



Capital for Colleagues

31 March 2017

CAPITAL FOR COLLEAGUES PLC
(‘Capital for Colleagues’ or the ‘Company’)

QUARTERLY INVESTMENT UPDATE

Capital for Colleagues, the investment vehicle focused on opportunities in the Employee Owned Business (‘EOB’) sector, is pleased to announce an investment update in respect of the quarter ended 28 February 2017.

Key Statistics for the quarter:

- Portfolio comprised of 15 unquoted EOBs at the end of the quarter
- Net Asset Value (‘NAV’) of GBP 4,190,852 (30 November 2016: GBP 5,205,581)
- NAV per share of 43.54 pence (30 November 2016: 54.09 pence per share)

Material developments in the quarter:

As we register the third anniversary of the Company’s admission to trading on the NEX Exchange Growth Market, recent events have made it appropriate for the Directors to re-examine (and indeed to re-confirm) our belief in the fundamental merits of investing in EOBs.

The main development in the quarter ended 28 February 2017 was the placing into administration of FJ Holdings Limited (‘FJH’) and FJH’s wholly owned subsidiary, Ham Baker Adams Limited (‘HBA’). At the time of the administration, the Company’s loans to and investments in FJH and HBA were valued at approximately GBP 1.3 million in aggregate. As announced at the Company’s Annual General Meeting on 28 February 2017, the Administrators have confirmed that the unsecured creditors of FJH and HBA, including Capital for Colleagues, are unlikely to receive any distribution in respect of amounts due to them. Accordingly, the Company’s loans to and investments in FJH and HBA have been written down to zero. The extent of the continuing increase in value of other portfolio investments over the quarter was insufficient to offset the impact of this write down in value and the Company’s net asset value therefore fell from 54.09p per share at 30 November 2016 to 43.54p per share as at 28 February 2017. Investment in smaller, unquoted companies always carries with it a risk that some investments will fail. The Board is committed to minimising this risk and the Company will continue to invest in a diversified range of EOBs with the intention that the majority will become successful and sustainable, delivering meaningful returns to the Company and its shareholders.

The Board has reflected on the circumstances in which FJH became part of the Company’s portfolio and examined whether or not this led to a greater chance of failure than might otherwise have been the case. FJH was one of three investments acquired, immediately prior to the Company’s IPO, from

the members of a pre-existing limited liability partnership. Since the IPO, it had become apparent that FJH's commitment to employee ownership ('EO') was not as deeply embedded as the Company would typically expect to see in its investee companies. Moreover, FJH's management was not always receptive to ideas as to how to improve that company's financial management and performance, despite considerable input being provided to FJH's management by members of the Capital for Colleagues team. Accordingly, a decision to exit the holding was taken by the Company some months prior to the administration referred to above. Regrettably, before an exit could be achieved, in the light of the predictable impact of increasingly tough trading conditions, FJH's management and its secured finance providers engineered a sale of the group's key businesses and assets to a third party private equity firm, leaving existing equity investors and unsecured finance providers with nothing of value.

Over the last three years, Capital for Colleagues has sourced and executed its investments through a process which delivers a detailed understanding of prospective investee companies (and the people who run them) prior to any investment being made. We are also pleased to report that the remaining two investments acquired by the Company pre-IPO are positively embracing EO and we continue to provide active help with their respective EO 'journeys'. Without wishing to deny the significant impact of the failure of FJH and HBA, it has not dimmed the Directors' enthusiasm for seeing through the Company's strategy.

In light of this and so that Capital for Colleagues can continue to capitalise on the many attractive investment opportunities that still exist in the EOB sector, the Company intends to raise additional equity capital. The Directors propose to raise up to GBP 2.0 million through a pre-emptive issue of new ordinary shares at a price of 42p per share – a small discount relative to the restated net asset value per share of 43.54p as at 28 February 2017. The Directors are pleased to report that certain existing investors in the Company have already indicated their intention to support the proposed fundraising, further details of which will be announced as soon as practicable.

The Directors have also decided to look carefully at the level of the Company's fixed operating costs and the way in which such costs are met, to ensure that costs overall remain appropriately in line with the Company's present and likely short term asset base. To achieve this, the Executive Directors and certain key employees of the Company have agreed that, for a period of at least 12 months from May 2017, a proportion of their monthly earnings will be paid in new ordinary shares in the Company, utilising as far as possible a Share Incentive Plan. Whilst the Company's overheads are far from excessive, the Directors believe that this subscription scheme will have a positive impact on the Company's resources, whilst underlining the belief of key stakeholders in the Company's investment strategy and its future prospects.

The events surrounding FJH are extremely disappointing, but the Directors still believe in the fundamental strength of the EOB sector and the returns that it can deliver. The Directors are satisfied with the performance of the Company's other investee companies and are pleased by the resilience

these are demonstrating. The Directors are therefore optimistic about Capital for Colleagues' prospects and look forward to updating shareholders on the Company's progress in due course.

Further information on the Company's investment portfolio is set out below.

UNQUOTED INVESTMENTS

As at 28 February 2017, the Company's portfolio of unquoted investments was valued at GBP 4,207,486 and comprised 15 companies operating across a range of sectors, as set out below:

INDUSTRIALS (value: GBP 3,296,586; 78.3% of Portfolio)

Construction and Materials

Civils Store Limited
Ecomerchant Natural Building Materials Ltd
TPS Investment Holdings Limited

Industrial Transportation

Place 2 Place Logistics Limited

Support Services

Anthesis Consulting Group Limited
Cotswold Valves Limited
CSM Site Supplies Limited
Hire and Supplies Limited
Merkko Group Limited
Office for Public Management Limited
MI Accountancy Solutions Limited

RETAIL (value: GBP 393,330; 9.4% of Portfolio)

General retailers

The Homebuilding Centre (Holdings) Limited

TECHNOLOGY (value: GBP 517,570; 12.3% of Portfolio)

Software & Computer Services

Computer Application Services Limited
2C Services Limited
Bright Ascension Limited

The loans and investments made by the Company to unquoted EOBs are aimed at delivering equity-like returns and bear interest at rates of between 9% and 24%. Each loan or investment is tailored to the individual investee company's operating performance and specific working capital needs.

The Directors believe that the unquoted EOBs in the Company's portfolio currently generate total turnover of around GBP 47million per annum and support approximately 440 jobs.

Total Unquoted Investments (including short term loans) as at 28 February 2017

Cost: GBP 3,801,028

Valuation (including capitalised costs): GBP 4,207,486

BASIS OF VALUATION

Each of the unquoted investments is included at the Directors' assessment of fair value, in accordance with International Private Equity and Venture Capital Guidelines. Nevertheless, as a matter of prudence, the Directors have provided for a general provision equivalent to 2 per cent. of the value of the unquoted investments for possible impairment. The Directors do not, however, believe that any general provision impairment is necessary in respect of any of the Company's current unquoted investments.

Account is taken of any potential taxation liability in respect of the increase in value of investments on an annual basis, as at the Company's year-end.

The Directors of the Company are responsible for the contents of this announcement.

****ENDS****

For further information, please visit www.capitalforcolleagues.com or contact:

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Notes

Capital for Colleagues is an investment company focused on the Employee Owned Business ('EOB') sector. The Company has a clear strategy aimed at investing in, advising and growing established, mainly UK-based, EOBs as well as assisting companies which are looking to launch employee ownership schemes, providing the capital and advice to help them achieve their objectives.

Capital for Colleagues has a proven management team, with a wide network of contacts and affiliates, as well as established access to investment opportunities, enabling the Company to execute its strategy and identify and capitalise on EOB-focused investment opportunities.