

The Cayenne Trust plc

Interim Report
for the six months ended 31 July 2006



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Directors and Advisers

Directors

Jonathan Agnew (Chairman)

Christopher Jones

Sir Laurence Magnus

Advisers

Investment Manager

Cayenne Asset Management Limited
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Company Secretary and Registered Office

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Non-advisory share dealing service
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Custodian

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Auditors

Deloitte & Touche LLP
Chartered Accountants
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London EC4A 4TR

Stockbrokers

Winterflood Securities Limited
The Atrium Building
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25 Dowgate Hill
London EC4R 2GA

Investment Policy

The Cayenne Trust plc is a UK investment trust listed on The London Stock Exchange. Its investment policy can be summarised as follows:

- the Company invests principally in the securities of UK investment trust companies and other closed-end funds;
- up to 15% of the Company's assets, at the time of investment, may be invested in Apollo Fund plc; and
- the Company will seek to ensure preservation of capital by use of derivative and similar instruments to the extent permissible within the regulations governing investment trust companies and the Listing Rules.

Share and Loan Capital

The Company's share capital consists of 42,475,143 ordinary shares of 25p each and £10,000,000 in nominal amount of 3.25 per cent. Convertible Unsecured Loan Stock 2011.

As at 31 July 2006 the actual gearing was 121%.

Performance Statistics

| | 31 July 2006 | <i>31 January 2006</i> | <i>% Change</i> |
|---|-------------------------|----------------------------|---------------------|
| NAV per ordinary share – basic (per AIC guidelines – see note 3) | 108.58p | 109.89p | (1.2) |
| NAV per ordinary share – basic | 111.32p | 109.89p | 1.3 |
| Mid-market price per ordinary share | 112.5p | 107.5p | 4.7 |
| (Premium)/discount per ordinary share | (1.1)% | 2.2% | |
| Actual gearing* | 121% | 100% | |
| | | | |
| FTSE 350 Equity Investment Instruments Index (source: Bloomberg) | 5,152.00 | 5,314.90 | (3.1) |

* This reflects the amount of loans already arranged and in use by the Company. This is the gearing figure published by The Association of Investment Companies. It is calculated by dividing total assets less current liabilities (excluding the Convertible Unsecured Loan Stock at par value) by ordinary shareholders' funds.

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 shareholders' 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

Investments in Order of Valuation

at 31 July 2006

| (Ordinary shares unless otherwise indicated) | At Valuation £'000 | % of Portfolio |
|--|--------------------------|-------------------|
| Non-split trusts | | |
| Apollo Fund Participating Shares | 7,831 | 14.74 |
| Scottish Mortgage Investment Trust | 4,966 | 9.35 |
| Edinburgh Investment Trust | 4,185 | 7.88 |
| Electric & General Investment Trust | 3,527 | 6.64 |
| Monks Investment Trust | 3,056 | 5.75 |
| JPMorgan Fleming Mercantile Investment Trust | 2,571 | 4.84 |
| Perpetual Income & Growth Investment Trust | 2,297 | 4.32 |
| Murray Income Trust | 1,583 | 2.98 |
| Advance UK Trust | 1,528 | 2.88 |
| Utilico Emerging Markets Utilities | 1,437 | 2.70 |
| TR European Growth Trust | 1,414 | 2.66 |
| Electra Private Equity | 1,286 | 2.42 |
| Aberforth Smaller Companies | 1,118 | 2.11 |
| The World Trust Fund | 1,046 | 1.97 |
| Finsbury Emerging Biotechnology Trust | 1,045 | 1.97 |
| Herald Investment Trust | 987 | 1.86 |
| Fidelity Special Values | 876 | 1.65 |
| The Alliance Trust | 863 | 1.62 |
| Jupiter Green Investment Trust | 735 | 1.38 |
| HgCapital Trust | 655 | 1.23 |
| Gartmore Irish Growth Fund | 603 | 1.14 |
| Utilico Emerging Markets Utilities (warrants) | 490 | 0.92 |
| British Empire Securities & General Trust | 435 | 0.82 |
| RIT Capital Partners | 317 | 0.60 |
| Melchior Japan Investment Trust | 250 | 0.47 |
| New India Investment Trust (warrants) | 215 | 0.40 |
| India Capital Growth Fund (warrants) | 103 | 0.19 |
| Impax Environmental Markets (warrants) | 70 | 0.13 |
| Jupiter Green Investment Trust (warrants) | 40 | 0.08 |
| | 45,529 | 85.70 |
| Split capital trusts (ABN AMRO ranking in brackets) | | |
| Real Estate Opportunities Zero Dividend Preference Shares 31/05/2011 (AA5) | 2,512 | 4.73 |
| Utilico Investment Trust (AAA2) | 679 | 1.28 |
| JPMorgan Fleming Income & Growth Investment Trust – Income shares (AAA0) | 660 | 1.24 |
| Aberforth Geared Capital & Income Trust – Capital shares (AAA3) | 541 | 1.02 |
| JPMorgan Fleming Income & Growth Investment Trust – Capital shares (AAA0) | 454 | 0.85 |
| Ecofin Water & Power Opportunities – Capital shares (AAA4) | 384 | 0.72 |
| Real Estate Opportunities 7.5% CULS 31/05/2011 (AA5) | 318 | 0.60 |
| Utilico 3.75% CULS 30/11/2009 (Fully Paid) (AAA2) | 175 | 0.33 |
| Utilico Investment Trust (warrants) (AAA2) | 106 | 0.20 |
| Investec High Income Trust (C3) | 69 | 0.13 |
| Exeter Equity Growth & Income (AA3) | 1 | 0.01 |
| | 5,899 | 11.11 |

Investments in Order of Valuation *continued*

at 31 July 2006

| | At Valuation £'000 | % of Portfolio |
|--|--------------------------|-------------------|
| Other investments | | |
| ML – FTSE 100 15-Dec-06 Put Options @ 6025 | 1,107 | 2.08 |
| ML – FTSE 100 15-Dec-06 Put Options @ 5825 | 418 | 0.79 |
| S&P 500 Index 16-Dec-06 Put Options @ 1300 | 170 | 0.32 |
| | <hr/> | <hr/> |
| | 1,695 | 3.19 |
| | <hr/> | <hr/> |
| Total investments | 53,123 | 100.00 |
| | <hr/> | <hr/> |

With regard to the split capital trusts, these have been ranked in accordance to the system used by ABN AMRO which ascribes a letter to denote the proportion of the underlying portfolio invested in other splits and a number from zero to nine to denote the level of gearing in the underlying portfolio. Details of this system are as follows:

| | | | |
|-----|--------------------------------------|---|--|
| AAA | No other splits in portfolio | 0 | No debt |
| AA | Less than 5% splits in portfolio | 1 | Up to 10% of assets represented by debt |
| A | 5% to 10% splits in portfolio | 2 | Up to 20% of assets represented by debt |
| BB | 10% to 15% splits in portfolio | 3 | Up to 30% of assets represented by debt |
| B | 15% to 25% splits in portfolio | 4 | Up to 40% of assets represented by debt |
| C | greater than 25% splits in portfolio | 5 | Up to 50% of assets represented by debt |
| | | 6 | Up to 60% of assets represented by debt |
| | | 7 | Up to 70% of assets represented by debt |
| | | 8 | Up to 80% of assets represented by debt |
| | | 9 | Greater than 80% of assets represented by debt |

Independent Review Report to The Cayenne Trust plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 31 July 2006 which comprises the income statement, the reconciliation of movements in shareholders' funds, the balance sheet, the cash flow statement and related notes 1 to 5. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information. We have not reviewed the prior year comparatives, since we were not engaged to perform this review in the prior year.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 July 2006.

Deloitte & Touche LLP

Chartered Accountants
London, England.

4 October 2006

Notes: A review does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

Income Statement

| | <i>Six months ended</i> <i>31 July 2006</i> <i>Unaudited</i> | | | <i>Six months ended</i> <i>31 July 2005</i> <i>Unaudited</i> | | | <i>Year ended</i> <i>31 January 2006</i> <i>Audited</i> | | |
|--|--|--------------------------------|------------------------------|--|--------------------------------|------------------------------|---|--------------------------------|------------------------------|
| | <i>Revenue</i> <i>£'000</i> | <i>Capital</i> <i>£'000</i> | <i>Total</i> <i>£'000</i> | <i>Revenue</i> <i>£'000</i> | <i>Capital</i> <i>£'000</i> | <i>Total</i> <i>£'000</i> | <i>Revenue</i> <i>£'000</i> | <i>Capital</i> <i>£'000</i> | <i>Total</i> <i>£'000</i> |
| (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) |
| Net return/(loss) before finance costs and taxation | 299 | (3,056) | (2,757) | 283 | 1,369 | 1,652 | 609 | 3,221 | 3,830 |
| 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) |
| Return/(loss) on ordinary activities before taxation | 271 | (3,168) | (2,897) | 150 | 1,106 | 1,256 | 340 | 2,682 | 3,022 |
| Tax on ordinary activities | - | - | - | - | - | - | - | - | - |
| Transfer to/(from) reserves | 271 | (3,168) | (2,897) | 150 | 1,106 | 1,256 | 340 | 2,682 | 3,022 |
| Return/(loss) per ordinary share (note 2): | | | | | | | | | |
| Basic | 0.94p | (10.98)p | (10.04)p | 1.18p | 8.67p | 9.85p | 2.67p | 21.03p | 23.70p |
| Diluted | 0.92p | (10.98)p | (10.04)p | 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 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 |
|---|---------------------------|---------------------------|----------------------------------|---------------------------------------|---|---|--|--|-----------------------------|----------------|
| At 31 January 2006 | 3,189 | 9,192 | - | - | - | - | 1,126 | 371 | 139 | 14,017 |
| 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) |
| At 31 July 2006 | 10,619 | 9,192 | - | - | 27,570 | 1,161 | 351 | (2,022) | 410 | 47,281 |

| | Share Capital £'000 | Share Premium £'000 | Warrant Redemption Reserve £'000 | Capital Reserve- Realised £'000 | Capital Reserve- Unrealised £'000 | Revenue Reserve £'000 | Total £'000 |
|---|---------------------------|---------------------------|---|--|--|-----------------------------|----------------|
| At 31 January 2005 | 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 |
| At 31 July 2005 | 3,189 | 9,192 | - | (948) | 869 | 395 | 12,697 |

| | Share Capital £'000 | Share Premium £'000 | Warrant Redemption Reserve £'000 | Capital Reserve- Realised £'000 | Capital Reserve- Unrealised £'000 | Revenue Reserve £'000 | Total £'000 |
|---|---------------------------|---------------------------|---|--|--|-----------------------------|----------------|
| At 31 January 2005 | 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) |
| At 31 January 2006 | 3,189 | 9,192 | - | 1,126 | 371 | 139 | 14,017 |

Balance Sheet

| | 31 July 2006 Unaudited £'000 | <i>31 July 2005 Unaudited £'000</i> | <i>31 January 2006 Audited £'000</i> |
|--|---|---|--|
| Fixed Assets | | | |
| Investments at fair value through profit or loss | 53,123 | 14,296 | 7,396 |
| Current Assets | | | |
| 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 |
| | 8,791 | 8,997 | 6,766 |
| Creditors: amounts falling due within one year | (5,743) | (10,596) | (145) |
| Net current assets/(liabilities) | 3,048 | (1,599) | 6,621 |
| Total assets less current liabilities | 56,171 | 12,697 | 14,017 |
| Creditors: amounts falling due after more than one year | | | |
| 3.25% Convertible Unsecured Loan Stock 2011 | (8,890) | – | – |
| Net assets | 47,281 | 12,697 | 14,017 |
| Capital and reserves | | | |
| 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 |
| Equity Shareholders' Funds | 47,281 | 12,697 | 14,017 |
| 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 | <i>Six months ended 31 July 2005 Unaudited £'000</i> | <i>Year ended 31 January 2006 Audited £'000</i> |
|--|--|--|---|
| Cash (outflow)/inflow from operating activities | (570) | 198 | 607 |
| Servicing of finance | (1) | (327) | (38) |
| Financial investment | (46,454) | 2,650 | 8,452 |
| Equity dividends paid | - | (255) | (701) |
| Net cash (outflow)/inflow before financing | (47,025) | 2,266 | 8,320 |
| Financing | | | |
| 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 | - | - |
| (Decrease)/increase in cash during the period | (2,025) | (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) | - | - |
| Change in net (debt)/funds | (11,063) | 2,126 | 8,013 |
| Opening net funds/(debt) | 3,688 | (4,325) | (4,325) |
| Closing net (debt)/funds | (7,375) | (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) | - | - |
| | (7,375) | (2,199) | 3,688 |
| 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 |
| Net cash (outflow)/inflow from operating activities | (570) | 198 | 607 |

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 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.

d) 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.

e) 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.

2. Return per ordinary share

a) 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.

b) 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 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.

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.

3. 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 Companies (AIC) guidelines, the net asset value per share is calculated as follows:

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

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 25p 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 conversion of the "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.

