

The Cayenne Trust plc

Annual Report and Accounts
Year ended 31 January 2008



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Directors and Advisers

Directors

Jonathan Agnew (Chairman)

Aged 66. Joined the Board in January 2006 when he was elected Chairman. He is Chairman of Ashmore Global Opportunities Limited, Beazley Group PLC and LMS Capital plc, and Senior Independent Director of Rightmove plc.

Christopher Jones

Aged 67. Appointed in January 2006. He was head of investments at Merchant Investors Assurance Co Ltd until retiring in 2003. He is a non-executive director of Schroder UK Mid and Small Cap Fund plc, Atlantis Japan Growth Fund Ltd, Ecofin Water & Power Opportunities plc, Japan Accelerated Performance Fund plc, Jupiter Second Enhanced Income Trust plc, Montanaro European Smaller Companies plc and Montanaro UK Smaller Companies Investment Trust plc.

Sir Laurence Magnus

Aged 52. Joined the Board in February 2006. He is Vice-Chairman of Lexicon Partners and non-executive Chairman of Xchanging in-sure Services Limited and JP Morgan Income & Capital Trust. He is a non-executive Director of Climate Exchange plc. He is also Deputy Chairman of the National Trust and an elected member of its Council.

www.thecayennetrust.com

Advisers

Investment Manager

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Company Secretary and Registered Office

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Registrars

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www.capita.deal.com

Custodian

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Auditors

BDO Stoy Hayward LLP
Chartered Accountants
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 with a limited life (see page 13) listed on The London Stock Exchange. Its investment policy can be summarised as follows:

- the Company invests principally in the securities of UK investment trust companies and other closed-end funds;
- up to 15% of the Company's assets, at the time of investment, may be invested in Apollo Fund plc (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.

As at 31 January 2008 the actual gearing was 119%.

Principal Data

	<i>At</i> 31 January 2008	<i>At</i> <i>31 January</i> <i>2007</i>	<i>%</i> <i>change</i>
Shareholders' funds (£'000)^	47,254	51,780	(8.7)
Gearing†	119%	117%	
Net asset value‡ per Ordinary share – basic (CULS at par value – see note 16)	120.62p	119.52p	0.9
Discount‡ per Ordinary share (per AIC guidelines)	2.4%	1.1%	
Net asset value‡ per Ordinary share – basic (see note 16)	122.72p	121.91p	0.7
Discount‡ per Ordinary share	4.0%	3.0%	
Mid-market price per Ordinary share	117.75p	118.25p	(0.4)
FTSE 350 Equity Investment Instruments Index (Source: Bloomberg)	5,673.80	5,725.10	(0.9)
	<i>Year to</i> 31 January 2008	<i>Year to</i> <i>31 January</i> <i>2007</i>	<i>%</i> <i>change</i>
Net revenue after taxation (£'000)	479	441	8.6
Recommended dividends per Ordinary share	1.0p	1.0p	–
Dividend yield†	0.9%	0.8%	
Total expense ratio†	1.3%	1.5%	
FTSE 350 Equity Investment Instruments Index (total return) (Source: Bloomberg)	1.1%	9.9%	
Performance Fee high water mark**	126.18p	120.17p	
Returns per Ordinary share – basic			
Revenue	1.13p	1.23p	
Capital	0.29p	3.25p	
Total return	1.42p	4.48p	

*The performance fee high water mark for the year to 31 January 2009 is 132.49p.

†Terms defined in the Glossary (see page 52).

^The decrease in shareholders' funds during the year mainly relates to the Company buying back shares for cancellation or holding in treasury at a cost of £4,644,000.

Five Year Historical Record

Year	Revenue			Capital		
	Gross income £'000	Net revenue available for Ordinary shares £'000	Dividends on Ordinary shares Cost £'000	Rate p	Basic net asset value per ordinary share p	Mid-market price per ordinary share p
To 31 Jan						
2004	664	194	446	3.5	78.4*	65.5
2005	859	378	446	3.5	91.7*	81.5
2006	866	340	446	3.5	109.9	107.5
2007	908	441	425	1.0	121.9	118.3
2008	990	479	385	1.0	122.7	117.8

*Restated for new UK Accounting Standards

Cayenne Asset Management Limited was appointed Investment Manager under an agreement dated 30 January 2006. Prior to this the Investment Manager was INVESCO Asset Management Limited.

Share and Loan Capital

Ordinary shares

At 31 January 2008 the Company had 41,605,643 (2007: 42,475,143) Ordinary shares of 25p each in issue. During the year it bought back 3,969,500 Ordinary shares, of which 869,500 Ordinary shares were cancelled on 21 January 2008 and 3,100,000 Ordinary shares are held in treasury.

Income entitlement

The revenue earnings of the Company, after providing for payment of interest to holders of the 3.25% Convertible Unsecured Loan Stock 2011 ("CULS"), are available for distribution to holders of Ordinary shares by way of interim, final and special dividends (if any) as may from time to time be declared by the Directors.

Capital entitlement

On a winding up of the Company, after settling the liabilities of the Company and amounts due to holders of CULS, holders of Ordinary shares would be entitled to receive a rateable proportion of the surplus assets depending on the amounts paid up or credited as paid up on their shares.

Voting entitlement

Each Ordinary shareholder is entitled to one vote on a show of hands, and on a poll to one vote for each Ordinary share held. Notices of Meetings and Proxy Forms set out the deadlines for valid exercise of voting rights and, other than with regard to Directors not being permitted to vote on matters upon which they have an interest, there are no restrictions on the voting rights of Ordinary shareholders.

Transfers

There are no restrictions on transfers except: a) dealings by Directors, Persons Discharging Managerial Responsibilities and their connected persons which may constitute insider dealing or is prohibited by the rules of the UKLA; b) transfers to US persons if the number of US shareholders were to exceed 50, or the Director's consider that the assets of the Company might become "plan assets" for the purposes of US ERISA 1974; and c) transfers to more than 4 joint holders.

The Company is not aware of any agreements with or between shareholders which restrict the transfer of Ordinary shares, or which would take effect or alter or terminate in the event of a change of control of the Company.

Share and Loan Capital

continued

3.25% Convertible Unsecured Loan Stock 2011

At 31 January 2008 there were £10,000,000 (2007: £10,000,000) of the Company's 3.25% Convertible Unsecured Loan Stock 2011 ("CULS") in issue.

Income entitlement

Holders of CULS are entitled to receive interest at a rate of 3.25% per annum, payable by half yearly instalments on 31 January and 31 July each year.

Capital entitlement

Upon redemption, whether by effluxion of time or an event of default, CULS holders are entitled to repayment of the principal amount and any outstanding interest. The CULS are unsecured.

Voting entitlement

The CULS do not carry any entitlement to attend and/or vote at general meetings of the Company.

Conversion

CULS may be converted into Ordinary shares on 31 January and 31 July each year. A letter is sent to holders of CULS not less than one month before the dates of conversion reminding CULS holders of their right to convert and setting out the deadlines for lodgement of conversion notices. The conversion rate for each £100 in nominal value of CULS is 70.77 Ordinary shares.

Chairman's Statement

This report covers the second year for which Cayenne Asset Management Limited has been the investment manager of your Company. This period has witnessed high volatility in global markets, the effects of which are described in the Investment Manager's Report.

Over the year, the Company's net asset value per Ordinary share, inclusive of accumulated revenue, calculated in accordance with AIC guidelines, increased by 0.92%. Although this is a disappointing result in terms of absolute performance and relative to the Company's 5% hurdle, the Company's performance compares well with many of its peers and against equity indices over the same period. It is the Investment Manager's belief that, in order to produce consistent positive returns over the long term, it is necessary to avoid significant losses over the short term. This has been achieved in what can only be described as exceptionally difficult markets. We look forward to opportunities to produce improved absolute returns as fear subsides, liquidity improves and ratings finally recover.

During the same period in order that the discount to net asset value per Ordinary share at which the Ordinary shares trade should not exceed 5%, the Company bought back 3,969,500 shares (9.35% of the total share capital), of which 869,500 were cancelled and the remainder placed in treasury. Nevertheless, your Company's share price declined by 0.5p as the discount widened to 4.0%.

Subsequent to the year end, the Company bought back a further 1,154,000 Ordinary shares (2.78% of the share capital) of which 1,050,000 were placed in treasury and 104,000 cancelled. Accordingly, at the date of this report there are 41,501,643 Ordinary shares in issue, of which 4,150,000 are held in treasury. If market conditions permit, we intend that some or all of the shares held in treasury will be reissued at prices which represent narrower discounts than those at which they were repurchased, subject to shareholders' approval at the Annual General Meeting.

Following the ruling by the European Court of Justice in June 2007 that investment management fees charged to investment trusts are exempt from VAT, Cayenne Asset Management Limited repaid in full to the Company the £90,408 VAT which it had charged since becoming investment manager. A further VAT refund is sought from Invesco Asset Management Ltd, the previous investment manager.

Your Board recommends the payment of a final dividend for the year to 31 January 2008 of 1.00p per Ordinary share which, if approved by shareholders, will be payable on 16 May 2008. Although we expected at the interim stage to recommend a dividend of less than the 1.00p paid for the year ended 31 January 2007, larger and earlier dividends than expected were received from some of the Company's investments. Your Board reminds shareholders that the Company does not seek income return for its own sake and that dividends payable by the Company are therefore likely to fluctuate from year to year.

Jonathan Agnew

Chairman

3 April 2008

Investment Manager's Report

As the recent global credit crisis has been well documented, it would be unnecessary to go into great detail here other than to attempt to examine some of its potentially damaging consequences. It may be dangerous to speak of the episode in the past tense. Interbank rates may have peaked, but this crisis was not caused by the banks failing to lend to each other. Its cause lies in the mountain of cheap debt which low quality consumers have been accumulating since Greenspan wrote his infamous put to support the markets. Central banks have been forced to cut rates, dramatically in the case of the US, and provide unprecedented levels of liquidity to ease the pain caused by previous excesses, as evidenced by the UK's nationalisation of Northern Rock. It will be a delicate balancing act to take sufficient action to cure the patient without fuelling future problems. The most significant issue is that lenders are less willing or able to make further debt available to already indebted households forcing consumers to rein in spending. The US and UK economies therefore face a debt famine which could easily result in a full blown recession. What makes the policy-makers job unenviable is the spectre of commodity price inflation caused by a mixture of Chinese demand and market speculation. Unless energy and food prices ease to allow lower input costs, monetary policy flexibility may be limited as the risk of fuelling stagflation increases. So, as warned at the interim stage, this crisis may still be far from over.

It is astonishing that most major stock markets produced positive returns in 2007, despite the commodity price inflation, the decline in the US Dollar and Sterling, the fall in real estate assets, liquidity contraction and the lack of credit availability with its potential impact on consumer spending. However, dismal housing and consumer confidence figures in January exposed the weakness in the US economy and equity markets plunged despite the Federal Reserve Bank cutting interest rates by a total of 1.25% during the month. Against this background the S&P 500 Index retreated 4.2% over the Company's year to 31st January 2008, while the FTSE 100 Index fell 5.2%. The DJ Euro Stoxx 50 Index was down 9%. The Company's most relevant index, the FTSE 350 Equity Investment Instruments Index only fell by 1% supported by relatively high exposure to Emerging Markets.

The financial year under review saw some sectors produce truly appalling returns: financials led the way lower, small companies declined; real estate stocks collapsed; retailers saw earnings fall and Japan experienced another disappointing year, with the Nikkei 225 down over 20%. Indeed, with the notable exception of raw materials and the BRIC economies, most markets had a year to forget as many sectors are now in bear market territory. Some commentators argue that the Emerging Markets, and specifically China, have permanently dislocated from Western economies. Although this argument has some merit, it may be a little early to draw the conclusion that there is now a total lack of correlation. It is difficult to see that these economies can operate in complete isolation and only time will tell if they will survive this stern test of their new status.

It was a difficult twelve months for investors in closed-end funds which saw average discounts widen by over 5%. The most noticeable impact on the sector was that, despite the record start to the year, the new issue market became subdued. The clearest example of this is in the property sector which dominated primary issue activity in 2006. Much like split capital trusts before them, property trusts were marketed to retail investors with an insatiable appetite for yield. Promises of capital gain were based on the theory of continued subsequent yield contraction and substantial leverage, yet few investors considered the danger of a market correction and subsequent yield expansion. The sudden correction was severe and prices collapsed as NAVs declined and large premiums dissolved into discounts exceeding 40% in many cases. Discounts in this sector are not easily avoided as underlying assets are generally too illiquid to allow flexible share repurchases. Also, as previously seen during the split capital trust crisis, the situation was exacerbated by open-end funds selling liquid positions (closed-end property funds which they had bought initially to gain exposure to the sector while they waited to invest directly into property) to meet their own redemptions.

In this environment it would be surprising if the Company's portfolio had been immune to disappointment. Two positions in particular are worth highlighting, as they accounted for a negative contribution to the Company's performance of almost 1.5%, between them. Firstly, the position in ING UK Real Estate Income (IRET) was purchased prematurely when the price had declined from 125p to 100p. This entry level represented a significant de-rating but unfortunately, was significantly above the level of 77p it had fallen to at the financial year end. Confidence remains that IRET has a high quality portfolio and it is therefore expected that much of this unrealised loss will be regained over time. Of greater concern is the second position, Prelude Trust, purchased as a 'sleeper' position awaiting the maturity of its portfolio of venture capital investments. The trust announced a decrease of some 7% in its NAV for the end of September and a further 11% in January. This was particularly disappointing as the management had implied as late as July that the NAV would be broadly flat through the year end, followed by the potential for some useful realisations or revaluations. The current share price is down over 40% since September and the Company is working closely with Prelude to realise a suitable cash exit in the short term.

All other sub-sectors suffered a re-rating as discounts widened by varying degrees. Of note were some of the highest quality global funds including RIT Capital, British Empire, Caledonia and Electric & General, trading at discounts to NAV in excess of 10% at certain stages of the financial year. The positions in British Empire and RIT Capital have been actively traded as their respective discount levels remain volatile. Both of these stocks were profitable for the Company over the year. The positions in New Star Investment Trust and Majedie Investments were increased at significant discounts to NAV, as the underlying holding in their respective management companies suffered huge de-ratings. Unlike 2006, specialist trust valuations also suffered as buyers evaporated. Utilico and Ecofin, previously premium rated utility stocks, both briefly touched double digit discounts and their discounts remain historically wide. Across the portfolio, the story is the same and illustrates the headwind into which the Company struggled throughout the year. By way of example, Aberforth Smaller, EP Global, Gartmore Irish, Hansa Trust and Henderson Opportunities were all valued towards the end of the financial year at discounts in excess of 10% wider than twelve months earlier. Such a store of value has rarely been seen in recent times, especially since the introduction of widespread share repurchase programmes in the sector. It is disappointing to note that some of the aforementioned funds were allegedly targeting narrower discount levels than current valuations suggest. Again, this situation creates opportunities for investors in the sector and confidence remains that, notwithstanding the difficult period just ended, significant benefit can hopefully be enjoyed in the coming months. It must be remembered, that while it is possible to hedge underlying assets, it is extremely difficult to mitigate against adverse discount moves. However, there is a strong belief that, as in previous periods of illiquidity, discounts should stabilise or narrow from here aiding share price performance rather than hindering it.

The long awaited announcement from Real Estate Opportunities regarding its zero dividend preference shares (zdps) was made in December and although positive for the financial situation of holders of the zdps, general investor apathy towards commercial real estate has so far held back any uplift in the price. Perhaps unsurprisingly, the trusts with large exposure to Emerging Markets were some of the best performers within the portfolio over the period. Monks and Scottish Mortgage enjoyed very strong performance, while Utilico Emerging Markets capitalised on the huge growth in infrastructure evident in emerging economies, particularly Brazil. Finally, Ecofin Water & Power Opportunities had a mixed start to the year, but recovered well on the proposed sale of Airtricity and the strength of its other underlying assets.

Investment Manager's Report

continued

Several of the Company's positions were exited completely over the year raising some valuable liquidity. Of particular note was the timely sale of the Advance UK position back to the company in early August, ahead of market turbulence and the disposal of the Herald and Alliance Trust holdings. Herald has been a serial underperformer that has languished on a double digit discount for some time. The Board has consistently failed to address the discount issue despite an opportunity at the continuation vote held in the Spring. This was unacceptable and the holding was sold at 14% discount to NAV. The shares were trading at a discount of over 20% at year end. Alliance Trust has been underperforming relative to its peers for some time; the Board has shown little inclination to improve the short term rating of the portfolio and following the Company's sale earlier in the year, at a 12% discount to NAV, the discount had widened to 18% during the period under review. Alliance Trust was fortunate to benefit from promotion to the FTSE 100 Index following a re-weighting as Kelda dropped out following corporate activity. The discount narrowed briefly but is expected to widen again over the short term. The Company also slightly reduced its exposure to some of the larger generalist positions, in particular Scottish Mortgage, Hansa and Electric & General to increase cash levels in the portfolio. Some of this cash was used to repurchase shares in line with the Company's stated discount control policy. The Company ended the year with 9.5% in cash and equivalents in anticipation of further market weakness and to take advantage of opportunities as they arise. The hedge book at year end consisted of listed put warrants of varying maturities on the FTSE 100, S&P 500 and Euro Stoxx 50 indices. These positions should limit downside risk and offset negative market movements.

Cayenne Asset Management Limited

3 April 2008

Investments in Order of Valuation

at 31 January 2008

(Ordinary shares unless otherwise indicated)	At Fair Value £'000	% of Portfolio
Listed investments		
Apollo Fund (Participating Shares)	8,462	14.99
Electric & General Investment Trust	3,548	6.29
Scottish Mortgage Investment Trust	3,433	6.08
Caledonia Investment Trust	2,463	4.36
Real Estate Opportunities (Zero Dividend Preference Shares 31/05/2011)	2,432	4.31
Monks Investment Trust	2,432	4.31
Utilico Limited	2,294	4.06
Perpetual Income & Growth Investment Trust	2,262	4.01
Schroder Income & Growth Fund	2,104	3.73
Ecofin Water & Power Opportunities	1,850	3.28
Scottish American Investment Company	1,568	2.78
Majedie Investments	1,503	2.66
New Star Investment Trust	1,354	2.40
Ecofin Water & Power Opportunities (Income Shares)	1,350	2.39
Gartmore Irish Growth Fund	1,338	2.37
Hansa Trust 'A'	1,271	2.25
EP Global Opportunities Trust	1,151	2.04
Aberforth Smaller Companies	1,128	2.00
Utilico Emerging Markets Utilities (Warrants 31/07/2010)	1,000	1.77
Prelude Trust	730	1.29
Henderson Opportunities Trust	698	1.24
ING UK Real Estate Income Trust	578	1.02
Manchester & London Investment Trust	524	0.93
Ecofin Water & Power Opportunities (Capital Shares)	477	0.85
Real Estate Opportunities 7.5% CULS 31/05/2011	382	0.68
Law Debenture	329	0.58
Utilico Limited (Warrants 30/10/2008)	283	0.50
Perpetual Income & Growth Investment Trust (Subscription Shares)	270	0.48
Investec High Income Trust	258	0.46
Utilico Emerging Markets Ltd (C Shares)	226	0.40
RIT Capital Partners	189	0.34
India Capital Growth Fund (Warrants 22/12/2010)	180	0.32
The Equity Partnership Investment Company (Income Shares)	109	0.19
Impax Environmental Markets (Warrants 16/06/2010)	105	0.19
Finsbury Worldwide Pharmaceutical (Warrants 31/07/2009)	87	0.15
Utilico Emerging Markets Ltd (Subscription Shares)	53	0.09
Advance Frontier Markets (Warrants 15/06/2010)	50	0.09
Utilico Limited (Warrants 30/04/2012)	45	0.08
Henderson Opportunities Trust (Subscription Shares)	18	0.03
	48,534	85.99
Listed put warrants		
ML – DJ Euro Stoxx 50 20-Jun-08 Put Spread (P@4300 & P@3800)	723	1.28
ML – FTSE 100 20-Jun-08 Butterfly Put (6025, 5325, 4625)	625	1.11
ML – FTSE 100 20-Jun-08 Put Spread (P@6225 & P@5725)	580	1.03
ML – DJ Euro Stoxx 50 18-Apr-08 Put Spread (P@3700 & P@3200)	370	0.65
ML – S&P Index Sep-08 Put Spread (P@1375 & P@1150)	318	0.56
ML – FTSE Apr-08 Put Spread (P@5800 & P@5400)	290	0.51
	2,906	5.14
Other net assets	5,005	8.87
Total assets less current liabilities	56,445	100.00

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

Report of the Directors

for the year ended 31 January 2008

Introduction

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the year ended 31 January 2008.

The Company was incorporated in Great Britain and registered in England and Wales on 1 March 1991 as a public limited company under the Companies Act 1985, registered number 2774914. It is a member of the Association of Investment Companies.

Company's Business

The Company is an investment company as defined in Section 266 of the Companies Act 1985 and operates as an investment trust in accordance with Section 842 of the Income and Corporation Taxes Act 1988. HM Revenue & Customs approval of the Company's status as an investment trust in respect of the year ended 31 January 2007 has been received and the Company has subsequently conducted its affairs so as to enable it to continue to obtain such approval. The Company is a qualifying trust for the purposes of Personal Equity Plans and Individual Savings Accounts.

During the financial year under review, the Board has pursued an investment policy, whereby it invested in the securities of UK investment trust companies and other closed-end funds. This aimed to give shareholders an interest in a broad spread of underlying investment trusts and close-end funds with gearing.

The Chairman's Statement appears on page 5 and the Manager's Report on pages 6, 7 and 8.

Investment Policy

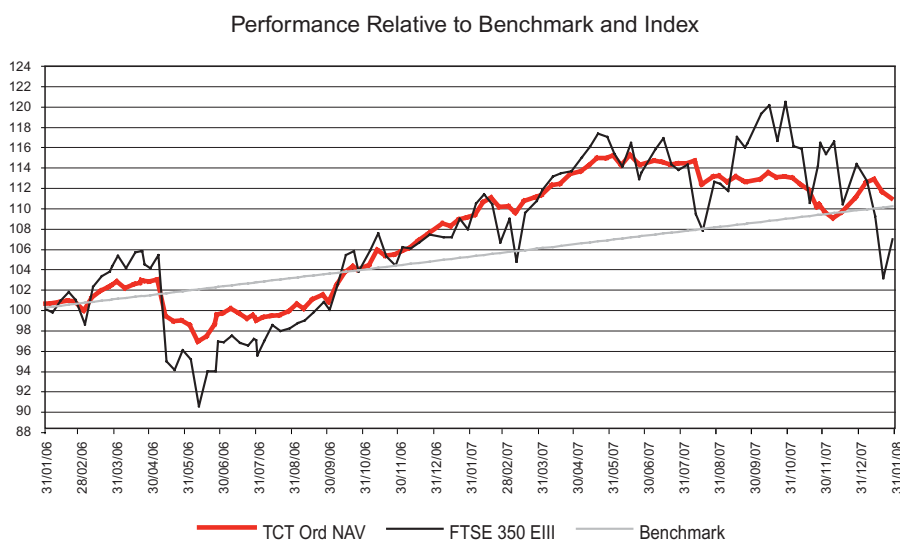
Details of the Company's investment policy are set out on page 2.

Business Review

The Company aims to achieve consistent positive absolute returns by investing principally in the securities of UK investment trusts and other closed-end funds. It will seek to ensure the preservation of capital by the use of derivatives or similar hedging instruments. Up to 15 percent of the Company's assets, at the time of investment, may be invested in Apollo Fund plc, an offshore fund also managed by Cayenne Asset Management Ltd.

Key Performance Indicator (“KPI”)

The Board reviews the Company’s net asset value (“NAV”) performance in comparison to the Company’s benchmark (the Company’s principal KPI) during the year to assess and monitor the performance of the Company. The Chairman’s Statement on page 5 summarises the findings of these reviews for the financial year.



Source: Bloomberg LLP/Phoenix Administration Services Limited

Total expense ratio (“TER”)

The total expense ratio (“TER”) is an expression of the Company’s management fees and other operating expenses (including tax relief, where allowable) as a percentage of average net assets over the year. The TER for the year ended 31st January 2008 was 1.3%. The Board reviews the TER of the Company regularly and, at least annually, the Company’s TER against other companies having similar investment objectives and policies.

Principal Risks

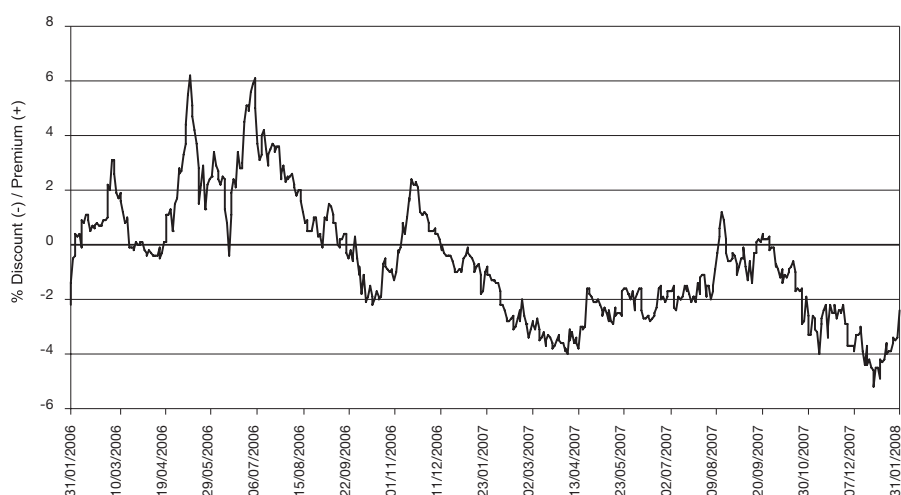
There can be no guarantee that any appreciation in the value of the Company’s investments will occur or that the investment objective of the Company will be achieved. The Company’s investment policy is to use derivatives and similar instruments to hedge against volatility in the NAV per share. Investors should be aware that the NAV per share is unlikely in rising equity markets to be as high as would be the case if market risk was not hedged but, conversely, the NAV per Share in falling equity markets is likely to be higher than would be the case if market risk was not hedged.

Report of the Directors

continued

The price of the shares will be determined by the interaction of supply and demand in the market as well as the NAV per share. Irrespective of hedging, the market price of the shares is likely to fluctuate and may represent either a discount or premium to the NAV per share.

Discount to NAV



Source: Winterflood Securities/Thompson Financial Datastream

The market value of the 3.25% Convertible Unsecured Loan Stock 2011 (CULS) will be determined by a number of factors, including the supply and demand for the CULS, the price, NAV and dividend yield of the shares into which the CULS is convertible, prevailing interest rates, market conditions and general investor sentiment. There can be no guarantee that the market value of the CULS will fully reflect any value inherent in their convertibility into shares.

Investors should be aware that, whilst the use of borrowings (including through the CULS) should enhance the NAV per share where the value of the Company's underlying assets is rising at a rate greater than the interest rate on the borrowings, it will have the opposite effect where the underlying asset value is falling or is rising at a rate lower than the interest rate on the borrowings. This may increase the volatility of the NAV per share.

The Company is an investment trust. Investment trusts aim to generate returns for shareholders by investing in other companies. As an investment trust may invest in a range of different companies and sectors, it may represent a method for investors to gain a diversified investment exposure. However, investors should be aware of certain factors which apply to the Company:

- The investment approach utilised by the Company seeks to generate returns by investing in securities Cayenne Asset Management Limited believes to be undervalued. There can be no guarantee that the perceived value in the Company's portfolio will however be released, in any expected timeframe or at all.
- In respect of trades in derivative and similar instruments, the Company will be exposed to credit risk on the counterparties with which it trades. The Company will seek to transact only with major established counterparties. The Company will also bear the risk of settlement default by clearing houses and exchanges. Any default by a counterparty or on settlement could have a material adverse effect on the Company.

- The Company's portfolio is constructed without reference to any stock market index. It is therefore likely that there will be periods when its performance will be quite unlike that of any index and there can be no assurance that such divergence will be wholly or even primarily to the Company's advantage.
- Market liquidity in the shares of investment trusts is frequently inferior to the market liquidity of shares issued by larger companies traded on the London Stock Exchange. The CULS and the Ordinary shares are traded on the London Stock Exchange's Main Market, but it is possible that there may not be a liquid market in the CULS or Ordinary shares and investors may have difficulty in selling such securities. The Company invests in other investment trusts which may suffer from similar liquidity issues at times of extreme volatility and the NAV of the Company may be adversely affected.

Taxation

Any change in the Company's tax status, including failure to satisfy the conditions of Section 842 of the Income and Corporation Taxes Act 1988, or any change in taxation legislation, could affect the value of the investments held by the Company, affect the Company's ability to provide returns to shareholders, or alter the post-tax returns to shareholders. The levels of, and relief from, taxation may change. The tax relief currently available and its value depends on the individual circumstances of investors.

Economic Conditions

Changes in economic conditions, including, for example, interest rates, rates of inflation, industry conditions, competition, political and diplomatic events and trends and tax laws, can substantially and adversely or favourably affect the Company's prospects and the value of the Company's portfolio.

Accounts

The Company prepares its accounts and calculation of NAV in accordance with UK generally accepted accounting practice ("UK GAAP") and the AIC Guidelines, which are subject to change. The Company currently has a policy of charging 80 per cent. of the periodic management fee, interest on the CULS, and the entirety of any performance fee earned under the terms of the Investment Management Agreement, to capital. Expenses incurred where a connection with the maintenance or enhancement of the value of the investments can be demonstrated or expenses associated with share buy backs are charged to capital. All other expenses are charged to revenue. Charges will reduce the NAV per share.

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.

Financial Results and Dividends

The results for the year are shown in the Income Statement on page 27. The Directors are proposing a dividend of 1.00p per Ordinary share for the year which, if approved by shareholders at the forthcoming Annual General Meeting, will be payable on 16 May 2008 to holders on the register at the close of business on 25 April 2008 (ex dividend 23 April 2008).

Report of the Directors

continued

Use of Financial Instruments

The Company's use of financial instruments is disclosed in note 20 to the Financial Statements.

Share Capital

During the year the Company bought back 3,969,500 Ordinary shares for an aggregate consideration of £4,644,159 as part of its stated policy to buy back shares (where available) at discounts to net asset value of 5% or less if the Board considers it appropriate. On 21 January 2008 the Company cancelled 869,500 Ordinary shares held in treasury, reducing the issued Ordinary share capital of the Company at the year end to 41,605,643 (2007: 42,475,143) Ordinary shares in issue. At the year end the Company was holding 3,100,000 Ordinary shares in treasury, as a result of which the total voting rights attaching to the issued share capital was 38,505,643 votes.

Subsequent to the year end the Company bought back into treasury a further 1,154,000 Ordinary shares for an aggregate consideration of £1,346,367. The purchases were made in accordance with the Company's stated discount management policy. On 7 March and 14 March the Company cancelled 66,000 and 38,000 Ordinary shares respectively from those held in treasury on a FIFO basis. As a result of these transactions at the date of this report the number of shares in issue is 41,501,643, the number of shares held in treasury is 4,150,000 representing 9.99% of the Ordinary shares in issue (11.1% of the Ordinary shares excluding treasury shares) as at 31 March 2008 and the total voting rights attaching to shares in issue is 37,351,643.

Details of the Ordinary shares and 3.25% Convertible Unsecured Loan Stock 2011 are given on pages 3 and 4.

At 31 January 2008, the mid-market price and the net asset value per Ordinary share were 117.75p (2007: 118.25p) and 122.72p (2007: 121.91p) respectively.

Substantial Holdings in the Company

At the year end and at 31 March 2008 the Company had been notified or was aware of the following holdings of 3% and over of the Company's capital carrying unrestricted voting rights:

	<i>Holding</i> 31 January 2008	<i>Holding</i> 31 March 2008	<i>Ordinary</i> <i>share %</i>
East Riding of Yorkshire Council	4,000,000	4,000,000	9.61
Investec Asset Management	3,344,867	3,344,866	8.04
JP Morgan Asset Management	2,340,573	2,340,573	5.63
Reliance Mutual Insurance Society	2,011,144	2,011,144	4.83
Philip J Milton & Company	1,950,495	1,934,261	4.66
Brewin Dolphin	1,730,356	1,741,556	4.20
New Star Asset Management	1,750,000	1,500,000	3.61
LJ Gayler	1,440,000	1,440,000	3.47
Premier Asset Management	1,280,000	1,380,000	3.32
NCL Smith & Williamson	1,287,868	1,287,868	3.10

Directors

The present members of the Board are listed on page 1. All Directors served in office throughout the year.

Mr Jones retires at the Annual General Meeting in accordance with the Company's Articles of Association and, being eligible, offers himself for re-election.

The powers of the Directors are set out in the Company's Articles of Association, publicly available at Companies House, and there are no specific rules relating to the exercise of those powers.

Directors' Interests

The beneficial interest of the Directors in the share capital of the Company were:

	<i>At 31 January 2008</i>	<i>At 31 January 2007</i>
	<i>Ordinary shares</i>	<i>Ordinary shares</i>
Jonathan Agnew	150,000	150,000
Christopher Jones	20,000	20,000
Sir Laurence Magnus	16,982	16,982

No changes in the above interests occurred between 31 January 2008 and 31 March 2008.

Disclosable Interest

No Director is under a contract of service with the Company and no contract subsists which was significant in relation to the Company's business in which any Director was or is materially interested.

Administrator and Company Secretary

Administration and Company Secretarial services are provided by Phoenix Administration Services Limited ("Phoenix") under an agreement dated 20 June 2006 terminable by either party on not less than six months notice. Phoenix ensures that the Company complies with all legal and regulatory requirements and services Board and shareholders' meetings. Phoenix maintains records of the Company's investment transactions, portfolio and monetary transactions, from which they prepare interim and annual financial statements on behalf of the Company.

Investment Manager

Cayenne Asset Management Limited was appointed Investment Manager under an agreement dated 30 January 2006. This agreement is terminable by either party at six months notice or by the Company immediately on the occurrence of certain specified events. The fee for these services is calculated at 1% (of which 25% is paid directly to Teenage Cancer Trust at the request of Cayenne Asset Management Limited) per annum by reference to the Company's net assets (excluding the value of its investment in Apollo). Under the same agreement, the Company also pays a performance fee of 10% of any outperformance above a hurdle rate of 5% per annum on a total return basis, subject to a high water mark. For the year ended 31 January 2008 the high water mark was 126.18p and for the year to 31 January 2009 the high water mark is 132.49p.

Statement of Investment Manager's Responsibilities

The Investment Manager is generally responsible for the day-to-day investment management activities of the Company, seeking and evaluating investment opportunities and analysing the results of investee companies. The Investment Manager has full discretion to manage the assets of the Company in accordance with the Company's stated objectives and policies as determined from time to time by the Board. Within the guidelines specified by the Board, the Investment Manager has discretion to make purchases and sales, place and withdraw cash deposits, enter into underwriting commitments and exercise all rights over the investment portfolio. The Investment Manager also advises on currency and borrowings.

Assessment of the Investment Manager and Administrator

The Board reviews the performance of the Investment Manager at each Board meeting, and its performance relative to the terms of the Investment Management Agreement annually. The Board considers that the continued appointment of the Investment Manager on the terms agreed is in the best interests of the Company and shareholders.

The Company's administrative arrangements are also considered annually by the Board. The Board has decided that the continuing appointment of Phoenix Administration Services Limited as Administrator on the terms agreed is in the best interests of shareholders as a whole.

Report of the Directors

continued

Report of the Audit Committee

The Audit Committee is responsible for reviewing all aspects of the Company's financial reporting, its internal control and the management of financial risks, the audit process, compliance with laws and regulations, and any non-audit work to be undertaken by the external independent auditor. The Committee considers annually whether the Company should have an internal audit function, and has determined that this is not necessary given the Company's circumstances.

The external audit findings are considered by the Audit Committee and discussed with the Auditors, the Investment Manager and the Administrator prior to approval and signing of the financial statements.

The Audit Committee recommended approval by the Board of an audit fee of £15,000, exclusive of VAT, for the year. Non-audit work undertaken on behalf of the Company by the Auditors has been restricted to the Company's taxation affairs, for which a fee of £3,000, exclusive of VAT, has been agreed, and advice on compliance with new Financial Reporting Standards for which the fee has still to be agreed. The Audit Committee has reviewed the objectivity and independence of the new external auditor, BDO Stoy Hayward LLP, who were appointed following the Annual General Meeting of the Company in 2007 and is satisfied on both of these points. The Audit Committee accordingly was pleased to recommend to the Board that a resolution to re-appoint BDO Stoy Hayward LLP as auditors for the year to 31 January 2009, and the Directors' be authorised to determine the auditors' remuneration, should be put to the forthcoming Annual General Meeting on 7 May 2008.

Creditor Payment Policy

It is the Company's policy to obtain the best terms for all business, including purchases of investments, and to abide by those agreed terms. The Company had no trade creditors at the year end (2007: nil).

Disclosure of information to auditors

In the case of each of the persons who are Directors of the Company at the date of approval of this report:

- so far as each is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's auditors are unaware; and
- each has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

The confirmations above are given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

Special business at the Annual General Meeting

At the forthcoming Annual General Meeting the following Resolutions will be proposed. Resolution 6 is to authorise the Company to allot shares generally, and Resolution 7 to allot a limited number of shares without applying pre-emption rights. Resolution 8 is to permit the Company to sell and/or transfer shares held in treasury in response to market demand without applying pre-emption rights, at prices representing narrower discounts than those at which they had been bought and at a discount to prevailing net asset values not exceeding 5%. Resolution 9 is to authorise the Company to buy back shares for cancellation, or at the discretion of the Directors to hold in treasury. Unless otherwise sold or transferred, shares held in treasury for 6 months will be cancelled. The Board does not have any immediate plans to exercise all of these activities and would only exercise them if they considered it to be in the best interests of shareholders generally. The Board therefore recommends that shareholders vote in favour of the resolutions to ensure that the Directors have the maximum number of options available to them.

Auditors

A resolution to re-appoint BDO Stoy Hayward LLP as the Company's auditors and to authorise the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Phoenix Administration Services Limited
Company Secretary

3 April 2008

Directors' Remuneration Report

for the year ended 31 January 2008

The Board presents this report which has been prepared under the requirements of Schedule 7A of the Companies Act 1985. An Ordinary Resolution for the approval of this Report will be put to shareholders at the Annual General Meeting.

Your Company's auditors are required to audit certain of the disclosures provided in this Report. Where disclosures have been audited, they are indicated as such. The Auditors' opinion is included in their Report on pages 25 and 26.

Remuneration Responsibilities

The Board have resolved that a remuneration committee is not appropriate for a company of this size and nature. All Directors are non-executive and all participate in meetings of the Board at which Directors' remuneration is considered. The Board seeks advice, *inter alia*, from the Company Secretary, Phoenix Administration Services Limited, when considering the level of Directors' fees.

Towards the end of the year the Board reviewed Directors' remuneration in comparison with fees paid by trusts of a similar size and nature and determined that annual fee rates be increased with effect from 1 February 2008 to £23,000 (Chairman of the Board), £17,500 (Audit Committee Chairman) and £15,000 (Other Directors).

Policy on Directors' Remuneration

The Board's policy is that the remuneration of non-executive Directors should be fair and reasonable in relation to that of other investment trusts. It is intended that this policy will continue for the year ending 31 January 2009.

Fees for the Directors are determined by the Board within the limits stated in the Company's Articles of Association. The maximum dictated by the Company's Articles of Association is £100,000 per annum. The Directors are not eligible for bonuses, pension benefits, share options, other incentives or benefits.

Directors' Service Contracts

It is the Board's policy that none of the Directors have a service contract. The terms of the Directors' appointment provide that a Director shall retire and be subject to re-election at the first Annual General Meeting after appointment and at least every three years thereafter. The terms also provide that a Director may retire or be removed from office by written notice having immediate effect and that no compensation will be due on leaving office.

Directors & Officers liability insurance is maintained by the Company on behalf of the Directors and officers.

Directors' Remuneration Report

continued

Your Company's Performance

The Directors' Remuneration Report Regulations 2002 require that a performance graph be included within the Directors' Remuneration Report which compares, for a five year period, the total return to each class of shareholder to a notional total return of a broad equity market index. Due to the fact that the fundamentally changed nature and structure of the Company occurred only two years ago, the Directors are still of the opinion that insufficient time has passed for a graph covering the past five years to be feasible or meaningful.

Directors' Emoluments (audited)

The Directors who served during the year received the following emoluments in the form of fees:

	2008	<i>2007</i>
	£'000	<i>£'000</i>
Jonathan Agnew	20	18
Christopher Jones	13	12
Sir Laurence Magnus	15	14
	<hr/>	<hr/>
Total	48	44
	<hr/>	<hr/>

Of the Directors' emoluments detailed above none was paid to third parties (2007: none).

Approval

The Directors' Remuneration Report was approved by the Board of Directors on 19 March 2008.

By order of the Board

Phoenix Administration Services Limited
Company Secretary

3 April 2008

Corporate Governance Statement

Directors' Statement of Compliance with the Revised Combined Code on Corporate Governance 2006 ("the Code") and the AIC Code of Corporate Governance published by the Association of Investment Companies (AIC) in 2007 ("the AIC Code")

The Principles

The Board is accountable to shareholders for the governance of the Company's affairs. This Statement describes how the principles of the Code have been applied in the affairs of the Company. The Directors are committed to maintaining the highest standards of Corporate Governance. In applying the principles of the Code, the Directors have also taken account of the recommendations of the AIC Code, which establishes a framework of best practice specifically for the boards of investment trust companies. There is some overlap in the principles laid down by the two Codes and there are some areas where the AIC Code is more flexible for investment trust companies. Where the Directors have relied on the greater flexibility of the AIC Code, the variance with the Code has been highlighted in this Statement.

The Directors believe that, during the period under review, they have complied with the provisions of the Code, insofar as they are relevant to the Company's business, and with the provisions of the AIC Code except as explained under the relevant sections.

Directors

Independence

The Board consists of three Directors, all of whom are non-executive and all of whom are considered independent. The Directors have a range of business, financial and asset management skills and experience relevant to the direction and control of the Company. Brief biographical details of the Directors are given on page 1.

Senior Independent Director

The Directors are equally responsible under the law for the proper conduct of the Company's affairs. They are also responsible for ensuring that the policies and operations adopted are in the best interests of all shareholders and that creditors and suppliers are considered properly. In view of this and the small size of the Board, the Directors do not consider it appropriate to identify a 'senior independent director' as recommended by the Code. All Directors are available to shareholders to voice concerns which contact through the normal channels of Chairman, Investment Manager or Company Secretary fails to resolve or for which such contact is inappropriate.

Chairman

The Chairman is Mr Jonathan Agnew, a non-executive and independent Director who has no conflicting relationships.

Supply of Information

The Investment Manager and Administrator ensure that Directors have timely access to all relevant management, financial and regulatory information to enable informed decisions to be made. The Board meets on a regular basis at least four times each year and additional meetings are arranged as necessary. Regular informal contact is maintained between the Investment Manager, the Administrator, the Secretary and Board between formal meetings.

Board meetings follow a formal agenda, which includes a review of the investment portfolio. It receives reports from the Investment Manager and the Administrator on the current investment position and outlook, strategic direction, performance, asset allocation, gearing policy, cash management, revenue forecasts for the financial year, shareholder relations, corporate governance, industry and other issues.

Corporate Governance Statement

continued

Board Responsibilities

The Board is responsible for promoting the success of the Company by directing and supervising its affairs within a framework of effective controls which enable risk to be assessed and managed. There is a formal schedule of matters reserved for decision by the Board. The schedule was reviewed and updated in February 2006 to ensure compliance with the latest legislation and best practice. The main responsibilities include: setting the Company's objectives and standards, ensuring that the Company's obligations to shareholders and others are understood and complied with, approving accounting policies and dividend policy, managing the capital structure; setting long-term objectives and strategy; assessing risk; reviewing investment performance; approving loans and borrowing; and controlling risks.

The powers of the Directors are set out in the Company's Articles of Association, publicly available at Companies House, and there are no specific rules relating to the exercise of those powers.

The Investment Manager's Responsibilities

The Investment Manager is responsible for the day-to-day investment management decisions of the Company. In addition to taking day-to-day decisions on investments, the Investment Manager also advises on the Directors on investments, liquidity and borrowings to enable them to make informed decisions, and also liaises with major shareholders on behalf of the Board.

Company Secretary

The Board has direct access to the advice and services of the Company Secretary, Phoenix Administration Services Limited. The Company Secretary is responsible for ensuring that Company, Board and Committee procedures are followed and all applicable regulations observed. The Company Secretary is also responsible for providing timely delivery of information and reports, keeping the Directors apprised of legal and regulatory developments, and ensuring that the statutory obligations of the Company are met.

There is an agreed procedure for Directors, in the furtherance of their duties, to take independent legal advice at the Company's expense up to an initial cost of £5,000, having first consulted the Chairman.

Appointment and Re-election

As the Board comprises only three Directors, all responsibilities relating to nominations are taken by the Board as a whole. The main nominations responsibilities are to review the size and structure of the Board and agree any changes considered necessary or new appointments. No Director has a contract of employment with the Company. Directors' terms and conditions of appointment are set out in letters of appointment, copies of which are available for inspection at the Registered Office of the Company and will be available at the Annual General Meeting ("AGM"). The Articles of Association require that each Director shall retire at least every three years after appointment or (as the case may be) last reappointment, and may offer themselves for re-election.

On appointment to the Board, Directors are fully briefed as to their responsibilities and are kept informed throughout their terms in office of industry and regulatory developments. The Directors endeavour to keep up to date with new legislation and changing risks through industry publications and conferences. The Articles of Association provide that the Directors may, by notice in writing, remove any Director from the Board without compensation.

Mr Jones will offer himself for re-election at the 2008 AGM. The Board reviewed Mr Jones' performance and considers he is effective, provides good contributions to the Board's deliberations and demonstrates commitment to the role. The Board accordingly recommends that shareholders vote in favour of the re-election of Mr Jones.

Directors' Remuneration

Details of the Company's policy on remuneration and of payments to Directors are given in the Directors' Remuneration Report on pages 17 and 18.

Board and Directors' Performance Appraisal

The Board recognise the importance of the Code in terms of evaluating the performance of both the Board as a whole and individual Directors. Because the Board only comprises three Directors, who also undertake the responsibilities of the Audit, Remuneration and Nomination Committees, the Director's have determined that the use of a tailored questionnaire encompassing all functions is the most appropriate method of appraising the performance of the Board and individual Directors. Appraisals are carried out shortly after year ends.

Accountability and Audit

The Directors' responsibilities for the Company's accounting records and financial statements are set out on page 24. The Auditors' Report appears on pages 25 and 26.

Audit Committee

As the Board is small, all Directors are members of the Audit Committee under the Chairmanship of Sir Laurence Magnus. Committee members consider that individually and collectively they are appropriately experienced to fulfil the role required. The Committee has written terms of reference which clearly define its responsibilities. The terms of reference were reviewed and updated in February 2006, will be available for inspection at the Annual General Meeting (AGM) and can be inspected at the Registered Office of the Company.

The Committee meets at least twice a year to review the internal financial and non-financial controls of the Investment Manager and Administrator, to approve the contents of the Half Year and Annual Reports to shareholders, and to review accounting policies. In addition, the Committee reviews the Auditors' independence, objectivity and effectiveness, the quality of services provided to the Company, any non-audit work and its cost and effectiveness, and, together with the Investment Manager, reviews the Company's compliance with financial reporting and regulatory requirements. Representatives of BDO Stoy Hayward LLP, the Company's auditors, attend the Committee meeting at which the draft Annual Report and financial statements are reviewed.

Internal Financial and Non-Financial Controls

The Directors acknowledge that they are ultimately responsible for the Company's system of internal financial and non-financial controls which have been in place throughout the year and up to the date of this report. The effectiveness of the Company's operations has been reviewed, and the control systems codified to facilitate regular monitoring, management of risks, and review by the Committee. The Directors consider that these procedures enable the Company to comply with Turnbull Guidance.

As stated above, the Board meets regularly, at least four times a year, and reviews financial reports and performance against the benchmark. In addition, the Investment Manager, the Administrator and the Custodian maintain their own systems of internal controls and provide regular reports on these to the Board and Audit Committee. Formal reports on the internal controls and procedures in place for the operation of custodial, investment management and accounting activities are reviewed at least annually by the Board.

The control systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risk of failure to achieve business objectives.

As the Company has no employees it does not consider there is a need for a whistle-blowing procedure but the Audit Committee does review the whistle-blowing procedures of its third party service providers.

Corporate Governance Statement

continued

Internal Audit Function

The Directors have reviewed the need for the Company to establish an internal audit function but consider that such a function is not necessary.

Auditors' Non-audit Services

The Company's auditors provide taxation and other advisory services to the Company. The cost of providing these services is stated in note 4 to the financial statements on page 34. In the opinion of the Audit Committee, the Auditors' role in providing taxation and other advisory services to the Company does not compromise their objectivity and independence in carrying out their audit function.

The Chairman of the Audit Committee will be present at the AGM to deal with any questions relating to the accounts.

The Management Engagement Responsibilities

As the Board is small all responsibilities relating to management engagement are taken by the Board as a whole. The Board reviews annually the agreements with the Company's Investment Manager and Administrator and reviews the services provided by them.

Board and Committee Meeting Attendance

The following table sets out the number of meetings held during the year and the number of meetings attended by each Director:

	<i>Board meetings</i>		<i>Audit Committee meetings</i>		<i>Management Engagement Committee meetings</i>	
	<i>Held</i>	<i>Attended</i>	<i>Held</i>	<i>Attended</i>	<i>Held</i>	<i>Attended</i>
Jonathan Agnew	5	5	2	2	1	1
Christopher Jones	5	3	2	1	1	1
Sir Laurence Magnus	5	5	2	2	1	1

Relations with Shareholders

Shareholder relations are given high priority by both the Board, the Investment Manager and the Administrator. The prime media by which the Company communicates with shareholders is through the Half Year and Annual Reports, which aim to provide shareholders with a full understanding of the Company's activities and results, and the Company's website (www.thecayennetrust.com). This information is supplemented by the daily calculation of the net asset value of the Company's Ordinary shares which is published via the London Stock Exchange. At each AGM shareholders have the opportunity to address questions to the Chairman and the Chairman of the Audit Committee. All shareholders are encouraged to attend the AGM.

It is the intention of the Board that the Annual Report and Accounts and Notice of AGM ordinarily be issued to shareholders so as to provide at least twenty working days' notice. Shareholders wishing to lodge questions in advance of the AGM are invited to do so, either on the reverse of the proxy card or otherwise in writing to the Company Secretary at the Registered Office address given on page 1. At other times, the Company responds to letters from shareholders on a range of issues.

There is regular dialogue with individual institutional shareholders and general presentations to both institutional shareholders and analysts following the publication of annual results. Formal meetings between the Investment Manager and institutional shareholders are reported to the Board.

Institutional Voting

The Board considers that the Company has a responsibility for ensuring that high standards of Corporate Governance are maintained in the companies in which it invests and, where necessary, will take the initiative to ensure those standards are met. The principal means of putting this into practice is through the exercise of voting rights and your Company's voting rights are exercised on an informed and independent basis, not simply passed back to the company concerned for discretionary voting by its chairman.

Corporate Social Responsibility

As the Company has no employees and invests principally in other investment vehicles it has no direct impact on social, economic or environmental issues but uses its voting rights and contact with senior executives of invested companies to make its views known where it has any concerns.

Statement of Directors' Responsibilities

in respect of the preparation of financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company at the end of the financial year and its total return for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Acts 1985 and 2006. They have general responsibility for safeguarding the assets of the Company, for the system of internal control and the prevention and detection of fraud and other irregularities.

Financial statements will be published on www.thecayennetrust.com. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdictions.

Directors' Confirmation Statement

The Non-executive Directors listed on page 1, as the persons responsible within the Company, hereby confirm to the best of their knowledge:

- a) that the financial statements comprised within this Statement forms part of have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- b) the Management Report (which comprises the Chairman's Statement, Business Review and Investment Manager's Review) includes a fair review of the development and performance of the business and the position of the Company, together with the principal risks and uncertainties that the Company faces.

Independent Auditors' Report

to the shareholders of The Cayenne Trust plc

We have audited the financial statements of The Cayenne Trust plc for the year ended 31 January 2008 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

We have also audited the information in the directors' remuneration report that is described as having been audited.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements. In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors and Advisers, the Investment Policy, the Principal Data, the Five Year Historical Record, the Share and Loan Capital, the Chairman's Statement, the Investment Manager's Report, the Investments in Order of Valuation, the Report of the Directors', the unaudited part of the Directors' Remuneration Report, the Corporate Governance Statement, and the Statement of Directors Responsibilities. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

Independent Auditors' Report

continued

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 January 2008 and of its total return for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors' is consistent with the financial statements.

BDO Stoy Hayward LLP

Chartered Accountants and Registered Auditors
55 Baker Street, London, W1U 7EU

3 April 2008

Income Statement

for the year ended 31 January

	Notes	Revenue £'000	2008 Capital £'000	Total £'000	Revenue £'000	2007 Capital £'000	Total £'000
(Losses)/gains on Investments held at fair value	10	–	(1,555)	(1,555)	–	3,949	3,949
Current assets held at fair value:							
Gains/(losses) on listed put warrants		–	2,382	2,382	–	(1,805)	(1,805)
Gains on forward currency contracts		–	151	151	–	650	650
Exchange differences		–	(26)	(26)	–	(132)	(132)
Investment and other income	2	990	–	990	908	–	908
Investment management fee	3	(94)	(377)	(471)	(94)	(379)	(473)
Other expenses	4	(311)	(30)	(341)	(293)	(801)	(1,094)
Net return before finance costs and taxation		585	545	1,130	521	1,482	2,003
Interest payable and similar charges	5	(106)	(424)	(530)	(80)	(321)	(401)
Return on ordinary activities before taxation		479	121	600	441	1,161	1,602
Tax on ordinary activities	7	–	–	–	–	–	–
Transfer to reserves		479	121	600	441	1,161	1,602
Return per Ordinary share:							
Basic	9a	1.13p	0.29p	1.42p	1.23p	3.25p	4.48p
Diluted	9b	1.13p	0.29p	1.42p	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.

The accompanying notes are an integral part of this statement

Reconciliation of Movements in Shareholders' Funds

	Notes	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	15	-	-	27,570	(27,570)	-	-	-	-	-
Share reduction costs		-	-	-	-	-	(57)	-	-	(57)
Shares bought back and held in treasury	14	-	-	(3,629)	-	-	-	-	-	(3,629)
Shares bought back and cancelled	14	(218)	-	(1,015)	218	-	-	-	-	(1,015)
Net return/(loss) from ordinary activities		-	-	-	-	-	3,863	(3,742)	479	600
Final dividend paid for 2007	8	-	-	-	-	-	-	-	(425)	(425)
At 31 January 2008		10,401	9,192	22,926	218	1,161	3,440	(718)	634	47,254

	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

The accompanying notes are an integral part of this statement

Balance Sheet

as at 31 January

	Notes	2008 £'000	2007 £'000
Fixed Assets			
Investments held at fair value through profit or loss	10	<u>48,534</u>	<u>57,151</u>
Current Assets			
Listed put warrants held at fair value through profit or loss		2,906	1,356
Forward currency contracts held at fair value through profit or loss		7,340	5,878
Debtors	11	3,844	818
Cash at bank		<u>2,961</u>	<u>1,432</u>
		<u>17,051</u>	<u>9,484</u>
Creditors: amounts falling due within one year			
Forward currency contracts held at fair value through profit or loss		(7,550)	(5,229)
Other creditors	12	<u>(1,590)</u>	<u>(638)</u>
		<u>(9,140)</u>	<u>(5,867)</u>
Net current assets		<u>7,911</u>	<u>3,617</u>
Total assets less current liabilities		<u>56,445</u>	<u>60,768</u>
Creditors: amounts falling due after more than one year			
3.25% Convertible Unsecured Loan Stock 2011	13	<u>(9,191)</u>	<u>(8,988)</u>
Net assets		<u>47,254</u>	<u>51,780</u>
Capital and reserves			
Called-up share capital	14	10,401	10,619
Share premium account		9,192	9,192
Other reserves			
Special reserve	15	22,926	–
Capital redemption reserve	15	218	27,570
Equity component 3.25% Convertible Unsecured Loan Stock 2011		1,161	1,161
Capital reserve – realised		3,440	(366)
Capital reserve – unrealised		(718)	3,024
Revenue reserve		<u>634</u>	<u>580</u>
Equity Shareholders' funds		<u>47,254</u>	<u>51,780</u>
Net asset value per Ordinary share:			
Basic	16	122.72p	121.91p
Diluted	16	122.72p	121.91p

These financial statements were approved by the Board of Directors on 3 April 2008.

Signed on behalf of the Board of Directors

Jonathan Agnew
Chairman

The accompanying notes are an integral part of this statement

Cash Flow Statement

for the year ended 31 January

	Notes	2008 £'000	2007 £'000
Cash inflow/(outflow) from operating activities	17(a)	2,293	(3,699)
Servicing of finance	17(b)	(326)	(252)
Financial investment	17(b)	4,714	(43,173)
Equity dividends paid		(425)	–
Share reduction costs		(57)	–
Net cash inflow/(outflow) before financing		6,199	(47,124)
Financing			
Issue of 'C' shares		–	35,000
Issue of 3.25% Convertible Unsecured Loan Stock 2011		–	10,000
Shares bought back and held in treasury		(3,629)	–
Shares bought back and cancelled		(1,015)	–
Increase/(decrease) in cash during the year		1,555	(2,124)
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash during the year		1,555	(2,124)
Issue of 3.25% Convertible Unsecured Loan Stock 2011		–	(10,000)
Exchange movements		(26)	(132)
Non-cash flow movements:			
Equity element of 3.25% Convertible Unsecured Loan Stock 2011		–	1,161
Notional interest charge on 3.25% Convertible Unsecured Loan Stock 2011 – income		(41)	(30)
Notional interest charge on 3.25% Convertible Unsecured Loan Stock 2011 – capital		(162)	(119)
Change in net debt		1,326	(11,244)
Opening net (debt)/funds		(7,556)	3,688
Closing net debt	17(c)	(6,230)	(7,556)

The accompanying notes are an integral part of this statement

Notes to the Financial Statements

for the year ended 31 January 2008

1. Accounting policies

A summary of the principal accounting policies is set out below. They are consistent with the policies set out in the annual report for the year ended 31 January 2007.

a) Basis of accounting

The financial statements have been prepared under the historical cost convention under the Companies Act 1985 except that certain assets and liabilities, as described below, are stated at their fair value as allowed under the fair value accounting rules of 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 2003, revised December 2005).

b) Investments

Investments are classified at fair value through profit or loss. As the Company’s business is investing in financial assets with a view to profiting from their total return in the form of interest, dividends or increases in fair value, listed equities and fixed income securities are designated at fair value through profit or loss on initial recognition. Investments are recognised and derecognised on the trade date where a purchase or sale is under a contract whose terms require delivery within a timeframe established by the market concerned. Where securities are designated upon initial recognition as fair value through profit or loss, gains and losses arising from changes in fair value are included in the net profit or loss for that period as a capital item and transaction costs on acquisition or disposal of the security are expensed. Financial assets designated at fair value through profit or loss, are measured at subsequent reporting dates at fair value, which is the bid price.

c) Listed put warrants

Listed put warrants are classified at fair value through profit or loss and further fall within the classification of held for trading as per the accounting standards. The fair value is the applicable settlement price of the underlying option.

d) Forward currency contracts

Forward currency contracts are used to hedge foreign exchange exposures arising on investments in foreign currencies. These forward currency contracts are classified as held for trading financial instruments and are held at fair value through profit or loss. The forward currency contracts are revalued to the rates of exchange at the balance sheet date.

e) Debtors, and other creditors

Debtors are classified as loans and receivables which are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. Other creditors are classified as other financial liabilities. After initial measurement at fair value these assets and liabilities are subsequently measured at amortised cost using the effective interest rate method adjusted, in the case of assets, for any amounts written off and any provisions for impairment.

f) 3.25% Convertible Unsecured Loan Stock 2011

Convertible Unsecured Loan Stock issued by the Company is regarded as a compound instrument, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using a comparable bond with a coupon rate and maturity for a similar non-convertible debt. The difference between the proceeds of issue of the Convertible Unsecured Loan Stock and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Company, is included in equity. The liability is subsequently measured at amortised cost using the effective interest rate method.

Notes to the Financial Statements

continued

The interest expense on the liability component is calculated by applying the prevailing market interest rate for a similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the Convertible Unsecured Loan Stock.

g) **Income**

All dividends and any related tax credits are taken into account on the date investments are marked ex-dividend. The fixed returns on debt securities and non-equity shares have been accounted for on an effective interest rate basis. The effective interest rate on non-equity shares is calculated by reference to comparable bonds which have similar coupon rates and maturity dates, but are non-convertible debt. Deposit interest and underwriting commission receivable are taken into account on an accruals basis.

h) **Expenses**

With effect from 1 February 2006, 80 per cent. of the investment management fee and finance costs are charged to capital reserves – realised in line with the Board's expected long-term split of returns from the investment portfolio of the Company. Performance fees are charged entirely to capital reserves – realised. Expenses incurred where a connection with the maintenance or enhancement of the value of investments can be demonstrated, and expenses associated with share buy-backs, are charged to capital reserves – realised. All other expenses are charged to the revenue account.

i) **Taxation**

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The tax effect of different items of expenditure is allocated between capital and revenue on the same basis as the particular item to which it relates, using the marginal method. This basis is in accordance with the SORP issued by the Association of Investment Companies.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or right to pay less, tax in the future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements which are capable of reversal in one or more subsequent periods. Deferred tax assets and liabilities are not discounted.

j) **Foreign currency**

Transactions in foreign currency, whether of a revenue or capital nature, are translated to Sterling at the rates of exchange ruling on the dates of such transactions. Foreign currency assets and liabilities are translated to Sterling at the rates of exchange ruling at the Balance Sheet date. Any gains or losses are taken to revenue reserve or capital reserve – realised, as appropriate.

k) **Treasury shares**

Consideration paid for the purchase of shares held in treasury is recognised directly in equity. The cost of treasury shares held is presented in the Special Reserve.

2. Investment and other income

	2008	<i>2007</i>
	£'000	<i>£'000</i>
Investment Income		
UK dividends	716	671
Unfranked investment income	22	9
UK fixed interest	92	24
Short term investment fund income	138	151
	968	855
Other income		
Deposit interest	22	53
Total income	990	908
Total income comprises:		
Investment income	968	855
Interest	22	53
	990	908

There were no special dividends treated as capital received during the year (2007: nil).

All the above income relates to assets held at fair value through profit or loss except for deposit income which is from assets recorded at amortised cost using the effective interest rate method.

3. Investment management fee

	<i>2008</i>			<i>2007</i>		
	<i>Revenue</i>	<i>Capital</i>	<i>Total</i>	<i>Revenue</i>	<i>Capital</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Investment management fee	94	377	471	94	379	473

The 2007 figures include irrecoverable VAT of £54,991. In June 2007 the European Court of Justice ruled that investment management fees charged to Investment Trusts should be exempt from VAT. HM Revenue and Customs accepted this verdict in November 2007. Cayenne Asset Management Limited has repaid in full to the Company all VAT which was charged since becoming manager. The refund for the year ending 2007 has been included within the 2008 figures. Also included within the 2008 figures is a VAT refund in respect of the year ending 31 January 2008 of £35,416.

As at 31 January 2008, no provision has been made within these accounts relating to irrecoverable VAT on management fees paid to INVESCO Asset Management Limited, the Company's Investment Manager prior to 30 January 2006.

To avoid the double charging of management fees, the market value of the Company's holding in Apollo Fund Plc (also managed by Cayenne Asset Management Limited) is excluded from the investment management fee calculation.

As at 31 January 2008 the company held 476,997 shares in the Apollo Fund at a total cost of £8,880,643 and a market value of £8,462,296.

As at 31 January 2008 £121,249 (2007: £148,923) was due for payment in respect of management fees. There was no liability for performance fees (2007: nil).

At the request of Cayenne Asset Management Limited 25% of their management fee amounting to £131,708 was paid directly to Teenage Cancer Trust.

Details of the Investment Management Agreement are disclosed in note 6 to the financial statements.

Notes to the Financial Statements

*continued***4. Other expenses**

	2008	<i>2007</i>
	£'000	<i>£'000</i>
Administration fee	94	92
Administration fee – other-transition fees	–	29
Directors' emoluments	48	44
Auditors' remuneration for:		
– annual audit	18	19
– half-year review	2	9
– taxation	3	2
– other advisory services to the Company	–	2
Custodian fees	8	4
Printing fees	17	5
Directors' liability insurance	18	18
London Stock Exchange/FSA fees	11	14
Brokerage fees	29	29
Registrar's fees	19	23
Employer's national insurance contributions	5	3
Other support services	39	–
	311	293

The Directors' fees authorised by the Articles of Association are £100,000 per annum.

Of the Directors' fees disclosed above, none was payable to third parties in respect of making available the services of Directors (2007: nil).

In addition to the above, a further £30,000 of capital related expenses were charged to capital reserves – realised (2007: £801,000).

5. Interest payable and similar charges

	<i>2008</i>			<i>2007</i>		
	<i>Revenue</i>	<i>Capital</i>	<i>Total</i>	<i>Revenue</i>	<i>Capital</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Interest on 3.25% Convertible Unsecured Loan Stock 2011	106	422	528	80	320	400
Overdraft interest	–	2	2	–	1	1
	106	424	530	80	321	401

6. Disclosure of interests

In accordance with the Investment Management Agreement dated 30 January 2006, between the Company and Cayenne Asset Management Limited (Cayenne), Cayenne has been appointed to provide investment research and discretionary fund management services to the Company, for which Cayenne receives an annual management fee of 1 per cent. (of which 25 per cent. is paid directly to Teenage Cancer Trust at the request of Cayenne) of total assets (excluding any investment in Apollo) payable quarterly in arrears, and an annual performance fee equivalent to 10 per cent. of the out performance of a hurdle rate of 5 per cent. per annum on a total return basis, subject to a high water mark.

Cayenne's appointment as Investment Manager is subject to termination by either party on 6 months' notice.

Under an Administration Agreement dated 21 June 2006 between the Company and Phoenix Administration Services Limited (Phoenix), Phoenix has been appointed to provide administration services to the Company, for which Phoenix receives an annual fee of £80,000 plus VAT.

7. Tax on ordinary activities

Factors effecting tax charge for the year

	<i>2008</i>	<i>2007</i>
	<i>£'000</i>	<i>£'000</i>
Return on ordinary activities before taxation	600	1,602
Reconciliation of current tax charge		
Theoretical tax at UK Corporation Tax rate of 30% (2007: 30%)	180	481
Effects of:		
– Capital gains which are not taxable	(36)	(348)
– UK dividends which are not taxable	(215)	(201)
– Expenses not deductible for tax purposes	13	12
– Income taxable in different periods	(1)	–
– Movement in excess expenses	59	56
Actual current tax amount	–	–

As allowable expenses exceeded taxable income for the year, no corporation tax is payable for the year (2007: nil).

Factors that may affect future tax charges

The Company has excess management expenses and non-trading loan relationship deficits of £11,250,000 (2007: £11,054,000) that are available to offset future taxable revenue. A deferred tax asset has not been recognised in respect of these expenses since they are recoverable only to the extent that the Company has sufficient future taxable revenue.

Due to the Company's status as an investment trust company, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

8. Dividends

	<i>2008</i>	<i>2007</i>
	<i>£'000</i>	<i>£'000</i>
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 January 2007 of 1.00p per share	425	–

Notes to the Financial Statements

*continued***9. Return per Ordinary share****(a) Basic earnings**

	<i>2008</i>	<i>2007</i>
Total earnings per Ordinary share		
Total earnings	£600,000	£1,602,000
Weighted average number of Ordinary shares in issue during the year	42,205,445	35,716,883
Total earnings per Ordinary share	<u>1.42p</u>	<u>4.48p</u>

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

Revenue earnings per Ordinary share

Revenue earnings	£479,000	£441,000
Weighted average number of Ordinary shares in issue during the year	42,205,445	35,716,883
Revenue earnings per Ordinary share	<u>1.13p</u>	<u>1.23p</u>

Capital earnings per Ordinary share

Capital earnings	£121,000	£1,161,000
Weighted average number of Ordinary shares in issue during the year	42,205,445	35,716,883
Capital earnings per Ordinary share	<u>0.29p</u>	<u>3.25p</u>

(b) Diluted earnings

The effect of the 3.25% Convertible Unsecured Loan Stock 2011 on the revenue, capital and total earnings per Ordinary share is anti-dilutive. The diluted revenue, capital and total returns per Ordinary share are therefore equal to the basic returns per Ordinary share.

10. Investments

	2008 £'000	2007 £'000
(a) Analysis of investments by listing status		
Investments listed on a recognised stock exchange		
– Equities	46,402	55,018
– Fixed Interest Convertible Unsecured Loan Stock	382	719
– Warrants	1,750	1,414
	<u>48,534</u>	<u>57,151</u>
 (b) Analysis of investment gains		
Opening book cost	54,366	7,025
Opening unrealised appreciation	2,785	371
	<u>57,151</u>	7,396
Opening valuation		
Movements in the year:		
Purchases at cost	31,666	68,583
Sales – proceeds	(38,728)	(22,777)
– realised gains on sales	2,634	1,535
(Decrease)/increase in unrealised appreciation	(4,189)	2,414
	<u>48,534</u>	<u>57,151</u>
Closing valuation		
Closing book cost	49,938	54,366
Closing unrealised (depreciation)/appreciation	(1,404)	2,785
	<u>48,534</u>	<u>57,151</u>
 Sales proceeds	38,728	22,777
Investments at cost	(36,094)	(21,242)
	<u>2,634</u>	1,535
Realised gains on sales based on historical cost	(1,313)	(524)
Less gains recognised as unrealised in previous year		
Realised gains on sales based on carrying value at previous years balance sheet date	1,321	1,011
Unrealised (depreciation)/appreciation for the year	(2,876)	2,938
	<u>(1,555)</u>	<u>3,949</u>
Net (losses)/gains on investments		

(c) Transaction costs

Investment transaction costs on purchases and sales of investments during the year to 31 January 2008, amount to £172,000 and £68,000 respectively (2007: £347,000 and £42,000 respectively).

(d) Registration of investments

The investments of the Company are registered in the name of the Company or in the name of nominees and held to the order of The Cayenne Trust plc.

Notes to the Financial Statements

*continued***11. Debtors**

	<i>2008</i>	<i>2007</i>
	<i>£'000</i>	<i>£'000</i>
Amounts due from brokers	3,739	752
Prepayments and accrued income	105	66
	<u>3,844</u>	<u>818</u>

12. Creditors: amounts falling due within one year

	<i>2008</i>	<i>2007</i>
	<i>£'000</i>	<i>£'000</i>
Amounts due to brokers	1,072	433
Accruals and deferred income	518	205
	<u>1,590</u>	<u>638</u>

13. Non current liabilities: 3.25% Convertible Unsecured Loan Stock 2011

	<i>2008</i>		<i>2007</i>	
	<i>No. of units 000's</i>	<i>£'000</i>	<i>No. of units 000's</i>	<i>£'000</i>
Balance at beginning of year	10,000	8,988	–	–
Net proceeds from issue of 3.25% Convertible Unsecured Loan Stock 2011 Equity Component	–	–	10,000	10,000
	–	–	–	(1,161)
	<u>10,000</u>	<u>8,988</u>	<u>10,000</u>	<u>8,839</u>
Balance of liability component	10,000	8,988	10,000	8,839
Units converted during the year	–	–	–	–
Additional finance charge to the Income Statement (see note 1e)	–	203	–	149
	<u>10,000</u>	<u>9,191</u>	<u>10,000</u>	<u>8,988</u>

On 25 April 2006 the Company issued a 3.25% Convertible Unsecured Loan Stock 2011 for a nominal value of £10,000,000. The loan stock can be converted twice a year into Ordinary shares during the months of January and July commencing January 2007. Post the "C" share conversion the 3.25% Convertible Unsecured Loan Stock 2011 will convert 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. The interest on the 3.25% Convertible Unsecured Loan Stock 2011 is charged 20% to revenue and 80% to capital in line with the Board's expected long-term split of returns from the investment portfolio of the Company.

14. Called-up share capital

	<i>2008</i>	<i>2007</i>
	<i>£'000</i>	<i>£'000</i>
Authorised:		
220,000,000 Ordinary shares of 25p each (2007: 220,000,000)	55,000	55,000
Called-up and fully paid:		
41,605,643 Ordinary shares of 25p each (2007: 42,475,143)	10,401	10,619
	<i>Number of</i>	<i>Share capital</i>
	<i>Ordinary shares</i>	<i>£'000</i>
Balance at beginning of year	42,475,143	10,619
Shares bought back and cancelled 21 January 2008	(869,500)	(218)
Balance at end of year	41,605,643	10,401

During the year 3,969,500 shares were bought back at a cost of £4,644,000. Of these, 869,500 shares were cancelled on 21 January 2008.

The Ordinary shares in issue at the year end includes 3,100,000 Ordinary shares held in treasury (2007: nil). See note 21 for details of transactions in the Company's own shares since the year end.

On 25 April 2006 the Company issued 35,000,000 "C" shares of £1 each at par for cash. On 22 June 2006 the "C" shares were sub-divided into 140,000,000 "C" shares of 25p each of which 29,720,061 were simultaneously converted into new Ordinary shares of 25p each using the conversion factor of 0.8491 new Ordinary shares for each "C" share. The remaining 110,279,939 "C" shares of 25p each were simultaneously converted into deferred shares which were redeemed by the Company for an aggregate consideration of 1p for every 100,000 deferred shares (or part thereof) held by each holder. Post conversion of the "C" shares there are 42,475,143 Ordinary shares in issue.

15. Cancellation of 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.

16. Net asset value per Ordinary share

	<i>2008</i>	<i>2007</i>
Net asset values attributable (£'000)	47,254	51,780
Ordinary shares in issue at the year end	38,505,643	42,475,143
Basic net asset value per Ordinary share	122.72p	121.91p

The basic net asset value per Ordinary share is based on net assets of £47,254,000 which includes the deduction of the liability component of the 3.25% Convertible Unsecured Loan Stock 2011 and on 38,505,643 Ordinary shares being the number of Ordinary shares in issue at the year end, excluding 3,100,000 shares held in treasury.

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.

Notes to the Financial Statements

continued

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

	<i>2008</i> £'000	<i>2007</i> £'000
Total assets less current liabilities (per the balance sheet)	56,445	60,768
Redemption value of 3.25% Unsecured Loan Stock 2011	(10,000)	(10,000)
Net assets (CULS at par value)	46,445	50,768
Ordinary shares in issue at the year end	38,505,643	42,475,143
NAV per share (p)	120.62	119.52

17. Notes to the cash flow statement**(a) Reconciliation of return on ordinary activities before tax to net cash inflow/(outflow) from operating activities**

	<i>2008</i> £'000	<i>2007</i> £'000
Net return before finance costs and taxation	1,130	2,003
Losses/(gains) on investments	1,555	(3,949)
Exchange differences	26	132
Increase in debtors	(3,012)	(7,250)
Increase in accrued income	(38)	(1)
Increase in creditors	2,632	5,366
Net cash inflow/(outflow) from operating activities	2,293	(3,699)

(b) Analysis of cash flows for headings netted in the cash flow statement

	<i>2008</i> £'000	<i>2007</i> £'000
Servicing of finance		
Interest paid allocated to income	(65)	(50)
Interest paid allocated to capital	(261)	(202)
Net cash outflow from servicing of finance	(326)	(252)
Financial investment		
Purchase of investments	(31,027)	(68,226)
Sale of investments	35,741	25,053
Net cash inflow/(outflow) from financial investments	4,714	(43,173)

(c) Analysis of changes in net debt

	<i>1 February</i> <i>2007</i> £'000	<i>Cash</i> <i>flow</i> £'000	<i>Non cash</i> <i>flow</i> £'000	<i>Exchange</i> <i>Movements</i> £'000	<i>31 January</i> <i>2008</i> £'000
Net cash:					
Cash at bank	1,432	1,555	–	(26)	2,961
3.25% Consolidated Unsecured Loan Stock 2011	(8,988)	–	(203)	–	(9,191)
Net debt	(7,556)	1,555	(203)	(26)	(6,230)

18. Contingencies, guarantees or financial commitments

There were no contingencies, guarantees or financial commitments of the Company at the year end (2007: none).

19. Related-party transactions

Cayenne Asset Management Limited also acts as Investment Manager for Apollo Fund plc.

L. Gayler is a director and major shareholder of Cayenne Asset Management Limited. At 31 January 2008 he controlled by virtue of his direct holdings 1,440,000 (2007: 1,390,000) shares and 500,000 (2007: 500,000) 3.25% Convertible Unsecured Loan Stock 2011 in The Cayenne Trust plc.

C. Jones, a director of The Cayenne Trust plc, is also a director of Ecofin Water & Power Opportunities plc. The investments by The Cayenne Trust plc in Ecofin Water & Power Opportunities plc are shown on page 9.

20. Financial instruments and fund risk profile**Risk Management Policies and Procedures**

The Company's investment objective is to achieve consistent positive absolute returns.

As an investment trust the Company invests in equity shares, fixed interest investments, preference shares and quoted options for the long-term so as to secure its investment objective. In pursuing its investment objective, the Company is exposed to a variety of risks that could result in either a reduction in the Company's net assets or a revenue shortfall. These risks, market risk (comprising currency, interest rate and price risk), liquidity risk, and credit risk together with the Director's approach to the management of them, are set out in this note to the financial statements. The Board of Directors and the Investment Manager co-ordinate the Company's risk management. No changes have been made to the risk policies from the prior year.

The Company invests principally in 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 as seen in the Investments in Order of Valuation on page 9. The Company will seek to ensure preservation of capital by the use of derivatives and similar instruments to the extent permissible within the regulations governing investment trust companies and the Listing Rules. In addition the Company holds cash and liquid resources and various items such as debtors/creditors that arise directly from its operations.

The Company enters into derivative transactions which comprise forward currency contracts (the purpose of which is to manage currency risk arising from the Company's investing activities), and listed put warrants on indices appropriate to sections of the portfolio (the purpose of which is to provide protection against falls in the capital values of the holdings).

The Company, as stated in the Report of the Directors on page 10, conducts its affairs so as to enable it to qualify as an investment trust. As part of the rules governing this status, no investment at the time of purchase can represent more than 15% by value of the Company's portfolio of investments.

Investments listed within the 'Investments in Order of Valuation' on page 9 are stated at fair value. The valuation policy for the Company's assets and liabilities is disclosed in Note 1 to the financial statements.

Market risk

The fair value or future cash flows of the Company's financial instruments may fluctuate due to changes in market risk. Market risk encompasses mainly equity price risk but also foreign exchange risk and interest rate risk which are discussed below.

Market risk is monitored by the Board on a quarterly basis and on a continuous basis by the Investment Manager.

Notes to the Financial Statements

continued

The Company's exposure to equity price risk at the year end is represented primarily by fair value of ordinary shares in investment trusts held per the Investments in Order of Valuation on page 9. The Company purchases put options on equity indices which alters its exposure to equity price risk. The Board intends that the Company's strategies should generally be hedged to the extent practicable against general market movements.

The Company holds investments in investment trusts and other closed ended funds which are directly exposed to equity and other financial markets including the commercial property market. These investment trusts and funds may utilise leverage and be exposed to foreign currency exchange rate movements. The Company also holds various hedging positions to mitigate exposure to substantial movements in financial markets and these are monitored and traded constantly.

If the investment portfolio valuation increased/decreased by 10% at 31 January 2008 (2007: 10%), the impact would be a gain/loss of £4,853,000 (2007: gain/loss £5,715,000).

The Company employs hedging strategies which aim to mitigate any reduction in the value of the portfolio in declining markets. This strategy is based around the movement in stock market indices which will not necessarily react to changing economic conditions in the same way as the portfolio would. The hedge positions held at 31 January 2008 would have had a positive impact on the Company's NAV for movements in the indices between +5.9% and -21.3%.

Currency risk

The following table shows the foreign exchange risk analysis:

<i>Currency of Assets</i>	<i>Investments held at fair value through profit or loss</i>		<i>Forward currency contract debtor</i>	<i>Forward currency contracts creditor</i>
	<i>£'000</i>	<i>Listed put warrants £'000</i>	<i>£'000</i>	<i>£'000</i>
<i>At 31 January 2008</i>				
Sterling	40,072	1,495	7,340	-
US Dollars	8,462	318	-	(7,550)
Euro	-	1,093	-	-
	48,534	2,906	7,340	(7,550)
<i>At 31 January 2007</i>				
Sterling	47,322	967	5,878	-
US Dollars	9,829	161	-	(5,229)
Euro	-	228	-	-
	57,151	1,356	5,878	(5,229)

No material foreign currency balances exist in other classes of financial asset.

It is the Board's policy to monitor foreign currency risk. The Investment Manager monitors the Company's exposure to foreign currencies on a daily basis and reports to the board on a quarterly basis. The Investment Manager measures the risk to the Company of the foreign currency exposure by considering the effect on the Company's net asset value through movements in the rates of exchange to which the Company's assets, liabilities, income and expenses are exposed.

The Company uses forward currency contracts to hedge foreign exchange movements and reduce the Company's exposure to anticipated future changes in exchange rates which might

otherwise adversely affect the value of the Company's investments. At the year-end, the Company had partially hedged its exposure to US Dollars by selling USD 15.0m (2007: USD 10.2m) against the Sterling. This hedging is for economic purposes and hedge accounting has not been applied.

Foreign currency amounts received by the Company are converted into Sterling in due course. The Company does not use financial instruments to mitigate currency exposure during the period between the time that a receipt is recorded in the financial statements and its receipt.

The following table illustrates the sensitivity of the profit after taxation for the year and the equity in regard to the Company's significant monetary financial assets and financial liabilities and the exchange rates for £/US Dollar, and £/Euro.

It assumes the £/US Dollar exchange rate strengthens or weakens by 1.61% (2007: 3.12%) and the £/Euro exchange rate strengthens or weakens by 2.29% (2007: 1.16%). These percentages have been determined based on the average market volatility in these exchange rates over the previous 12 months. The sensitivity analysis is based on the Company's significant foreign currency financial instruments held at each balance sheet date, and takes accounts of forward foreign exchange contracts that offset the effects of changes in currency exchange rates.

The currency exposure in underlying assets is dynamic and has not been disclosed.

The effects of Sterling strengthening or weakening against the US Dollar or Euro on assets owned directly by the Company and assuming there is no movement in the underlying price of securities are shown below:

	2008		2007	
	US\$ £'000	Euro £'000	US\$ £'000	Euro £'000
<i>Sterling strengthens against the US Dollar/Euro</i>				
Profit after taxation for the year	(20)	(25)	(144)	(3)
<i>Sterling weakens against the US Dollar/Euro</i>				
Profit after taxation for the year	20	26	153	3

Interest rate risk

The Company is exposed to risk associated with the effects of fluctuations in prevailing levels of market interest rates on its financial position and cash flows.

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions. The Investment Manager reviews on a regular basis the values of the fixed interest rate convertible securities.

Interest rate risk is limited by the Company's financial structure with operations mainly financed through its share capital, share premium and retained profits consisting of realised and unrealised capital profits. In addition, until its conversion, financing is also provided by the 3.25% Convertible Unsecured Loan Stock 2011.

The Company, generally, does not hold significant cash balances, with short-term borrowings being used when required. Derivative contracts are not used to hedge against the exposure to interest rate risk.

As at 31 January, the exposure to interest rate risk of the Company's financial assets and financial liabilities is shown in the table below by reference to:

- Floating interest rates (cash flow interest rate risk) where the interest rate is due to be re-set;
- Fixed interest rates (fair value interest rate risk) where the financial instrument is due for repayment.

Notes to the Financial Statements

continued

	2008	2007
	£'000	£'000
Investments held at fair value through profit or loss – bonds – fixed rate assets	382	719
Cash at bank – floating rate assets	2,961	1,432
3.25% Convertible Unsecured Loan Stock 2011 – fixed rate liability	(9,191)	(8,988)

All the remaining assets and liabilities in the Company are non interest bearing.

The interest rate risk of fixed interest bearing securities is not material and therefore no sensitivity analysis has been provided.

The following table illustrates the sensitivity of the profit before taxation for the year to an increase or decrease of 1% (2007: 1%) in interest rates on cash balances, the only floating rate asset held.

Effects of 1% increase/decrease in interest rate:

	2008		2007	
	<i>Increase</i>	<i>Decrease</i>	<i>Increase</i>	<i>Decrease</i>
	£'000	£'000	£'000	£'000
Profit after taxation for the year	30	(30)	14	(14)

Other price risk

Other price risks (i.e. changes in market prices other than those arising from interest rate risk or currency risk) arise mainly from uncertainty about future prices of financial instruments used in the Company's business. It represents the potential loss the Company might suffer through holding market positions in the face of price movements.

The Board of Directors manages the market price risks inherent in the investment portfolios by ensuring full and timely access to relevant information from the Investment Manager. The Board meets regularly and at each meeting reviews investment performance. The Board monitors the Investment Manager's compliance with the Company's objectives, and is directly responsible for investment strategy and asset allocation, including between countries and economies. When appropriate, the Company manages its exposure to risk by using listed put warrants on indices appropriate to sections of the portfolio.

An analysis of the Company's investment portfolio is shown on page 9. This analysis shows that the Company is predominantly invested in UK listed investments. It is recognised that an investment's country of domicile or of listing does not necessarily equate to its exposure to the economic conditions in that country.

The Company's exposure to other changes in market prices at 31 January on its equity investments, and listed put warrants on indices was as follows:

	2008	2007
	£'000	£'000
Fixed asset investments held at fair value through profit or loss (note 10)	48,534	57,151
Listed put warrants held at fair value through profit or loss	2,906	1,356
	51,440	58,507

Liquidity risk

The majority of the Company's assets are readily realisable, being listed or traded on regulated markets. The Investment Manager monitors the expected cash outflows and manages the Company's liquidity accordingly on a daily basis. The Board of Directors reviews it on a monthly basis.

Liquidity risk relates to the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

The remaining contractual maturities of the financial liabilities at 31 January, based on the earliest date on which payment can be required was as follows:

	<i>3 months or less £'000</i>	<i>More than three months but not more than 1 year £'000</i>	<i>In more than 1 year but not more than 5 years £'000</i>	<i>Total £'000</i>
At 31 January 2008				
Creditors: amounts falling due after more than one year				
– 3.25% Convertible Unsecured Loan Stock 2011	–	–	(10,000)	(10,000)
– Interest on 3.25% Convertible Unsecured Loan Stock 2011	–	(325)	(813)	(1,138)
– Short-term creditors	(1,590)	–	–	(1,590)
Creditors: amounts falling due within one year				
– Forward currency contracts at fair value through profit or loss	(7,550)	–	–	(7,550)
Total financial liabilities	(9,140)	(325)	(10,813)	(20,278)
At 31 January 2007				
Creditors: amounts falling due after more than one year				
– 3.25% Convertible Unsecured Loan Stock 2011	–	–	(10,000)	(10,000)
– Interest on 3.25% Convertible Unsecured Loan Stock 2011	–	(325)	(1,138)	(1,463)
– Short-term creditors	(638)	–	–	(638)
Creditors: amounts falling due within one year				
– Forward currency contracts at fair value through profit or loss	(5,229)	–	–	(5,229)
Total financial liabilities	(5,867)	(325)	(11,138)	(17,330)

The amounts shown for the 3.25% Convertible Unsecured Loan Stock 2011 are the undiscounted contractual amounts that are to be paid, and as such differ from the amounts shown in the balance sheet. The amounts shown for the forward currency contracts are gross cash flows.

Credit risk

The Company is exposed to credit risk as a result of holding cash balances, foreign exchange forward currency contracts and listed put warrants. The Company will also take a credit risk on the parties with which it trades and therefore the Investment Manager will seek only to transact with established counterparties.

The maximum exposure to credit risk on 31 January is:

	2008	<i>2007</i>
	£'000	<i>£'000</i>
Foreign exchange forward contracts	7,340	5,878
Listed put warrants	2,906	1,356
Cash	2,961	1,432
Debtors	3,844	818
	17,051	9,484

Forward currency contracts have been entered into with JP Morgan which is an international financial institution with a credit rating of AA- (2007: A+). The listed put warrants have been bought from Merrill Lynch which is an international financial institution with a credit rating of A+ (2007: AA-). Cash balances are also held with JP Morgan, MAN Financial, Merrill Lynch and the JP Morgan Money Market Fund.

No financial assets are past due or impaired.

Since the Company mainly invests in listed UK investment trusts, credit risk is not significant on any other financial asset.

Fair values of financial assets and financial liabilities

Except for those financial liabilities measured at amortised cost that are shown below, the fair values of the financial assets and financial liabilities, are either carried in the balance sheet at their fair value (investments and derivatives), or the balance sheet amount is a reasonable approximation of fair value (due from brokers, dividends receivable, accrued income, due to brokers, accruals, and cash at bank).

	2008		<i>2007</i>	
	Book Value	Fair Value	<i>Book Value</i>	<i>Fair Value</i>
	£'000	£'000	<i>£'000</i>	<i>£'000</i>
3.25% Convertible Unsecured Loan Stock 2011	(9,191)	(10,200)	<i>(8,988)</i>	<i>(10,450)</i>

The fair value of the 3.25% Convertible Unsecured Loan Stock 2011 is based on the bid market price.

Financial assets held at fair value through profit or loss on initial recognition relate to fixed asset investments (see note 10). At 31 January 2008, financial assets held at fair value through profit or loss which fall within the FRS26 definition of held for trading relate to listed put warrants and forward currency contracts and totalled £10,246,000 (2007: £7,234,000). At 31 January 2008 financial liabilities held at fair value through profit or loss as classified as held for trading relate to forward currency contracts and totalled £7,550,000 (2007: £5,229,000).

Capital management policies and procedures

The Company's capital management objectives are:

- to ensure that the Company will be able to continue as a going concern;
- to maximise the income and capital return to its shareholders, and
- to ensure the Company conducts its affairs to continue to obtain Section 842 approval.

The borrowing policy is that 'debt' as shown below should be below 30% of net assets.

The Company's capital at 31 January comprises:

	<i>2008</i>	<i>2007</i>
	<i>£'000</i>	<i>£'000</i>
Debt		
– 3.25% Convertible Unsecured Loan Stock 2011	9,191	8,988
	<hr/>	<hr/>
Equity		
– Equity share capital	42,737	47,381
– Retained earnings and other reserves	4,517	4,399
	<hr/>	<hr/>
Net assets	47,254	51,780
	<hr/>	<hr/>
Total Capital	56,445	60,768
	<hr/>	<hr/>
Debt as a percentage of net assets	19.45%	17.36%

The Board, with the assistance of the Investment Manager monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

- the planned level of gearing, which takes account of the Manager's views on the market;
- the need to buy back equity shares, either for cancellation or to hold in treasury, which takes account of the difference between the net asset value per share and the share price (i.e. the level of share price discount or premium);
- the need for new issues of equity shares, including issues from treasury; and
- the extent to which revenue in excess of that which is required to be distributed should be retained.

The Company's objectives, policies and processes for managing capital are unchanged from the preceding accounting period and the Company has complied with them.

The Company is subject to externally imposed capital requirements due to its status as an investment company. In order to pay out distributions, which can be paid out of accumulated revenue returns, the Company must ensure that:

- (a) if at that time the amount of its assets is at least equal to one and a half times the aggregate of its liabilities to creditors, and
- (b) if, and to the extent that, the distribution does not reduce that amount to less than one and a half times that aggregate.

21. Post balance sheet events

Since the year end the Company has completed the following transactions in its own shares:

Shares bought back and held in treasury:

<i>Date</i>	<i>Number of Ordinary shares</i>	<i>Cost £'000</i>
22/02/2008	840,000	978
07/03/2008	266,000	312
14/03/2008	48,000	56
	1,154,000	1,346

Shares cancelled from treasury:

<i>Date</i>	<i>Number of Ordinary shares</i>	<i>Share capital £'000</i>
07/03/2008	66,000	17
14/03/2008	38,000	10
	104,000	27

Notice of Annual General Meeting

NOTICE IS GIVEN that the Annual General Meeting of The Cayenne Trust plc will be held at the Crowne Plaza Hotel, Buckingham Gate, London SW1E 6AF on 7 May 2008 at 3.30 pm for the following purposes:

Ordinary Business

1. To receive the Directors' Report and Accounts for the year ended 31 January 2008.
2. To approve the Directors' Remuneration Report for the year ended 31 January 2008.
3. To approve the proposed final dividend of 1.00p per Ordinary share.
4. To re-elect Christopher Jones a Director of the Company.
5. To re-appoint the Auditors and authorise the Directors to determine their remuneration.

Special Business

To consider and if thought fit to pass the following resolutions:

Ordinary Resolution:

6. THAT the Directors be and are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 ("Act") to exercise all the powers of the Company to allot relevant securities ("Relevant Securities") as defined under the said Section 80 of the Act up to an aggregate nominal amount of £3,000,000 (being approximately one third of the Ordinary shares in issue excluding treasury shares) provided that the authority hereby granted shall (unless previously renewed or varied) expire at the conclusion of the Annual General Meeting of the Company in 2012 save that the Company may before such expiry enter into offer(s) or agreement(s) which shall or may require Relevant Securities to be allotted after such expiry and the Company may allot Relevant Securities pursuant to such offer(s) or agreement(s) as if the authority hereby granted had not expired.

Special Resolutions:

7. THAT the Directors be and are hereby generally and unconditionally authorised and empowered pursuant to Section 95(1) of the Act to allot Relevant Securities without Section 89(1) of the Act applying to such allotment, provided that the authority hereby granted shall expire at the earlier of fifteen months or the conclusion of the next following Annual General Meeting of the Company after the passing of this Resolution and shall be limited to:
 - i) the allotment of Relevant Securities up to a nominal value of £466,895, being approximately 5% of the capital currently in issue;
 - ii) the allotment of Relevant Securities at a price (excluding expenses) not less than the net asset value per share for the business day immediately preceding allotment (or if earlier agreement to allot);

save that the Company shall be hereby permitted to enter into agreements for the allotment of Relevant Securities and/or sale or transfer of shares before expiry of the authority hereby granted and the Company may allot Relevant Securities and/or sell or transfer shares pursuant to such agreements as if the authority hereby granted had not expired.
8. THAT in accordance with Section 95(2)(a) of the Act the Directors be and are hereby generally and unconditionally authorised and empowered to sell, transfer and allot Ordinary shares held by the Company in treasury (whether or not those shares are held in treasury at the date this Resolution is passed or repurchased pursuant to the authority sought under Resolution 9 below) for cash at discounted prices (excluding expenses) not exceeding 5% below the net asset value per Ordinary share for the business day immediately preceding such sale, transfer or allotment, (or, if earlier, agreement to sell, transfer or allot) without Section 89(1) of the Act applying to such sale, transfer or allotment, provided that the authority hereby granted shall expire at the earlier of fifteen months or the conclusion of the next following Annual General Meeting of the Company after the passing of this Resolution save that the Company may before such expiry enter into offer(s) or agreement(s) which shall or may require Ordinary shares held in treasury to be sold or allotted after such expiry and the Company may sell or allot Ordinary shares pursuant to such offer(s) or agreement(s) as if the authority hereby granted had not expired.

9. THAT the Directors be and are hereby authorised in accordance with Section 166 of the Act to make market purchases (within the meaning of Section 163 of the Act) of Ordinary shares of 25p each in the capital of the Company provided that:
- i) the maximum aggregate number of Ordinary shares to be purchased shall be 5,602,000 (being approximately 14.99% of the issued Ordinary shares, excluding treasury shares);
 - ii) the minimum price which may be paid per Ordinary share shall be 25p;
 - iii) the maximum price which may be paid per Ordinary share (exclusive of expenses) shall be 5% above the average of the mid-market values of the Ordinary shares on the Daily Official list of the London Stock Exchange for the 5 business days immediately preceding the day of purchase;
 - iv) unless otherwise varied or renewed the authority hereby granted shall expire at the earlier of fifteen months or the conclusion of the next following Annual General Meeting of the Company after the passing of this Resolution, save that before such expiry the Company may enter into agreement(s) to purchase Ordinary shares which may be completed wholly or partly after such expiry and the Company may purchase such Ordinary shares pursuant to such agreement(s) as if the authority hereby granted had not so expired; and
 - v) any Ordinary shares bought back under the authority hereby granted may, at the discretion of the Directors, be cancelled or held in treasury and if held in treasury may be resold from treasury or cancelled at the discretion of the Directors.

Dated this 3 April 2008

By order of the Board

Phoenix Administration Services Limited
Company Secretary

Springfield Lodge
Colchester Road
Chelmsford
Essex CM2 5PW

Notes:

1. The Report and Accounts are circulated to the holders of Ordinary shares all of whom are entitled to attend and vote at the above AGM, and to holders of debenture stock who are not entitled by virtue of that holding to attend the AGM.
2. Any member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote in his stead. Proxies need not be members of the Company. A form of proxy for the use of members is enclosed. Completion and return of a proxy will not preclude a member from attending and voting in person.
3. Corporate members who propose appointing more than one person to represent them are strongly recommended to appoint multiple proxies rather than multiple corporate representatives since, as currently drafted, the votes of multiple corporate representatives risk nullification under the Companies Act 2006.
4. A shareholder entered on the Register of Members 48 hours before the meeting is entitled to attend and vote at the Meeting pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001. Any changes to the Register of Members after such time and date shall be disregarded in determining the rights of any Shareholder to attend and/or vote at the Meeting.
5. There are no service contracts between the Directors and the Company.
6. The register of Directors' interests will be available for inspection at the AGM.
7. To appoint proxies or give/amend an instruction to an appointed proxy via the CREST system, the CREST message must be received by the issuer's agent (ID: RA10) by 3.30 pm on 5 May 2008 and time of receipt will be taken as the time (as determined by the timestamp applied by the CREST Applications Host) that the issuer's agent is able to retrieve the message. CREST Personal Members or other CREST Sponsored Members, and CREST Members who have appointed voting service providers, should refer to their sponsor/voting service provider for advice on appointing proxies via CREST. Regulation 35 of the Uncertificated Securities Regulations 2001 will apply to all proxy appointments sent by CREST. For information on CREST procedures and system timings, please refer to the CREST Manual.

Shareholder Information

Capital Gains Tax

Further to an EGM on 1 February 1993, City and Commercial Investment Trust plc was placed in members' voluntary liquidation, with shareholders being offered the option to invest in INVESCO City and Commercial Trust plc 25p Ordinary shares, with warrants attached. On 8 February 1993, the first day of trading, the market prices for capital gains tax purposes of these were 85.5p and 20.5p respectively.

The Company changed its name to The Cayenne Trust plc on 30 January 2006.

Financial Calendar

In addition, the Company publishes information according to the following calendar:

Announcements

Unaudited Interim results	September
Unaudited Final results	April

Ordinary Share Dividends

Final payment	16 May
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Annual General Meeting 7 May

Year End 31 January

Location of Annual General Meeting

To be held at 3.30 pm on Wednesday 7 May 2008 at the Crowne Plaza Hotel, Buckingham Gate, London SW1E 6AF.

Share Price Listings

The price of your shares can be found in the following place:

Financial Times	Investment Companies
Daily Telegraph	Investment Trusts
Reuters	Ordinary shares TCT.L 3.25% CULS 2011 TCTL.L
Bloomberg	Ordinary shares TCT 3.25% CULS 2011 NEWCCI

The current share price can also be obtained by calling FT Cityline on 0906 8431473 and keying in code 1473.

NAV Publication

The NAV is calculated daily at the close of business each day and notified to the Stock Exchange the next business day.

Website

www.thecayennetrust.com

Glossary of Terms

Discount

The amount by which the mid-market price per share of an investment trust is lower than the net asset value per share. The discount is normally expressed as a percentage of the net asset value per share.

Gearing

The term applied to the effect of borrowings and prior charge share capital on assets that will increase the return on investment when the value of the Company's investments is rising but reduce the return when values are declining. A gearing level of 100 or 0% indicates there is no gearing.

Gearing 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 any Convertible Unsecured Loan Stock) by Ordinary Shareholders' funds.

High Water Mark

The level at which the net asset value (on a fully diluted basis) must exceed in order for a performance fee to become payable to the Investment Manager.

Market Capitalisation

For a company is calculated by multiplying the stockmarket price of an Ordinary share by the number of ordinary shares in use.

Net Asset Value ("NAV")

Also described as Shareholders' funds, the net asset value is the value of total assets less liabilities. Liabilities for this purpose include current and long-term liabilities. The net asset value per share is calculated by dividing the net asset value by the number of Ordinary shares in issue.

Shareholders' Funds

Equity Shareholders' Funds is the amount due to the Ordinary shareholders.

Total Expense Ratio

The total revenue expenses (excluding interest) incurred, plus management and performance fees charged to capital, divided by average total assets less current liabilities (excluding any Convertible Unsecured Loan Stock).

Winding-up Date

The date of an Extraordinary General Meeting, to be called in 2011 or any year thereafter, to consider a special resolution for the winding-up of the Company in the event that a continuation vote is not passed at the Annual General Meeting in that year.

Dividend Yield

Total dividends payable (including tax credit) divided by market capitalisation of company.