

The Cayenne Trust plc

Report for the half year ended 31 July 2008



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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 with a limited life (see note 7 on page 13). 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 (an open-ended fund with a similar investment policy managed by Cayenne Asset Management Ltd);
- 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; and
- borrowings are restricted to twice the aggregate of the paid up nominal capital plus the capital and revenue reserves of the Company.

Share and Loan Capital

The Company's share capital consists of 38,795,000 Ordinary shares of 25p each and £9,325,000 in nominal amount of 3.25 per cent. Convertible Unsecured Loan Stock 2011.

As at 31 July 2008 the actual gearing was 122%.

Performance Statistics

	31 July 2008	<i>31 January 2008</i>	<i>% Change</i>
Shareholders' funds (£'000)^	38,754	47,254	(18.0)
Actual gearing*	122%	119%	
Net asset value per Ordinary share – basic (CULS at par value per AIC guidelines – see note 4)	107.26p	120.62p	(11.1)
Discount per Ordinary share (per AIC guidelines – see note 4)	4.4%	2.4%	
Net asset value per Ordinary share – basic (see note 4)	109.11p	122.72p	(11.1)
Discount per Ordinary share	6.1%	4.0%	
Mid-market price per Ordinary share	102.50p	117.75p	(13.0)
FTSE 350 Equity Investment Instruments Index (source: Bloomberg)	5,470.90	5,673.80	(3.6)

* 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) by Ordinary shareholders' funds.

^ The decrease in shareholders' funds during the period partly relates to the Company buying back Ordinary shares for holding in treasury and/or cancellation at a cost of £3,354,000 and the cancellation of 3.25% Convertible Unsecured Loan Stock 2011 at a cost of £621,000.

Interim Management Report

During the six months under review the Company's net asset value per Ordinary Share (NAV), calculated in accordance with AIC guidelines, decreased by 13.4p (11.1%) and a dividend of 1.0p per Ordinary Share was paid. Together these represent a decrease of 10.2% over the opening NAV. This disappointing return, due in part to extreme stock market volatility, was experienced despite your Investment Manager's bearish stance. The Company's style is to focus on under-researched, often esoteric investment funds and 'deep-value' investments, the market prices of which were particularly adversely affected during the period. Hedge positions which the Company had in place mitigated part of this loss but proved insufficient to counteract a savage re-pricing of risk in some key positions. The specific reasons for this performance are covered in the Investment Manager's Report which follows. Since the end of January the share price (on a total return basis) has declined by 12.1% and now stands at a discount to NAV of 4.4%.

In order to meet the Company's stated policy to repurchase shares available in the market at prices representing discounts greater than 5 per cent. to NAV, during the period 2,986,643 Ordinary shares were bought back at a weighted average price of 1.12p per Ordinary share and 2,810,643 Ordinary shares (relating to earlier re-purchases) were cancelled, resulting in 3,276,000 Ordinary shares being held in Treasury. These shares are currently available for re-issue at prices of less than 5 per cent. to NAV. The Company also repurchased 675,000 units of its 3.25% Convertible Unsecured Loan Stock 2011 at 92p per unit, representing a yield in excess of 6% or 200 points over the comparable gilt-edged security. This stock was cancelled resulting in an enhancement to the NAV and a reduction in the gearing of the Company which had increased following earlier share repurchases.

The attention of Shareholders is drawn to the Notice of General Meeting enclosed with this Half year Report. The Company's Articles of Association need amending to comply with sections of the Companies Act 2006, in particular those dealing with potential conflicts of interest that Directors may have with the Company's interest. The General Meeting will be held on 27 October 2008.

Jonathan Agnew
Chairman

15 September 2008

Investment Manager's Report

The first half of this financial year was an exceedingly frustrating period for The Cayenne Trust. Record commodity prices coupled with very high levels of debt have caused a dangerous situation of widespread de-leveraging during a period of rising inflation and tightening credit conditions. Consumers in the UK now face the mounting pressure of increasing food and energy prices, falling house values and an increased cost of debt, while the Bank of England is not offering any support in the form of interest rate cuts. The banking and property sectors have already begun rebuilding their balance sheets following some quite spectacular write downs. In the corporate sector, profit margins are coming under pressure from slackening consumer demand while increased energy costs act as a tax on profits. Unemployment is likely to rise as companies cut costs while attempting to preserve their margins. Both the US and Japan are virtually in recession, while Eurozone growth is beginning to falter. Emerging economies including China and India are also beginning to slow. Against this background the FTSE 100 and S&P 500 fell by approximately 8% during the period under review while the DJ Euro Stoxx 50 fell 11%. Smaller European markets (including Ireland) fell in excess of 20%. Meanwhile, many of the larger emerging markets were broadly unchanged over the period. These figures could have been significantly worse had there not been a substantial rally across most markets in the final days of July. The FTSE 350 Equity Investment Instruments Index, down nearly 9% at one stage in July, closed just 3.5% lower. The NAV of The Cayenne Trust, including the 1p dividend paid, declined 10.2% over the six month period. The discount to NAV widened marginally to 4.4% as the share price declined by 12.1% on a total return basis.

The main reasons for the decline in the Trust's NAV were a savage de-rating in both Utilico Limited and Real Estate Opportunities zero dividend preference shares. These are two of the largest holdings within the Company's portfolio both directly and also on a look through basis when taking into account the position in Apollo. It has been a consistent policy of Cayenne Asset Management to invest alongside managers who have a significant stake in their own funds. This has the benefit of aligning the interests of the Company with that of the managers, indeed, in some cases it has actually been possible to invest in a superior share class where the Company ranks ahead of the manager in the priority table.

During the last six months several positions fitted this description and it is worth highlighting that, for the first time, some of them have suffered truly disappointing returns. Utilico, which is 50% owned by Duncan Saville the trust manager, had been a stellar performer but had a shocking first half with the price falling by 35% while the NAV has fallen by 20%. This trust invests in utilities worldwide, including airports, infrastructure funds, electric and water companies, renewables, telecoms, and road and rail services. Although geared through zero dividend preference shares and bank debt this is a relatively defensive portfolio that, together with its hedging strategy, should have performed more satisfactorily in a market downturn. Utilico has historically traded at parity or even a small premium so it is to be expected that the current discount of 20% should narrow as performance recovers. The Company also owns a significant position in Utilico Emerging Markets Warrants as a core exposure to development within growing economies. This position remains a profitable investment for the Company, despite a decline of 30% over the last six months. Real Estate Opportunities zero dividend preference shares are now priced for default, with an IRR of over 25%, an outcome which seems unlikely despite large falls in Irish commercial property prices. Treasury Holdings, the managers, own 67% of the company's ordinary shares and the outstanding zero dividend preference shares, with a repayment cost of £135 million, are now a relatively small percentage of the gross assets of £1.8 billion and rank ahead of the manager's equity interest. The Company also has significant holdings in other family controlled funds notably; New Star Investment Trust, which is 59% owned by John Duffield, Hansa Trust where the voting shares are majority owned by the Salomon family, Caledonia where the Cayzer family are significantly invested and Independent Investment Trust and Majedie where the boards control significant stakes. Although most of these shares are trading at historically wide discounts the underlying value within their portfolios and the managers abilities make a convincing rationale for continued ownership.

It should be noted that Apollo Fund, the Company's largest investment, also has significant exposure to these situations and suffered as a result. The investment in the two Utilico funds, Real Estate Opportunities and Apollo Fund accounted for more than half of the Company's loss over the period.

To a lesser extent, other losses were experienced across the portfolio. Investec High Income was down by nearly 40% in price terms over the period. The manager's contrarian view has suffered hugely in the current climate but the shares now look extremely undervalued, with an IRR exceeding 40% to the trust's maturity in March 2009. Other notable contributors to negative performance were Gartmore Irish, World Trust Fund and the Henderson managed trusts; Law Debenture and Henderson Opportunities. All these suffered significant NAV declines and a widening of their discounts. The latter trust is subject to a continuation vote at the end of this year and will need to work hard to justify its continued existence in light of recent losses.

Not all news was bad as some positions produced positive returns. A short-term investment in British Empire was successfully completed and a large position in Caledonia was actively managed to take advantage of price volatility. Monks has been an extremely profitable investment for the Company as the fund was correctly positioned for the commodity bull market. This holding was gradually sold during the first half as valuations became stretched. Scottish American, also managed by Baillie Gifford, was sold following a period of relatively lacklustre performance. It appears that Ecofin Income shares are being incorrectly valued by the market and a large position has been established over time. This has already produced good returns and, if held to maturity next March, will return an annualised yield in excess of 9% with negligible risk. Prelude Trust, which shareholders will recall caused some distress over the past 18 months, announced that a sale of its portfolio had been agreed at almost 20% premium to 30 April market valuations and those proceeds have now been received.

As would be expected in such turbulent times, much of the Fund's trading was undertaken within the hedge book. The Company holds a variety of Put spreads on the FTSE 100, Euro Stoxx 50 and S&P 500. This protection made a positive contribution over the period but not enough to offset some of the aforementioned losses. The policy of the Investment Manager has never been to attempt to 'micro-manage' the Company's short exposure and a combination of events appear to have conspired to adversely affect un-hedged assets. It will come as no surprise that the increased level of volatility and the problems surrounding many financial institutions has vastly increased the cost of hedging and dislocated their efficiency from historical experience.

It seems that the Company has been through a period where the returns from the hedge positions and the assets have diverged somewhat. Despite this hugely disappointing outcome, belief in the quality of the Company's assets remains. The timing of any recovery is uncertain and patience may be needed to experience a full recovery in valuations. This has happened in the past and we believe that any major change in the investment style could be a mistake. It is believed that this conservative approach will allow Shareholders to experience substantial returns in the future.

Cayenne Asset Management Limited

15 September 2008

Investments in Order of Valuation

at 31 July 2008

(Ordinary shares unless otherwise indicated)

	At Fair Value £'000	% of Portfolio
Listed investments		
Apollo Fund (Participating Shares)	7,348	15.50
Scottish Mortgage Investment Trust	2,915	6.15
Electric & General Investment Trust	2,491	5.25
Law Debenture	2,439	5.14
Perpetual Income & Growth Investment Trust	2,145	4.52
Real Estate Opportunities (Zero Dividend Preference Shares 31/05/2011)	1,952	4.12
Ecofin Water & Power Opportunities (Income Shares)	1,876	3.96
Utilico Limited	1,820	3.84
Caledonia Investment Trust	1,802	3.80
Ecofin Water & Power Opportunities	1,730	3.65
New Star Investment Trust	1,670	3.52
Schroder Income & Growth Fund	1,501	3.17
Treasury 4% 07/03/2009	1,491	3.14
Majedie Investments	1,475	3.11
EP Global Opportunities Trust	1,330	2.81
Gartmore Irish Growth Fund	1,156	2.44
Hansa Trust 'A'	912	1.92
Utilico Emerging Markets Utilities (Warrants 31/07/2010)	825	1.74
Aberforth Smaller Companies	761	1.60
Henderson Opportunities Trust	585	1.23
Independent Investment Trust	486	1.02
Ecofin Water & Power Opportunities (Capital Shares)	484	1.02
SVG Capital 8.25% CULS 05/06/2016	464	0.98
Temple Bar Investment Trust	459	0.97
British Empire Securities & General Trust	431	0.91
Murray Income Trust	411	0.87
Perpetual Income & Growth Investment Trust (Subscription Shares)	328	0.69
Real Estate Opportunities 7.5% CULS 31/05/2011	325	0.69
ING UK Real Estate Income Trust	324	0.68
Investec High Income Trust	224	0.47
Terra Catalyst Fund	163	0.34
Invesco Property Income Trust	134	0.28
Midas Income & Growth Trust	123	0.26
The Equity Partnership Investment Company	102	0.22
Utilico Emerging Markets (Subscription Shares)	80	0.17
New India Investment Trust (Warrants 30/06/2010)	66	0.14
Finsbury Worldwide Pharmaceutical (Warrants 31/07/2009)	63	0.13
Advance Frontier Markets (Warrants 15/06/2010)	38	0.08
India Capital Growth Fund (Warrants 22/12/2010)	35	0.07
Utilico Limited (Warrants 30/04/2012)	29	0.06
Henderson Opportunities Trust (Subscription Shares)	8	0.02
	43,001	90.68
Listed put warrants		
ML – FTSE 100 19-Dec-08 Put Spread (P@6025 & P@5525)	776	1.64
ML – FTSE 100 19-Sep-08 Put Spread (P@5625 & P@5125)	418	0.88
ML – DJ Euro Stoxx 50 19-Dec-08 Put Spread (P@3300 & P@2900)	366	0.77
ML – S&P 500 20-Dec-08 Put Spread (P@1250 & P@1100)	305	0.64
ML – FTSE 100 19-Sep-08 Put Spread (P@5125 & P@4725)	138	0.29
	2,003	4.22
Other net assets	2,419	5.10
Total assets less current liabilities	47,423	100.00

Income Statement

	<i>Six months ended 31 July 2008 Unaudited</i>			<i>Six months ended 31 July 2007 Unaudited</i>			<i>Year ended 31 January 2008 Audited</i>		
	<i>Revenue £'000</i>	<i>Capital £'000</i>	<i>Total £'000</i>	<i>Revenue £'000</i>	<i>Capital £'000</i>	<i>Total £'000</i>	<i>Revenue £'000</i>	<i>Capital £'000</i>	<i>Total £'000</i>
(Losses)/gains on investments held at fair value	–	(5,157)	(5,157)	–	2,915	2,915	–	(1,555)	(1,555)
Current assets held at fair value:									
Gains on listed put warrants	–	450	450	–	84	84	–	2,382	2,382
Gains on forward currency contracts	–	72	72	–	238	238	–	151	151
Gains on cancellation of 3.25% Convertible Unsecured Loan Stock 2011	–	54	54	–	–	–	–	–	–
Exchange differences	–	22	22	–	2	2	–	(26)	(26)
Investment and other income (note 2)	522	–	522	357	–	357	990	–	990
Investment management fee	(42)	(169)	(211)	(61)	(244)	(305)	(94)	(377)	(471)
Investment performance fee	–	–	–	–	(9)	(9)	–	–	–
Other expenses	(206)	(14)	(220)	(162)	–	(162)	(311)	(30)	(341)
Net return/(loss) before finance costs and taxation	274	(4,742)	(4,468)	134	2,986	3,120	585	545	1,130
Interest payable and similar charges	(50)	(200)	(250)	(53)	(211)	(264)	(106)	(424)	(530)
Return/(loss) on ordinary activities before taxation	224	(4,942)	(4,718)	81	2,775	2,856	479	121	600
Tax on ordinary activities	–	–	–	–	–	–	–	–	–
Transfer to/(from) reserves	224	(4,942)	(4,718)	81	2,775	2,856	479	121	600
Return/(loss) per Ordinary share (note 3):									
Basic	0.61p	(13.37)p	(12.76)p	0.19p	6.53p	6.72p	1.13p	0.29p	1.42p
Diluted	0.61p	(13.37)p	(12.76)p	0.19p	6.02p	6.29p	1.13p	0.29p	1.42p

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 2008 (unaudited)

	Share Capital £'000	Share Premium £'000	Special Reserve £'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 2008	10,401	9,192	22,926	218	1,161	3,440	(718)	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 bought back and cancelled	(702)	-	-	702	-	-	-	-	-
Net return/(loss) from ordinary activities	-	-	-	-	-	506	(5,448)	224	(4,718)
Final dividend paid year ended 31 July 2008	-	-	-	-	-	-	-	(373)	(373)
At 31 July 2008	9,699	9,192	19,571	920	1,083	3,965	(6,166)	490	38,754

For the six months ended 31 July 2007 (unaudited)

	Share Capital £'000	Share Premium £'000	Special Reserve £'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 2007	10,619	9,192	-	27,570	1,161	(366)	3,024	580	51,780
Cancellation of Capital Redemption Reserve	-	-	27,570	(27,570)	-	-	-	-	-
Share reduction costs	-	-	-	-	-	(63)	-	-	(63)
Net return from ordinary activities	-	-	-	-	-	1,640	1,135	81	2,856
Final dividend paid year ended 31 January 2007	-	-	-	-	-	-	-	(425)	(425)
At 31 July 2007	10,619	9,192	27,570	-	1,161	1,211	4,159	236	54,148

For the year ended 31 January 2008 (audited)

	Share Capital £'000	Share Premium £'000	Special Reserve £'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 2007	10,619	9,192	-	27,570	1,161	(366)	3,024	580	51,780
Cancellation of Capital Redemption Reserve	-	-	27,570	(27,570)	-	-	-	-	-
Share reduction costs	-	-	-	-	-	(57)	-	-	(57)
Shares bought back and held in treasury	-	-	(3,629)	-	-	-	-	-	(3,629)
Shares bought back and cancelled	(218)	-	(1,015)	218	-	-	-	-	(1,015)
Net return/(loss) from ordinary activities	-	-	-	-	-	3,863	(3,742)	479	600
Final dividend paid for 2007	-	-	-	-	-	-	-	(425)	(425)
At 31 January 2008	10,401	9,192	22,926	218	1,161	3,440	(718)	634	47,254

Balance Sheet

	31 July 2008 Unaudited £'000	<i>31 July 2007 Unaudited £'000</i>	<i>31 January 2008 Audited £'000</i>
Fixed Assets			
Investments held at fair value through profit or loss	43,001	59,057	48,534
Current Assets			
Listed put warrants held at fair value through profit or loss	2,003	2,590	2,906
Forward currency contracts held at fair value through profit or loss	7,785	5,000	7,340
Debtors	339	454	3,844
Cash at bank	2,215	1,866	2,961
	12,342	9,910	17,051
Creditors: amounts falling due within one year			
Forward currency contracts held at fair value through profit or loss	(7,580)	(4,921)	(7,550)
Other creditors	(340)	(809)	(1,590)
	(7,920)	(5,730)	(9,140)
Net current assets	4,422	4,180	7,911
Total assets less current liabilities	47,423	63,237	56,445
Creditors: amounts falling due after more than one year			
3.25% Convertible Unsecured Loan Stock 2011	(8,669)	(9,089)	(9,191)
Net assets	38,754	54,148	47,254
Capital and reserves			
Called-up share capital	9,699	10,619	10,401
Share premium account	9,192	9,192	9,192
Other reserves:			
Special reserve	19,571	27,570	22,926
Capital redemption reserve	920	–	218
Equity component 3.25% Convertible Unsecured Loan Stock 2011	1,083	1,161	1,161
Capital reserve – realised	3,965	1,211	3,440
Capital reserve – unrealised	(6,166)	4,159	(718)
Revenue reserve	490	236	634
Equity Shareholders' funds	38,754	54,148	47,254
Net asset value per Ordinary share (note 4):			
Basic	109.11p	127.48p	122.72p
Diluted	109.11p	127.48p	122.72p

Cash Flow Statement

	<i>Six months ended 31 July 2008 Unaudited £'000</i>	<i>Six months ended 31 July 2007 Unaudited £'000</i>	<i>Year ended 31 January 2008 Audited £'000</i>
Net cash inflow/(outflow) from operating activities	784	(518)	2,293
Servicing of finance	(153)	(163)	(326)
Financial investment	2,950	1,601	4,714
Equity dividends paid	(373)	(425)	(425)
Share reduction costs	–	(63)	(57)
Net cash inflow before financing	3,208	432	6,199
Financing			
Shares bought back and held in treasury	(3,355)	–	(3,629)
Shares bought back and cancelled	–	–	(1,015)
Cancellation of 3.25% Convertible Unsecured Loan Stock 2011	(621)	–	–
(Decrease)/increase in cash during the period	(768)	432	1,555
Reconciliation of net cash flow to movement in net debt/funds			
(Decrease)/increase in cash during the period	(768)	432	1,555
Exchange movements	22	2	(26)
Non-cash flow movements:			
Notional interest charge on 3.25% Convertible Unsecured Loan Stock 2011 – income	(20)	(20)	(41)
Notional interest charge on 3.25% Convertible Unsecured Loan Stock 2011 – capital	(79)	(81)	(162)
Cancellation of 3.25% Convertible Unsecured Loan Stock 2011:			
Cancellation of debt element	597	–	–
Income notional interest transferred to revenue reserve on cancellation	5	–	–
Capital notional interest transferred to capital reserve on cancellation	19	–	–
Change in net (debt)/funds	(224)	333	1,326
Opening net debt	(6,230)	(7,556)	(7,556)
Closing net debt	(6,454)	(7,223)	(6,230)
Represented by:			
Cash at bank	2,215	1,866	2,961
3.25% Convertible Unsecured Loan Stock 2011	(8,669)	(9,089)	(9,191)
	(6,454)	(7,223)	(6,230)
Reconciliation of (loss)/return before taxation to net cash inflow/(outflow) from operating activities from operating activities			
Net (loss)/return before finance costs and taxation	(4,468)	3,120	1,130
Losses/(gains) on investments	5,157	(2,915)	1,555
Gains on cancellation of 3.25% Convertible Unsecured Loan Stock 2011	(54)	–	–
Exchange differences	(22)	(2)	26
(Decrease)/(increase) in debtors	455	(356)	(3,012)
Increase in accrued income	(16)	(50)	(38)
(Decrease)/increase in creditors	(268)	(315)	2,632
Net cash inflow/(outflow) from operating activities	784	(518)	2,293

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 revised Statement of Recommended Practice ("SORP") "Financial Statements of Investment Trust Companies", issued by the Association of Investment Companies (dated January 2003, revised December 2005).

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 2008 Unaudited £'000</i>	<i>Six months ended 31 July 2007 Unaudited £'000</i>	<i>Year ended 31 January 2008 Audited £'000</i>
UK dividends	372	257	716
Unfranked investment income	38	–	22
UK fixed interest	52	31	92
Short term investment fund income	49	66	138
Deposit interest	11	3	22
	<u>522</u>	<u>357</u>	<u>990</u>

3. Return per Ordinary share

Basic earnings

	<i>Six months ended 31 July 2008 Unaudited</i>	<i>Six months ended 31 July 2007 Unaudited</i>	<i>Year ended 31 January 2008 Audited</i>
Total earnings per Ordinary share			
Total earnings	£(4,718,000)	£2,856,000	£600,000
Weighted average number of Ordinary shares in issue during the period	36,965,018	42,475,143	42,205,445
Total earnings per Ordinary share	(12.76)p	6.72p	1.42p

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

Revenue earnings per Ordinary share

Revenue earnings	£224,000	£81,000	£479,000
Weighted average number of Ordinary shares in issue during the period	36,965,018	42,475,143	42,205,445
Revenue earnings per Ordinary share	0.61p	0.19p	1.13p

Capital earnings per Ordinary share

Capital earnings	£(4,942,000)	£2,775,000	£121,000
Weighted average number of Ordinary shares in issue during the period	36,965,018	42,475,143	42,205,445
Capital earnings per Ordinary share	(13.37)p	6.53p	0.29p

Notes to the Financial Statements (continued)

3. Return per Ordinary share (continued)**Diluted earnings**

The 3.25% Convertible Unsecured Loan Stock 2011 does not have a dilutive effect on the revenue, capital or total earnings per Ordinary share for the half year ended 31 July 2008 and year ended 31 January 2008. The diluted revenue, capital and total returns per Ordinary share are therefore equal to the basic returns per Ordinary share. It also did not have a dilutive effect on the revenue return per Ordinary share for the half year ended 31 July 2007.

The capital and total earnings (but not the revenue earnings) for the half year ended 31 July 2007 are diluted. The diluted 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 49,552,143 Ordinary shares in issue and net gains on ordinary activities after taxation of £2,985,000 and £3,119,000 respectively. The diluted earnings per Ordinary share of 6.02p and 6.29p respectively reflect the savings in finance costs of the loan stock.

4. Net asset value per Ordinary share

	31 July 2008	<i>31 July 2007</i>	<i>31 January 2008</i>
	Unaudited	<i>Unaudited</i>	<i>Audited</i>
Net asset values attributable (£'000)	38,754	54,148	47,254
Ordinary shares in issue at the period end*	35,519,000	42,475,143	38,505,643
Basic net asset value per Ordinary share	109.11p	127.48p	122.72p

The basic net asset value per Ordinary share is based on net assets of £38,754,000 which includes the deduction of the liability component of the 3.25% Convertible Unsecured Loan Stock 2011 and on 35,519,000 Ordinary shares being the number of Ordinary shares in issue at the year end*.

The 3.25% Convertible Unsecured Loan Stock 2011 has no 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 basic net asset value per share is calculated as follows:

	31 July 2008	<i>31 July 2007</i>	<i>31 January 2008</i>
	Unaudited	<i>Unaudited</i>	<i>Audited</i>
	£'000	<i>£'000</i>	<i>£'000</i>
Total assets less current liabilities (per the balance sheet)	47,423	63,237	56,445
Redemption value of 3.25% Convertible Unsecured Loan Stock 2011	(9,325)	(10,000)	(10,000)
Net assets per AIC guidelines (CULS at par value)	38,098	53,237	46,445
Ordinary shares in issue at the period end*	35,519,000	42,475,143	38,505,643
NAV per share (p)	107.26	125.33	120.62

*excludes 3,276,000 Ordinary shares held in treasury.

5. Share Capital

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 70.77 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.

On 18 April 2008 the Company bought back and cancelled 675,000 nominal of the 3.25% Convertible Unsecured Loan Stock 2011 at a cost of £621,000.

6. Comparative information

The financial information contained in this half-year report does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The financial information for the six months ended 31 July 2008 and 31 July 2007 has not been audited.

The information for the year ended 31 January 2008 has been extracted from the latest published audited financial statements. The audited financial statements for the year ended 31 January 2008 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.

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 2008, 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.

