

# UK DUAL RETURN 2007

## Premier UK Dual Return Trust PLC

interim report  
for the six months ended  
31 May 2007



**PREMIER**  
ASSET MANAGEMENT

# Investment objectives and policy

## INVESTMENT OBJECTIVES

The principal investment objectives of the Company are to provide:

- Zero Dividend Preference shareholders with a pre-determined final capital entitlement on its winding-up date;
- Income shareholders with high income; and
- Capital shareholders with a geared capital return over the planned life of the Company.

The winding-up date of the Company is 30 November 2007.

## INVESTMENT POLICY

The Company's investment policy is to invest in a portfolio comprising principally UK quoted equities, income-producing investments comprising reverse convertible bonds ('RCBs'), split-capital investment trusts including investment companies and other fixed-interest securities.

### contents

Investment objectives and policy	Inside front cover
Company highlights	1
Company summary and Financial calendar	2
Chairman's statement	3
Investment Manager's report	4
Portfolio investments	7
Company details	11
Financial summary	15
Income statement	17
Balance sheet	18
Statement of cash flows	19
Notes to the accounts	20
Shareholder information	22
Directors and Advisers	23

# Company highlights

for the six months ended 31 May 2007

## Total return performance

	% change
Total assets less current liabilities (excluding bank loans)	+8.2*
Assets attributable to shareholders	+14.1*
FTSE All-Share Index	+12.0

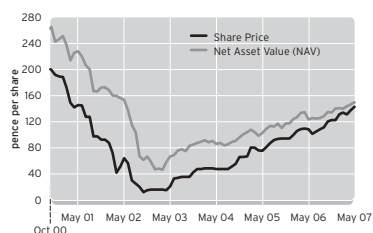
\* Total return performance calculated, adjusted for any dividends distributed in the appropriate month.

## Share price and NAV returns

		31 May 2007	30 November 2006	% change	Discount or (premium) at 31 May 2007
Zero Dividend Preference share	NAV	149.70p	134.08p	+11.65	
	Mid price	143.00p	122.50p	+16.73	4.48%
Income share	NAV	0.72p	0.90p	-20.00	
	Mid price	1.60p	2.40p	-33.33	(122.22)%
Capital share	NAV	-	-	-	
	Mid price	0.35p	0.275p	+27.27	-
Growth Unit	NAV	149.70p	134.08p	+11.65	
	Mid price	143.00p	122.50p	+16.73	4.48%
Geared Ordinary Unit	NAV	0.72p	0.90p	-20.00	
	Mid price	1.75p	2.55p	-31.37	(143.06)%

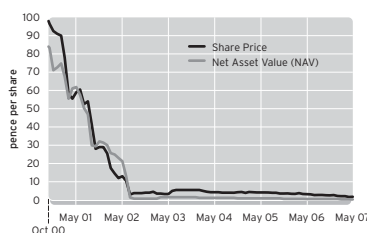
### Growth Units

From launch (20 October 2000) to 31 May 2007



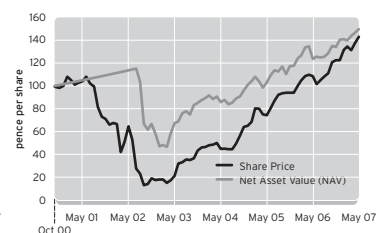
### Geared Ordinary Units

From launch (20 October 2000) to 31 May 2007



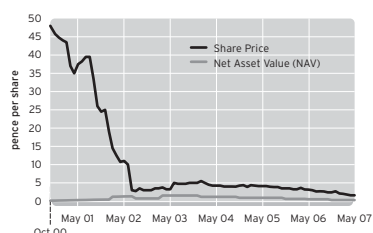
### Zero Dividend Preference shares

From launch (20 October 2000) to 31 May 2007



### Income shares

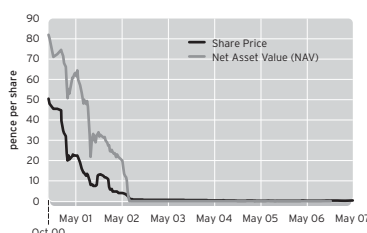
From launch (20 October 2000) to 31 May 2007



Source: Fundamental Data Ltd

### Capital shares

From launch (20 October 2000) to 31 May 2007



Data as at 31 May 2007. Figures sourced from Capita Sinclair Henderson Limited, Premier Fund Managers Limited and Bloomberg.

Past performance is not a guarantee of future returns.

## Company summary

Launch date	20 October 2000
Wind-up date	30 November 2007
Domiciled	UK
Year end	30 November
Assets attributable to shareholders	£25.722 million at 31 May 2007
Market capitalisation	£25.616 million at 31 May 2007
Bank loans	£15 million The Company has two bank loans of £7.5 million each, with Lloyds TSB and The Bank of Scotland, which are secured by legal mortgages over the Company's investment portfolio.
Zero Dividend Preference shares	16,830,000: the maximum entitlement at wind-up date is 175.8p
Income shares	73,000,000: the maximum entitlement at wind-up date is 2.0p
Capital shares	109,000,000
Growth Units	One Zero Dividend Preference share and two Capital shares can be held and traded as one Growth Unit.
Geared Ordinary Units	One Income share and one Capital share can be held and traded as one Geared Ordinary Unit.
Investment Manager	Premier Fund Managers Limited.
Investment management fee	0.80% per annum. The investment management fee is charged 70% to capital and 30% to revenue.

## Financial calendar

Year end	30 November
Interim dividends paid	April, July, October and January
Annual results announced	January
Annual General Meeting	May
Half-year end	31 May
Interim results announced	July

# Chairman's statement

With the planned wind-up of the Company on 30 November 2007, this will be my last report to shareholders. During the 6 months to 31 May 2007 the FTSE All-Share Index continued its upward progress with a rise of 10.2% generating a total return of 12.0%. The total return on your Company's total assets was 8.2%. This was a sufficient rate of growth for the gearing to be beneficial and the total return on net assets was 14.1%. This return enabled the NAV of the Zero Dividend Preference shares ('ZDPs') to advance to 149.7p at the end of the half year, compared with their final entitlement of 175.8p per ZDP share.

The Company's Growth portfolio, comprised of UK equities, slightly lagged the FTSE All-Share Index during the period under review with a total return of 11.0%. The Income portfolio returned 9.0%, with the Investment Company share portfolio generating 11.9% against 4.0% on the Bond portfolio.

## **INCOME**

A first interim dividend of 0.4p was declared on 5 April 2007 and paid on 30 April 2007. A second interim dividend of 0.5p per Income share was declared on 12 July 2007 with a record date of 20 July 2007 and will be paid to Income shareholders on 31 July 2007. Earnings per share in the first half of the year were 0.82p compared to 0.71p in the first half of 2006. It is intended that all revenue reserves and current period revenue will be distributed ahead of the planned wind-up.

## **FUTURE OF THE COMPANY**

The planned wind-up date for the Company is 30 November 2007. The Board are considering options for offering shareholders a rollover into a suitable new investment in addition to a cash redemption.

It is the Directors intention to continue to run the portfolio fully invested for as long as is consistent with an orderly disposal of assets ahead of the wind-up date.

**G Milne**  
Chairman  
*12 July 2007*

# Investment Manager's report

## THE GROWTH PORTFOLIO

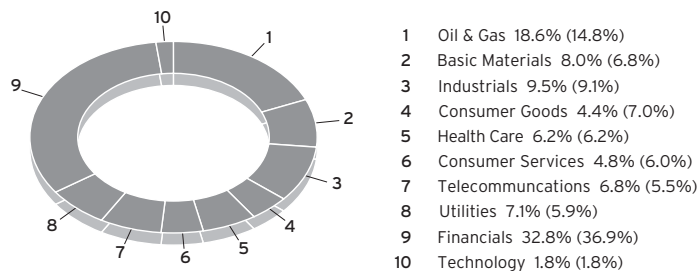
The major world equity indices have experienced another very strong six months to May 2007. Specifically in the UK, the Small Cap (ex Investment Trusts) and FTSE Mid 250 indices were yet again the clear outperformers returning 16.3% and 14.8% (total return), compared to the FTSE All-Share and FTSE 100 Indices, which returned 12.0% and 11.4% respectively (total return). The Growth portfolio returned 11.0% over the same period. This slight underperformance was due in part to an overweight exposure to some of the more defensive higher yielding sectors of the market and from the build up of a cash position into a rising market.

The impressive uplift in equity markets disguises the volatility that has been experienced, with markets undergoing a reasonably harsh yet short-lived setback during February and March, when the FTSE 100 Index retreated back to the 6,000 level. The quick recovery in markets was helped by the ongoing takeover speculation and the subsequent rise in company valuations.

The Growth portfolio has benefited from its slightly increased exposure to small and medium sized companies, with stocks such as Arena Leisure, Dimension Data Holdings and KSK Power Venture, which all greatly outperformed the market. The best performing sectors over the period were Automobiles & Parts, Health Care Equipment, Mining, Construction & Materials and Electronic & Electrical Equipment. The weakest performing sectors included Pharmaceuticals & Biotechnology, Leisure Goods, Real Estate, Oil & Gas Producers and General Retail.

GDP growth in the UK looks set to remain low in 2007. The market is currently trading on a prospective price earnings multiple of 13.8 times and a dividend yield of 2.9%. Markets are continuing to move ahead, as private equity players continue to impact prices through bids and speculation. In such a market, it is hard to keep a sense of perspective and sellers are wary of selling whilst investors retain relatively high liquidity levels. The exposure to the weak Dollar is clearly a relative drag on the earnings of the larger companies but it is noticeable that the trend of underperformance by the mega caps stocks has ceased. Given their relative low valuations, this appears to us to represent a safer haven for money and it is the intention to raise weightings in this area.

The pie chart below shows the portfolio sector weightings at 31 May 2007.



*FTSE All-Share Index weightings in brackets.*

**Ben Morris**  
Fund Manager

# Investment Manager's report

## **THE BOND PORTFOLIO**

The Bond portfolio, comprised of predominantly Reverse Convertible Bonds ('RCBs'), was successful in generating a high income stream whilst preserving capital over the interim period. A total return of 4.0% was generated whilst UK equity markets experienced another strong period with the FTSE 100 gaining 9.5% (capital return). However, the sub-portfolio only produced a small capital gain, due to the limited upside potential of the RCBs and the defensive positioning.

There were several strong performances over the period. The RCBs linked to Kingfisher gained 6.0% in capital terms and a new issue linked to Rentokil Initial gained 4.8%. The RCB linked to BHP Billiton was increased in January, then sold in May, as mining stocks generally regained their momentum. The holding returned a 5.8% capital profit, whilst generating a very high income yield from the 14.5% coupon.

RCBs linked to DSG International and GlaxoSmithKline performed weakly, declining 5.6% and 4.5% respectively. However, the RCB linked to DSG International will return par providing the equity does not fall more than 18% from this point.

The portfolio remains relatively defensive as compared to UK equities. Many holdings have significant downside protection, but at the cost of limited capital upside. The portfolio has been further diversified and contains 18 RCBs linked to individual equity names, one gilt and one preference share.

**Paul Smith and Howard Crossen**

Fund Managers

# Investment Manager's report

## **THE INVESTMENT TRUST INCOME SHARE PORTFOLIO**

The UK stock market extended its strong run, with the FTSE All-Share Index producing a total return of 12.0% during the first half of the Company's financial year. Our investment companies and reverse convertibles together constituting the Income Portfolio produced a 9.0% total return. The Investment Companies Income Share portfolio, which consists of geared ordinary shares and conventional trusts with higher yields, represented around 17% of total assets less current liabilities at the beginning of the financial year, generated a total return of 11.9% (before deduction of expenses).

Our reliance on the geared ordinary shares of UK split capital shares has been reduced significantly in the last six months, as Investors Capital Trust, Small Companies Dividend Trust and Acorn Income Fund restructured and joined the UK high income sector. These three companies' value approached 25% of the portfolio at the beginning of the period, but we felt it appropriate to take an opportunity of reducing our large holding in Acorn Income Fund, when it offered shareholders an opportunity to tender their shares for cash.

Profits were taken from a successful investment in the Dollar denominated Zweig Total Return Fund and the proceeds reinvested in a number of relatively high yielding holdings, some new to the portfolio. These included Kenmore European Industrial Fund, Rutley European Property, Merrill Lynch Commodities Income Investment Trust and Shires Smaller Companies.

We added to Middlefield Canadian Income Fund. It is expected to pay 7p per share until at least 2011 and we took advantage of share price weakness to increase our holding at 87p on a prospective yield of 8.0%. By the end of May, our shares had rallied to 94.5p having paid quarterly dividends at 1.75p.

The continuing rise in the UK stock market took the FTSE 100 Index, at 31 May 2007, to within 3% of the high reached in December 1999. With the market at this level and as the planned wind-up date of the Company approaches, we are comfortable in gradually reducing some of our geared investments and increasing exposure to less volatile and more liquid investments.

**Nigel Sidebottom and Philip Davies**  
Fund Managers

**Premier Fund Managers Ltd.**  
*12 July 2007*

# Portfolio investments

as at 31 May 2007

## Growth portfolio

	Sector	Fair value £'000	% of total assets less current liabilities
BP	Oil & Gas Producers	2,258	8.78%
HSBC Holdings	Banks	1,494	5.81%
GlaxoSmithKline	Pharmaceuticals & Biotechnology	1,479	5.75%
Vodafone Group	Mobile Telecommunications	1,409	5.48%
Lloyds TSB Group	Banks	1,150	4.47%
Royal Dutch Shell	Oil & Gas Producers	1,078	4.19%
Royal Bank of Scotland Group	Banks	1,035	4.02%
Legal & General Group	Life Insurance	876	3.41%
SOCO International	Oil & Gas Producers	598	2.32%
Xstrata	Mining	580	2.25%
Silverjet	Travel & Leisure	523	2.03%
BT Group	Fixed Line Telecommunications	478	1.86%
Alliance & Leicester	Banks	474	1.84%
Aviva	Life Insurance	439	1.71%
Anglo American	Mining	410	1.59%
KSK Power Venture	Electricity	394	1.53%
Hill & Smith	Industrial Engineering	384	1.49%
Intermediate Capital	General Financial	378	1.47%
Man Group	General Financial	353	1.37%
National Grid	Gas, Water & Multiutilities	352	1.37%
HBOS	Banks	342	1.33%
BAE Systems	Aerospace & Defence	335	1.30%
Taylor Woodrow	Household Goods	325	1.26%
Lonmin	Mining	317	1.23%
Standard Chartered	Banks	308	1.20%
International Ferro Metals	Industrial Materials	302	1.17%
Expro International Group	Oil Equipment, Services & Distribution	300	1.17%
Northumbrian Water Group	Gas, Water & Multiutilities	295	1.15%
Invensys	Electronic & Electrical Equipment	292	1.14%
Centrica	Gas, Water & Multiutilities	287	1.12%
Henry Boot	Construction & Materials	285	1.11%
Northern Rock	Banks	281	1.09%
Premier Oil	Oil & Gas Producers	278	1.08%
Shaftesbury	Real Estate	269	1.05%
AstraZeneca	Pharmaceuticals & Biotechnology	269	1.05%
Abbot Group	Oil Equipment, Services & Distribution	264	1.03%
BAT	Tobacco	257	1.00%
BHP Billiton	Mining	246	0.96%
Severn Trent	Gas, Water & Multiutilities	241	0.94%
Meggitt	Aerospace & Defence	240	0.93%
Dimension Data Holdings	Software & Computer Services	240	0.93%
GKN	Automobiles & Parts	235	0.91%
United Utilities	Gas, Water & Multiutilities	224	0.87%

## Portfolio investments

as at 31 May 2007

### Growth portfolio (continued)

	Sector	Fair value £'000	% of total assets less current liabilities
Aurum Mining	Mining	218	0.85%
Diageo	Beverages	215	0.84%
Segro	Real Estate	215	0.84%
Baltic Oil Terminals	Oil & Gas Producers	211	0.82%
Venture Production	Oil & Gas Producers	211	0.82%
Hat Pin	Support Services	206	0.80%
Kelda Group	Gas, Water & Multiutilities	204	0.79%
Matrix European Real Estate Investment Trust	Real Estate	200	0.78%
Clyde Process Solutions	Industrial Engineering	199	0.77%
Arena Leisure	Travel & Leisure	199	0.77%
Friends Provident	Life Insurance	198	0.77%
Scottish & Newcastle	Beverages	195	0.76%
Whitbread	Travel & Leisure	193	0.75%
Rolls Royce Group	Aerospace & Defence	187	0.73%
Old Mutual	Life Insurance	173	0.67%
Antofagasta	Mining	164	0.64%
Hammerson	Real Estate	159	0.62%
EMI Group	Media	151	0.59%
LogicaCMG	Software & Computer Services	149	0.58%
Kensington Group	General Financial	148	0.58%
British Land	Real Estate	145	0.56%
Emap	Media	145	0.56%
Safestore Holdings	Real Estate	141	0.55%
Cookson Group	General Industrials	122	0.47%
BBA Aviation	Industrial Transportation	120	0.47%
Kewill Systems	Software & Computer Services	119	0.46%
Heritage Underwriting Agency	Non Life Insurance	113	0.44%
Ladbroke	Travel & Leisure	107	0.42%
Hansard Global	Life Insurance	106	0.41%
Land Securities Group	Real Estate	102	0.40%
Communis	Support Services	96	0.37%
Brixton	Real Estate	84	0.33%
SMC Group	Construction & Materials	70	0.27%
Experian Group	Support Services	63	0.24%
Bunzl	Support Services	62	0.24%
<b>Total</b>		<b>27,964</b>	<b>108.72%</b>

The above portfolio excludes 1 stock held at nil value.

# Portfolio investments

as at 31 May 2007

## Bond portfolio

Issuer	Coupon	Expiry date	Reference Equity	Strike price (pence)	Fair value £'000	% of total assets less current liabilities
<b>Reverse Convertible Bonds</b>						
Rabobank	10.00%	22/02/2008	BP	641.00	228	0.89%
Deutsche Bank	10.93%	16/03/2009	Rentokil Initial	146.75	210	0.82%
Rabobank	9.62%	03/07/2009	Prudential	566.00	206	0.80%
Rabobank	10.15%	18/05/2009	Vodafone	126.00	205	0.80%
Barclays	10.26%	14/09/2007	Lloyds TSB Group	456.00	202	0.79%
Barclays	10.00%	03/10/2008	Emap	744.00	201	0.78%
Deutsche Bank	11.90%	01/06/2009	Kingfisher	257.50	200	0.78%
Deutsche Bank	9.05%	02/03/2009	Rexam	544.50	168	0.65%
Deutsche Bank	11.20%	09/03/2009	LogicaCMG	177.00	166	0.64%
Barclays	10.05%	13/07/2009	UBS	CHF 65.65	154	0.60%
Barclays	10.01%	17/08/2009	HBOS	959.00	152	0.59%
Barclays	9.90%	30/04/2010	Wolseley	1,213.00	151	0.59%
Calyon	10.25%	08/12/2008	BAE Systems	397.75	148	0.57%
Deutsche Bank	9.62%	03/05/2010	AstraZeneca	2,880.00	145	0.56%
Société Générale	11.04%	06/02/2009	DSG International	172.00	142	0.55%
Société Générale	10.14%	10/11/2008	GlaxoSmithKline	1,407.00	140	0.54%
Barclays	14.00%	16/07/2007	DnB NOR	NOK 77.25	100	0.39%
Société Générale	8.10%	21/08/2007	Rio Tinto	2,697.00	76	0.29%
<b>Preference shares</b>						
HBOS	6.0884%	2015/49			192	0.75%
<b>Fixed interest</b>						
Treasury Stock	4.00%	07/09/2016			182	0.71%
<b>Total</b>					<b>3,368</b>	<b>13.09%</b>

# Portfolio investments

as at 31 May 2007

## Investment Trust Income Share portfolio

	Classification	Fair value £'000	% of total assets less current liabilities
Small Companies Dividend Trust	Ordinary Shares	685	2.66
Glasgow Income Trust	Ordinary Shares	654	2.54
New Star Financial Opportunities Fund	Ordinary Shares	615	2.39
Acorn Income Fund	Ordinary Shares	585	2.27
Premier Pacific Income Fund	Ordinary Shares	437	1.70
Edinburgh New Income Trust	Ordinary Shares	417	1.62
Jupiter Second Enhanced Income Trust	Geared Ordinary Shares	341	1.33
Investors Capital Trust	'A' Ordinary Shares	339	1.32
Investec High Income Trust	Ordinary Shares	318	1.24
HSBC Infrastructure	Ordinary Shares	295	1.15
Middlefield Canadian Income Fund	Cumulative Redeemable Preference Shares	279	1.09
US Special Opportunities Trust	Income Shares	272	1.06
Aberdeen Asian Income Fund	Ordinary Shares	229	0.89
Framlington Income & Capital Trust	Income Shares	214	0.83
Merrill Lynch Commodities Income Investment Trust	Ordinary Shares	156	0.61
Shires Smaller Companies	Ordinary Shares	153	0.59
Kenmore European Industrial Fund	Ordinary Shares	150	0.58
Babcock & Brown Public Partnerships	Ordinary Shares	146	0.57
Royal London UK Equity & Income Trust	Ordinary Shares	139	0.54
Rutley European Property	Convertible Redeemable Preference Shares	104	0.40
T2 Income Fund	Ordinary Shares	102	0.40
M & G High Income Investment Trust	Income Shares	79	0.31
Premier Asian Assets Trust	Geared Ordinary Units	78	0.30
US Special Opportunities Trust	Capital Shares	43	0.17
Aberdeen Asian Income Fund	Warrants	16	0.06
Investors Capital Trust	Packaged Units	7	0.03
Premier Absolute Growth & Income Trust	Ordinary Income Shares	1	0.00

The above portfolio excludes 13 stocks held at nil value.

<b>Total</b>	<b>6,854</b>	<b>26.65%</b>
	<b>38,186</b>	<b>148.46%</b>
<b>Net Current Liabilities</b>	<b>(12,464)</b>	<b>(48.46)%</b>
<b>Total</b>	<b>25,722</b>	<b>100.00%</b>

# Company details

## HISTORY

The Company was launched on 20 October 2000, raising £110 million before expenses, by a placing and offer for subscription of 18 million Zero Dividend Preference shares, 73 million Income shares and 109 million Capital shares.

The placing, offer and issue of shares was made in connection with a scheme of reconstruction of The Tor Investment Trust PLC.

## DURATION

The Company's Articles of Association contain provisions designed to bring about a winding-up of the Company on 30 November 2007 so as to enable shareholders to realise their investment for cash at that time. The Company's Articles of Association also include provisions designed to facilitate a possible reconstruction of the Company at that time, with a view to permitting shareholders to continue their investment and to defer the crystallisation of liabilities to taxation or capital gains, whilst providing a full cash exit.

## CAPITAL STRUCTURE

£15,000,000      Bank loans  
The Company has two bank loans of £7,500,000 each, which are with Lloyds TSB and The Bank of Scotland, and are secured by legal mortgages over the Company's investment portfolio.

The Lloyds TSB facility is repayable on 30 November 2007 and bears interest at a rate of 7.23% fixed by an interest rate swap agreement. The Bank of Scotland facility is also repayable on 30 November 2007 and bears interest at a rate of 7.14% fixed by an interest rate swap agreement.

If there is a winding-up of the Company, repayment of the loans has priority over any capital repayments.

16,830,000      Zero Dividend Preference shares of 0.1p each  
The Company originally had 18,000,000 Zero Dividend Preference shares in issue; however a total of 1,170,000 have been purchased by the Company for cancellation (345,000 were purchased during the year to 30 November 2002 and 825,000 during the year to 30 November 2003).

### Dividends

Holders of Zero Dividend Preference shares are not entitled to any dividends out of revenue or any other profits of the Company.

# Company details

## **CAPITAL STRUCTURE (CONTINUED)**

### Capital

The Zero Dividend Preference shareholders are entitled to payment of an amount equal to 100p per share as increased each day from 20 October 2000 up to and including 30 November 2007 at a daily compound rate of 0.02172% so as to give an entitlement to 175.8p per share on 30 November 2007 assuming sufficient assets exist. This payment is in priority to any capital repayment due to the Income and Capital shareholders.

### Voting

The holders of the Zero Dividend Preference shares have the right to receive notice of any general meeting but do not have the right to attend or vote except upon any resolution to modify the rights of the Zero Dividend Preference shares, any liquidation resolution and any resolution which would cause the Company to cease to be regarded as a qualifying investment trust.

73,000,000

Income shares of 0.1p each

### Dividends

Holders of Income shares carry the right to receive the revenue profits of the Company (including accumulated revenue reserves) available for distribution and determined to be distributed by way of interim and/or final dividends and at such times as the Directors may determine.

### Capital

If there is a winding-up of the Company, Income shareholders are entitled to receive an amount equal to the amount standing to the credit of the Company's revenue reserves including the amount of the undistributed revenue profit for the current year (up to the date of the commencement of winding-up or on the date of payment if not in the course of winding-up). If there is a winding-up of the Company the Income shareholders are also entitled to receive, after the Zero Dividend Preference shareholders have received their full entitlement, an amount equal to 0.1p per Income share increased on the last day of each calendar month from 31 October 2000 up to and including 30 November 2007 by 0.02209302p so as to give a final capital entitlement of 2.0p on 30 November 2007, assuming sufficient assets are available.

### Voting

The holders of Income shares have the right to receive notice of, to attend and to vote at, all general meetings of the Company.

# Company details

## **CAPITAL STRUCTURE (CONTINUED)**

109,000,000 Capital shares of 0.1p each

### Dividends

Holders of Capital shares are not entitled to any dividends out of revenue or any other profits of the Company.

### Capital

If there is a winding-up of the Company, Capital shareholders are entitled to all surplus assets of the Company after paying in full the entitlement of the Zero Dividend Preference shareholders and Income shareholders.

### Voting

The holders of Capital shares have the right to receive notice of, to attend and to vote at, all general meetings of the Company.

Together, the Income shares and Capital shares can be held and traded as a maximum of 73,000,000 Geared Ordinary Units, each comprising one Income share and one Capital share. Also, the Capital shares and Zero Dividend Preference shares can be held and traded as a maximum of 16,830,000 Growth Units, each comprising one Zero Dividend Preference share and two Capital shares.

## **RISK FACTORS**

The capital structure of the Company includes gearing through bank debt and, in respect to any one share class, through the capital attributable to any prior-ranking share class. This gearing means that for any movement – up or down – in the Company's gross assets there will (in most circumstances) be a greater percentage movement in the net asset value ('NAV') of the Capital shares and the Geared Ordinary Units. This in turn may be reflected in greater volatility in the share prices of the Capital shares and Geared Ordinary Units and adds to the risk associated with these investments. If the final capital entitlement of the Income shares (2.00p) is uncovered, the movement of the NAV of the Income shares will also be geared in the same way as would the NAV attributable to the Zero Dividend Preference shares if their current entitlement to assets is uncovered. This adds to the risk associated with these investments. If, on winding-up, the gross assets of the Company are insufficient to cover the bank loan and the capital entitlements of prior ranking share classes, the terminal asset value of any of the share classes where the prior ranking liabilities are uncovered could be zero and you could lose all of your capital invested in those shares.

The dividend on the Income shares and hence also on the Geared Ordinary Units depends on the receipt of sufficient interest payments and dividends from the securities in which the Company invests.

# Company details

## **RISK FACTORS (CONTINUED)**

The Zero Dividend Preference shares rank after the repayment of bank debt but ahead of the Income shares and the Capital shares for repayment of capital on a winding-up of the Company and hence can be regarded as lower risk in respect of capital entitlement than the other two classes of share. Insufficient growth in the gross assets of the Company would result in the Zero Dividend Preference shares failing to receive their full redemption value on winding up and if gross assets are equal to or less than the amount required to repay the bank loan and other liquidation costs the capital invested in the Zero Dividend Preference shares would be lost. Investors should be aware of the current hurdle rates required to redemption price.

At the period end, the final capital entitlements of the Zero Dividend Preference shares, Income shares and the Capital shares were uncovered.

## **MANAGEMENT FEE**

The Company's investments are managed by Premier Fund Managers Ltd ('Premier') following the transfer of the management agreement from BFS Investments plc on 21 October 2005. The annual management fee is 0.80% plus VAT of the gross assets less current liabilities (before deduction of the bank loans), deducting the value of other Premier managed funds and excluding cash held for the purpose of any cash offset arrangements under the loan facilities with the Company's bankers.

The fee is payable quarterly in arrears and the contract is currently terminable on three months notice from either party.

## **ISA/PEP STATUS**

The Company's shares are eligible investments for inclusion in Individual Savings Accounts ('ISAs') up to the maximum permitted limit. They are also qualifying investments for Personal Equity Plans ('PEPs').

## Financial summary

	31 May 2007	30 November 2006	% change	Discount or (premium) at 31 May 2007
<b>Capital</b>				
Total assets less current liabilities (excluding bank loans) (£'000)	40,745	38,345	6.26	
Assets attributable to shareholders (£'000)*	25,722	23,221	10.77	
Net Asset Value per Zero Dividend Preference share	149.70p	134.08p	11.65	
Mid-Market Price per Zero Dividend Preference share	143.00p	122.50p	16.73	4.48%
Net Asset Value per Income share#	0.72p	0.90p	(20.00)	
Mid-Market Price per Income share	1.60p	2.40p	(33.33)	(122.22)%
Net Asset Value per Capital share	–	–	–	
Mid-Market Price per Capital share	0.35p	0.275p	27.27	–
Net Asset Value per Geared Ordinary Unit (1 Income share and 1 Capital share)	0.72p	0.90p	(20.00)	
Mid-Market Price per Geared Ordinary Unit (1 Income share and 1 Capital share)	1.75p	2.55p	(31.37)	(143.06)%
Net Asset Value per Growth Unit (1 Zero Dividend Preference share and 2 Capital shares)	149.70p	134.08p	11.65	
Mid-Market Price per Growth Unit (1 Zero Dividend Preference share and 2 Capital shares)	143.00p	122.50p	16.73	4.48%
FTSE All-Share Index (capital return)	3,438.70	3,119.85	10.22	
FD/AIC Ordinary Income share Index (capital return)	54.56	46.24	17.99	
FD/AIC Income share Sector Index (capital return)	32.71	31.14	5.04	

	Six months ended 31 May 2007	Six months ended 31 May 2006
<b>Revenue</b>		
Revenue return per Income share	0.82p	0.71p
Net dividends per Income share – first interim	0.40p	0.40p
– second interim	0.50p	0.40p

A first interim dividend of 0.40p per Income share was paid on 30 April 2007 and a second interim dividend of 0.50p per Income share will be paid on 31 July 2007.

\* Total assets less current liabilities, bank loans and interest rate swap liabilities.

# The Income share (and Geared Ordinary Unit) net asset values include the retained revenue for the period. The Income share (and Geared Ordinary Unit) net asset value at 31 May 2007 excluding current period revenue, but after payment of the fourth interim dividend of 0.60p per Income share for the year ended 30 November 2006, is 0.30p.

## Financial summary

	Six months ended 31 May 2007	Six months ended 31 May 2006
<b>Total Return</b>		
Total assets less current liabilities (excluding bank loans) total return**	8.2%	7.1%
Assets attributable to shareholders total return**	14.1%	12.5%
Total return on Growth portfolio***	11.0%	9.4%
FTSE All-Share Index total return	12.0%	8.1%
Total return on Bond portfolio***	4.0%	4.5%
Total return on Investment Trust Income share portfolio***	11.9%	13.0%
FD/AIC Ordinary Income Share Index total return <sup>@</sup>	20.0%	13.3%
FD/AIC Income Share Index total return <sup>@</sup>	9.6%	9.2%

\*\* Total return performance calculated, adjusted for any dividends distributed in the appropriate month.

\*\*\* Total return performance calculated before deduction of bank interest, management fees and other expenses.

<sup>@</sup> Source: Fundamental Data Ltd (all rights reserved).

# Income statement (unaudited)

for the six months ended 31 May 2007

	Six months ended 31 May 2007			Six months ended 31 May 2006		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments at fair value	–	3,029	3,029	–	2,456	2,456
Dividends and interest	924	–	924	838	–	838
Payment to liquidators of Tor	–	–	–	–	(4)	(4)
Investment management fee	(54)	(126)	(180)	(51)	(119)	(170)
Movement in value of interest rate swaps	–	103	103	–	166	166
Other expenses	(107)	–	(107)	(106)	–	(106)
<b>Return on ordinary activities before finance costs and taxation</b>	<b>763</b>	<b>3,006</b>	<b>3,769</b>	<b>681</b>	<b>2,499</b>	<b>3,180</b>
<b>Finance costs:</b>						
Interest paid and similar charges	(162)	(377)	(539)	(161)	(375)	(536)
<b>Dividends paid in respect of:</b>						
Income shares	(730)	–	(730)	(1,022)	–	(1,022)
<b>Appropriations in respect of:</b>						
Zero Dividend Preference shares	–	(2,629)	(2,629)	–	(2,124)	(2,124)
Income shares	128	–	128	504	–	504
Capital shares	–	–	–	–	–	–
<b>(Deficit)/return on ordinary activities after finance costs but before taxation</b>	<b>(1)</b>	<b>–</b>	<b>(1)</b>	<b>2</b>	<b>–</b>	<b>2</b>
Taxation	1	–	1	(2)	–	(2)
	–	–	–	–	–	–
	pence	pence	pence	pence	pence	pence
<b>Return per share (FRS 25 basis):</b>						
Zero Dividend Preference shares	–	6.99	6.99	–	6.42	6.42
Income shares	0.82	0.13	0.95	0.71	0.13	0.84
Capital shares	–	1.24	1.24	–	0.87	0.87
<b>Return per share (Articles basis):</b>						
Zero Dividend Preference shares	–	15.62	15.62	–	12.62	12.62
Income shares	0.82	–	0.82	0.71	–	0.71
Capital shares	–	–	–	–	–	–

The total column of this statement represents the Company's income statement, prepared in accordance with UK GAAP. The supplementary revenue return and capital return columns are both prepared under guidance published by the Association of Investment Companies.

All items in the above statement derive from continuing operations.

# Balance sheet

as at 31 May 2007

	31 May 2007 £'000 (unaudited)	30 November 2006 £'000 (audited)	31 May 2006 £'000 (unaudited)
<b>Fixed assets</b>			
Investments at fair value	38,186	36,732	34,776
<b>Current assets</b>			
Debtors	859	716	448
Cash at bank	2,330	1,549	1,719
	3,189	2,265	2,167
<b>Creditors - amounts falling due within one year</b>			
Bank loans	(14,998)	(14,996)	-
Interest rate swap liabilities	(25)	(128)	-
Creditors	(630)	(652)	(203)
	(15,653)	(15,776)	(203)
<b>Total assets less current liabilities</b>	<b>25,722</b>	<b>23,221</b>	<b>36,740</b>
<b>Creditors - amount falling due after more than one year</b>			
Bank loans	-	-	(14,995)
Interest rate swap liabilities	-	-	(273)
	-	-	(15,268)
<b>Assets attributable to shareholders</b>	<b>25,722</b>	<b>23,221</b>	<b>21,472</b>
<b>Liabilities due to shareholders</b>			
Zero Dividend Preference share entitlement	(25,194)	(22,565)	(20,799)
Income share entitlement	(528)	(656)	(673)
Capital share entitlement	-	-	-
	(25,722)	(23,221)	(21,472)
	-	-	-
<b>Net asset values per share (note 3):</b>			
Zero Dividend Preference shares	149.70p	134.08p	123.58p
Income shares	0.72p	0.90p	0.92p
Capital shares	-	-	-

## Statement of cash flows (unaudited)

for the six months ended 31 May 2007

	Six months ended 31 May 2007 £'000	Six months ended 31 May 2006 £'000
<b>Operating activities</b>		
Investment income received	880	798
Deposit interest received	54	35
Payment to liquidators of Tor	–	(83)
Investment management fees paid	(175)	(164)
Secretarial fees paid	(36)	(35)
Other cash payments	(80)	(72)
<b>Net cash inflow from operating activities</b>	<b>643</b>	<b>479</b>
<b>Servicing of finance</b>		
Interest paid	(537)	(526)
<b>Net cash outflow from servicing of finance</b>	<b>(537)</b>	<b>(526)</b>
<b>Capital expenditure and financial investment</b>		
Purchases of investments	(10,006)	(4,759)
Sales of investments	11,411	5,488
<b>Net cash inflow from capital expenditure and financial investment</b>	<b>1,405</b>	<b>729</b>
Income share dividends paid	(730)	(1,022)
<b>Net cash inflow/(outflow) before and after financing</b>	<b>781</b>	<b>(340)</b>
<b>Increase/(decrease) in cash</b>	<b>781</b>	<b>(340)</b>

# Notes to the accounts

for the six months ended 31 May 2007

## 1 BASIS OF PREPARATION

The figures for the six months ended 31 May 2007 have been prepared on a basis consistent with the accounting policies adopted in the audited financial statements for the year ended 30 November 2006.

## 2 RETURN PER SHARE

FRS 25 accounting basis

Returns per share shown on the FRS 25 accounting basis do not take account of overall deficits arising in respect of a particular class of share and have been calculated based on the following returns attributable to each class of share:

	Six months ended 31 May 2007			Six months ended 31 May 2006			2007 Average number of shares	2006 Average number of shares
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000		
Zero Dividend Preference shares	–	1,177	1,177	–	1,081	1,081	16,830,000	16,830,000
Income shares	602	97	699	518	97	615	73,000,000	73,000,000
Capital shares	–	1,355	1,355	–	946	946	109,000,000	109,000,000
	<b>602</b>	<b>2,629</b>	<b>3,231</b>	<b>518</b>	<b>2,124</b>	<b>2,642</b>		

Articles of Association basis

Returns per share calculated on the Articles of Association basis are cognisant of the actual assets available for each class of share and have been calculated based on the following returns attributable to each class of share:

	Six months ended 31 May 2007			Six months ended 31 May 2006			2007 Average number of shares	2006 Average number of shares
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000		
Zero Dividend Preference shares	–	2,629	2,629	–	2,124	2,124	16,830,000	16,830,000
Income shares	602	–	602	518	–	518	73,000,000	73,000,000
Capital shares	–	–	–	–	–	–	109,000,000	109,000,000
	<b>602</b>	<b>2,629</b>	<b>3,231</b>	<b>518</b>	<b>2,124</b>	<b>2,642</b>		

There are no dilutive elements within the Company.

# Notes to the accounts

for the six months ended 31 May 2007

## 3 NET ASSET VALUES PER SHARE

The net asset value per Zero Dividend Preference share shown on page 18 is calculated using assets attributable of £25,194,000 (30 November 2006: £22,565,000; 31 May 2006: £20,799,000) and on 16,830,000 Zero Dividend Preference shares in issue at the end of the period.

The net asset value per Income share shown on page 18 is calculated using assets attributable of £528,000 (30 November 2006: £656,000; 31 May 2006: £673,000) and on 73,000,000 Income shares in issue at the end of the period.

The net asset value per Capital share shown on page 18 is calculated using assets attributable of £nil (30 November 2006: £nil; 31 May 2006: £nil) and on 109,000,000 Capital shares in issue at the end of the period.

The net asset values stated include current period revenue.

## 4 RECONCILIATION OF MOVEMENTS IN ASSETS ATTRIBUTABLE TO SHAREHOLDERS

	Zero Dividend Preference shares £'000	Income shares £'000	Capital shares £'000	Total £'000
At 1 December 2006	22,565	656	–	23,221
Profit after tax for the period	–	602	2,629	3,231
Zero Dividend Preference share appropriation	1,177	–	(1,177)	–
Income share appropriation	–	97	(97)	–
Reallocation of balance	1,452	(97)	(1,355)	–
Income share dividends paid	–	(730)	–	(730)
At 31 May 2007	25,194	528	–	25,722

# Shareholder information

## FINANCIAL CALENDAR

Year end	30 November
Interim dividends paid	April, July, October and January
Annual results announced	January
Annual General Meeting	May
Half-year end	31 May
Interim results announced	July

## SHARE PRICES AND PERFORMANCE INFORMATION

The Company's Zero Dividend Preference shares, Income shares, Capital shares and Units are listed on the London Stock Exchange. The mid-market prices of the Zero Dividend Preference shares and the Income shares are quoted daily in *The Financial Times* under 'Investment Companies'.

The net asset values are announced weekly to the London Stock Exchange.

Information about the Company can be obtained on the Investment Manager's website at [www.premierassetmanagement.co.uk](http://www.premierassetmanagement.co.uk). Any enquiries can also be e-mailed to [premier@premierfunds.co.uk](mailto:premier@premierfunds.co.uk)

A monthly fact sheet on the Company is available from Premier on 01483 400400.

## SHARE DEALING

Shares may be dealt in directly through a stockbroker or professional adviser acting on an investor's behalf.

Information on the ISA products can be obtained by contacting Premier on 01483 400400.

## SHARE REGISTER ENQUIRIES

The register for the Income shares, Capital shares and Zero Dividend Preference shares is maintained by Computershare Investor Services. In the event of queries regarding your holding, please contact the Registrar on 0870 702 0100. Changes of name and/or address must be notified in writing to the Registrar.

## PREMIER FUND MANAGERS LTD

Other investment companies managed by Premier are:

Acorn Income Fund Limited	Premier Utilities Trust PLC
European Utilities Trust plc	Renewable Energy Generation Limited
Premier Absolute Growth & Income Trust PLC	US Special Opportunities Trust PLC
Premier Asian Assets Trust Limited	The Zero Preference Growth Trust PLC
Premier Pacific Income Fund PLC	

Further details of these funds can be obtained from [www.premierassetmanagement.co.uk](http://www.premierassetmanagement.co.uk) or by calling Premier on 01483 400400. E-mail [premier@premierfunds.co.uk](mailto:premier@premierfunds.co.uk)

# Directors and Advisers

<b>Directors</b>	Garth Milne (Chairman) Philip Ashfield Patrick Gifford Eitan Milgram
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<b>Secretary and registered office</b>	Capita Sinclair Henderson Limited Beaufort House 51 New North Road Exeter EX4 4EP Tel: 01392 412122
<b>Registrar and transfer office</b>	Computershare Investor Services PLC P.O. Box 82 The Pavilions Bridgwater Road Bristol BS99 7NH Tel: 0870 702 0100
<b>Custodian/Banker</b>	HSBC Bank plc P.O. Box 181 27-32 Poultry London EC2P 2BX
<b>Bankers</b>	Lloyds TSB Bank Plc 234 High Street Exeter EX4 3NL  Bank of Scotland 4th Floor New Uberior House 11 Earl Grey Street Edinburgh EH3 9BN
<b>Auditors</b>	Deloitte & Touche LLP Stonecutter Court 1 Stonecutter Street London EC4A 4TR
<b>Stockbrokers</b>	Teather & Greenwood Beaufort House 15 St. Botolph Street London EC3A 7QR

## Notes



