Athelney

TRUST PLC

Half Yearly Financial Statements

for the six months ended 30 June 2008

Athelney Trust plc

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I enclose the unaudited results for the six months to 30 June 2008. The salient points are as follows:

- Unaudited Net Asset Value ("NAV") is 145.4p per share (31 December 2007: 173.1p, 30 June 2007: 201.3p), a fall of 16 per cent and a decrease of 27.8 per cent over the past year.
- Gross Revenue rose by 10.9 per cent to £62,140 compared with the half year ended 30 June 2007 of £56,010 and the full year to 31 December 2007 of £120,488.
- On a like-for-like basis revenue increased by 26.7 per cent and dividend income rose by 22.4 per cent.
- Revenue return per ordinary share was 2.6p, up 36.8 per cent from the previous half year (31 December 2007: 3.9p, 30 June 2007: 1.9p).
- A dividend of 3.5p was paid in May 2008 (2007: 3.25p) and, as is the Board's practice, no further dividend will be paid until the full year's results are known.

Review of 1 January to 30 June 2008

It has been a grim twelve months since Bear Sterns, a U.S. investment bank, announced that one of its hedge funds investing in sub-prime mortgage securities had been wiped out. Most international markets have performed poorly this year: Europe (-21 per cent); China (-45 per cent); Australia (-17 per cent); India (-30 per cent); the FTSE 100 Index, which is now 36 per cent weighted to mining and oil and therefore gives too optimistic a result at the moment, (-12 per cent). All that I can find on the up-side is Brazil (+3.1 per cent). As far as the shares of small companies are concerned, the FT Small Caps Index fell by 16.1 per cent and the Athelney Trust NAV retreated by 16 per cent. Shareholders of a nervous disposition might choose to move directly to the paragraph headed Outlook.

It is easy to spell out all the adverse factors, such as the credit crunch, food price inflation, the oil price, the blow-up in the U.S. housing market and so on and it is equally easy to point to the U.K. as, of all the world's major economies, it looks to be the most vulnerable. The parlous state of the Government's finances and the nasty cocktail of the house price bubble, the credit boom and the low savings rate has left our economy looking particularly fragile. Furthermore, two inter-linked sectors, financial services and property, account for a disproportionately large part of the U.K. economy. It is also true that retail spending was often financed by over-extended credit cards and equity released from over-valued homes. The next phase of the slowdown will be a rise in unemployment – the speed with which the house-builders have slashed jobs in recent weeks suggests that employers in bad sectors are feeling the need to take speedy action. It is interesting to note that financial services, construction and retailing account for an amazing 50 per cent of all jobs in the U.K.

Inflation has risen to 3.8 per cent compared with the Government's target of 2.5 per cent and, according to the Bank of England's Monetary Policy Committee, is likely to rise further to 4 per cent and more in the coming months. However, there are at least two reasons for being cheerful: falling growth, bank lending and company profits and rising unemployment are much more likely to produce deflation than inflation; inflation in western economies is akin to Sherlock Holmes' curious incident of the dog that did nothing – Holmes said that that was a curious incident. In clothing, cars, communications, health, household goods and housing, price inflation is non-existent or weak. The problems are those goods and services directly affected by the surge in prices in energy, food and strategic metals. Thus while headline inflation has been shooting up, core inflation, which discounts these factors, has remained steady at 1.6 per cent - nor is there any sign that workers are intent on pushing through extravagant pay rises. In my opinion, as growth slips back in Western economies, demand for commodities will fall, supply will increase and a significant reduction in prices will occur. We should use this window of opportunity to encourage capital spending in energy, abandon over-generous bio-fuel subsidies, free agricultural trade and promote farming technologies. If our response is weak, the curious, but not unexpected, incident will be that we did nothing.

When sorrows come, they come not single spies, but in battalions said Claudius in Hamlet. For ten years, Mr Brown bombarded us with tales of his success – growth, low inflation and high employment – in a way that looked hubristic, even boastful. No matter that those years saw prolonged growth throughout much of the world, beyond the power of any British politician to help or hinder. Yes, you can criticize him for 42 days detention without trial, the 10p income tax abolition, car tax, his dithering over the election (or non-election, rather) but when he stands at the bar of History, I think that most will remind him that he unleashed a torrent of public spending that we could just about afford in good times, but not in bad.

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CHAIRMAN'S STATEMENT AND BUSINESS REVIEW

How ironic that Mr. Brown should achieve his life-long ambition to become Prime Minister at the very moment that the global economy went awry. With his party now well behind in the opinion polls, he may yet recall the even bleaker words from King Lear *The worst is not, So long as we can say, 'This is the worst.'*

The Great Oil Shock of 2008 (the price of a barrel of oil rose by 49 per cent to $143.67 in the first six months of this year) is bad enough for us here in the Western world but I wonder how the developing economies in Asia will manage to cope. Cheap transport has played a big part in the economic success of China and other Asian economies: goods are shipped in a criss-cross fashion to exploit competitive advantage. Products are sent to China for final assembly, then shipped again to Western markets but the cost of a container from Shanghai to Rotterdam has risen threefold since the price of oil started its steep rise. Energy subsidies have disguised the damage – China has held down electricity prices though global coal costs have tripled since early last year. BP's *Statistical Review* says that China's use of energy per unit of GDP is three times that of the U.S., five times Japan's and eight times Britain's. Already, 2331 shoe factories have closed down in Guangdong province this year as the effects of high commodity costs, 20 per cent wage inflation and lower import demand from the U.S., Canada, Britain, France and Spain are felt. Declared inflation is just 7.7 per cent but that statistic does not begin to capture the scale of repressed prices from fuel to fertilisers. Inflation merely steals growth from the future and allows politicians to defer monetary tightening until matters get out of hand, which is close to where we are now – e.g. Vietnam 30 per cent, India 11 per cent, the Philippines 11 per cent and Thailand 9 per cent. No wonder the Shanghai stock exchange index has fallen by 56 per cent since last October!

Three other things occur to me about the oil market at the moment, perhaps counter-intuitive: first, that high oil prices are not caused by technical factors such as speculation but have been driven upward by the fastest period of economic growth since the early 1970s and concentrated in those developing countries that subsidize fuel prices such as China (see above), India and the oil-producing countries themselves. Yet supply has struggled to keep up: production in OPEC countries fell by 350,000 barrels of oil a day last year and North Sea gas production in the British sector fell by 10 per cent in 2007. U.K. oil output increased slightly last year but this was exceptional, being the result of opening one large new field – production remains on a downward trend. Growth in non-OPEC production will, in future, have to come from oil shale in the U.S., tar sands in Canada, the Arctic and the deep waters of the Gulf of Mexico. In the recent past, growing demand for oil from China and India has been met almost barrel for barrel by increasing supply from Russia but production has started to decline in that country and such are the travails of TNK-BP and Royal Dutch Shell that it is unlikely that many Western oil companies would be keen to go and help the Russians out. The second point is that the world is not running out of hydrocarbons, with 40 years of *proven* oil reserves, 60 years of natural gas and 130 years of coal. And point three is that we cannot switch quickly to a low-carbon economy. We will remain dependent on fossil fuels for the foreseeable future with coal being the fastest growing of all the fuel types. While bio-fuels, wind and solar energy are growing rapidly, they still only account for a tiny share (less the two per cent) of global energy production. The common sense way forward is to invest in energy efficiency, new production, new technology and new energy sources such as wind, solar and nuclear.

Finally, under this heading, in contrast with the rather hysterical surveys from the main mortgage lenders, the Land Registry said that house price inflation fell close to zero in the first six months of 2008, rather than showing a heavy fall in prices. Having said that, the trend in all house-price measures have been the same. House prices have fallen in most months this year and there is no sign yet of any recovery. Prices were 1 per cent lower than in May and only 0.1 per cent higher than in June 2007 and down 2.6 per cent on their January peak.

Results

Gross revenue rose by 10.9 per cent compared with the six months to 30 June 2007: after allowance is made for the special dividend paid by *Mallett* in 2007, like-for-like growth was 26.7 per cent.

	Number
Companies paying dividends	77
Companies sold (therefore no true comparison)	8
Companies purchased (therefore no true comparison)	14
Increased total dividends in the half year	41
Reduced total dividends in the half year	9
No change in dividend	5

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CHAIRMAN'S STATEMENT AND BUSINESS REVIEW

Corporate Activity

Broker Network Holdings was taken over for cash producing a profit of 54 per cent. Since 30 June, *Gibbs and Dandy has* agreed to a cash offer which has resulted in Athelney booking a profit of 548 per cent.

Portfolio Review

Holdings of *Pendragon* and *Gaming VC* were both purchased for the first time. *Acertec, International Greetings, Media Square, Flying Brands, SCS Upholstery* and *Enterprise Inns* were all sold. In addition, a total of seven holdings were top-sliced to provide capital for the new purchases.

Dividend

As is the Board's practice, consideration of a dividend will be left until the final results are known. However, having increased the annual dividend from 1p per share in 1996 to 3.5p in 2008, the Board is keen to maintain Athelney's progressive record, remaining within the context of what can be afforded without undue financial strain.

Update

The unaudited NAV at 31 July 2007 was 135.8p whereas the share price on the same day stood at 145p. Further updates can be found on www.athelneytrust.co.uk

Outlook

It is notoriously difficult to get markets right – John Maynard Keynes, for example, had a gruelling time during the 1929-32 bear market before making it back and more later. Charlie Munger, Warren Buffett's business partner had three straight down years in the early Seventies. George Soros got thumped in the 1987 crash despite having correctly predicted that something of the sort was coming – he made the wrong choice of market to avoid. Coming up-to-date, Julian Robertson, the feared hedge fund manager, gave up the business altogether because he was unable to make any sense of the dot.com bubble (me neither) and Tony Dye, who sadly died recently, was sacked in 2000 for being too early in ridiculing the growth stock mania of the time. As night follows day, this equity market will turn round but it is absolutely impossible to pinpoint exactly when the turn will come. Ingredients would be: steady/lower interest rates; declining headline inflation; signs that the banks are willing to lend to each other again and that write-offs on sub-prime mortgage securities are sufficient; the crude oil price starts to decline; food prices fall (this may already be happening) and the U.S. Dollar ends its precipitate fall. When will this happen? Who knows – but I genuinely believe that the risks of being out of this market are greater that those of being in!

Full Listing

As announced on 22 August, the Company intends to cancel the quotation of its shares on AIM (the "Cancellation"). The Cancellation is conditional on the Company's shares being admitted to the Official List and to trading on the main market of the London Stock Exchange and this is expected to take place on 24 September 2008. It is expected that, from 24 September 2008 onwards, shareholders will be able to trade their shares on the main market. The Board believes that such a move would be beneficial to shareholders.

H.B. Deschampsneufs

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INVESTMENT AND PORTFOLIO ANALYSIS AT 30 JUNE 2008

	Stock	Holding	Value (£)	SECTOR £	SECTOR %
Aerospace and defence	Aero Inventory	7,000	39,655		
	Umeco	7,250	39,911	**79,566**	**3.16%**
Chemicals	Treatt	10,500	24,885	**24,885**	**0.99%**
Construction and materials	Clarke (T)	18,000	26,370		
	Galliford Try	38,000	15,295		
	Renew Holdings	35,000	34,300	**75,965**	**3.02%**
Electronic and electrical equipment	XP Power Ltd	11,000	22,440	**22,440**	**0.89%**
Food and beverages	Finsbury Food Group	29,500	13,865		
	Nichols	13,050	31,973		
	Shepherd Neame "A"	4,500	44,970		
	Wynnstay Group	25,000	72,000	**162,808**	**6.46%**
General financial	Albemarle & Bond	15,000	30,750		
	Ambrian Capital Plc	42,000	15,750		
	Arbuthnot Banking Group	10,000	34,500		
	Arden Partners	18,000	20,160		
	Blue Oar	130,000	13,000		
	Camellia	1,200	98,700		
	Charles Taylor Consulting	8,000	19,360		
	Davenham Group	10,000	11,500		
	Dowgate Capital	166,666	15,833		
	Jarvis Securities	17,500	37,275		
	Park Group	200,000	26,000		
	S & U	8,000	28,400		
	Tenon Group	62,000	33,015		
	Vantis	36,667	43,634	**427,877**	**16.99%**
Healthcare equipment and services	Tristel	60,000	26,400	**26,400**	**1.05%**
House, leisure and personal goods	Havelock Europe	24,000	15,120		
	Smallbone	36,500	44,895	**60,015**	**2.38%**
Industrial engineering	Gooch & Housego	11,000	28,050		
	Goodwin	8,000	91,200		
	Severfield-Rowen	13,000	31,525		
	Slingsby (H.C)	4,000	28,400		
	Somero Enterprises	27,550	13,775		
	Trifast	40,000	21,200	**214,150**	**8.50%**
Industrial transportation	Braemar Shipping Services	18,000	94,230		
	Clarkson	5,300	51,410		
	Fisher (James)	10,000	62,000	**207,640**	**8.25%**
Insurance	Personal Group Holdings	17,500	56,350	**56,350**	**2.24%**
Media	Avesco	30,000	19,500		
	Character Group	22,000	20,900		
	Chime Communications	21,000	25,830		
	Creston	29,000	13,558		
	Huntsworth	35,000	22,750		
	M&C Saatchi Plc	26,000	25,220		
	Quarto Group Inc Com	22,000	34,100	**161,858**	**6.43%**
Pharmaceuticals and biotechnology	Genus	9,000	72,000	**72,000**	**2.86%**

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INVESTMENT AND PORTFOLIO ANALYSIS AT 30 JUNE 2008 (CONTINUED)

	Stock	Holding	Value (£)	SECTOR £	SECTOR %
Real estate	Colliers CRE	17,400	8,004		
	LSL Property Services	20,000	17,500		
	Mountview Estates	1,750	67,375		
	Smart (J) & Co.	4,000	22,200	**115,079**	**4.57%**
Retailers	H & T Group	17,000	30,600		
	Lookers	30,000	22,725		
	Mallett	12,000	11,760		
	Pendragon	100,000	14,750		
	Stanley Gibbons	55,000	85,250	**165,085**	**6.56%**
Support services	Dawson Holdings	34,000	25,840		
	Gibbs & Dandy	10,000	41,500		
	Latham (James)	13,000	25,610		
	Litho Supplies	50,500	13,635		
	Macfarlane Group	100,000	25,000		
	N.W.F Group	40,000	43,200		
	OPD Group	9,000	14,580		
	Prime People	26,000	14,300		
	RWS Holdings	12,000	45,600		
	VP	17,000	44,073		
	Waterman Group	36,000	45,000		
	WSP Group	13,000	68,250	**406,588**	**16.15%**
Technology hardware	Belgravium Technologies	350,000	16,625	**16,625**	**0.66%**
Technology software and services	FDM Group	27,500	22,000		
	Financial Objects	70,000	22,400		
	Group NBT	15,000	30,450		
	Pennant International	116,000	11,020		
	Phoenix IT	8,500	24,863	**110,733**	**4.40%**
Travel and leisure	Air Partner	6,000	46,500		
	Gaming VC	30,000	65,400	**111,900**	**4.44%**

Portfolio Value		**£ 2,517,964**	**100.00%**
Net Current Assets		**£ 263,444**	
Deferred tax		**£ (159,551)**	
TOTAL VALUE		**£ 2,621,857**	
Shares in issue		**1,802,802**	
Unaudited NAV	**145.4p**		

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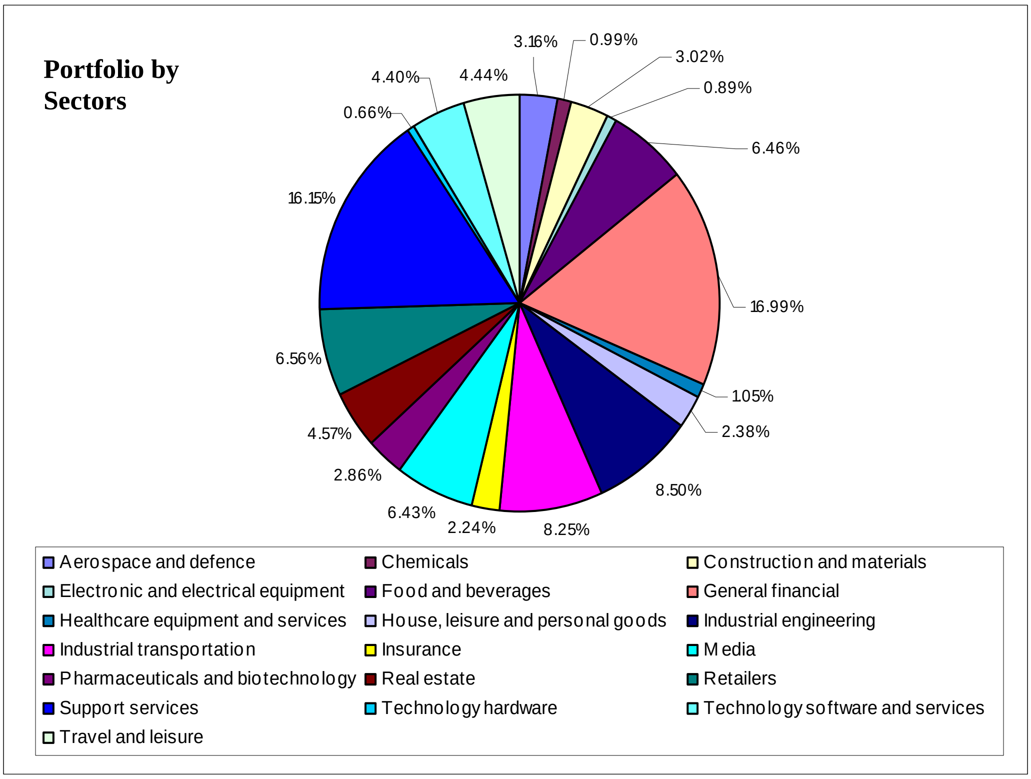
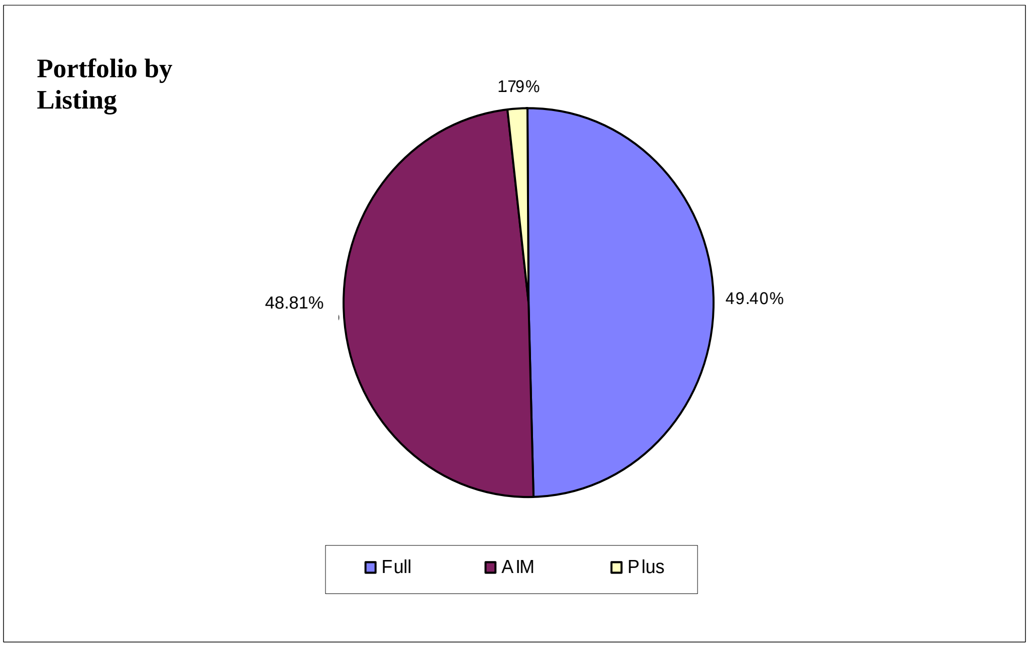
INVESTMENT AND PORTFOLIO ANALYSIS AT 30 JUNE 2008 (CONTINUED)





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HALF YEARLY INCOME STATEMENT
(INCORPORATING THE REVENUE ACCOUNT)

	Unaudited			Unaudited			*Year ended 31 December 2007*
	6 months ended 30 June 2008			**6 months ended 30 June 2007**			
	Revenue	**Capital**	**Total**	**Revenue**	**Capital**	**Total**	***Total***
	£	**£**	**£**	**£**	**£**	**£**	**£**
Profits on investments	-	(540,095)	(540,095)	-	295,354	295,354	*(362,778)*
Income	62,140	-	62,140	56,010	-	56,010	*120,488*
Investment Management expenses	(1,872)	(17,767)	(19,639)	(4,776)	(14,150)	(18,926)	*(38,872)*
Other expenses	(13,899)	(21,621)	(35,520)	(24,314)	-	(24,314)	*(52,362)*
Return on ordinary activities before taxation	46,369	(579,483)	(533,114)	26,920	281,204	308,124	*(333,524)*
Taxation	-	97,444	97,444	7,723	(48,722)	(40,999)	*93,543*
Return on ordinary activities after taxation	46,369	(482,039)	(435,670)	34,643	232,482	267,125	*(239,981)*
Dividends Paid:							
Dividend	(63,098)	-	(63,098)	(58,591)	-	(58,591)	*(58,591)*
	(16,729)	(482,035)	(498,768)	(23,948)	232,482	208,534	*(298,572)*
Return per ordinary share	2.6p	(26.7)p	(24.2)p	1.9p	12.9p	14.8p	*(13.3)p*

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HALF YEARLY BALANCE SHEET AS AT 30 JUNE 2008

	Unaudited 30 June 2008	**Unaudited 30 June 2007**	***31 December 2007***
	£	**£**	**£**
Fixed assets			
Investments	2,517,964	3,991,243	*3,167,818*
Current assets			
Stock	1,147	-	-
Debtors	256,553	80,367	*205,773*
Cash at bank and in hand	42,636	22,153	*45,335*
	300,336	102,520	*251,108*
Creditors: amounts falling due within one year	(36,795)	(103,321)	*(41,921)*
Net current assets (liabilities)	263,541	(801)	*209,187*
Total assets less current liabilities	2,781,505	3,990,442	*3,377,005*
Provisions for liabilities and charges	(159,551)	(361,757)	*(256,283)*
Net assets	2,621,954	3,628,685	*3,120,722*
Capital and reserves			
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	825,084	985,293	*892,893*
Capital reserve - unrealised	824,853	1,690,531	*1,239,083*
Revenue reserve	115,712	96,556	*132,441*
Shareholders' funds - all equity	2,621,954	3,628,685	*3,120,722*
Net Asset Value per share	145.4p	201.3p	*173.1p*

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CASHFLOW STATEMENT FOR THE SIX MONTHS ENDING 30 JUNE 2008

	Unaudited 6 months ended 30 June 2008		Unaudited 6 months ended 30 June 2007		*Year ended 31 December 2007*
	£	**£**	**£**	**£**	**£**
Net cash (outflow) / inflow from operating activities		(49,360)		37,755	*(69,440)*
Servicing of finance					
Dividends paid	(63,098)		(58,591)		*(58,591)*
Net cash (outflow) from servicing of finance		(63,098)		(58,591)	*(58,591)*
Taxation					
Corporation tax paid		-		-	*(34,916)*
Investing activities					
Purchases of investments	(638,352)		(577,437)		*(1,247,174)*
Sales of investments	748,111		587,940		*1,422,970*
Net cash inflow / (outflow) from Investing activities		109,759		10,503	*175,796*
(Decrease) in cash in the year		(2,699)		(10,333)	*12,849*

Reconciliation of operating net revenue to net cash (outflow) / inflow from operating activities	**£**	**£**	**£**
Revenue return on ordinary activities before taxation	46,369	26,920	*58,233*
(Increase) in debtors	(51,927)	25,235	*(100,170)*
(Decrease)/ increase in creditors	(4,414)	(250)	*1,476*
Management expenses charged to capital	(39,388)	(14,150)	*(28,979)*
	(49,360)	37,755	*(69,440)*

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NOTES TO THE HALF YEARLY FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

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 2007 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 2008 have been prepared on the basis of the accounting policies adopted in the audited accounts for the year ended 31 December 2007. However, Athelney Trust plc has traditionally earned the greater part of its total income from the increase in value of its capital investments. Accordingly the Board has decided, for the first time, to reflect this position within these Half Yearly Financial Statements, by making a greater charge to capital than to income in respect of the administrative costs.

3. The calculation of earnings per share for the six months ended 30 June 2008 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 2008			**6 months ended 30 June 2007**		
	Revenue £	**Capital £**	**Total £**	**Revenue £**	**Capital £**	**Total £**
Attributable return on ordinary activities after taxation	46,369	(482,039)	(435,670)	34,643	232,482	267,125
Number of shares		1,802,802			1,802,802	
Return per ordinary share	2.6p	(26.7)p	(24.2)p	1.9p	12.9p	14.8p

	12 months ended 31 December 2007		
	Revenue £	**Capital £**	**Total £**
Attributable return on ordinary activities after taxation	70,528	(310,509)	(239,981)
Number of shares		1,802,802	
Return per ordinary share	3.9p	(17.2)p	(13.3)p

4. Copies of the Half Yearly Financial Statements for the six months ended 30 June 2008 will be available on the Company's website www.athelneytrust.co.uk as soon as practicable.

Athelney Trust plc

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