

## The Cayenne Trust plc

### Unaudited Interim Results for the six months ended 31 July 2006

#### Chairman's Statement

The period under review is the first six months since your Company appointed Cayenne Asset Management Limited as its new investment manager and changed its investment policy and the composition of its Board.

Investment performance has been mixed. The first three months showed appreciation in the basic net asset value (NAV) per ordinary share but turbulence in equity markets in the subsequent three months resulted in an NAV per ordinary share at 31 July of 108.58p, a decrease of 1.19% since 31 January.

As foreshadowed in my statement in the last annual report, the raising of £10 million Convertible Unsecured Loan Stock 2011 and £35 million "C" Shares was completed in April and the Company's administration was transferred to Phoenix Administration Services Limited. The money raised, which more than quadrupled the assets of the Company, was committed to the market when it was close to the year's peak and the "C" shareholders also suffered the expenses of the issue and the costs of investing which together accounted for a fall in NAV per "C" share of approximately 4% from the issue price of £1. On 22 June the "C" shares converted into ordinary shares at a conversion ratio of 0.8491 and by 31 July the NAV represented a decline of 7.5% for the "C" shares since their issue.

Fortunately the mid-market price of the ordinary shares increased by 4.7% to 112.5p over the six month period, showing a confidence by investors in your Company's new investment policy and investment manager which is fully shared by the Board.

Jonathan Agnew

Chairman

4 October 2006

#### Investment Manager's Report

Equity markets hit new highs before selling off sharply in the spring and early summer. Sterling strengthened versus the US\$ and bond yields declined as geo-political uncertainty accelerated. In Sterling terms, the MSCI World Index highlights the problems faced by the investment trust sector as its appreciation during the period equated to little more than 1%. Asian and Latin American markets caused a substantial performance drag with declines of between 3.5% and 10%. After its solid performance last year, of particular note was the 7% fall in the Nikkei 225 Index. Equally important, was the failure of S&P 500 Index to make any progress over the period as it declined 0.27%. The UK enjoyed Europe's best performance with the FTSE All Share Index appreciating by 2.5% contrasting the DJ Euro Stoxx 50 Index which finished marginally in positive territory. There was significant positive performance available in Eastern Europe, with Russia posting gains and in Asia; India and Hong Kong also performed well. Much of these gains were due, however, to a strong first quarter performance which subsequently reversed during the second quarter amid negative sentiment which affected all markets.

This nervousness was reflected in the trust sector, which declined by 3% as measured by the FTSE 350 Equity Investment Instruments Index. Discounts across the sector widened slightly and the underlying portfolios tended to under perform in these volatile markets. Valuations across the sector are currently attractive and the Trust is well positioned to take advantage of any re-rating, while some exposure to low beta positions and the hedge position should help to mitigate risk. Corporate activity, whether enforced by arbitrageurs or at the discretion of independent directors, continues to re-shape the sector and appears likely to underpin valuations in the future. Many of the major generalist trusts have been active throughout the period buying back shares, either for cancellation or treasury, to avoid stakes being accumulated by unfriendly investors. As history shows, investing in the investment trust sector can involve periods of poor performance, especially in times of global uncertainty. The manager remains confident that solid returns will be achievable over the medium term.

There was a significant amount of portfolio activity as the majority of the inherited positions were sold. The proceeds were invested into a selection of generalist and specialist trusts with well regarded managers. Overpriced sectors, such as commodity stocks, were avoided. In particular, positions were established in Murray Income, Edinburgh, Electric & General, Monks and Scottish Mortgage. Exposure to smaller companies was gained via Aberforth Smaller while Electra Partners and HgCapital provided a venture capital weighting. The Trust allocated money to some more esoteric situations such as Utilico, Gartmore Irish and Real Estate Opportunities ZDPs. To help protect shareholder's assets, puts on the FTSE 100 and S&P 500 were purchased in the form of listed warrants. As stated in the last report to shareholders, 15% of the Trust's assets were invested in Apollo Fund plc. This investment was made at the end of February, the first opportunity after the change of manager. To avoid the potential negative impact of a decline in the US\$, a spot and forward transaction was entered into, mitigating the foreign exchange risk of investing in Apollo's US\$-denominated shares.

With the original assets substantially invested by March, the Trust raised the additional £35m in 'C' Shares and £10m in Convertible Unsecured Loan Stock 2011. The issue was well supported by a diverse group of institutional shareholders and private client stockbrokers, precisely the target audience intended for a product of this nature. The new money raised was received at the end of April and much of it was invested just as markets peaked. Subsequent weakness represented an ideal buying opportunity as selected shares became priced at attractive levels. However, sizeable lines of stock were rare as few holders were selling and it took some weeks to build positions during the stock market correction. As with the ordinary pool, 15% of the 'C' pool was invested in Apollo Fund plc. Significant investments were also allocated to both the international generalist sector and the UK income & growth sector, which exhibited attractive valuations. Investments of note were Perpetual Income & Growth and Edinburgh which had both under-performed the market due to their low exposure to commodity stocks. Some additional exposure to emerging markets was gained by investing in Utilico Emerging and The World Trust Fund. The opportunity was taken to invest in two new issues; Jupiter Green and Finsbury Emerging Biotech. Exposure to the anticipated economic growth in Europe was gained by purchasing TR European Growth and, after its disastrous debut, weighting to Melchior Japan was increased slightly; this manager is highly regarded and we expect to see a dramatic turn around in his performance as markets settle. Currently out of favour, Herald Investment Trust, a well-managed technology fund, was purchased on an historically-wide discount. The Trust's portfolio is now fully established and hedge positions are in place to

limit the downside risks of any substantial adverse market movements.

Len Gayler  
Cayenne Asset Management Limited  
4 October 2006

#### Income Statement

	Six months ended 31 July 2006 Unaudited			Six months ended 31 July 2005 Unaudited			Year ended 31 January 2006 Audited		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments	-	(2,383)	(2,383)	-	1,374	1,374	-	3,227	3,227
Exchange differences	-	(148)	(148)	-	-	-	-	-	-
Gains on forward currency contracts	-	422	422	-	-	-	-	-	-
Income	487	-	487	385	28	413	866	59	925
Investment management fee	(36)	(146)	(182)	(33)	(33)	(66)	(65)	(65)	(130)
Other expenses (note 4)	(152)	(801)	(953)	(69)	-	(69)	(192)	-	(192)
<b>Net return/(loss) before finance costs and taxation</b>	<b>299</b>	<b>(3,056)</b>	<b>(2,757)</b>	<b>283</b>	<b>1,369</b>	<b>1,652</b>	<b>609</b>	<b>3,221</b>	<b>3,830</b>
Increase in value of RPI 5.06% Debenture Stock	-	-	-	-	(140)	(140)	-	(308)	(308)
Increase in value of hedge on £5 million RPI 5.06% Debenture Stock	-	-	-	2	71	73	4	157	161
Interest payable and similar charges	(28)	(112)	(140)	(135)	(194)	(329)	(273)	(388)	(661)
<b>Return/(loss) on ordinary activities before taxation</b>	<b>271</b>	<b>(3,168)</b>	<b>(2,897)</b>	<b>150</b>	<b>1,106</b>	<b>1,256</b>	<b>340</b>	<b>2,682</b>	<b>3,022</b>
Tax on ordinary activities	-	-	-	-	-	-	-	-	-
<b>Transfer to/(from) reserves</b>	<b>271</b>	<b>(3,168)</b>	<b>(2,897)</b>	<b>150</b>	<b>1,106</b>	<b>1,256</b>	<b>340</b>	<b>2,682</b>	<b>3,022</b>
<b>Return/(loss) per ordinary share (note 2)</b>									
Basic	<b>0.94p</b>	<b>(10.98)p</b>	<b>(10.04)p</b>	1.18p	8.67p	9.85p	2.67p	21.03p	23.70p
Diluted	<b>0.92p</b>	<b>(10.98)p</b>	<b>(10.04)p</b>	n/a	n/a	n/a	n/a	n/a	n/a

The total column of this statement is the profit and loss account of the Company. The supplementary revenue and capital columns are both prepared under guidance published by the Association of Investment Trust Companies. All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued in the year.

#### Reconciliation of Movements in Shareholders' Funds

	Share Capital £'000	Share Premium £'000	'C' Share Capital £'000	Deferred Share Capital £'000	Capital Redemption Reserve £'000	Equity Component CULS 2011 £'000	Capital Reserve- Realised £'000	Capital Reserve- Unrealised £'000	Revenue Reserve £'000	Total £'000
<b>At 31 January 2006</b>	<b>3,189</b>	<b>9,192</b>	-	-	-	-	<b>1,126</b>	<b>371</b>	<b>139</b>	<b>14,017</b>
Issue of 'C' shares 25 April 2006	-	-	35,000	-	-	-	-	-	-	35,000
Issue of Convertible Unsecured Loan Stock 2011 25 April 2006	-	-	-	-	-	1,161	-	-	-	1,161

Conversion of 'C' shares 22 June 2006	7,430	-	(35,000)	27,570	-	-	-	-	-	-
Redemption of Deferred Shares 22 June 2006	-	-	-	(27,570)	27,570	-	-	-	-	-
Net (loss)/return from ordinary activities	-	-	-	-	-	-	(775)	(2,393)	271	(2,897)
<b>At 31 July 2006</b>	<b>10,619</b>	<b>9,192</b>	-	-	<b>27,570</b>	<b>1,161</b>	<b>351</b>	<b>(2,022)</b>	<b>410</b>	<b>47,281</b>

	Share Capital £'000	Share Premium £'000	Warrant Redemption Reserve £'000	Capital Reserve- Realised £'000	Capital Reserve- Unrealised £'000	Revenue Reserve £'000	Total £'000
<b>At 31 January 2005</b>	3,189	9,119	73	510	(1,695)	500	11,696
Final dividend for 2005	-	-	-	-	-	(255)	(255)
Expiry of warrants	-	73	(73)	-	-	-	-
Net (loss)/return from ordinary activities	-	-	-	(1,458)	2,564	150	1,256
<b>At 31 July 2005</b>	<b>3,189</b>	<b>9,192</b>	-	<b>(948)</b>	<b>869</b>	<b>395</b>	<b>12,697</b>

	Share Capital £'000	Share Premium £'000	Warrant Redemption Reserve £'000	Capital Reserve- Realised £'000	Capital Reserve- Unrealised £'000	Revenue Reserve £'000	Total £'000
<b>At 31 January 2005</b>	3,189	9,119	73	510	(1,695)	500	11,696
Final dividend for 2005	-	-	-	-	-	(255)	(255)
Expiry of warrants	-	73	(73)	-	-	-	-
Net return from ordinary activities	-	-	-	616	2,066	340	3,022
Interim dividend for 2006 declared and paid in year	-	-	-	-	-	(191)	(191)
Second interim dividend for 2006 declared and paid in year	-	-	-	-	-	(255)	(255)
<b>At 31 January 2006</b>	<b>3,189</b>	<b>9,192</b>	-	<b>1,126</b>	<b>371</b>	<b>139</b>	<b>14,017</b>

#### Balance Sheet

	31 July 2006 Unaudited £'000	31 July 2005 Unaudited £'000	31 January 2006 Audited £'000
<b>Fixed Assets</b>			
Investments at fair value through profit or loss	53,123	14,296	7,396
<b>Current Assets</b>			
Debtors	7,276	87	3,078
Value of RPI hedge	-	536	-
Certificates of deposit	-	1,000	-
Cash at bank	1,515	7,374	3,688
	<b>8,791</b>	<b>8,997</b>	<b>6,766</b>
<b>Creditors: amounts falling due within one year</b>	<b>(5,743)</b>	<b>(10,596)</b>	<b>(145)</b>
<b>Net current assets/(liabilities)</b>	<b>3,048</b>	<b>(1,599)</b>	<b>6,621</b>
<b>Total assets less current liabilities</b>	<b>56,171</b>	<b>12,697</b>	<b>14,017</b>
<b>Creditors: amounts falling due after more than one year</b>			
3.25% Convertible Unsecured Loan Stock 2011	(8,890)	-	-
<b>Net assets</b>	<b>47,281</b>	<b>12,697</b>	<b>14,017</b>
<b>Capital and reserves</b>			
Called up share capital	10,619	3,189	3,189
Share premium account	9,192	9,192	9,192
Other reserves			
Capital redemption reserve	27,570	-	-

Equity component CULS 2011	1,161	-	-
Capital reserve – realised	351	(948)	1,126
Capital reserve – unrealised	(2,022)	869	371
Revenue Reserve	410	395	139
<b>Equity Shareholders' Funds</b>	<b>47,281</b>	<b>12,697</b>	<b>14,017</b>

**Net asset value per ordinary share (note 3):**

Basic	111.32p	99.54p	109.89p
Diluted	111.32p	n/a	n/a

**Cash Flow Statement**

	Six months ended 31 July 2006 Unaudited £'000	Six months ended 31 July 2005 Unaudited £'000	Year ended 31 January 2006 Audited £'000
<b>Cash (outflow)/inflow from operating activities</b>	<b>(570)</b>	198	607
<b>Servicing of finance</b>	<b>(1)</b>	(327)	(38)
<b>Financial investment</b>	<b>(46,454)</b>	2,650	8,452
<b>Equity dividends paid</b>	-	(255)	(701)
<b>Net cash (outflow)/inflow before financing</b>	<b>(47,025)</b>	2,266	8,320
<b>Financing</b>			
Repayment of RPI Debenture Stock	-	-	(10,740)
Management of liquid resources	-	(2,268)	2,430
Issue of 'C' shares	35,000	-	-
Issue of Convertible Unsecured Loan Stock 2011	10,000	-	-
<b>(Decrease)/increase in cash during the period</b>	<b>(2,025)</b>	(2)	10

**Reconciliation of net cash flow to movement in net debt/funds**

(Decrease)/increase in cash during the period	(2,025)	(2)	10
Cash outflow/(inflow) from increase/(decrease) in liquid resources	-	2,268	(2,430)
Debenture Stock non-cash movement	-	(140)	(307)
Repayment of Debenture Stock	-	-	10,740
Issue of Convertible Unsecured Loan Stock 2011	(10,000)	-	-
Exchange movements	(148)	-	-
Non-cash flow movements:			
Equity element of Convertible Unsecured Loan Stock 2011	1,161	-	-
Notional interest charge on Convertible Unsecured Loan Stock 2011	(51)	-	-
<b>Change in net (debt)/funds</b>	<b>(11,063)</b>	2,126	8,013
<b>Opening net funds/(debt)</b>	<b>3,688</b>	(4,325)	(4,325)
<b>Closing net (debt)/funds</b>	<b>(7,375)</b>	(2,199)	3,688

**Represented by:**

Cash at bank	1,515	7,374	3,688
Certificates of deposit	-	1,000	-
RPI 5.06% Debenture Stock 2006	-	(10,573)	-
Convertible Unsecured Loan Stock 2011	(8,890)	-	-
	<b>(7,375)</b>	<b>(2,199)</b>	<b>3,688</b>

**Reconciliation of operating profit to net cash (outflow)/inflow from operating activities**

Net (loss)/return before finance costs and taxation	(2,757)	1,652	3,830
Losses/(gains) on investments held at fair value	2,383	(1,374)	(3,227)
Losses on exchange movements	148	-	-
(Increase)/decrease in other debtors	(5,878)	(34)	3
(Increase)/decrease in accrued income	2	-	-
Increase/(decrease) in creditors	5,532	(46)	1
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(570)</b>	<b>198</b>	<b>607</b>

Notes to the Financial Statements

1. Accounting policies

A summary of the principal accounting policies is set out below. They are consistent with the policies set out in the annual report for the year

ended 31 January 2006 except as noted below.

a) Basis of accounting

The financial statements have been prepared under the historical cost convention modified to include the revaluation of fixed assets and in accordance with United Kingdom law and Accounting Standards and with the revised Statement of Recommended Practice ("SORP") "Financial Statements of Investment Trust Companies", issued by the Association of Investment Trust Companies (December 2005).

b) Investments

Investments are classified at fair value through profit or loss. As the Company's business is investing in financial assets with a view to profiting from their total return in the form of interest, dividends or increases in fair value, listed equities and fixed income securities are designated at fair value through profit or loss on initial recognition. Financial assets designated at fair value through profit or loss, are measured at subsequent reporting dates at fair value, which is the bid price.

c)

Convertible Unsecured Loan Stock 2011

Convertible Unsecured Loan Stock issued by the Company is regarded as a compound instrument, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using a comparable bond with a coupon rate and maturity for a similar non-convertible debt. The difference between the proceeds of issue of the Convertible Unsecured Loan Stock and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Company, is included in equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for a similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the Convertible Unsecured Loan Stock.

Income

All dividends and any related tax credits are taken into account on the date investments are marked ex-dividend. The fixed returns on debt securities and non-equity shares have been accounted for on an effective interest rate basis, the effective interest rate being calculated by reference to comparable bonds which have similar coupon rates and maturity dates, but are non-convertible debt. Deposit interest and underwriting commission receivable are taken into account on an accruals basis.

Expenses

With effect from 1 February 2006, 80 per cent. of the investment management fee and finance costs are charged to capital reserves – realised, in line with the Board's expected long-term split of returns from the investment portfolio of the Company. Prior to 1 February 2006, 50 per cent. of the investment management fee and finance costs were charged to capital reserves – realised. Performance fees are charged entirely to capital reserves – realised. All other expenses are charged to the revenue account.

Return per ordinary share

Basic earnings

The basic return per ordinary share is based on the net loss on ordinary activities after taxation for the six months ended 31 July 2006 of £2,897,000 (six months ended 31 July 2005: gain of £1,256,000; year ended 31 January 2006: gain of £3,022,000) and on 28,846,607 (six months ended 31 July 2005 and year ended 31 January 2006: 12,755,082) ordinary shares, being the weighted average number of ordinary shares in issue during the period.

The basic earnings per ordinary share figures detailed above can be further analysed between revenue and capital, as below:

The revenue return is based on the net return on ordinary activities after taxation for the six months ended 31 July 2006 of £271,000 (six months ended 31 July 2005: return of £150,000; year ended 31 January 2006: return of £340,000) and on 28,846,607 (six months ended 31 July 2005 and year ended 31 January 2006: 12,755,082) ordinary shares, being the weighted average number of ordinary shares in issue during the period.

The capital return is based on the net loss on ordinary activities after taxation for the six months ended 31 July 2006 of £3,168,000 (six months ended 31 July 2005: gain of £1,106,000; year ended 31 January 2006: gain of £2,682,000) and on 28,846,607 (six months ended 31 July 2005 and year ended 31 January 2006: 12,755,082) ordinary shares, being the weighted average number of ordinary shares in issue during the period.

Diluted earnings

The diluted revenue earnings per ordinary share have been calculated on the assumption that the Convertible Unsecured Loan Stock 2011 was fully converted on the date of issue 25 April 2006 year giving a weighted average of 32,678,353 ordinary shares and based on net profit for the year of £299,000. The diluted earnings per ordinary share of 0.92p includes the savings of finance costs on the loan stock after taxation.

The effect of the Convertible Unsecured Loan Stock 2011 on the capital and total earnings per share is anti-dilutive. The diluted capital and total returns per share are therefore equal to the basic returns per share.

Net asset value per ordinary share

The net asset value per ordinary share is based on the net assets at 31 July 2006 of £47,281,000 (six months ended 31 July 2005: £12,697,000; year ended 31 January 2006: £14,017,000) and on 42,475,143 (six months ended 31 July 2005 and year ended 31 January 2006: 12,755,082) ordinary shares, being the number of ordinary shares in issue at the period end.

The Convertible Unsecured Loan Stock 2011 has an anti-dilutive effect on the net asset value per ordinary share and therefore the diluted net asset value is equal to the basic net asset value.

Under the Association of Investment Trust Companies (AITC) guidelines, the net asset value per share is calculated as follows:

	<b>31 July 2006</b>
	<b>£'000</b>
<b>Net assets per Balance Sheet</b>	<b>47,281</b>
Equity component of Convertible Unsecured Loan Stock 2011	<b>(1,161)</b>
<b>Net assets per AITC guidelines</b>	<b><u>46,120</u></b>
<b>Number of ordinary shares</b>	<b>42,475,143</b>
<b>NAV per share (p)</b>	<b>108.58</b>

#### 4. Share Capital

On 25 April 2006 the Company issued 35,000,000 'C' shares of £1 each. On 22 June 2006, the 'C' shares were sub-divided into 140,000,000 'C' shares of 25p each, of which 29,720,061 were simultaneously converted into new ordinary shares of 25 each using the conversion factor of 0.8491 new ordinary shares for each 'C' share. The remaining 110,279,939 'C' shares of 25p each were simultaneously converted into deferred shares which were redeemed by the Company for an aggregate consideration of 1p for every 100,000 deferred shares (or part thereof) held by each holder. Post the conversion of 'C' shares there are 42,475,143 ordinary shares in issue.

Issue expenses of £800,000 relating to the issue of 'C' shares have been charged to capital reserve – realised. These issue expenses were indirectly borne by the new investors through a deduction from the Gross Issue Proceeds.

On 25 April 2006 the Company also issued a 3.25% Convertible Unsecured Loan Stock 2011 for a nominal value of £10,000,000. The loan stock can be converted twice a year into ordinary shares during the months of January and July commencing January 2007. Post the 'C' share conversion the Convertible Unsecured Loan Stock 2011 will convert at a rate of 70.77 ordinary shares for every £100 nominal of Convertible Unsecured Loan Stock 2011. Interest is paid on the Convertible Unsecured Loan Stock 2011 on 31 January and 31 July each year. 20% of the interest is charged to income and 80% is charged to capital in line with the Board's expected long-term split of returns from the investment portfolio of the Company.

#### 5. January 2006 Accounts

The financial information for the year ended 31 January 2006 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985.