

The Cayenne Trust plc

Report for the half year ended 31 July 2011



Table of contents

1	Directors and Advisers
2	Investment Policy
3	Share and Loan Capital
3	Performance Statistics
4	Interim Management Report
5	Investment Manager's Report
6	Investments in Order of Valuation
7	Income Statement
8	Reconciliation of Movements in Shareholders' Funds
9	Balance Sheet
10	Cash Flow Statement
11	Notes to the Financial Statements
13	Directors' Responsibility Statement

Directors and Advisers

Directors

Jonathan Agnew (Chairman)

Christopher Jones

Sir Laurence Magnus

All Directors are non-executive

Advisers

Investment Manager

Cayenne Asset Management Limited
23 Buckingham Gate
London SW1E 6LB

Corporate Secretary and Registered Office

Phoenix Administration Services Limited
Springfield Lodge
Colchester Road
Chelmsford
Essex CM2 5PW
Tel: 01245 398950
Fax: 01245 398951
www.phoenixfundservices.com
pfsinfo@phoenixfundservices.com

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Tel: 0871 664 0300 (calls cost
10p per minute plus network charges)
www.capitadeal.com

Custodian

JP Morgan Chase Bank
1 Chaseside
Bournemouth
Dorset BH7 7DB

Auditors

BDO LLP
55 Baker Street
London W1U 7EU

Stockbrokers

Winterflood Securities Limited
The Atrium Building
Cannon Bridge
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 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-ended 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 investments which are thought to be significantly undervalued and are likely to have limited liquidity.
- 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, 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 sections 1158/1159 of the Corporation Tax Act 2010. 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 closed ended listed 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 closed ended listed investment companies or investment trusts.

Share and Loan Capital

The Company's capital at 31 July 2011 consisted of 43,602,910 (31 January 2011: 43,602,910) Ordinary shares of 25p each, of which 1,154,557 (31 January 2011: 68,102) were held in treasury and £14,953,523 (31 January 2011: £15,000,000) in nominal amount of 3.25% Convertible Unsecured Loan Stock 2016.

Performance Statistics

	31 July 2011	<i>31 January 2011</i>	<i>% Change</i>
Shareholders' funds (£'000)	57,455	58,918	(2.5)
Gearing*	126%	125%	
Basic net asset value per Ordinary share per AIC guidelines:			
(CULS at par value – see note 4)	133.78p	133.66p	0.1
Discount	3.6%	2.4%	
Diluted net asset value per Ordinary share per AIC guidelines:			
(CULS at par value – see note 4)	133.78p	133.66p	0.1
Discount	3.6%	2.4%	
Basic net asset value per Ordinary share:			
(CULS at debt value – see note 4)	135.35p	135.34p	0.0
Discount	4.7%	3.6%	
Diluted net asset value per Ordinary share:			
(CULS at debt value – see note 4)	135.35p	135.34p	0.0
Discount	4.7%	3.6%	
Closing mid-market price per Ordinary share	129.00p	130.50p	(1.1)
Closing FTSE 350 Equity Investment Instruments Index (source: Bloomberg)	5,962.58	5,950.33	0.2

* This reflects the amount of loans already arranged and in use by the Company. This is the gearing figure calculated as published by the Association of Investment Companies. It is calculated by dividing total assets less current liabilities of £71,517,000 at 31 July 2011, (excluding the Convertible Unsecured Loan Stock at par value) by Ordinary shareholders' funds of £56,788,000 at 31 July 2011.

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, increased by 0.12p and a dividend of 1.0p per Ordinary share was paid. Together these represent an increase of 0.84% over the opening NAV. The share price total return over the same period was -0.38% resulting in the discount to NAV widening marginally to 3.57% (2011: 2.36%). As a result of the Company's hedging strategy, the NAV has been protected against most of the fall in relevant equity indices since the end of the period.

The discount to NAV at which the Company's shares trade is controlled to some extent by the commitment made by your Board to repurchase shares available in the market at prices representing discounts greater than 5%. As a result of this commitment, the Company repurchased 1,723,917 shares since the start of the Company's year and the number of shares currently held in Treasury is 1,728,092. These shares are available for re-issue at prices representing discounts of less than 4%.

The Manager and the Company's broker held a series of meetings with potential investors over the period and a number of new shareholders have invested in the Company. Your Board welcomes these investors onto the share register and continues to be grateful for the support shown by longer term shareholders.

Jonathan Agnew

Chairman

22 September 2011

Investment Manager's Report

The six month period under review proved, with hindsight, to be the relative calm before an almighty storm. Coverage of the market downturn in August and subsequent activity can be found in the monthly factsheets on the Company's website (www.thecayennetrust.com).

Although largely unchanged over the period, equity markets suffered heightened volatility as investors were buffeted by a series of significant natural, economic and political events. Equity markets, which appear to exhibit undemanding valuations, were able to withstand much of the onslaught, as these events hit independently and in succession. It was surprising that markets shrugged off the uncertainty of the Arab Spring and Japanese Earthquake; the reality of a Greek bailout; the fear of an Italian, Portuguese and Spanish debt crisis and the farce of US policymakers taking their country to the brink of default. With this level of uncertainty, the Trust remains positioned defensively while matters come to a head.

Three positions stand out as having the greatest negative contribution over the period. Having performed poorly last year, Caledonia has again disappointed having declined 5% over the period. Despite this, the position will be retained while new management implement their revised investment strategy and the discount remains at elevated levels. New Star Investment Trust suffered the indignity of exclusion from the FTSE All Share index. As a result, forced sellers caused an initial 10% decline in the share price. NAV performance over the short to medium term is starting to pick-up and there is hope this troublesome position may finally be on the road to recovery. New Star's portfolio is certainly in much better shape these days and should be positioned to weather much of the current turmoil. Another disappointment is Utilico which experienced a particularly lacklustre period despite its large exposure to gold through Resolute Mining. Managers are addressing portfolio concentration issues and have agreed to sell a significant proportion of the desperately disappointing Infratil position over the next 12 months.

The best performing holding by a clear margin was F&C Private Equity. Pantheon International Participations also put in a good showing as investors finally appear to be accepting that the listed private equity sector is on the road to recovery. Obviously, a setback in the global economy would put pressure on portfolio companies but, at discounts in excess of 30%, these funds should be well insulated from much that the markets can throw at them. Law Debenture continues to perform well and both James Henderson's portfolio and the fiduciary services business should add value to the business over the longer term. It is pleasing to note that SVM Global, a stock highlighted for its poor performance last year, has recovered well and contributed a useful profit over the first half of this year. The discount has narrowed by 5 percentage points while the NAV performance has picked up markedly. Faith in the management is being rewarded and a continued recovery is anticipated, particularly

ahead of this year's continuation vote. Other notable positive contributors include Worldwide Healthcare subscription shares which benefited from renewed interest in the pharmaceutical sector; Treasury China Trust where share repurchase activity accelerated; Standard Life UK Smaller Companies convertible unsecured loan stock which debuted well and 3i Infrastructure where warrants, which were trading at a discount to the ordinary shares, were exercised and the resulting ordinary shares sold.

Over the period a number of holdings were exited. Gartmore Irish Growth completed its liquidation and a profit was booked. One holding was retained by the liquidators and a further small cash payment may be received in due course. Real Estate Opportunities (REO) also completed its restructuring and holders of zero dividend preference shares (ZDPS) and convertible unsecured loan stock (CULS) received shares and warrants in Battersea Power Station (BPSSV) and shares in the REO which now holds the Irish assets. BPSSV is unlisted and will remain so until a third party investor is found. In the meantime this position is valued at the reciprocal of the combined value of the holdings in ZDPS and CULS less the value of REO stock on the day of completion. Cayenne Asset Management was heavily involved in both these restructurings as it was with Anglo & Overseas (AOT); during the period, the merger with EP Global was effected and holders in AOT given the option of rolling into the sister trust or taking cash. The Trust took a mixture of cash and shares in EP Global, which were subsequently sold into market demand at close to NAV. The position in The European Investment Trust was also sold as Eurozone fears escalated, again for a useful profit. Two disappointing assets, Pacific Assets and Cambium Global Timberland, were disposed of during the period.

3i Group CULS, which were purchased in 2008 during a time of deep distress, recovered to trade at parity and the decision was taken to switch into a new issue of CULS by Standard Life UK Smaller Companies. This fund has an excellent track record but the asset class could suffer in market weakness so CULS are the perfect way to gain exposure to this highly regarded manager. This stock traded at a significant premium to the issue price in early trading but continues to offer an attractive proposition for risk adverse investors. Other new investments of note were Diversified Income Trust and Thames River Multi Hedge. Diversified Income Trust is managed by Gervais Williams with a small to mid-cap bias and there is confidence that his stock picking style will bear fruit when markets return to normality. Following the announcement that Thames River Multi Hedge was suspending its redemption facility, the share price collapsed and presented an excellent buying opportunity. There was a significant pick up in trading activity as the company became more active in the market, repurchasing shares on a regular basis. This is now a significant position in the Trust's portfolio and is trading at a 15% discount to NAV. It appears that the target return of 10% for 2011 may now be out of reach and, as such, a liquidity event in 2012 is looking increasingly likely. Either way, significant value accretion is expected by this time next year.

In the first ten days following the period end the FTSE 100 fell 14%. Over the same period, the Trust's NAV declined just 2%. Although much of the portfolio held up well, the majority of this outperformance is attributable to the hedge positions which are constantly in place for such an eventuality. At the period end the hedge positions covered the majority of the Trust's 50% exposure to equities. In addition, a market collapse would have caused an exponential increase in the delta exposure of the put options leading to a significant increase in protection. It is the manager's intention that significant hedge positions should remain in place for the foreseeable future while the delta and overall cover provided by such positions will, as ever, vary according to their interpretation of market sentiment.

Cayenne Asset Management Limited

22 September 2011

Investments in Order of Valuation

at 31 July 2011

(Ordinary shares unless otherwise indicated)

	At Fair Value £'000	% of Portfolio
Listed investments		
Electric & General Investment Trust	3,880	5.43
Apollo Fund (Participating Shares)	3,843	5.37
Law Debenture Corporation	3,715	5.19
F&C Private Equity Trust	3,352	4.69
Thames River Multi Hedge	2,857	3.99
Pantheon International Participations	2,812	3.93
Edinburgh Dragon Trust 3.5% CULS 31/01/2018	2,650	3.71
Caledonia Investments	2,602	3.64
Treasury China Trust	2,530	3.54
Ecofin Water & Power Opportunities	2,495	3.49
SVM Global Fund	2,347	3.28
British Empire Securities & General Trust	2,269	3.17
Standard Life UK Smaller Companies 3.5% CULS 31/03/2018	2,216	3.10
Terra Catalyst Fund	2,190	3.06
Dunedin Enterprise Investment Trust	2,122	2.97
Utilico Emerging Markets Utilities	2,041	2.85
Schroder UK Growth Fund	1,920	2.68
Utilico Investments	1,881	2.63
Schroder Japan Growth Fund	1,556	2.18
JPMorgan Japanese Investment Trust	1,539	2.15
BlackRock World Mining Trust	1,520	2.13
Diversified Income Trust	1,500	2.10
Hansa Trust 'A'	1,485	2.08
Herald Investment Trust	1,479	2.07
Aseana Properties	1,351	1.89
New Star Investment Trust	1,161	1.62
Polar Capital Technology Trust	872	1.22
RCM Technology Trust	868	1.21
The Eastern European Trust	750	1.05
JPMorgan Fleming Overseas Investment Trust	619	0.87
Worldwide Healthcare Trust (Subscription Shares)	529	0.74
Ecofin Water & Power 6% CULS 31/07/2016	524	0.73
Perpetual Income & Growth Investment Trust (Subscription Shares)	425	0.59
Fidelity Asian Values (Subscription Shares)	362	0.51
Battersea Power Station 'B'	302	0.42
Schroder Asia Pacific Fund (Subscription Shares)	268	0.37
Polar Capital Global Healthcare Growth & Income Trust (Subscription Shares)	124	0.17
Henderson International Income Trust (Subscription Shares)	64	0.09
BlackRock New Energy Investment Trust (Subscription Shares)	37	0.05
Real Estate Opportunities	32	0.04
JP Morgan Private Equity (Warrants 30/06/2014)	27	0.04
Polar Capital Technology Trust (Subscription Shares)	11	0.02
Ecofin Water & Power Opportunities (Subscription Shares)	4	0.01
The Eastern European Trust (Subscription Shares)	4	0.01
Battersea Power Station (Warrants 2026)	-	-
Total Investments	65,135	91.08
Derivatives		
FTSE 100 21-Oct-11 put option @ 5700	574	0.80
The Euro Stoxx 50 16-Sep-11 put option @ 2750	279	0.39
FTSE 100 16-Sep-11 put option @ 5600	264	0.37
FTSE 100 16-Sep-11 put option @ 5700	232	0.32
FTSE 100 Index 16-Sep-11 Future	95	0.13
FTSE 100 19-Aug-11 call option @ 6000	43	0.06
	1,487	2.07
Other net current assets	4,895	6.85
Total assets less current liabilities	71,517	100.00

No geographical analysis has been disclosed as it is not considered relevant since the Company predominantly invests in other UK investment companies.

Income Statement

	<i>Six months ended 31 July 2011 Unaudited</i>			<i>Six months ended 31 July 2010 Unaudited</i>			<i>Year ended 31 January 2011 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>
Gains on investments held at fair value	–	1,583	1,583	–	1,179	1,179	–	11,361	11,361
Current assets held at fair value:									
Gains/(losses) on futures contracts	–	540	540	–	(1,140)	(1,140)	–	(2,498)	(2,498)
(Losses)/gains on listed put options	–	(1,299)	(1,299)	–	946	946	–	(1,362)	(1,362)
(Losses)/gains on forward currency contracts	–	(259)	(259)	–	–	–	–	8	8
Exchange losses on currency balances	–	(2)	(2)	–	(3)	(3)	–	(5)	(5)
Investment and other income (note 2)	656	–	656	542	–	542	1,014	–	1,014
Investment management fee	(68)	(270)	(338)	(54)	(216)	(270)	(114)	(459)	(573)
Other expenses	(185)	(12)	(197)	(198)	(9)	(207)	(343)	(24)	(367)
Net return before finance costs and taxation	403	281	684	290	757	1,047	557	7,021	7,578
Interest payable and similar charges	(67)	(267)	(334)	(51)	(206)	(257)	(106)	(423)	(529)
Return on ordinary activities before taxation	336	14	350	239	551	790	451	6,598	7,049
Tax on ordinary activities	–	–	–	–	–	–	–	–	–
Transfer to reserves	336	14	350	239	551	790	451	6,598	7,049
Return per Ordinary share (note 3):									
Basic	0.79p	0.03p	0.82p	0.64p	1.47p	2.11p	1.14p	16.69p	17.83p
Diluted	0.76p	0.03p	0.82p	0.64p	1.47p	2.11p	1.14p	15.33p	16.54p

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 2011 (unaudited)

	Ordinary Share Capital £'000	Share Premium £'000	Special Reserve £'000	Capital Redemption Reserve £'000	Equity Component CULS 2016 £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
At 31 January 2011	10,900	15,553	20,662	1,467	1,681	7,736	919	58,918
Issue of new Ordinary shares from conversion of CULS 2016/2011	-	2	44	-	(5)	-	-	41
Ordinary shares bought back and held in treasury	-	-	(1,468)	-	-	-	-	(1,468)
Ordinary shares re-issued out of treasury	-	1	38	-	-	-	-	39
Net return from ordinary activities	-	-	-	-	-	14	336	350
Final dividend paid for the year ended 31 January 2011	-	-	-	-	-	-	(425)	(425)
At 31 July 2011	10,900	15,556	19,276	1,467	1,676	7,750	830	57,455

For the six months ended 31 July 2010 (unaudited)

	Ordinary Share Capital £'000	Subscription Share Premium £'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 2010	9,365	64	9,684	18,983	1,336	1,065	1,138	1,303	42,938
Redemption of Subscription shares	-	(64)	-	(64)	64	-	-	-	(64)
Issue of new Ordinary shares from redemption of Subscription shares	1,602	-	5,255	-	-	-	-	-	6,857
Ordinary shares bought back and held in treasury	-	-	-	(1,204)	-	-	-	-	(1,204)
Net return from ordinary activities	-	-	-	-	-	-	551	239	790
Final dividend paid for the year ended 31 January 2010	-	-	-	-	-	-	-	(835)	(835)
At 31 July 2010	10,967	-	14,939	17,715	1,400	1,065	1,689	707	48,482

For the year ended 31 January 2011 (audited)

	Ordinary Share Capital £'000	Subscription Share Premium £'000	Share Premium £'000	Special Reserve £'000	Capital Redemption Reserve £'000	Equity Component CULS 2011/2016 £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
At 31 January 2010	9,365	64	9,684	18,983	1,336	1,065	1,138	1,303	42,938
Redemption of Subscription shares	-	(64)	-	(64)	64	-	-	-	(64)
Issue of new Ordinary shares from redemption of Subscription shares	1,602	-	5,255	-	-	-	-	-	6,857
Issue of new Ordinary shares from conversion of CULS 2011	-	-	1	3	-	(1)	-	-	3
Issue of CULS 2016	-	-	-	-	-	617	-	-	617
Ordinary shares bought back and held in treasury	-	-	-	(1,745)	-	-	-	-	(1,745)
Ordinary shares cancelled out of treasury	(67)	-	-	-	67	-	-	-	-
Ordinary shares re-issued out of treasury	-	-	613	3,485	-	-	-	-	4,098
Net return from ordinary activities	-	-	-	-	-	-	6,598	451	7,049
Final dividend paid year ended 31 January 2010	-	-	-	-	-	-	-	(835)	(835)
At 31 January 2011	10,900	-	15,553	20,662	1,467	1,681	7,736	919	58,918

Balance Sheet

	31 July 2011 Unaudited £'000	<i>31 July 2010 Unaudited £'000</i>	<i>31 January 2011 Audited £'000</i>
Fixed Assets			
Investments held at fair value through profit or loss	65,135	50,929	63,683
Current Assets			
Listed put options/warrants held at fair value through profit or loss	1,392	179	1,085
Futures contracts held at fair value through profit or loss	95	–	–
Forward currency contracts held at fair value through profit or loss	7,700	–	7,000
Debtors	799	519	64
Cash at bank	4,909	6,716	8,627
	14,895	7,414	16,776
Creditors: amounts falling due within one year			
Futures contracts held at fair value through profit or loss	–	(535)	(32)
Forward currency contracts held at fair value through profit or loss	(7,802)	–	(6,992)
Other creditors	(711)	(382)	(494)
	(8,513)	(917)	(7,518)
Net current assets	6,382	6,497	9,258
Total assets less current liabilities	71,517	57,426	72,941
Creditors: amounts falling due after more than one year			
3.25% Convertible Unsecured Loan Stock 2016/2011	(14,062)	(8,944)	(14,023)
Net assets	57,455	48,482	58,918
Capital and reserves			
Ordinary share capital	10,900	10,967	10,900
Share premium account	15,556	14,939	15,553
Other reserves:			
Special reserve	19,276	17,715	20,662
Capital redemption reserve	1,467	1,400	1,467
Equity component 3.25% Convertible Unsecured Loan Stock 2016/2011	1,676	1,065	1,681
Capital reserve	7,750	1,689	7,736
Revenue reserve	830	707	919
Equity Shareholders' funds	57,455	48,482	58,918
Net asset value per Ordinary share (note 4):			
Basic	135.35p	119.10p	135.34p
Diluted	135.35p	119.10p	135.34p

Cash Flow Statement

	<i>Six months ended 31 July 2011 Unaudited £'000</i>	<i>Six months ended 31 July 2010 Unaudited £'000</i>	<i>Year ended 31 January 2011 Audited £'000</i>
Net cash (outflow)/inflow from operating activities	(1,474)	2,073	(2,783)
Servicing of finance	(253)	(150)	(308)
Financial investment	(135)	(3,026)	(5,242)
Equity dividends paid	(425)	(835)	(835)
Net cash outflow before financing	(2,287)	(1,938)	(9,168)
Financing			
Ordinary shares bought back and held in treasury	(1,468)	(1,204)	(1,745)
Re-issue of Ordinary shares from treasury	39	–	4,098
Redemption of Subscription shares and issue of Ordinary shares	–	6,793	6,793
Issue of 3.25% Convertible Unsecured Loan Stock 2016	–	–	5,586
(Decrease)/increase in cash during the period	(3,716)	3,651	5,564
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in cash during the period	(3,716)	3,651	5,564
Exchange movements	(2)	(3)	(5)
Issue of 3.25% Convertible Unsecured Loan Stock 2016	–	–	(5,586)
Non-cash flow movements:			
Equity element of 3.25% Convertible Unsecured Loan Stock 2016	–	–	617
Redemption of Convertible Unsecured Loan Stock 2016/2011	41	–	3
Notional interest charge on 3.25% Convertible Unsecured Loan Stock 2011 – income	–	(22)	(44)
Notional interest charge on 3.25% Convertible Unsecured Loan Stock 2011 – capital	–	(86)	(175)
Notional interest charge on 3.25% Convertible Unsecured Loan Stock 2016 – income	(16)	–	–
Notional interest charge on 3.25% Convertible Unsecured Loan Stock 2016 – capital	(64)	–	(2)
Change in net debt	(3,757)	3,540	372
Opening net debt	(5,396)	(5,768)	(5,768)
Closing net debt	(9,153)	(2,228)	(5,396)
Represented by:			
Cash at bank	4,909	6,716	8,627
3.25% Convertible Unsecured Loan Stock 2016/2011	(14,062)	(8,944)	(14,023)
	(9,153)	(2,228)	(5,396)
Reconciliation of net return on ordinary activities before tax to net cash (outflow)/inflow from operating activities			
Net return before finance costs and taxation	684	1,047	7,578
Gains on investments	(1,583)	(1,179)	(11,361)
Movement in derivative contracts held	(324)	1,648	231
Exchange differences	2	3	5
Decrease in debtors	–	432	432
(Increase)/decrease in accrued income	(111)	35	65
(Decrease)/increase in creditors	(142)	87	267
Net cash (outflow)/inflow from operating activities	(1,474)	2,073	(2,783)

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 2011 Unaudited £'000</i>	<i>Six months ended 31 July 2010 Unaudited £'000</i>	<i>Year ended 31 January 2011 Audited £'000</i>
UK dividends	418	329	651
Unfranked investment income	140	75	182
UK fixed interest	90	133	171
Short term investment fund income	8	5	10
	<u>656</u>	<u>542</u>	<u>1,014</u>

3. Return per Ordinary share

Basic earnings

	<i>Six months ended 31 July 2011 Unaudited</i>	<i>Six months ended 31 July 2010 Unaudited</i>	<i>Year ended 31 January 2011 Audited</i>
Total earnings per Ordinary share			
Total earnings	£350,000	£790,000	£7,049,000
Weighted average number of Ordinary shares in issue during the period	42,736,168	37,481,408	39,542,203
Total earnings per Ordinary share	0.82p	2.11p	17.83p

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

Revenue earnings per Ordinary share

Revenue earnings	£336,000	£239,000	£451,000
Weighted average number of Ordinary shares in issue during the period	42,736,168	37,481,408	39,542,203
Revenue earnings per Ordinary share	0.79p	0.64p	1.14p

Capital earnings per Ordinary share

Capital earnings	£14,000	£551,000	£6,598,000
Weighted average number of Ordinary shares in issue during the period	42,736,168	37,481,408	39,542,203
Capital earnings per Ordinary share	0.03p	1.47p	16.69p

Notes to the Financial Statements (continued)

3. Return per Ordinary share (continued)**Diluted earnings***Six months ended 31 July 2011*

The revenue earnings (but not the capital and total earnings) for the half year ended 31 July 2011 are diluted. The diluted revenue earnings per Ordinary share have been calculated on an assumption that the 3.25% Convertible Unsecured Loan Stock 2016 was fully converted on the first day of the financial period, giving a weighted average of 52,866,380 Ordinary shares in issue and revenue earnings on ordinary activities after taxation of £401,000 (after adding back finance costs of £65,000). The diluted revenue earnings per Ordinary share of 0.76p reflect the saving in finance costs of the loan stock. The diluted capital and total earnings per Ordinary share are therefore the same as the basic returns per Ordinary share.

Six months ended 31 July 2010

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 2010. The diluted revenue, capital and total earnings per Ordinary share are therefore the same as the basic returns per Ordinary share.

Year ended 31 January 2011

The capital and total earnings (but not the revenue earnings) for the year ended 31 January 2011 are diluted. The diluted capital and total earnings per Ordinary share have been calculated on an assumption that the 3.25% Convertible Unsecured Loan Stock 2016 was fully converted on the first day of the financial period, giving a weighted average of 45,785,812 Ordinary shares in issue, capital earnings on ordinary activities after taxation of £7,018,000 and total earnings on ordinary activities after taxation of £7,573,000 (after adding back finance costs of £419,000 and £524,000 respectively). The diluted capital earnings per Ordinary share of 15.33p and the diluted total earnings per Ordinary share of 16.54p reflect the saving in finance costs of the loan stock. The diluted revenue earnings per Ordinary share are therefore the same as the basic returns per Ordinary share.

4. Net asset value per Ordinary share

	31 July 2011	31 July 2010	31 January 2011
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Audited</i>
Net asset values attributable	£57,455,000	£48,482,000	£58,918,000
Ordinary shares in issue at the period end*	42,448,353	40,707,223	43,534,808
Basic net asset value per Ordinary share	135.35p	119.10p	135.34p

The basic net asset value per Ordinary share is based on net assets of £57,455,000 which includes the deduction of the liability component of the 3.25% Convertible Unsecured Loan Stock 2016 and on 42,448,353 Ordinary shares being the number of Ordinary shares in issue at the period end*.

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

	31 July 2011	31 July 2010	31 January 2011
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Audited</i>
Total assets less current liabilities (per the balance sheet)	£71,517,000	£57,426,000	£72,941,000
Redemption value of 3.25% Convertible Unsecured Loan Stock 2016/2011	£(14,729,000)	£(9,171,000)	£(14,754,000)
Net asset values attributable (CULS at par value)	£56,788,000	£48,255,000	£58,187,000
Ordinary shares in issue at the period end*	42,448,353	40,707,223	43,534,808
Basic net asset value per Ordinary share	133.78p	118.54p	133.66p

The 3.25% Convertible Unsecured Loan Stock 2016 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.

*excludes 1,154,557 Ordinary shares held in treasury (31 July 2010: 3,161,667, 31 January 2011: 68,102).

5. Share Capital

On 24 January 2011 Shareholders and Stockholders approved the modification of the existing loan stock to 3.25% Convertible Unsecured Loan Stock 2016 (CULS) and the issue of an additional £5,832,900 of CULS. The CULS can be converted into Ordinary shares during the months of January, April, July and October each year at a rate of 67.74 Ordinary shares for every £100 nominal of CULS. Interest is paid on the CULS on 31 January, 30 April, 31 July and 31 October each year and is charged 20% to income and 80% to capital in line with the Board's expected long-term split of returns from the Company's investment portfolio.

On 2 February 2011 the Company allotted 29,540 Ordinary shares to holders of CULS whose elections to convert £40,000 of CULS 2011 at 31 January 2011 were received prior to the stockholders' meeting on 24 January 2011; and 4,387 Ordinary shares to holders of CULS whose elections to convert £6,477 of CULS 2016 were submitted subsequent to the close of the Stockholders' meeting on 24 January 2011.

As at 31 July 2011 there was £14,953,523 nominal of 3.25% Convertible Unsecured Loan Stock 2016 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 2011 and 31 July 2010 has not been audited.

The information for the year ended 31 January 2011 has been extracted from the latest published audited financial statements. The audited financial statements for the year ended 31 January 2011 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 any statements under Section 498 (2) or (3) of the Companies Act 2006.

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 2016 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 2011, 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.

