

# **Athelney Trust plc**

## **Interim Report**

**for the six months ended 30 June 2006**

# **Athelney Trust plc**

## **CONTENTS**

	<b>Page</b>
Chairman's Statement	2 - 4
Investment and Portfolio Analysis	5 - 6
Interim Income Statement	7
Interim Balance Sheet	8
Interim Cash Flow Statement	9
Notes to the Interim Accounts	10
Officers and Financial Advisers	11

## **Athelney Trust plc**

**2 Queen Anne's Gate Buildings, Dartmouth Street, London, SW1H 9BP**

**Telephone: 020 7222 8989**

### **INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2006**

#### **CHAIRMAN'S STATEMENT**

I have pleasure in enclosing the unaudited results for the six months to 30 June 2006. The salient points are as follows:

- Unaudited Net Asset Value ("NAV") is 164.5p per share (31 December 2005: 154p, 30 June 2005: 140.2p – as restated, see Note 2 on page 10), a rise of 6.8 per cent over six months and an increase of 17.3 per cent over the past year.
- Gross Revenue rose by 14.1 per cent to £45,165 compared with the half year ended 30 June 2005 of £39,600 and the full year to 31 December 2005 of £86,265.
- Revenue return per ordinary share was 1.7p, up 41.7 per cent from the previous half year (31 December 2005: 2.7p, 30 June 2005: 1.2p).
- A dividend of 2.5p was paid in May 2006 (2005: 2p) and, as is the Board's practice, no further dividend will be paid until the full year's results are known.

#### **The Market**

It would seem that the days of 30 per cent annual growth are well and truly behind us: unaudited net asset value (NAV) rising by 6.8 per cent in the first six months of 2006. True, January to April seemed to be a period of tranquil growth – unaudited NAV rose by about 10 per cent during that period but May and June proved to be difficult, volatile and, in the main, unprofitable. In my report to you in April, I mentioned a number of factors that made me feel cautious at the time: rising Japanese interest rates which spoiled things for those borrowing in yen and re-investing in high-yield markets like Dubai and Reykjavik; seventeen successive rises in American interest rates could well be eighteen by the time you read this statement; furthermore, the determination of those in Frankfurt to raise rates just at a time when some European economies are beginning to struggle was, I must say, rather alarming.

As far as international markets are concerned, the six months to 30 June produced wildly differing results: Dubai (down 58.4 per cent), Egypt (down 24.9 per cent), Saudi Arabia (down 23 per cent), Turkey (down 14.5 per cent) and South Korea (down 8 per cent). The biggest rises included Venezuela (up 49.7 per cent), Shanghai (up 44 per cent) and Russia (up 28.6 per cent) so it was not all bad news, especially for those countries exporting oil.

Sterling continued to perform really quite well: global reserve holdings of sterling have doubled over the past two years, thus supplanting the yen as the world's third-largest reserve currency. Not really surprising, when you remember that it has risen by 18 per cent against the dollar and 30 per cent against the yen over the last ten years and, giving an average three-month yield of 5.25 per cent, sterling has been nicely profitable, too. Central banks of Sweden, UAE, Switzerland, Qatar and Italy are all believed to have cut dollar exposure to buy pounds although, being highly secret organizations, it is never easy to be certain about their currency dealings. Having said that, I expect the yen to perform well in the months ahead: Bank of Japan Governor Fukui has already pushed through a rise in rates from 0.001 to 0.25 per cent and is clearly aiming at a rate of, say, 1.5 per cent by the end of 2007. As far as the United States is concerned, the new Chairman of the Fed., Ben Bernanke, has a very difficult job to do to balance falling consumer confidence with rising interest rates and may push rates up too far. As it is, I am expecting economic growth to slow sharply in the second half of this year – perhaps to 3-3.5 per cent.

Growth will be slower than that in the U.K., perhaps 2.4 per cent in 2006 and 2.5 per cent in 2007 so, in my opinion, there is absolutely no need to increase interest rates (in fact, five weeks after Athelney's balance sheet date, rates were increased by 0.25 per cent). Finally, under this sub-heading, it is striking just how well parts of the UK economy are faring; for instance, output in the financial sector grew by 31 per cent from 2000 to 2005, double the previous estimate of 15 per cent and, since most of this extra output was exported, previously grim current-account deficits have narrowed from 2 per cent to a revised 1.6 per cent in 2004 and 2.6 per cent to 2.2 per cent in 2005.

## Results

Gross Revenue rose by a thoroughly satisfactory 14.1 per cent compared with the six months to 30 June 2005. A breakdown of the companies paying dividends is given below.

	<u>Number</u>
Companies paying dividends	<u>58</u>
Companies sold (therefore no true comparison)	0
Companies purchased (therefore no true comparison)	11
Increased total dividends in the half year	38
Reduced total dividends in the half year	2
No change in dividend	7

## Corporate Activity

Cash takeovers were completed in respect of three holdings: *PD Ports*, *Brandon Hire* and *Wyevale Garden Centres*, producing a profit of 64.3 per cent, 96.2 per cent and 794.7 per cent respectively. Since 30 June, *Richmond Foods* has been acquired for cash.

## **Portfolio Review**

The following were purchased for the first time or were existing holdings which have been increased in size: *Acertec, Arbuthnot Banking Group, AT Communications Group, Belgravium Technologies, Biotrace International, Chime Communications, City Lofts Group, Corporate Synergy Group, Davenham Group, Flying Brands, Huntsworth, Idox, Litho Supplies, Nichols and Richmond Foods.*

*Goldshield Group, Watermark, Landround, Fountains and Clinton Cards* have all been sold.

*Galliford Try, Stanley Gibbons Group, WSP Group, European Motor Holdings and James Fisher* were all top-sliced.

## **Dividend**

As is the Board's practice, consideration of a dividend will be left until the final results are known. Nevertheless, the Board wishes it to be known that it is keen to continue Athelney's record of increasing the dividend steadily and progressively.

## **Update**

The unaudited NAV at 31 July was 165.3p per share. On that same date, Athelney shares were quoted at 125p so the discount to NAV was 24.4 per cent compared with 23.4 per cent as at 28 February.

## **Outlook**

My worry is that the central banks will go on increasing interest rates to the stage where low growth / mild recession is more-or-less guaranteed just so that they can convince markets of their anti-inflation credentials. The fact of the matter is that, barring the effects of strong energy and metal prices partly because of the strength of the economies of China, India and Brazil, inflation rates are low in most major economies. Furthermore, auto and house sales are falling in America and growth in the Eurozone is already patchy. Nor do I suspect that I am alone in worrying about the international tension emanating from Iraq, Iran, Lebanon, Israel, Syria and so on. Against this background, as opaque as I can ever remember, it would be foolish to be aggressively optimistic. I believe, though, that the long-term case for investment in equities, and especially small caps., remains intact. I particularly enjoyed reading the results of American research which demonstrated that the probability of losing money when investing for a day is 46 per cent, 42 per cent for one week, 35 per cent for a month, 27 per cent for one quarter, 18 per cent for one year, 17 per cent for five years and zero per cent for 10 years. The message is clear.

H. B. Deschampsneufs

# Athelney Trust plc

## INVESTMENT AND PORTFOLIO ANALYSIS AT 30 JUNE 2006

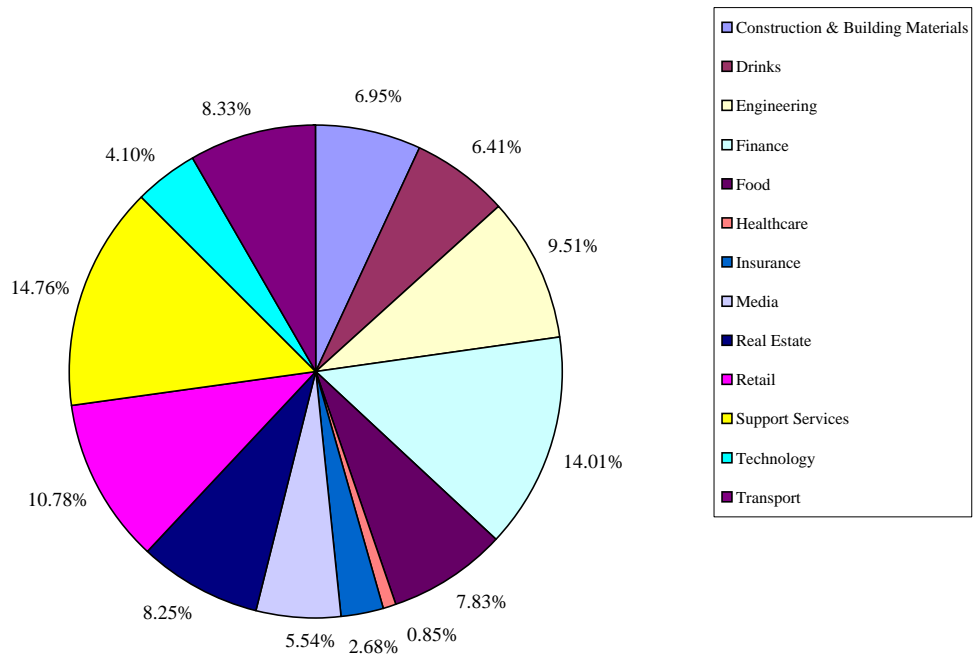
SECTOR	STOCK	HOLDING	VALUE (£)	£	SECTOR %
<b>Construction &amp; Building Materials</b>	Ben Bailey	6,800	26,122	<b>221,020</b>	<b>6.95%</b>
	Clarke (T)	18,000	42,515		
	Galliford Try	50,000	56,063		
	Gibbs & Dandy	10,000	34,271		
	Havelock Europa	24,000	32,175		
	Latham (James)	16,000	29,874		
<b>Drinks</b>	Enterprise Inns	10,000	92,430	<b>203,931</b>	<b>6.41%</b>
	Nichols	16,500	36,036		
	Shepherd Neame "A"	6,000	75,465		
<b>Engineering</b>	Acertec	20,000	27,495	<b>302,518</b>	<b>9.51%</b>
	Gooch & Housego	18,000	60,723		
	Goodwin	17,000	91,411		
	Severfield-Rowen	6,500	80,867		
	Slingsby (H.C.)	4,000	42,023		
<b>Finance</b>	Albemarle & Bond	20,000	38,513	<b>445,475</b>	<b>14.01%</b>
	Arbuthnot Banking Group	10,000	51,188		
	Camellia	1,300	91,260		
	Charles Taylor Consulting	8,000	30,011		
	Corporate Synergy Group	100,000	21,206		
	Davenham Group	10,000	31,785		
	Jarvis Securities	20,000	15,210		
	Park Group	80,000	13,650		
	S & U	8,000	45,045		
	Tenon Group	72,500	15,551		
	Vantis	36,667	92,058		
<b>Food</b>	N.W.F. Group	13,000	121,363	<b>249,113</b>	<b>7.83%</b>
	Richmond Foods	4,150	30,347		
	Treant	10,500	33,784		
	Wynnstay Group	30,000	63,619		
<b>Healthcare</b>	Biotrace International	33,000	27,027	<b>27,027</b>	<b>0.85%</b>
<b>Insurance</b>	Domestic & General	3,300	31,113	<b>85,274</b>	<b>2.68%</b>
	Personal Group Holdings	22,000	54,161		
<b>Media</b>	Chime Communications	85,000	29,835	<b>176,048</b>	<b>5.54%</b>
	Huntsworth	35,000	30,030		
	International Greetings	18,000	69,937		
	Media Square	213,179	46,246		
<b>Real Estate</b>	City Lofts Group	35,000	30,883	<b>262,339</b>	<b>8.25%</b>
	Colliers C.R.E.	16,000	37,596		
	Erinaceous Group	13,000	38,025		
	Mountview Estates	1,925	88,682		
	Smart (J) & Co.	4,000	28,080		
	Unite Group	10,000	39,073		
<b>Retail</b>	Blacks Leisure Group	6,000	31,707	<b>342,706</b>	<b>10.78%</b>
	European Motor Holdings	9,000	39,488		
	Flying Brands	17,500	38,476		
	Lookers	7,200	55,458		
	Mallett	12,000	28,256		
	SCS Upholstery	12,000	52,065		
	Stanley Gibbons	70,000	97,256		
<b>Support Services</b>	Dawson Holdings	34,000	39,117	<b>469,417</b>	<b>14.76%</b>
	Enterprise	16,000	66,924		
	Genus	15,000	63,326		
	Litho Supplies	50,500	26,835		
	MSB International	56,000	28,392		
	Penna Consulting	16,000	16,614		
	RWS Holdings	14,000	39,517		
	VP Group	17,000	51,217		
	Waterman Group	40,000	55,575		
	WSP Group	20,000	81,900		
<b>Technology</b>	AT Communications Group	50,000	24,619	<b>130,381</b>	<b>4.10%</b>
	Belgravium Technologies	200,000	18,525		
	Group NBT	22,000	31,424		
	Idox	225,000	16,442		
	Pennant International	116,000	15,834		
	Phoenix IT	8,500	23,537		
<b>Transport</b>	Air Partner	8,500	55,112	<b>265,029</b>	<b>8.33%</b>
	Braemar Seascope	20,000	79,463		
	Clarkson	8,000	66,690		
	Fisher (James)	15,000	63,765		

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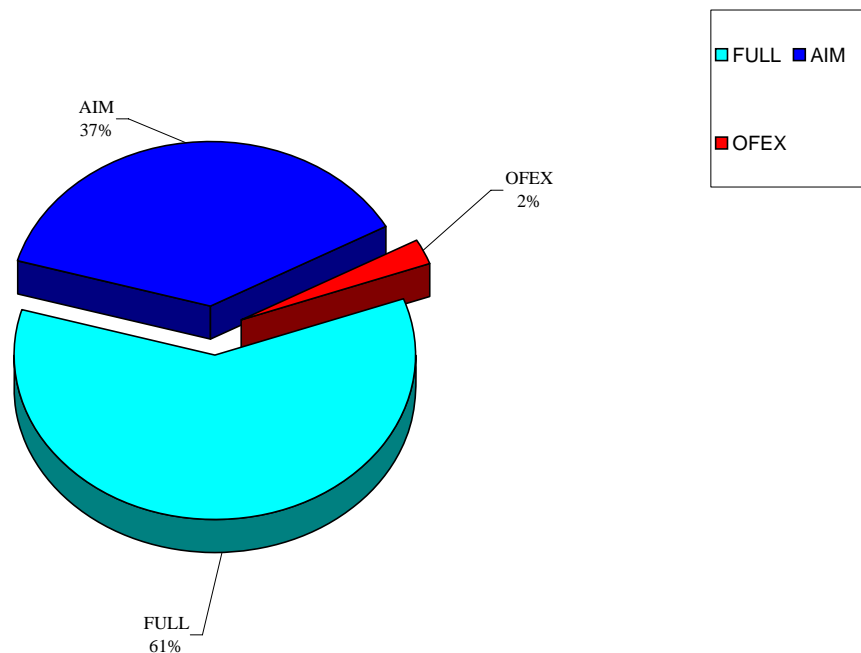
## INVESTMENT AND PORTFOLIO ANALYSIS AT 30 JUNE 2006 ( CONTINUED)

Portfolio Value	£ 3,180,278	100.00%
Net Current Assets	£ 92,716	
Deferred tax	£ (307,934)	
<b>TOTAL VALUE</b>	<b>£ 2,965,060</b>	
Shares in issue	1,802,802	
Unaudited NAV	<b>164.5p</b>	

### Portfolio by Sectors



### Portfolio by Listing



# Athelney Trust plc

## INTERIM INCOME STATEMENT (INCORPORATING THE REVENUE ACCOUNT)

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Unaudited			Unaudited			<i>Year ended</i>
	6 months ended 30 June 2006			6 months ended 30 June 2005			<i>31 December</i>
	Revenue	Capital	Total	Revenue	Capital	Total	<i>Total</i>
	£	£	£	£	£	£	£
Profits on investments	-	178,417	178,417	-	174,698	174,698	460,306
Income	45,165	-	45,165	39,600	-	39,600	86,265
Investment management expenses	(4,015)	(11,787)	(15,802)	(3,875)	(10,375)	(14,250)	(28,628)
Other expenses	(17,352)	-	(17,352)	(17,946)	-	(17,946)	(37,753)
<b>Return on ordinary activities before taxation</b>	<b>23,798</b>	<b>166,630</b>	<b>190,428</b>	<b>17,779</b>	<b>164,323</b>	<b>182,102</b>	<b>480,190</b>
Taxation	6,537	(29,002)	(22,465)	3,692	(28,799)	(25,107)	(69,655)
<b>Return on ordinary activities after taxation</b>	<b>30,335</b>	<b>137,628</b>	<b>167,963</b>	<b>21,471</b>	<b>135,524</b>	<b>156,995</b>	<b>410,535</b>
<b>Dividends Paid:</b>							
Dividend	(45,070)	-	(45,070)	(36,056)	-	(36,056)	(36,056)
	<b>(14,735)</b>	<b>137,628</b>	<b>122,893</b>	<b>(14,585)</b>	<b>135,524</b>	<b>120,939</b>	<b>374,479</b>
<b>Return per ordinary share</b>	<b>1.7p</b>	<b>7.6p</b>	<b>9.3p</b>	<b>1.2p</b>	<b>7.5p</b>	<b>8.7p</b>	<b>22.8p</b>



## Athelney Trust plc

### INTERIM BALANCE SHEET AS AT 30 JUNE 2006

	Unaudited 30 June 2006	Unaudited 30 June 2005	31 December 2005
	£	£	£
<b>Fixed assets</b>			
Investments	<u>3,180,278</u>	<u>2,759,392</u>	<u>2,985,922</u>
<b>Current assets</b>			
Debtors	103,535	90,852	145,109
Cash at bank and in hand	<u>30,007</u>	<u>21,884</u>	<u>40,048</u>
	133,542	112,736	185,157
<b>Creditors: amounts falling due within one year</b>	<u>(40,826)</u>	<u>(29,900)</u>	<u>(33,769)</u>
<b>Net current assets</b>	<u>92,716</u>	<u>82,836</u>	<u>151,388</u>
<b>Total assets less current liabilities</b>	3,272,994	2,842,228	3,137,310
<b>Provisions for liabilities and charges</b>	(307,934)	(253,600)	(295,142)
<b>Net assets</b>	<u><u>2,965,060</u></u>	<u><u>2,588,628</u></u>	<u><u>2,842,168</u></u>
<b>Capital and reserves</b>			
Called up share capital	450,700	450,700	450,700
Share premium account	405,605	405,605	405,605
Other reserves - non distributable			
Capital reserve - realised	590,450	479,588	520,007
Capital reserve - unrealised	1,427,789	1,174,839	1,360,604
Revenue reserve	<u>90,517</u>	<u>77,896</u>	<u>105,252</u>
<b>Shareholders' funds - all equity</b>	<u><u>2,965,061</u></u>	<u><u>2,588,628</u></u>	<u><u>2,842,168</u></u>
<b>Net Asset Value per share</b>	164.5p	143.6p	157.7p

## Athelney Trust plc

### CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Unaudited 6 months ended 30 June 2006		Unaudited 6 months ended 30 June 2005		<i>Year ended 31 December 2005</i>
	£	£	£	£	£
<b>Net cash (outflow) / inflow from operating activities</b>		60,642		(3,372)	3,487
<b>Servicing of finance</b>					
Dividends paid	(45,070)		(36,056)		(36,056)
<b>Net cash (outflow) from servicing of finance</b>		(45,070)		(36,056)	(36,056)
<b>Taxation</b>					
Corporation tax paid		-		-	(2,017)
<b>Investing activities</b>					
Purchases of investments	(433,030)		(269,360)		(529,075)
Sales of investments	407,417		269,361		542,398
<b>Net cash inflow / (outflow) from investing activities</b>		(25,613)		1	13,323
<b>(Decrease) in cash in the year</b>		(10,041)		(39,427)	(21,263)
<b>Reconciliation of operating net revenue to net cash (outflow) / inflow from operating activities</b>		£		£	£
Revenue return on ordinary activities before taxation		23,798		17,779	41,246
(Increase) in debtors		41,574		(3,452)	(28,595)
(Decrease)/ increase in creditors		7,057		(7,324)	12,198
Management expenses charged to capital		(11,787)		(10,375)	(21,362)
		60,642		(3,372)	3,487

# Athelney Trust plc

## NOTES TO THE INTERIM ACCOUNTS

### FOR THE SIX MONTHS ENDED 30 JUNE 2006

1. The financial information contained in this report is unaudited and does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985 (as amended). The results for the year ended 31 December 2005 were reported on by the auditors and received an unqualified report and contained no statement under Section 237(2) or (3) of the Companies Act 1985 (as amended) and a copy of the audited accounts has been filed with the Registrar of Companies.
2. The unaudited results for the period ended 30 June 2006 have been prepared on the basis of the accounting policies adopted in the audited accounts for the year ended 31 December 2005, except for accounting for investments where FRS25 Financial Instruments: Disclosure and Presentation and FRS26 Financial Instruments: Recognition and Measurement have been adopted for the first time. The effect of this is to reduce the investment valuations from a mid-market price to a fair value price. The comparatives have not been restated except for in Note 3 below.

If the same basis had been used to value the investments at 30 June 2005 and 31 December 2005, the effect would have been to reduce the NAV to 140.2p (previously stated 143.6p) and 154p (previously stated 157.7p) respectively.

3. The calculation of earnings per share for the six months ended 30 June 2006 is based on the attributable return on ordinary activities after taxation and on the average weighted number of shares in issue during the period.

	6 months ended 30 June 2006			6 months ended 30 June 2005		
	Revenue	Capital	Total	Revenue	Capital	Total
	£	£	£	£	£	£
Attributable return on ordinary activities after taxation	30,335	137,628	167,963	21,471	140,492	161,963
Number of shares		1,802,802			1,802,802	
Return per ordinary share	1.7p	7.6p	9.3p	1.2p	7.8p	9.0p

	12 months ended 31 December 2005		
	Revenue	Capital	Total
	£	£	£
Attributable return on ordinary activities after taxation	48,825	362,034	410,859
Number of shares		1,802,802	
Return per ordinary share	2.7p	20.1p	22.8p

\* Restated to apply the effects of FRS25 and FRS26

4. Copies of the interim results for the six months ended 30 June 2006 will be sent to all shareholders as soon as practicable. Copies of the interim results will be available free of charge for one month from the Company's Nominated Advisor:

Noble & Company Limited  
76 George Street  
Edinburgh  
EH2 3BU

## Athelney Trust plc

### OFFICERS AND FINANCIAL ADVISERS

<b>Directors:</b>	H.B. Deschampsneufs (Chairman) R.G. Boyle (Managing Director) D.A. Horner (Non-Executive Director)
<b>Secretary:</b>	J.M. Davies 9 Limes Road Beckenham Kent, BR3 6NS
<b>Registered Office:</b>	2 Queen Anne's Gate Buildings Dartmouth Street London, SW1H 9BP
<b>Nominated Adviser:</b>	Noble & Company Limited 76 George Street Edinburgh, EH2 3BU
<b>Broker:</b>	Speirs & Jeffrey Limited 36 Renfield Street Glasgow, G2 1NA
<b>Auditor:</b>	Clement Keys 39 /40 Calthorpe Road Edgbaston Birmingham, B15 1TS
<b>Banker:</b>	The Royal Bank of Scotland plc London City Office 62/63 Threadneedle Street London City Office, EC2R 8LA
<b>Registrar:</b>	Park Circus Registrars Limited 2nd Floor 144 West George Street Glasgow, G2 2HG
<b>Public Relations Consultants:</b>	CityRoad Communications 42 - 44 Carter Lane London, EC4V 5EA
<b>Company Number:</b>	2933559