

The Cayenne Trust plc

Report for the half year ended 31 July 2007



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Directors and Advisers

Directors

Jonathan Agnew (Chairman)

Christopher Jones

Sir Laurence Magnus

All of the Directors are non-executive

Advisers

Investment Manager

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Auditors (from 7 June 2007)

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Chartered Accountants
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Stockbrokers

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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 page 12). 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); and
- the Company will seek to ensure preservation of capital by use of derivative and similar instruments to the extent permissible within the regulations governing investment trust companies and the Listing Rules.

Share and Loan Capital

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

As at 31 July 2007 the actual gearing was 117%.

Performance Statistics

	31 July 2007	<i>31 January 2007</i>	% Change
Shareholders' funds (£'000)	54,148	51,780	4.6
Actual gearing*	117%	117%	
Asset gearing**	109%	110%	
NAV per Ordinary share – basic (per AIC guidelines – see note 3)	125.33p	119.52p	4.9
Discount per Ordinary share (per AIC guidelines – see note 3)	1.9%	1.1%	
NAV per Ordinary share – basic	127.48p	121.91p	4.6
Discount per Ordinary share	3.5%	3.0%	
Mid-market price per Ordinary share	123.00p	118.25p	4.0
FTSE 350 Equity Investment Instruments Index (source: Bloomberg)	6,035.00	5,725.10	5.4

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

**This reflects the amount of loans actively invested in assets and not held in cash. It is calculated by dividing fixed asset investments by Ordinary shareholders' funds.

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 5.8p (4.9%) and a dividend of 1.0p per Ordinary Share was paid. Together these represent an increase of 5.7% over the opening NAV. This was a creditable investment performance over a period in which equities generally increased in value, although suffering corrections in the months of March and July. Volatility continued in August and September and in the period from the beginning of August to the date of this statement the NAV decreased by 2.4%. Since the end of January the share price has increased by 3.2% and now stands at a discount to NAV of 0.3%.

It is unlikely that markets fully reflect the effects of the more realistic pricing of risk which has occurred during the last two months. The widening of discounts represented by the share prices of many investment companies does, however, offer attractive opportunities for your Company.

At an Extraordinary General Meeting on 25 April, shareholders approved proposals to cancel the Company's Capital Redemption Reserve and to amend the Articles of Association to ensure that the resulting Special Reserve is available to the Company to purchase its own Shares. The cancellation of the Capital Redemption Reserve was confirmed by the High Court on 6 June. Shareholders also approved a proposal to renew the Company's authority to purchase its own Shares. As under the previous authority, the Board intends that the Company will repurchase Shares available in the market at prices representing discounts greater than 5 per cent. to NAV. In addition, Shares may also be repurchased at a discount to NAV of less than 5 per cent. if the Board considers it appropriate. The Board considers that these measures will allow for greater flexibility and increased efficiency in managing the discount to NAV at which the Company's Shares may trade.

On 30 January 2006 the Company's investment objective was changed to the achievement of consistent positive absolute returns (capital plus income). The Board then stated that the Company would not seek income return for its own sake and that dividends payable by the Company were likely to fluctuate. The Board believes, on the basis of the income likely to be generated by the current portfolio, that the dividend payable for the year ending January 2008 is likely to be less than the 1p paid in June 2007 for the year ending 31 January 2007.

Jonathan Agnew

Chairman

27 September 2007

Investment Manager's Report

The positive returns for equity markets during the six months under review, mask two distinctly unsettled periods beginning in February and July. Asia remained relatively insulated from this turmoil despite the early sell off having its roots in China. The US mortgage and housing crisis which came to the fore towards the end of the period had a global impact eroding some of the earlier gains. Unsurprisingly, the US was the laggard with the S&P 500 returning a mere 1.2% for the six months since February 2007. The FTSE 100 gained just 2.5%, while the FTSE 250 managed just 2.1%. European markets fared a little better with the DJ Euro Stoxx 50 gaining 3.2%. The Company's most relevant index, the FTSE 350 Investment Instruments Index, gained an impressive 5.4% as good global diversification of the underlying portfolios and share buy-backs supported valuations.

It is too early to judge whether the long overdue correction in global stock prices has passed or whether further weakness will prevail for the rest of the year. Evidence would suggest that the risks of further consolidation are high unless storm clouds pass without further events. Sub-prime mortgage defaults have certainly impacted on volatility, liquidity and sentiment; raising fear levels exponentially. Credit markets have borne the brunt of recent events and some financial stocks were sold off quite savagely as names such as Bear Stearns, Goldman Sachs and BNP Paribas all admitted being exposed to, or victims of, a liquidity squeeze in the short term commercial paper markets. Shortly after the period end and in response to the severe disruptions in the credit markets, the Federal Reserve cut its discount rate in order to ease the pressure on the banking system. Only time will tell if this was a master stroke in the style of the so called 'Greenspan Put' or whether, in the long run, it will fuel an already dangerously over-heated situation. This climate has also made it more difficult to finance leverage buy-outs and for hedge funds to operate, as their prime-brokers demand more collateral. Financial markets are likely to remain volatile for some time and at the mercy of sentiment, news flow, economic data and above all, liquidity.

All this uncertainty leaves the closed-end fund sector in a state of flux. New issue activity has continued unabated despite a few high profile failures. It appears however that some of the money to pay for these new issues has been sourced from holders of existing, generalist trusts where liquidity has been most readily available in the form of share repurchases. A cause of some concern is that investors are buying products which are of questionable quality with misunderstood risk profiles; Queens Walk, the residual mortgage fund, being a case in point. Indeed, one of the themes of the first half of the calendar year was the continuation in the supply of structured products, infrastructure funds, hedge funds and exotic property funds. On the horizon, there appears to be the prospect of even more esoteric products should investor's insatiable appetite for risk persist, although, with the continued erosion of premia on recent new issues, this task will become more onerous. Of greatest concern is that investors appear to have been liquidating some of their best quality assets to finance these purchases. Consequently, funds such as RIT Capital, Caledonia, British Empire, Electric & General and Perpetual Income & Growth have all suffered a de-rating over the past 12 months. It seems that investors were either selling what they can, selling winners and holding losers or, more worryingly, that greed rather than fear had become the dominant sentiment. The end result of this is that the average discount of equity closed-end funds has widened from 7% to 8% despite a significant increase in share repurchases across the sector aimed at supporting ratings.

The investment trust industry as a whole has experienced continuous evolution over its 140 year history. At times, sentiment can be unduly negative to the extent that commentators question its very survival. Obviously, this pessimism has been greatly exaggerated in the past and so it would appear at present. Investment trusts, like all sectors, go through cycles and history tells us that this negative climate is often the most rewarding time to focus on an out of favour market. Indeed, by way of example, in 1999, when many investors only wanted to own technology stocks, trusts in the UK Income & Growth sector owned virtually none. As a result, this sector was overlooked and traded at a significant discount to NAV. Over the last seven and a half years, the FTSE 100 has still not returned to its peak levels although, with income reinvested, it has managed to return approximately 30%. However, over the same period, the UK Income & Growth sector has produced total returns in excess of 80%. The current environment feels similar to those heady days at the end of the last millennium and by chance or by definition, some of the best quality funds, with experienced managers who have been through the cycle before are once again available at relatively cheap valuations. Despite unprecedented share repurchase programs, there is plenty of life left in the investment trust industry and a contrarian view at times like these should produce excellent returns in the medium term. In spite of this negative sentiment, there is optimism in certain sectors. Some good quality equity funds raised new money via secondary issues. Of particular note the two specialist utility funds, Ecofin and Utilico, raised over £250 million between them. Utilico re-domiciled to Bermuda and further geared its balance sheet by placing new zero dividend preference shares, for which the Company

made a small subscription. The change of domicile will allow the company more flexibility in its investment decisions, particularly in the management of its larger positions. Both funds continue to be key holdings within the portfolio.

The Company experienced a relatively quiet trading period. With current market conditions in mind, a concerted effort was made to reduce exposure to esoteric sectors and to increase holdings in high quality portfolios with proven long term track records. A notable sale was that of Alliance Trust at a 12% discount to NAV. This stock has been a serial underperformer and the management is showing little inclination to take steps to improve its rating in the short term. The growth of its financial services business and the refocusing of the portfolio may benefit in the long run, but there were real risks that the discount could widen further if market sentiment turned negative. This position was sold at a 12% discount which, despite not being expensive on a relative basis, has since widened to 17%. The position in Herald was exited as its board and manager also showed a complete unwillingness to address the issue of the wide discount, despite having just extended the life of the company. Although the technology sector looks set to recover after its many years of underperformance the excessive diversification of Herald's portfolio means that any benefit may be diluted. The final sale of note was part of a switch from Real Estate Opportunities convertible unsecured loan stock to the zero dividend preference shares (zdps). With Irish property entering a period of uncertainty over valuations, it was felt that exposure to the equity element of this fund should be eliminated in favour of the significantly undervalued zdps, which yielded in excess of 10% per annum to maturity. Developments at Battersea Power Station, in China and a stream of revaluations in Dublin should improve the asset coverage and hence the rating of the zdps in the near term. Two of the Company's larger positions, Scottish Mortgage and Monks were marginally reduced, at significant profits, in order to lessen the overall exposure to second tier markets.

As previously indicated, some high quality assets were purchased at attractive valuations. RIT Capital suffered a substantial derating over the period and stock was purchased at discounts in excess of 5%. The same is true for British Empire. The former has started to repurchase stock to support its rating; the latter is yet to do so. Positions in EP Global and Schroder Income Growth were purchased at attractive discounts to NAV. The holdings in Fidelity Special Values and Prelude were increased and a new position was entered in New Star Investment Trust, which should benefit from any improvement in its management company's valuation. TR Property had previously announced that there was an option for shareholders to convert part of their holdings into a newly listed company; TR Property Sigma. Sigma will invest in second line European real estate companies, a sector that is currently beneath the radar of many financial analysts. Shares were purchased in TR Property at a wide discount to NAV and then converted into the new class that started trading at closer to net asset value. During the market chaos in July, an opportunity arose to purchase a small holding in European Equity Tranche Income Ltd. This fund invests in the residual equity tranches of Continental European residential mortgage backed securities. This small position was acquired at a significant discount to NAV and in contrast to several of its peers, has no exposure to US or sub-prime mortgages. At current levels, the shares yield over 10% and offer strong prospects for recovery.

Of particular note, has been the pleasing performance of Hansa Trust and Utilico Emerging. It was announced that a subsidiary of Ocean Wilson's Holdings, a significant position in both Hansa and Utilico Emerging, was to be floated on the Brazilian and Luxembourg Stock Exchanges. The announcement and subsequent share price increase of Ocean Wilson's Holdings resulted in a strong performance in the respective funds' NAV's. Apollo Fund plc, the Company's largest position, gained 4.9% over the period.

The Company had cash and equivalents of 4.0% at the year end which was increased to 7.5% at the half way stage to reduce the use of the structural gearing provided by the convertible loan stock. There are numerous, potentially attractive, investment opportunities available at present but in light of the current uncertainty, the Company will maintain its watching brief before committing additional leverage to the markets. At present, the Company's hedge position consists of put spread warrants on the FTSE 100, S&P 500 and DJ Euro Stoxx 50.

Cayenne Asset Management Limited

27 September 2007

Investments in Order of Valuation

at 31 July 2007

(Ordinary shares unless otherwise indicated)

	At Valuation £'000	% of Portfolio
Listed investments		
Apollo Fund (Participating Shares)	8,790	13.90
Electric & General Investment Trust	4,140	6.55
Scottish Mortgage Investment Trust	3,871	6.12
Treasury 7.25% 07/12/2007	3,013	4.76
Fidelity Special Values Investment Trust	2,917	4.61
Monks Investment Trust	2,880	4.55
Real Estate Opportunities (Zero Dividend Preference Shares 31/05/2011)	2,552	4.04
Perpetual Income & Growth Investment Trust	2,462	3.89
Majedie Investments	2,235	3.53
Utilico Limited	2,175	3.44
Scottish American Investment Company	1,824	2.88
Ecofin Water & Power Opportunities	1,790	2.83
Aberforth Smaller Companies	1,475	2.33
New Star Investment Trust	1,283	2.03
Utilico Emerging Markets Utilities (Warrants 31/07/2010)	1,177	1.86
The World Trust Fund	1,163	1.84
Prelude Trust	1,100	1.74
Ruffer Investment Company (Redeemable Participating Preference Shares)	1,095	1.73
Henderson Opportunities Trust	1,057	1.67
TR Property Investment Trust – Sigma	1,027	1.63
Hansa Trust 'A'	1,005	1.59
Schroder Income & Growth Fund	840	1.33
Gartmore Irish Growth Fund	838	1.33
Advance UK Trust	798	1.26
RIT Capital Partners	755	1.19
British Empire Securities & General Trust	706	1.12
EP Global Partners Trust	543	0.86
Manchester & London Investment Trust	525	0.83
Ecofin Water & Power Opportunities (Capital Shares)	500	0.79
Murray International Trust	415	0.66
Utilico Finance (Redeemable Zero Dividend Preference Shares 31/10/2014)	380	0.60
Utilico Finance (Redeemable Zero Dividend Preference Shares 31/10/2016)	379	0.60
B.P. Marsh & Partners	348	0.55
Perpetual Income & Growth Investment Trust (Subscription Shares)	326	0.52
JPMorgan Fleming Mercantile Investment Trust	310	0.49
Schroder Split Investment Fund	291	0.46
Caledonia Investment Trust	259	0.41
European Equity Tranche Income	250	0.40
Melchior Japan Investment Trust	242	0.38
India Capital Growth Fund Limited (Warrants 22/12/2010)	234	0.37
Impax Environmental Markets (Warrants 16/06/2010)	230	0.36
Investec High Income Trust	213	0.34
Jupiter Green Investment Trust (Warrants 31/07/2011)	200	0.32
Utilico Limited (Warrants 30/10/2008)	184	0.29
Finsbury Worldwide Pharmaceutical (Warrants 31/07/2009)	113	0.18
Independent Investment Trust	73	0.12
Henderson Opportunities Trust (Subscription Shares)	52	0.08
Utilico Limited (Warrants 30/04/2012)	22	0.03
	59,057	93.39
Listed put warrants		
ML – FTSE 100 21-Dec-07 Put Spread (P@6225 & P@5825)	754	1.19
ML – S&P 500 Index 21-Jun-08 Put @ 1500	508	0.81
ML – FTSE 100 21-Sep-07 Put Spread (P@6524 & P@6125)	478	0.76
ML – DJ Euro Stoxx 50 20-Jun-08 Put Spread (P@4300 & P@3800)	425	0.67
ML – FTSE 100 21-Mar-08 Put Spread (P@6325 & P@5825)	291	0.46
ML – S&P 500 Index 22-Sep-07 Put @ 1375	134	0.21
	2,590	4.10
Other net assets	1,590	2.51
Total assets less current liabilities	63,237	100.00

Income Statement

	<i>Six months ended 31 July 2007 Unaudited</i>			<i>Six months ended 31 July 2006 Unaudited</i>			<i>Year ended 31 January 2007 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/(losses) on investments held at fair value	–	2,915	2,915	–	(2,522)	(2,522)	–	3,949	3,949
Current assets held at fair value:									
Gains/(losses) on listed put warrants	–	84	84	–	139	139	–	(1,805)	(1,805)
Gains on forward currency contracts	–	238	238	–	422	422	–	650	650
Exchange differences	–	2	2	–	(148)	(148)	–	(132)	(132)
Income	357	–	357	487	–	487	908	–	908
Investment management fee	(61)	(244)	(305)	(36)	(146)	(182)	(94)	(379)	(473)
Investment performance fee	–	(9)	(9)	–	–	–	–	–	–
Other expenses	(162)	–	(162)	(152)	(801)	(953)	(293)	(801)	(1,094)
Net return/(loss) before finance costs and taxation	134	2,986	3,120	299	(3,056)	(2,757)	521	1,482	2,003
Interest payable and similar charges	(53)	(211)	(264)	(28)	(112)	(140)	(80)	(321)	(401)
Return/(loss) on ordinary activities before taxation	81	2,775	2,856	271	(3,168)	(2,897)	441	1,161	1,602
Tax on ordinary activities	–	–	–	–	–	–	–	–	–
Transfer to/(from) reserves	81	2,775	2,856	271	(3,168)	(2,897)	441	1,161	1,602
Return/(loss) per Ordinary share (note 2):									
Basic	0.19p	6.53p	6.72p	0.94p	(10.98)p	(10.04)p	1.23p	3.25p	4.48p
Diluted	0.19p	6.02p	6.29p	0.92p	(10.98)p	(10.04)p	1.23p	3.25p	4.48p

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 to 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
Final dividend paid year ended 31 January 2007	-	-	-	-	-	-	-	(425)	(425)
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
At 31 July 2007	10,619	9,192	27,570	-	1,161	1,211	4,159	236	54,148

For the six months to 31 July 2006 (unaudited)

	Share Capital £'000	Share Premium £'000	'C' Share Capital £'000	Deferred Share Capital £'000	Capital Redemption Reserve £'000	Equity Component CULS 2011 £'000	Capital Reserve- Realised £'000	Capital Reserve- Unrealised £'000	Revenue Reserve £'000	Total £'000
At 31 January 2006	3,189	9,192	-	-	-	-	1,126	371	139	14,017
Issue of 'C' shares 25 April 2006	-	-	35,000	-	-	-	-	-	-	35,000
Issue of 3.25% Convertible Unsecured Loan Stock 2011 25 April 2006	-	-	-	-	-	1,161	-	-	-	1,161
Conversion of 'C' shares 22 June 2006	7,430	-	(35,000)	27,570	-	-	-	-	-	-
Redemption of Deferred Shares 22 June 2006	-	-	-	(27,570)	27,570	-	-	-	-	-
Net (loss)/return from ordinary activities	-	-	-	-	-	-	(775)	(2,393)	271	(2,897)
At 31 July 2006	10,619	9,192	-	-	27,570	1,161	351	(2,022)	410	47,281

For the year to 31 January 2007 (audited)

	Share Capital £'000	Share Premium £'000	'C' Share Capital £'000	Deferred Share Capital £'000	Capital Redemption Reserve £'000	Equity Component CULS 2011 £'000	Capital Reserve- Realised £'000	Capital Reserve- Unrealised £'000	Revenue Reserve £'000	Total £'000
At 31 January 2006	3,189	9,192	-	-	-	-	1,126	371	139	14,017
Issue of 'C' shares 25 April 2006	-	-	35,000	-	-	-	-	-	-	35,000
Issue of 3.25% Convertible Unsecured Loan Stock 2011 25 April 2006	-	-	-	-	-	1,161	-	-	-	1,161
Conversion of 'C' shares 22 June 2006	7,430	-	(35,000)	27,570	-	-	-	-	-	-
Redemption of Deferred Shares 22 June 2006	-	-	-	(27,570)	27,570	-	-	-	-	-
Net (loss)/return from ordinary activities	-	-	-	-	-	-	(1,492)	2,653	441	1,602
At 31 January 2007	10,619	9,192	-	-	27,570	1,161	(366)	3,024	580	51,780

Balance Sheet

	31 July 2007 Unaudited £'000	<i>31 July 2006 Unaudited £'000</i>	<i>31 January 2007 Audited £'000</i>
Fixed Assets			
Investments held at fair value through profit or loss	59,057	51,428	57,151
Current Assets			
Listed put warrants held at fair value through profit or loss	2,590	1,695	1,356
Forward currency contracts held at fair value through profit or loss	5,000	5,878	5,878
Debtors	454	1,398	818
Cash at bank	1,866	1,515	1,432
	9,910	10,486	9,484
Creditors: amounts falling due within one year			
Forward currency contracts held at fair value through profit or loss	(4,921)	(5,457)	(5,229)
Other creditors	(809)	(286)	(638)
	(5,730)	(5,743)	(5,867)
Net current assets	4,180	4,743	3,617
Total assets less current liabilities	63,237	56,171	60,768
Creditors: amounts falling due after more than one year			
3.25% Convertible Unsecured Loan Stock 2011	(9,089)	(8,890)	(8,988)
Net assets	54,148	47,281	51,780
Capital and reserves			
Called-up share capital	10,619	10,619	10,619
Share premium account	9,192	9,192	9,192
Other reserves			
Special reserve	27,570	–	–
Capital redemption reserve	–	27,570	27,570
Equity component 3.25% Convertible Unsecured Loan Stock 2011	1,161	1,161	1,161
Capital reserve – realised	1,211	351	(366)
Capital reserve – unrealised	4,159	(2,022)	3,024
Revenue reserve	236	410	580
Equity Shareholders' funds	54,148	47,281	51,780
Net asset value per Ordinary share (note 3):			
Basic	127.48p	111.32p	121.91p
Diluted	127.48p	111.32p	121.91p

Cash Flow Statement

	Six months ended 31 July 2007 Unaudited £'000	<i>Six months ended 31 July 2006 Unaudited £'000</i>	<i>Year ended 31 January 2007 Audited £'000</i>
Net cash outflow from operating activities	(518)	(570)	(3,699)
Servicing of finance	(163)	(1)	(252)
Financial investment	1,601	(46,454)	(43,173)
Equity dividends paid	(425)	–	–
Share reduction costs	(63)	–	–
Net cash inflow/(outflow) before financing	432	(47,025)	(47,124)
Financing			
Issue of 'C' shares	–	35,000	35,000
Issue of 3.25% Convertible Unsecured Loan Stock 2011	–	10,000	10,000
Increase/(decrease) in cash during the period	432	(2,025)	(2,124)
Reconciliation of net cash flow to movement in net debt/funds			
Increase/(decrease) in cash during the period	432	(2,025)	(2,124)
Issue of 3.25% Convertible Unsecured Loan Stock 2011	–	(10,000)	(10,000)
Exchange movements	2	(148)	(132)
Non-cash flow movements:			
Equity element of 3.25% Convertible Unsecured Loan Stock 2011	–	1,161	1,161
Notional interest charge on 3.25% Convertible Unsecured Loan Stock 2011 – income	(20)	(10)	(30)
Notional interest charge on 3.25% Convertible Unsecured Loan Stock 2011 – capital	(81)	(41)	(119)
Change in net funds/(debt)	333	(11,063)	(11,244)
Opening net (debt)/funds	(7,556)	3,688	3,688
Closing net debt	(7,223)	(7,375)	(7,556)
Represented by:			
Cash at bank	1,866	1,515	1,432
3.25% Convertible Unsecured Loan Stock 2011	(9,089)	(8,890)	(8,988)
	(7,223)	(7,375)	(7,556)
Reconciliation of operating profit to net cash outflow from operating activities			
Net return/(loss) before finance costs and taxation	3,120	(2,757)	2,003
(Gains)/losses on investments	(2,915)	2,522	(3,949)
Exchange differences	(2)	148	132
Increase in debtors	(356)	(6,017)	(7,250)
(Increase)/decrease in accrued income	(50)	2	(1)
(Decrease)/increase in creditors	(315)	5,532	5,366
Net cash outflow from operating activities	(518)	(570)	(3,699)

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 and in accordance with United Kingdom law and Accounting Standards and with the revised Statement of Recommended Practice ("SORP") "Financial Statements of Investment Trust Companies", issued by the Association of Investment Companies (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. Return per Ordinary share

a) Basic earnings

The basic return per Ordinary share is based on the net gain on ordinary activities after taxation for the six months ended 31 July 2007 of £2,856,000 (six months ended 31 July 2006: loss of £2,897,000; year ended 31 January 2007: gain of £1,602,000) and on 42,475,143 (six months ended 31 July 2006: 28,846,607; year ended 31 January 2007: 35,716,883) Ordinary shares, being the weighted average number of Ordinary shares in issue during the period.

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

The revenue return is based on the net gain on ordinary activities after taxation for the six months ended 31 July 2007 of £81,000 (six months ended 31 July 2006: gain of £271,000; year ended 31 January 2007: gain of £441,000) and on 42,475,143 (six months ended 31 July 2006: 28,846,607; year ended 31 January 2007: 35,716,883) Ordinary shares, being the weighted average number of Ordinary shares in issue during the period.

The capital return is based on the net gain on ordinary activities after taxation for the six months ended 31 July 2007 of £2,775,000 (six months ended 31 July 2006: loss of £3,168,000; year ended 31 January 2007: gain of £1,161,000) and on 42,475,143 (six months ended 31 July 2006: 28,846,607; year ended 31 January 2007: 35,716,883) Ordinary shares, being the weighted average number of Ordinary shares in issue during the period.

b) Diluted earnings

The diluted capital and total earnings per Ordinary share 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 49,552,143 Ordinary shares and based on net gain on ordinary activities after taxation for the six months ended 31 July 2007 of £2,985,000 and £3,119,000 respectively. The diluted earnings per Ordinary share of 6.02p and 6.29p respectively includes the savings of finance costs on the loan stock.

The effect of the 3.25% Convertible Unsecured Loan Stock 2011 on the revenue return per Ordinary share is anti-dilutive. The diluted revenue return per Ordinary share is therefore equal to the basic return per share.

Notes to the Financial Statements (continued)

3. Net asset value per Ordinary share

The net asset value per Ordinary share is based on the net assets at 31 July 2007 of £54,148,000 (six months ended 31 July 2006: £47,281,000; year ended 31 January 2007: £51,780,000) and on 42,475,143 (six months ended 31 July 2006 and year ended 31 January 2007: 42,475,143) Ordinary shares, being the number of Ordinary shares in issue at the period end.

The 3.25% Convertible Unsecured Loan Stock 2011 has an anti-dilutive effect on the net asset value per Ordinary share, and therefore the diluted net asset value is equal to the basic net asset value.

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

	31 July 2007
	£'000
Total assets less current liabilities (per the balance sheet)	63,237
Redemption value of 3.25% Convertible Unsecured Loan Stock 2011	(10,000)
Net assets per AIC guidelines	53,237
Number of Ordinary shares in issue	42,475,143
NAV per share (p)	125.33

4. 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.

5. 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 2007 and 31 July 2006 has not been audited.

The information for the year ended 31 January 2007 has been extracted from the latest published audited financial statements. The audited financial statements for the year ended 31 January 2007 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.

6. Cancellation of the Capital Redemption Reserve

At an Extraordinary General Meeting of the Company held on 25 April 2007, Shareholders approved the proposed cancellation of the Capital Redemption Reserve and the formation of a Special Reserve. The court confirmed the cancellation of the Capital Redemption Reserve on 6 June 2007 which became effective on 12 June 2007.

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, an Extraordinary 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, 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.

