association with NEL Fund Managers and Clarendon Fund Managers, we established WhiteRock Capital Partners LLP (WhiteRock) to manage the £50m Growth Loan Fund in Northern Ireland (GLF). Our wholly-owned subsidiary, Strathtay Ventures Ltd, has been acting as fund manager of the GLF while we applied for regulatory approval. We now have that approval and WhiteRock will take over the fund management role from 1 April 2014.

Paul Millar, WhiteRock's Chief Investment Officer, has built a strong management team and we are delighted that they have been recognised by winning two industry awards in Northern Ireland.

The GLF product is aimed at SMEs and comprises unsecured term loans of £50k to £500k, typically repayable over three to five years. The product is complementary to bank lending and we are working with the local clearing banks. The SME market has received the product well and in little over a year we have approved 50 loans totalling £12m.

Viking Fund Managers

Andrew Burton's team in Yorkshire and the Humber region manages the £43m Finance Yorkshire Equity Fund (FYEF) and had a good second quarter concluding 13 investments, totalling £4.34m. FYEF invests both debt and equity instruments in development capital situations and unit sizes range from £50k to £2m.

With a growing portfolio we are building our support team and seeking to add value by appointing non-executive directors to assist our portfolio companies in their growth and development.

In July 2013 we were pleased to announce our first exit from the fund. This exit generated a return of £3.2m on an original investment of £1.6m over approximately 30 months, thereby generating a money multiple of two and an IRR of 51%.

Strathtay Ventures

Based at our Perth headquarters, Strathtay looks after the bespoke unquoted portfolios of high net worth individuals with most investments being in maturing technology businesses.

Strathtay also manages the Lachesis Fund (Lachesis), a £10m university seed fund for eight universities in the East Midlands. Strathtay was awarded the management contract in the Autumn of 2012 when the fund was almost fully invested. Following a detailed review of the portfolio, operational matters and cash requirements going forward, we are now working hard to realise value from the portfolio.

Portfolio

A key asset of the Group is our investment portfolio. This portfolio comprises mainly technology companies which are becoming increasingly mature. As noted in our last report, Carolyn Smith, our Chief Investment Officer, is proactively working on a number of exits which we expect to provide a good return on capital and significant cash resources. The timing of these exits is always uncertain but we anticipate being able to update shareholders on progress in the short term.

Investors

On 13 December 2013 we announced that the Group had completed the sale of Envestors. The sale followed the decision by the Braveheart Board to sell the business for the following reasons:

- Whilst Envestors had shown steady growth since its acquisition in 2010, it had not performed in line with expectations and had not contributed positively to the Group's financial performance. Furthermore, recent trading had been poor and the business made significant losses due to high fixed costs; and
- Envestors provides corporate finance advisory services; as such there was little forward visibility on revenue, which in any case tends to be volatile. This model does not fit with the Group's strategy of building a business based on long-term contracted revenue.

The business was put up for sale in July 2013 and whilst two trade buyers came forward with offers, neither was able to complete a transaction. The Board, therefore, took the decision to sell the business to management. The consideration for the sale was the cancellation of the final Braveheart share issue due to the three management buy-out participants, as agreed at the time of the Envestors acquisition and detailed in our 2013 Annual Report. Consequently, 882,971 new Braveheart shares will now not be issued. A fourth member of the management team, who left Envestors in June 2013, will still be issued with 324,924 new Braveheart shares.

Of the £845,000 losses we have announced today, £195,000 is due to Envestors' trading losses and £610,000 is due to impairment of goodwill/intangibles on the sale of that business.

Financial Review

Fee-based revenue remained stable at £1.32m in the six months ended 30 September 2013 (2012: £1.36m) mainly reflecting the ongoing contribution from the Finance Yorkshire contract and the fund management revenue in respect of the GLF.

The Group's direct investment portfolio comprises minority stakes in unquoted investments. There were no realisations in the six months ended 30 September 2013 and we recorded an unrealised loss of £22,000 (2012: gain of £209,000) on the revaluation of these investments.

Total income, including all unrealised movements in the portfolio valuation and contingent consideration, was 19% lower at £1.27m (2012: £1.58m).

Operating costs were £2.1m (2012: £1.51m) with the increase due to the £610,000 impairment charge for the Envestors subsidiary.

Employee benefit expenses will reduce by approximately £450,000 per annum as a result of the Envestors disposal.

The Group recorded a loss before taxation of £845,000 or 3.66 pence per share (2012: profit of £67,000 or 0.32 pence per share).

The Group continues to have a corporate banking relationship with HSBC Bank plc, from whom a £500,000 facility is available. As at 30 September 2013, the Group had borrowings of £131,000 and net assets were £3.69m (2012: £4.43m).

Board and Personnel

With Jeremy Delmar-Morgan taking on the role of Non-executive Chairman in April this year, the Board is now focused on building a business based on the quality earnings that our fund management operation can provide.

Edward Cunningham stood down as one of our non-executive directors at the AGM in September 2013 and we thank him for his involvement over many years.

Strategy

The Board is continuing with the strategy of building the investment and fund management areas of the business: we have the corporate vehicle, the infrastructure and the regulatory permissions to increase our funds under management without a significant increase in overhead. At the present time we are considering a number of opportunities to accelerate growth in our chosen areas.

Alongside the building of our fund management business we are close to realising value in our portfolio and this remains a key priority going forward.

Outlook

85% of the Group's revenue (excluding portfolio realisations) is now based on contracted fund management services and with this comes good visibility of operational revenue and associated cashflow.

Whilst the financial climate remains uncertain, there are encouraging signs that the UK economy is picking up. SMEs are vital to the UK economy and Braveheart remains focused on providing innovative financing solutions to this specialist market whilst building a business based on a quality earnings stream.

Jeremy H Delmar-Morgan
Chairman

Geoffrey C B Thomson
Chief Executive Officer

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 30 September 2013

	Note	Six months ended 30 September 2013 (unaudited) £'000	Six months ended 30 September 2012 (unaudited) £'000	Year ended 31 March 2013 (audited) £'000
Revenue		1,321	1,362	3,020
Change in fair value of investments	5	(22)	209	254
Movement on contingent consideration		(29)	-	51
Finance revenue		2	7	13
Total income		1,272	1,578	3,338
Employee benefits expense		(1,011)	(929)	(1,971)
Other operating costs		(1,091)	(582)	(1,285)
Finance costs		(15)	-	(15)
Total costs		(2,117)	(1,511)	(3,271)
(Loss)/profit before tax		(845)	67	67
Tax		-	-	-
(Loss)/profit for the period and total comprehensive income for the period		(845)	67	67
Attributable to:				
Equity holders of the parent		(843)	67	67
Non-controlling interest		(2)	-	-
		(845)	67	67
		Pence	Pence	Pence
(Loss)/earnings per share				
- basic and diluted	2	(3.66)	0.32	0.30

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 September 2013

	Note	30 September 2013 (unaudited) £'000	30 September 2012 (unaudited) £'000	31 March 2013 (audited) £'000
ASSETS				
Non-current assets				
Goodwill	3	847	1,353	1,367
Other intangibles	4	-	103	96
Property, plant and equipment		5	18	10
Investments at fair value through profit or loss	5	3,568	3,521	3,560
Investment in limited liability partnership		5	-	5
Other receivables		205	-	154
		4,630	4,995	5,192
Current assets				
Trade and other receivables		349	282	462
Cash and cash equivalents		-	341	39
		349	623	501
Total assets		4,979	5,618	5,693
LIABILITIES				
Current liabilities				
Trade and other payables		(582)	(576)	(636)
Consideration re Neon Capital Partners Ltd		-	(50)	-
Contingent consideration	6	(403)	(500)	(374)
Deferred income		(134)	(20)	(121)
Bank overdraft		(131)	-	-
		(1,250)	(1,146)	(1,131)
Non-current liabilities				
Borrowings		(43)	(43)	(43)
		(43)	(43)	(43)
Total liabilities		(1,293)	(1,189)	(1,174)
Net assets		3,686	4,429	4,519
EQUITY				
Called up share capital		465	452	465
Share premium		1,253	1,253	1,253
Merger reserve		495	432	495
Retained earnings		1,473	2,290	2,304
Equity attributable to owners of the parent		3,686	4,427	4,517
Non-controlling interest		-	2	2
Total equity		3,686	4,429	4,519

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the six months ended 30 September 2013

	Six months ended 30 September 2013 (unaudited) £'000	Six months ended 30 September 2012 (unaudited) £'000	Year ended 31 March 2013 (audited) £'000
Operating activities			
(Loss)/profit before tax	(845)	67	67
Adjustments to reconcile (loss)/profit before tax to net cash flows from operating activities			
Depreciation of property, plant and equipment	5	3	6
Amortisation and impairment of intangibles	616	6	13
Share-based payments expense	12	8	22
Decrease/(increase) in the fair value movements of investments	22	(209)	(254)
Acquisition of subsidiary	-	-	(294)
Loss on disposal of property, plant and equipment	-	-	7
Interest income	(3)	(7)	(13)
Decrease/(increase) in trade and other receivables	62	50	(308)
(Decrease)/increase in trade and other payables	(12)	(136)	229
Net cash flow from operating activities	(143)	(218)	(525)
Investing activities			
Increase in investments	(36)	(45)	(45)
Repayment of borrowings	6	9	15
Investment in limited liability partnership	-	-	(5)
Purchase cost of property, plant and equipment	-	-	(2)
Interest received	3	7	13
Net cash flow from investing activities	(27)	(29)	(24)
Financing activities			
Proceeds from issue of share capital	-	164	164
Net cash flow from financing activities	-	164	164
Net decrease in cash and cash equivalents	(170)	(83)	(385)
Cash and cash equivalents at the start of the period	39	424	424
Bank overdraft, cash and cash equivalents at the end of the period	(131)	341	39

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 September 2013

	Attributable to owners of the Parent							
	Share Capital £'000	Shares to be issued £'000	Share Premium £'000	Merger Reserve £'000	Retained Earnings £'000	Total £'000	Non- controlling interest £'000	Total Equity £'000
At 1 April 2012 (audited)	386	336	819	432	2,215	4,188	2	4,190
Issue of new share capital	66	(336)	434	-	-	164	-	164
Share-based payments	-	-	-	-	8	8	-	8
Transactions with owners	66	(336)	434	-	8	172	-	172
Gain and total comprehensive gain for the period	-	-	-	-	67	67	-	67
At 30 September 2012 (unaudited)	452	-	1,253	432	2,290	4,427	2	4,429
Issue of new share capital	13	-	-	63	-	76	-	76
Share-based payments	-	-	-	-	14	14	-	14
Transactions with owners	13	-	-	63	14	90	-	90
At 31 March 2013 (audited)	465	-	1,253	495	2,304	4,517	2	4,519
Share-based payments	-	-	-	-	12	12	-	12
Transactions with owners	-	-	-	-	12	12	-	12
Loss and total comprehensive loss for the period	-	-	-	-	(843)	(843)	(2)	(845)
At 30 September 2013 (unaudited)	465	-	1,253	495	1,473	3,686	-	3,686

1 Basis of preparation

The financial information presented in this half-yearly report constitutes the condensed consolidated financial statements (the interim financial statements) of Braveheart Investment Group plc (Braveheart or the Company), a company incorporated in the United Kingdom and registered in Scotland, and its subsidiaries (together, the Group) for the six months ended 30 September 2013. The interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with the Annual Report and Accounts for the year ended 31 March 2013 which have been prepared in accordance with International Financial Reporting Standards as adopted for use in the EU. The financial information in this half-yearly report, which was approved by the Board and authorised for issue on 17 December 2013 is unaudited.

The interim financial statements do not constitute statutory accounts for the purpose of sections 434 and 435 of the Companies Act 2006. The comparative financial information presented herein for the year ended 31 March 2013 has been extracted from the Group's Annual Report and Accounts for the year ended 31 March 2013 which have been delivered to the Registrar of Companies. The Group's independent auditors' report on those accounts was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498(2) or 498(3) of the Companies Act 2006.

The preparation of the half-yearly report requires management to make judgements, estimates and assumptions that affect the policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. In preparing this half-yearly report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the audited consolidated financial statements for the year ended 31 March 2013.

The interim financial statements have been prepared using the same accounting policies as those applied by the Group in its audited consolidated financial statements for the year ended 31 March 2013 and which will form the basis of the 2014 Annual Report. The interim financial statements have been prepared on the same basis as the financial statements for year ended 31 March 2013 which is on the assumption that the company is a going concern.

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

2 Earnings per share

The basic earnings per share has been calculated by dividing the loss for the period attributable to equity holders of the parent by the weighted average number of ordinary shares in issue during the period.

The calculation of earnings per share is based on the following (loss)/profit and number of shares in issue:

	Six months ended		Year ended
	30 September		31 March
	2013	2012	2013
	£'000	£'000	£'000
(Loss)/profit for the period attributable to equity holders of the parent	(843)	67	67
Weighted average number of ordinary shares in issue:			
- For basic loss per ordinary share	23,118,057	21,215,429	22,463,876
- For diluted loss per ordinary share	23,118,057	21,215,429	22,463,876

3 Goodwill

	VFM £'000	Investors £'000	Neon £'000	Total £'000
At 1 April 2012 and 30 September 2012	372	615	366	1,353
Movement	-	-	14	14
At 31 March 2013	372	615	380	1,367
Impairment	-	(520)	-	(520)
At 30 September 2013	372	95	380	847

The impairment in the period under review relates to Investors Ltd. The impairment loss of £520k reflects the fair value of the company less costs to sell as at 30 September 2013 and has been included in 'other operating expenses' in the statement of comprehensive income. In addition, the intangibles were also impaired by £90k.

4 Intangible assets

	Brand £'000	Database £'000	Total £'000
Cost			
At 1 April and 30 September 2012	67	61	128
Acquired on acquisition	-	-	-
At 31 March and 30 September 2013	67	61	128
Amortisation and impairment			
At 1 April 2012	10	9	19
Amortisation	3	3	6
At 30 September 2012	13	12	25
Amortisation	4	3	7
At 31 March 2013	17	15	32
Amortisation	3	3	6
Impairment	47	43	90
At 30 September 2013	-	-	-
Net Book Value			
At 1 April 2012	57	52	109
At 30 September 2012 (unaudited)	54	49	103
At 31 March 2013 (audited)	50	46	96
At 30 September 2013 (unaudited)	-	-	-

5 Investments at fair value through profit or loss

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		Total £'000	
	Equity investments in quoted companies £'000	Equity investments in unquoted companies £'000	Debt investments in unquoted companies £'000	Equity investments in unquoted companies £'000		Debt investments in unquoted companies £'000
At 1 April 2012	-	-	-	3,225	51	3,276
Repayments	-	-	-	-	(9)	(9)
Additions at Cost	-	-	-	13	32	45
Change in Fair Value	-	-	-	209	-	209
At 30 September 2012	-	-	-	3,447	74	3,521
Repayments	-	-	-	-	(6)	(6)
Change in Fair Value	-	-	-	45	-	45
At 31 March 2013 (audited)	-	-	-	3,492	68	3,560
Repayments	-	-	-	-	(6)	(6)
Additions at Cost	-	-	-	3	33	36
Change in Fair Value	-	-	-	(22)	-	(22)
At 30 September 2013 (unaudited)	-	-	-	3,473	95	3,568

6 Contingent consideration

During the half year, £29,000 was debited to the statement of comprehensive income in respect of a reduction in the sum due on future exit values of the Caledonia Portfolio Realisations (CPR) portfolio as a result of an increase in the fair value of the related portfolio assets.

Accordingly, at 30 September 2013, short term contingent consideration of £403,000 comprised £273,000 being the sum due on future exit values of the CPR portfolio and £130,000 being the fair value of the consideration due in respect of the acquisition of Envestors.

7 Share capital

The Company has one class of ordinary shares. All shares carry equal voting rights, equal rights to income and distribution of assets on liquidation or otherwise, and no right to fixed income.

Directors, Secretary, Registered Office and Advisers**Directors**

Jeremy H Delmar-Morgan MA MSI, *Chairman*
 Geoffrey C B Thomson, *Chief Executive Officer*
 Carolyn Smith BA Hons ACIS, *Chief Investment Officer*
 Aileen Brown BA CA, *Chief Financial Officer*
 Edward B Cunningham CBE, *Non-executive Director (resigned 26 September 2013)*
 J Kenneth Brown BA CA, *Non-executive Director*

Secretary

Aileen Brown BA CA

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Shareholder communications

A copy of this report will be sent to shareholders and is available on request from the Company's registered office: Merlin House, Necessity Brae, Perth, PH2 0PF. A copy has also been posted on the Company's website: www.braveheartinvestmentgroup.co.uk



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