

The Cayenne Trust plc

Report for the half year ended 31 July 2009



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Directors and Advisers

Directors

Jonathan Agnew (Chairman)

Christopher Jones

Sir Laurence Magnus

All Directors are non-executive

Advisers

Investment Manager

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Investment Policy

The Cayenne Trust plc is a UK investment trust listed on The London Stock Exchange. Its investment objective is to achieve consistent positive absolute returns, and its Investment Policy is as follows:

- The Company invests principally in the securities of UK investment trust companies and other closed-end funds. It also has the flexibility to invest in listed or unlisted open-ended funds and may invest in any security issued by any exchange traded fund, investment fund, investment company, holding company or similar collective investment scheme. In order to seek to achieve consistent positive absolute returns, the Company may occasionally hold positions in other equities, bonds or money-market instruments.
- Up to 15% of the Company's assets, at the time of investment, may be invested in Apollo Fund plc. Apollo is an open-ended offshore fund, managed by Cayenne Asset Management Ltd, with an investment objective of achieving higher rates of return than can generally be achieved by traditional long term stock market investment by maintaining illiquid investments and investments which are thought to be significantly undervalued.
- 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.
- In selecting investments, the Manager is not constrained by any limits on geographical or sectoral distribution of investments by the funds in which the Company invests. As a fund of funds the portfolio is diversified through investment in a wide range of asset classes, geographical regions and currencies.
- The Company may invest up to 100% of its assets in equities which are not investment entities or bonds or money market instruments.
- The Company intends to conduct its affairs so that it satisfies the conditions for approval from HM Revenue & Customs as an investment trust as set out in Section 842 of the Income and Corporation Taxes Act 1988. Accordingly, the Company will not invest more than 15% of its gross assets, at the time of investment, in any company which is not, itself, an investment trust.
- Borrowings are restricted to twice the aggregate of the paid up nominal capital plus the capital and revenue reserves. The absolute limit on borrowings is more fully described in the Articles.
- No more than 10% in aggregate of the value of the Company's assets will be invested in other listed closed-ended investment funds, save that this restriction does not apply to the extent that such companies themselves have stated investment policies to invest no more than 15% of their total assets in other listed closed-ended investment companies or investment trusts.

Share and Loan Capital

The Company's share capital consists of 37,263,000 Ordinary shares of 25p each, 6,726,690 Subscription shares of 1p each and £9,171,000 in nominal amount of 3.25% Convertible Unsecured Loan Stock 2011.

On 4 June 2009, a Bonus Issue of Subscription shares was allotted to qualifying holders of Ordinary shares at a ratio of one Subscription share (fractions being disregarded) for every five Ordinary shares. For the purposes of UK taxation the Bonus Issue constituted a reorganisation of the share capital of the Company and, as a result, the acquisition cost of the qualifying Ordinary shares has to be apportioned relative to the market values of the Ordinary shares and Subscription shares for the day the Subscription shares were admitted to trading. The Subscription shares were admitted to trading on 5 June 2009 and the market values on that day were:

Ordinary shares: 99p Subscription shares: 6p

Accordingly, for each five Ordinary shares held on 5 June 2009, for which one Subscription share was allotted, the acquisition cost would need to be apportioned 98.80% to the Ordinary shares and 1.20% to the Subscription shares.

The Subscription shares entitle holders to subscribe for Ordinary shares on 31 December 2009, 31 March 2010 and 30 June 2010 (or the next following business day in respect of each) at a price of 106p per Ordinary share.

Performance Statistics

	31 July 2009	<i>31 January 2009</i>	<i>% Change</i>
Shareholders' funds (£'000)	37,072	29,883	24.1
Gearing*	125%	131%	
Basic net asset value per Ordinary share per AIC guidelines:			
(CULS at par value – see note 4)	109.22p	86.63p	26.1
Discount	5.7%	3.6%	
Diluted net asset value per Ordinary share per AIC guidelines:			
(CULS at par value)	108.68p	86.63p	25.5
Discount	5.2%	3.6%	
Basic net asset value per Ordinary share:			
(CULS at debt value – see note 4)	110.54p	88.23p	25.3
Discount	6.8%	5.4%	
Diluted net asset value per Ordinary share:			
(CULS at debt value)	109.78p	88.23p	24.4
Discount	6.2%	5.4%	
Closing mid-market price per Ordinary share	103.00p	83.50p	23.4
Closing FTSE 350 Equity Investment Instruments Index (source: Bloomberg)	4,432.27	3,865.31	14.7

* 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 of £45,801,000 at 31 July 2009, (excluding the Convertible Unsecured Loan Stock at par value) by Ordinary shareholders' funds of £36,630,000 at 31 July 2009.

Interim Management Report

During the six months under review the Company's diluted net asset value per Ordinary share (NAV), calculated in accordance with AIC guidelines, increased by 22.1p and a dividend of 1.4p per Ordinary share was paid. Together these represent an increase of 27.1% over the opening NAV.

This is an encouraging start to the Company's financial year and represents a significant recovery as the Manager remained committed to the 'deep-value' investments which were so harshly valued by the market six months ago. Subsequent to the end of the six month period, the Company's NAV has increased by 4.2% to the date of this statement. Since the end of January the share price has increased by 27.8% and now stands at a discount to NAV of 5.7%.

In order to meet the Company's stated policy to repurchase shares available in the market at prices representing discounts greater than 5% to NAV, 330,800 Ordinary shares were repurchased during the period and 367,000 Ordinary shares were cancelled, resulting in 3,276,050 Ordinary shares being held in Treasury. These shares are currently available for re-issue at prices which represent a discount of less than 5% to NAV and the Manager is actively marketing these in order to increase the size (and hence reduce the expense ratio) of your Company.

To increase the market capitalisation and tradability of the Ordinary shares, a bonus issue of one Subscription share for every five Ordinary shares was announced in April 2009. A total of 6,726,690 Subscription shares have been allotted. The Subscription shares had an initial life of one year and each Subscription share may be exercised to subscribe for one Ordinary share at an exercise price of 106p on 31 December 2009, 31 March 2010 and 30 June 2010. The conversion price of the Convertible Unsecured Loan Stock 2011 has been adjusted to reflect the potential dilution of the subscription share issue.

There should be various benefits for shareholders. First, shares cancelled as a result of repurchases made in order to maintain a narrow discount may be replaced in due course allowing for greater liquidity in the Company's shares and a reduction in the total expense ratio. Secondly, shareholders have received a tradable security (one for every five shares held on the record date) which currently has a market value of 7p. Thirdly, shareholders may participate in any future improvement in the Company's share price without necessarily committing significant capital until the final Subscription Date.

Although equity markets have staged a dramatic recovery from the depths of despair experienced in March of this year, many uncertainties concerning the state of the global economy remain. With this in mind, your Company remains conservatively positioned with 10% of its assets held in cash and equivalent securities and 20% in fixed interest style corporate securities. A short position in FTSE 100 derivatives, covering 40% of the Company's invested assets, has been entered into during the first six months. It is expected that this strategy should allow for steady NAV appreciation should equity markets continue their positive momentum, while any return to fear should not impact too negatively on your Company's portfolio.

Throughout this period, the portfolio was conservatively positioned and structural leverage was largely mitigated through the use of Gilts within the portfolio. Towards the end of the period, as equity markets approached 'pre-Lehman' levels, hedges were reinstated as volatility declined and option prices became more reasonable.

Jonathan Agnew

Chairman

17 September 2009

Investment Manager's Report

Despite a difficult start to the year, when global equity markets broke through their 2008 lows, it is pleasing to report a strong performance by your Company in both absolute and relative NAV terms. The diluted total NAV return over the six months under review was 27.1%, calculated in accordance with AIC guidelines, including a dividend of 1.4p per share paid in June. The FTSE 100 Index has increased a modest 11.1% while the S&P 500 and Dow Jones Euro Stoxx indices have risen 19.6% and 17.9% respectively. The FTSE 350 Equity Investment Instruments Index, which is the Company's most relevant index, was up 14.7% during the period. The speed and scale of the rebound in equities has taken many by surprise. Indeed much of the poor economic data has been ignored by investors and a great deal of the rally has been on relatively light volumes. Although the Company's assets have clearly benefited from general moves in equity markets, some of the decisions taken earlier in the year to both increase and diversify exposure to more distressed assets has proved profitable. Many of the high beta positions have been reduced into the rally leaving the Company with a strong cash position should the current optimism for a 'V' shaped recovery subside.

There has been a significant rerating of the real estate sector over the period. Holdings such as ING UK Real Estate Income, Terra Catalyst and Real Estate Opportunities (convertible unsecured loan stock (CULS) and zero dividend preference shares (ZDPS)) have benefited from this return to favour. ING UK Real Estate continued to reduce its debt levels in the first months of the year, while renegotiating its loan covenants with its banks. In May the company announced that it had finally restructured its securitised loan facility, proving positive for the longer term future of the business. The shares have recovered strongly since this announcement and the holding was reduced. The takeover bid by Laxey Partners for Spazio, the Italian property company, was declared unconditional at the end of July. The Company accepted the terms of the bid, resulting in a useful profit. The proceeds were reinvested in Terra Catalyst, (the listed property vehicle run by Laxey Partners) which now owns the majority of Spazio. Terra Catalyst will offer exposure to any uplift in future realisations within Spazio, as well as its other holdings in deeply discounted property situations, but within a relatively liquid, listed structure.

A small position in Aseana Properties Limited has been built up over the last few months. This is a conservatively managed property development company operating in Vietnam and Malaysia, with low levels of gearing and a high weighting of cash, currently trading at a discount of approximately 70% to its net asset value. Whilst the expectation is that property valuations and local currencies may further slip during 2009, the current share price is discounting further falls in the region of 60%, which looks overdone. This company has been proactive in buying back shares, adding significant value to the NAV per share.

The private equity sector with the likes of Electra and 3i Group (ordinary shares and CULS) also contributed significant profits. 3i ordinary shares were exited after its share price doubled from their low, prior to the rights issue.

Relative value appeared in the European sector in March, as investors chased yield in trusts with UK exposure. The Company increased its exposure to European equities through a number of specialist and general funds including Gartmore Irish, Jupiter European and JP Morgan European Growth. As a precaution against potential currency risk, the Company initiated a Euro/Sterling hedge position to insulate it from the risk of Euro depreciation. This equity and currency exposure has now been reduced as valuations became somewhat stretched.

In terms of the generalist global equity trusts, there was a high level of activity at portfolio level, as market volatility caused large swings in discounts over the period. Scottish Mortgage, Electric & General, Mercantile and EP Global were all reduced following both strong performance relative to the market and significant discount narrowing. The Company was also able to purchase new positions in JPMorgan Fleming Overseas and Anglo & Overseas, at prices outside the discount levels at which the respective companies normally buy back their own shares. These trusts are well managed and will help diversify the Company's global equity exposure. Invesco Perpetual UK Select was bought outside the normally well defended 5% discount level, as market volatility provided an opportunity to gain exposure to Mark Barnett's highly regarded portfolio. Other new positions entered into during the period include SVM Global and Witan, again, both trading at historically wide discounts to NAV.

Caledonia was added to at attractive levels using the proceeds from the sale of RIT Capital. Subsequently, the RIT Capital position was re-entered as the discount had widened to 14%, a level not seen for many years. This investment needed to be funded by the sale of Alliance Trust, despite the Company having an excess cash balance. This switch was necessary as a regulatory requirement and not just on investment grounds. The FSA had introduced a rule following the splits crises prohibiting cross investment by investment companies. This legislation was necessary to stamp out some of the sharper practices involved in that saga but has the unwelcome consequence of preventing conservatively managed companies, such as yours, from investing meaningful amounts in such bellwether trusts as RIT Capital, British Empire, Alliance Trust and Caledonia. As a result, the Company may not invest more than 10% of its assets in trusts which reserve the flexibility to invest in other investment companies. This is presumably an unintended consequence of well intentioned legislation which, while only affecting a minority, will be difficult to reverse.

The Company participated in a placing of CULS by Ecofin Water & Power issued at 100p and offering an attractive yield of 6%. The Company also holds the ordinary and subscription shares (total exposure to Ecofin Water & Power through these three instruments is 9.2% of the portfolio). Whilst this is a large position, the capital value of the CULS would only be impaired if the underlying assets of the company were to fall by 70%. The Company exercised its remaining warrants in Finsbury Worldwide Pharmaceutical, resulting in a substantial position in this well managed trust that should offer attractive defensive qualities in the current economic climate. In terms of the remaining warrant positions within the portfolio, there is a strong bias towards emerging markets where there exists the potential to add significant value to the portfolio, if the current bull run continues, without significant downside risk should markets fall once more.

The value of Apollo Fund, the largest single position in the portfolio, enjoyed a strong recovery of almost 36%, in Sterling terms, in the current financial year.

The Company enjoys a strong cash position and has a significant hedge position in place through short index futures and index put options. If the current optimism reflected in the equity markets proves misguided, the Company is well positioned to safeguard much of the increase in NAV enjoyed so far this financial year.

Investments in Order of Valuation

at 31 July 2009

(Ordinary shares unless otherwise indicated)

	At Fair Value £'000	% of Portfolio
Listed investments		
Apollo Fund (Participating Shares)	2,885	6.30
Ecofin Water & Power Opportunities 6% CULS 31/07/2016	2,656	5.80
3i Group 3.625% CULS 29/05/2011	2,366	5.17
3i Infrastructure	2,143	4.68
Treasury 4.25% 07/03/2011	2,096	4.58
Gartmore Irish Growth Fund	1,875	4.09
Electric & General Investment Trust	1,617	3.53
Law Debenture Corporation	1,575	3.44
Scottish Mortgage Investment Trust	1,545	3.37
China Real Estate Opportunities	1,450	3.17
Finsbury Worldwide Pharmaceutical Trust	1,398	3.05
Ecofin Water & Power Opportunities	1,375	3.00
JPMorgan Fleming Overseas Investment Trust	1,318	2.88
Electra Private Equity	1,200	2.62
Caledonia Investments	1,153	2.52
Polar Capital Technology Trust	1,020	2.23
New Star Investment Trust	983	2.15
BlackRock World Mining Trust	860	1.88
Hansa Trust 'A'	834	1.82
Majedie Investments	810	1.77
Utilico	772	1.69
SVM Global Fund	757	1.65
JPMorgan European Investment Trust Growth	725	1.58
Cambium Global Timberland	680	1.48
Anglo & Overseas Trust	667	1.46
Spazio Investment	662	1.44
Terra Catalyst Fund	637	1.39
SVG Capital Plc 8.25% CULS 05/06/2016	633	1.38
Artemis Alpha Trust	623	1.36
ING UK Real Estate Income Trust	559	1.22
Aseana Properties	549	1.20
RIT Capital Partners	529	1.15
Real Estate Opportunities (Zero Dividend Preference Shares 31/05/2011)	520	1.14
Witan Investment Trust	515	1.12
Independent Investment Trust	497	1.08
LMS Capital	480	1.05
EP Global Opportunities Trust	468	1.02
Utilico Emerging Markets Utilities (Warrants 31/07/2010)	430	0.94
Mercantile Investment Trust	408	0.89
Invesco Perpetual Select Trust	403	0.88
JPMorgan Asian Investment Trust (Subscription Shares)	318	0.69
Advance UK Trust	315	0.69
Jupiter European Opportunities Trust	248	0.54
New India Investment Trust (Warrants 30/06/2010)	243	0.53
Perpetual Income & Growth Investment Trust (Subscription Shares)	227	0.50
The Equity Partnership Investment Company (Income Shares)	197	0.43
Real Estate Opportunities 7.5% CULS 31/05/2011	194	0.42
Ecofin Water & Power Opportunities (Subscription Shares)	174	0.38
Advance Frontier Markets (Warrants 15/06/2010)	9	0.02
India Capital Growth Fund (Warrants 22/12/2010)	8	0.02
M&G Equity Investment Trust (Capital Shares)	5	0.01
Utilico (Warrants 30/04/2012)	1	0.00
Total Investments	44,612	97.40
Derivatives		
FTSE 100 Index 18-Sep-09 future	(908)	(1.98)
ML – FTSE 100 16-Oct-09 put option @ 4350	275	0.60
	(633)	(1.38)
Other net current assets	1,822	3.98
Total assets less current liabilities	45,801	100.00

Income Statement

	<i>Six months ended</i> <i>31 July 2009</i> <i>Unaudited</i>			<i>Six months ended</i> <i>31 July 2008</i> <i>Unaudited</i>			<i>Year ended</i> <i>31 January 2009</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>
Gains/(losses) on investments held at fair value	-	8,863	8,863	-	(5,157)	(5,157)	-	(16,355)	(16,355)
Current assets held at fair value:									
(Losses)/gains on futures contracts	-	(1,131)	(1,131)	-	-	-	-	497	497
Losses on listed put options	-	(66)	(66)	-	-	-	-	-	-
Gains on listed put warrants	-	-	-	-	450	450	-	5,357	5,357
Gains/(losses) on forward currency contracts	-	169	169	-	72	72	-	(1,480)	(1,480)
Gains on cancellation of 3.25% Convertible Unsecured Loan Stock 2011	-	-	-	-	54	54	-	90	90
Exchange (losses)/gains on currency balances	-	(4)	(4)	-	22	22	-	(33)	(33)
Investment and other income (note 2)	731	-	731	522	-	522	1,149	-	1,149
Investment management fee	(41)	(165)	(206)	(42)	(169)	(211)	(78)	(313)	(391)
VAT refund on management fees	72	72	144	-	-	-	-	-	-
Other expenses	(184)	(1)	(185)	(206)	(14)	(220)	(342)	(21)	(363)
Net return/(loss) before finance costs and taxation	578	7,737	8,315	274	(4,742)	(4,468)	729	(12,258)	(11,529)
Interest payable and similar charges	(50)	(200)	(250)	(50)	(200)	(250)	(100)	(400)	(500)
Return/(loss) on ordinary activities before taxation	528	7,537	8,065	224	(4,942)	(4,718)	629	(12,658)	(12,029)
Tax on ordinary activities	-	-	-	-	-	-	-	-	-
Transfer to/(from) reserves	528	7,537	8,065	224	(4,942)	(4,718)	629	(12,658)	(12,029)
Return/(loss) per Ordinary share (note 3):									
Basic	1.57p	22.38p	23.95p	0.61p	(13.37)p	(12.76)p	1.76p	(35.42)p	(33.66)p
Diluted	1.43p	19.13p	20.56p	0.61p	(13.37)p	(12.76)p	1.72p	(35.42)p	(33.66)p

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.

A statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above statement.

Reconciliation of Movements in Shareholders' Funds

For the six months ended 31 July 2009 (unaudited)

	Share Capital £'000	Share Premium £'000	Special Reserve £'000	Capital Redemption Reserve £'000	Equity Component CULS 2011 £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
At 31 January 2009	9,407	9,192	18,045	1,212	1,065	(9,928)	890	29,883
Issue of subscription shares	67	-	(67)	-	-	-	-	-
Expenses relating to the issue of Subscription shares	-	-	-	-	-	(125)	-	(125)
Ordinary shares bought back and held in treasury	-	-	(280)	-	-	-	-	(280)
Ordinary shares cancelled out of treasury	(91)	-	-	91	-	-	-	-
Net return from ordinary activities	-	-	-	-	-	7,537	528	8,065
Final dividend paid for the year ended 31 January 2009	-	-	-	-	-	-	(471)	(471)
At 31 July 2009	9,383	9,192	17,698	1,303	1,065	(2,516)	947	37,072

For the six months ended 31 July 2008 (unaudited)

	Share Capital £'000	Share Premium £'000	Special Reserve £'000	Capital Redemption Reserve £'000	Equity Component CULS 2011 £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
At 31 January 2008	10,401	9,192	22,926	218	1,161	2,722	634	47,254
3.25% Convertible Unsecured Loan Stock 2011 bought back and cancelled	-	-	-	-	(78)	19	5	(54)
Ordinary shares bought back and held in treasury	-	-	(3,355)	-	-	-	-	(3,355)
Ordinary shares cancelled out of treasury	(702)	-	-	702	-	-	-	-
Net (loss)/return from ordinary activities	-	-	-	-	-	(4,942)	224	(4,718)
Final dividend paid for the year ended 31 January 2008	-	-	-	-	-	-	(373)	(373)
At 31 July 2008	9,699	9,192	19,571	920	1,083	(2,201)	490	38,754

For the year ended 31 January 2009 (audited)

	Share Capital £'000	Share Premium £'000	Special Reserve £'000	Capital Redemption Reserve £'000	Equity Component CULS 2011 £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
At 31 January 2008	10,401	9,192	22,926	218	1,161	2,722	634	47,254
3.25% Convertible Unsecured Loan Stock 2011 bought back and cancelled	-	-	-	-	(96)	8	-	(88)
Ordinary shares bought back and held in treasury	-	-	(4,881)	-	-	-	-	(4,881)
Ordinary shares cancelled out of treasury	(994)	-	-	994	-	-	-	-
Net (loss)/return from ordinary activities	-	-	-	-	-	(12,658)	629	(12,029)
Final dividend paid for the year ended 31 January 2008	-	-	-	-	-	-	(373)	(373)
At 31 January 2009	9,407	9,192	18,045	1,212	1,065	(9,928)	890	29,883

Balance Sheet

	31 July 2009 Unaudited £'000	<i>31 July 2008 Unaudited £'000</i>	<i>31 January 2009 Audited £'000</i>
Fixed Assets			
Investments held at fair value through profit or loss	44,612	43,001	37,212
Current Assets			
Listed put options/warrants held at fair value through profit or loss	275	2,003	–
Futures contracts held at fair value through profit or loss	–	–	488
Forward currency contracts held at fair value through profit or loss	1,694	7,785	–
Debtors	148	339	157
Cash at bank	1,843	2,215	969
	3,960	12,342	1,614
Creditors: amounts falling due within one year			
Futures contracts held at fair value through profit or loss	(908)	–	–
Forward currency contracts held at fair value through profit or loss	(1,711)	(7,580)	–
Other creditors	(152)	(340)	(316)
	(2,771)	(7,920)	(316)
Net current assets	1,189	4,422	1,298
Total assets less current liabilities	45,801	47,423	38,510
Creditors: amounts falling due after more than one year			
3.25% Convertible Unsecured Loan Stock 2011	(8,729)	(8,669)	(8,627)
Net assets	37,072	38,754	29,883
Capital and reserves			
Called-up share capital	9,383	9,699	9,407
Share premium account	9,192	9,192	9,192
Other reserves:			
Special reserve	17,698	19,571	18,045
Capital redemption reserve	1,303	920	1,212
Equity component 3.25% Convertible Unsecured Loan Stock 2011	1,065	1,083	1,065
Capital reserve	(2,516)	(2,201)	(9,928)
Revenue reserve	947	490	890
Equity Shareholders' funds	37,072	38,754	29,883
Net asset value per Ordinary share (note 4):			
Basic	110.54p	109.11p	88.23p
Diluted	109.78p	109.11p	88.23p

Cash Flow Statement

	<i>Six months ended 31 July 2009 Unaudited £'000</i>	<i>Six months ended 31 July 2008 Unaudited £'000</i>	<i>Year ended 31 January 2009 Audited £'000</i>
Net cash inflow from operating activities	588	784	6,576
Servicing of finance	(149)	(153)	(303)
Financial investment	1,315	2,950	(2,218)
Equity dividends paid	(471)	(373)	(373)
Expenses relating to the issue of Subscription shares	(125)	–	–
Net cash inflow before financing	1,158	3,208	3,682
Financing			
Shares bought back and held in treasury	(280)	(3,355)	(4,881)
Cancellation of 3.25% Convertible Unsecured Loan Stock 2011	–	(621)	(760)
Increase/(decrease) in cash during the period	878	(768)	(1,959)
Reconciliation of net cash flow to movement in net funds/(debt)			
Increase/(decrease) in cash during the period	878	(768)	(1,959)
Exchange movements	(4)	22	(33)
Non-cash flow movements:			
Notional interest charge on 3.25% Convertible Unsecured Loan Stock 2011 – income	(20)	(20)	(40)
Notional interest charge on 3.25% Convertible Unsecured Loan Stock 2011 – capital	(82)	(79)	(158)
Cancellation of 3.25% Convertible Unsecured Loan Stock 2011:			
Cancellation of debt element	–	597	762
Income notional interest transferred to revenue reserve on cancellation	–	5	–
Capital notional interest transferred to capital reserve on cancellation	–	19	–
Change in net funds/(debt)	772	(224)	(1,428)
Opening net debt	(7,658)	(6,230)	(6,230)
Closing net debt	(6,886)	(6,454)	(7,658)
Represented by:			
Cash at bank	1,843	2,215	969
3.25% Convertible Unsecured Loan Stock 2011	(8,729)	(8,669)	(8,627)
	(6,886)	(6,454)	(7,658)
Reconciliation of net return/(loss) on ordinary activities before tax to net cash inflow from operating activities			
Net return/(loss) before finance costs and taxation	8,315	(4,468)	(11,529)
Gains/(losses) on investments	(8,863)	5,157	16,355
Gains on cancellation of 3.25% Convertible Unsecured Loan Stock 2011	–	(54)	(90)
Exchange differences	4	(22)	33
(Increase)/decrease in debtors	(1,480)	455	9,758
Decrease/(increase) in accrued income	9	(16)	(54)
Increase/(decrease) in creditors	2,603	(268)	(7,897)
Net cash inflow from operating activities	588	784	6,576

Notes to the Financial Statements

1. Accounting policies

The financial statements of the Company have been prepared under the historical cost convention modified to include the revaluation of fixed assets in accordance with United Kingdom law and Accounting Standards and with the Statement of Recommended Practice ("SORP") "Financial Statements of Investment Trust Companies", issued by the Association of Investment Companies (dated January 2009).

The accounting policies and methods of computation followed in this half-year report are consistent with the most recent annual statements.

2. Investment and other income

	<i>Six months ended 31 July 2009 Unaudited £'000</i>	<i>Six months ended 31 July 2008 Unaudited £'000</i>	<i>Year ended 31 January 2009 Audited £'000</i>
UK dividends	421	372	787
Unfranked investment income	109	38	74
UK fixed interest	144	52	189
Short term investment fund income	8	49	86
Deposit interest	–	11	13
Interest received re VAT refund on management fees	49	–	–
	<u>731</u>	<u>522</u>	<u>1,149</u>

3. Return per Ordinary share

Basic earnings

	<i>Six months ended 31 July 2009 Unaudited</i>	<i>Six months ended 31 July 2008 Unaudited</i>	<i>Year ended 31 January 2009 Audited</i>
Total earnings per Ordinary share			
Total earnings	£8,065,000	£(4,718,000)	£(12,029,000)
Weighted average number of Ordinary shares in issue during the period	33,671,654	36,965,018	35,732,298
Total earnings per Ordinary share	23.95p	(12.76)p	(33.66)p

The total earnings per Ordinary share above can be further analysed between revenue and capital, as follows:

Revenue earnings per Ordinary share

Revenue earnings	£528,000	£224,000	£629,000
Weighted average number of Ordinary shares in issue during the period	33,671,654	36,965,018	35,732,298
Revenue earnings per Ordinary share	1.57p	0.61p	1.76p

Capital earnings per Ordinary share

Capital earnings	£7,537,000	£(4,942,000)	£(12,658,000)
Weighted average number of Ordinary shares in issue during the period	33,671,654	36,965,018	35,732,298
Capital earnings per Ordinary share	22.38p	(13.37)p	(35.42)p

Notes to the Financial Statements (continued)

3. Return per Ordinary share (continued)**Diluted earnings***Half year ended 31 July 2009*

The diluted earnings per Ordinary share for the half year ended 31 July 2009 have been calculated on the assumption that the 3.25% Convertible Unsecured Loan Stock 2011 was fully converted on the first day of the financial period, giving a weighted average of 40,444,438 Ordinary shares in issue and revenue gains on ordinary activities after taxation of £579,000, Capital gains of £7,737,000 and total gains of £8,316,000. The diluted earnings per Ordinary share of 1.43p, 19.13p and 20.56p respectively reflect the savings in finance costs of the loan stock. The Subscription shares have no dilutive effect on the earnings per Ordinary share.

Half year ended 31 July 2008

The 3.25% Convertible Unsecured Loan Stock 2011 did not have a dilutive effect on the revenue, capital or total earnings per Ordinary share for the half year ended 31 July 2008. The diluted revenue, capital and total earnings per Ordinary share are therefore equal to the basic returns per Ordinary share.

Year ended 31 January 2009

The revenue earnings (but not the capital and total earnings) for the year ended 31 January 2009 are diluted. The diluted revenue earnings per Ordinary share have been calculated on an assumption that the 3.25% Convertible Unsecured Loan Stock 2011 was fully converted on the first day of the financial period, giving a weighted average of 42,401,138 Ordinary shares in issue and revenue gains on ordinary activities after taxation of £729,000. The diluted revenue earnings per Ordinary share of 1.72p reflect the savings in finance costs of the loan stock. The diluted capital and total earnings per Ordinary share are therefore equal to the basic returns per Ordinary share.

4. Net asset value per Ordinary share

	31 July 2009	31 July 2008	31 January 2009
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Audited</i>
Net asset values attributable	£37,072,000	£38,754,000	£29,883,000
Ordinary shares in issue at the period end*	33,536,950	35,519,000	33,867,750
Basic net asset value per Ordinary share	110.54p	109.11p	88.23p

The basic net asset value per Ordinary share is based on net assets of £37,072,000 which includes the deduction of the liability component of the 3.25% Convertible Unsecured Loan Stock 2011 and on 33,536,950 Ordinary shares being the number of Ordinary shares in issue at the period end*.

The diluted net asset value per Ordinary share is based on the assumption that the Subscription shares are fully converted into 6,726,690 Ordinary shares at a subscription price of 106p per Subscription share resulting in net assets of £44,202,000 which includes the deduction of the liability component of the 3.25% Convertible Unsecured Loan Stock 2011 and on 40,263,640 Ordinary shares in issue at the period end*.

The 3.25% Convertible Unsecured Loan Stock 2011 has no dilutive effect on the net asset value per Ordinary share.

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

	31 July 2009	31 July 2008	31 January 2009
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Audited</i>
Total assets less current liabilities (per the balance sheet)	£45,801,000	£47,423,000	£38,510,000
Redemption value of 3.25% Convertible Unsecured Loan Stock 2011	£(9,171,000)	£(9,325,000)	£(9,171,000)
Net asset values attributable (CULS at par value)	£36,630,000	£38,098,000	£29,339,000
Ordinary shares in issue at the period end*	33,536,950	35,519,000	33,867,750
Basic net asset value per Ordinary share	109.22p	107.26p	86.63p

*excludes 3,726,050 Ordinary shares held in treasury.

5. Share Capital

On 5 June 2009 the Company issued 6,726,690 Subscription shares as a bonus issue to the Ordinary shareholders on the basis of one Subscription share for every five Ordinary shares held. Each Subscription share confers the right (but not the obligation) to subscribe for one Ordinary share at a subscription price of 106p per Subscription share on 31 December 2009, 31 March 2010 and 30 June 2010 whereupon the rights under the Subscription shares will lapse.

As a result of the above issue of Subscription shares, the conversion ratio of the 3.25% Convertible Unsecured Loan Stock 2011 was adjusted from 70.77 Ordinary shares for every £100 nominal of 3.25% Convertible Unsecured Loan Stock 2011 to 73.85 Ordinary shares for every £100 nominal of 3.25% Convertible Unsecured Loan Stock 2011.

On 25 April 2006 the Company issued 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 at a rate of 73.85 Ordinary shares for every £100 nominal of 3.25% Convertible Unsecured Loan Stock 2011. Interest is paid on the 3.25% 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.

As at 31 July 2009 there was £9,171,000 nominal of 3.25% Convertible Unsecured Loan Stock 2011 in issue.

6. Comparative information

The financial information contained in this half-year report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The financial information for the six months ended 31 July 2009 and 31 July 2008 has not been audited.

The information for the year ended 31 January 2009 has been extracted from the latest published audited financial statements. The audited financial statements for the year ended 31 January 2009 have been filed with the Registrar of Companies. The 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 237 (2) or (3) of the Companies Act 1985.

7. Duration of the Company

The Articles of Association require the Directors to propose an ordinary resolution at the Annual General Meeting of the Company in 2011 and each Annual General Meeting thereafter that the Company should continue as an investment trust. If an ordinary resolution for continuation is not put or is not passed at an Annual General Meeting the Directors are obliged to convene, within three months thereafter, a General Meeting to propose a special resolution for the voluntary winding up of the Company.

8. VAT

During the six months ended 31 July 2009, the Company received £145,074 VAT refund from Invesco Asset Management Ltd ("Invesco"), the previous investment manager in respect of VAT charged on management fees in previous years. This has been allocated £72,537 as revenue and £72,537 as capital within the Income Statement in line with VAT previously written off. The Company also received interest amounting to £49,441 on this refund.

Directors' Responsibility Statement

The Directors of the Company (who are named on page 1 of this half-year report and are all non-executive) confirm that to the best of their knowledge:

- a) the condensed set of financial statements for the half year to 31 July 2009, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- b) the Interim Management Report (together with the Investment Manager's Report) includes a fair review of important events which have occurred during the first six months of the financial year (DTR 4.2.7) and, the principal risks and uncertainties for the remaining six months of the financial year (DTR 4.2.8). No related party transactions took place during the half year.

The Directors further confirm that this half-year report has not been audited or reviewed by auditors pursuant to the Auditing Practices Guidance on Review of Interim Financial Information.

