Standard Life Equity Income Trust plc

Half Yearly Report
31 March 2016

Contents

Investment Objective

The objective of Standard Life Equity Income Trust plc is to provide shareholders with an above average income from their equity investment while also providing real growth in capital and income.

Investment Policy

The Directors intend to achieve the investment objective by investing in a diversified portfolio consisting mainly of quoted UK equities. The portfolio will normally comprise between 50 and 70 individual equity holdings. In order to reduce risk in the Company without compromising flexibility:

- no holding within the portfolio will exceed 10% of net assets; and

- the top ten holdings within the portfolio will not in aggregate exceed 50% of net assets

The Company may also invest in convertible preference shares, convertible loan stocks, gilts and corporate bonds.

The Directors have delegated responsibility to the Manager for the operation of the gearing level within the parameters of between 5% net cash and 15% net gearing.

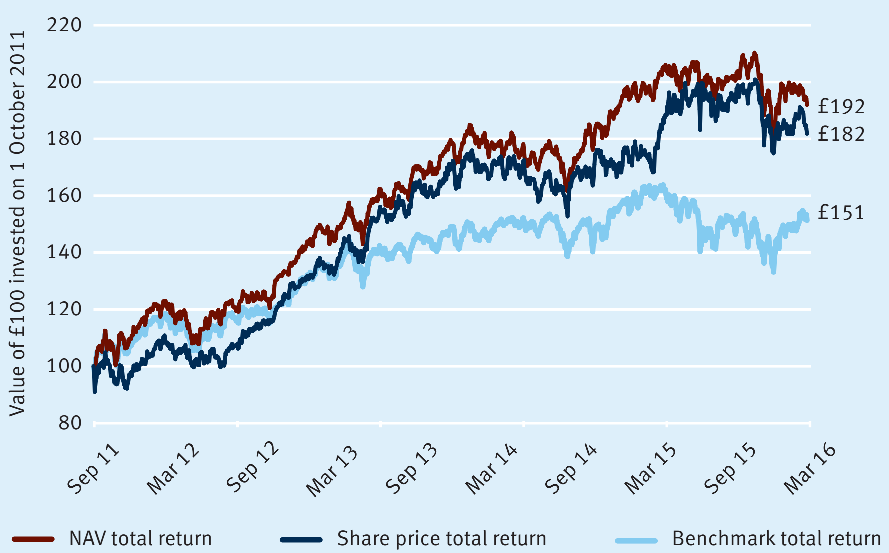
The Manager's investment process combines asset allocation, stock selection, portfolio construction, risk management and dealing. The investment process is research-intensive and is driven by a distinctive focus on change which recognises that different factors drive individual stocks and markets at different times in the cycle. This flexible but disciplined investment process ensures that the Manager has the opportunity to perform well in different market conditions.

Financial Highlights

	Six months ended 31 March 2016
Net asset value total return (diluted)	0.7%
Share price total return	-0.7%
Benchmark total return	3.5%

The benchmark is the FTSE All-Share Index
Total return assumes dividends paid to shareholders are re-invested in shares at the time the shares are quoted ex dividend

Strong Performance Since Change of Strategy in 2011



Thomas Moore was appointed as Portfolio Manager in November 2011 when the Company adopted a more conviction-led investment strategy

Ten Largest Positions Relative to the Benchmark at 31 March 2016

	Company %	B'mark %	Relative %		Company %	B'mark %	Relative %
Sage	3.5	0.3	3.2	Britvic	2.2	0.1	2.1
BT	4.1	1.9	2.2	Safestyle	2.0	0.0	2.0
River & Mercantile	2.2	0.0	2.2	Close Brothers	2.1	0.1	2.0
Aviva	3.0	0.9	2.1	NewRiver Retail	1.9	0.0	1.9
Rightmove	2.3	0.2	2.1	RELX	2.6	0.7	1.9

Financial Highlights

Capital	31 March 2016	30 September 2015	Change
Net asset value per ordinary share			
Basic	446.6p	455.2p	-1.9%
Diluted[1]	435.1p	440.7p	-1.3%
Ordinary share price	428.0p	439.0p	-2.5%
Subscription share price	94.0p	114.0p	-17.5%
Benchmark capital return	3,395.2	3,335.9	1.8%
Discount of ordinary share price to net asset value			
Basic	-4.2%	-3.6%	
Diluted	-1.6%	-0.4%	
Total assets	£226.3m	£221.9m	2.0%
Shareholders' funds	£199.7m	£195.6m	2.1%
Ordinary shares in issue	44,709,906	42,976,691	4.0%

Gearing	31 March 2016	30 September 2015
Gearing	11.9%	7.7%

Earnings and Dividends - for six months ended	31 March 2016	31 March 2015	Change
Revenue return per ordinary share			
Basic	7.92p	7.00p	13.1%
Diluted	7.68p	6.77p	13.4%
Interim dividends:			
First quarterly dividend paid	3.4p	3.2p	
Second quarterly dividend payable	3.4p	3.4p	
Dividend yield	3.5%	3.4%	

Expenses	31 March 2016	30 September 2015
Ongoing charges	0.94%	0.94%

[1] Diluted net asset value is calculated in accordance with AIC guidelines (assuming all subscription shares in issue are exercised).

Directors' Responsibility Statement

The Directors are responsible for preparing the Half-Yearly Financial Report in accordance with applicable law and regulations. The Directors confirm that to the best of their knowledge –

- the condensed Financial Statements have been prepared in accordance with the Accounting Standards Board's statement "Half-Yearly Financial Reports"; and
- the Interim Management Report includes a fair review of the information required by 4.2.7R and 4.2.8R of the Financial Conduct Authority's Disclosure and Transparency Rules.

The Half-Yearly Financial Report, for the six months ended 31 March 2016, comprises an Interim Management Report in the form of the Strategic Report, the Directors' Responsibility Statement and a condensed set of Financial Statements, and has not been audited or reviewed by the auditors pursuant to the APB guidance on Review of Interim Financial Information.

For and on behalf of the Directors of Standard Life Equity Income Trust plc

Richard Burns
Chairman

25 May 2016

Chairman's Statement

Performance

In the six months to 31 March 2016 our diluted net asset value total return was 0.7%. This compares with the benchmark total return of 3.5%. The discount on our shares widened slightly from 0.4% six months ago to 1.6% at 31 March, producing a decline of 0.7% in our share price total return, 4.2% worse than the positive 3.5% return produced by the All-Share index. Our longer term figures remain strong, as shown in the table below:

Richard Burns

	1 year	3 years p.a.	5 years p.a.
Net Asset Value Total Return	2.9	10.5	11.0
Share Price Total Return	8.3	11.5	11.5
Benchmark Total Return	-3.9	3.7	5.7
Peer Group ranking (NAV TR)	6/22	6/22	9/22

Sources: Thompson DataStream and JP Morgan Cazenove

The revenue return for the six months was much better, with diluted earnings per share of 7.68p, up 13.4% on the 6.77p earned in the comparable period a year ago. Earnings in the second half are, at this stage, expected to be lower than last year's due to an expected decline in the level of special dividends, though it should be noted that such dividends are, by their nature, hard to forecast.

Nevertheless, we expect to be able to achieve our aim of providing real growth in shareholders' income this year.

The Manager's Report on pages 10 to 15 provides further information on the UK economy and equity market as well as a review of the portfolio of investments and market activity during the period.

Chairman's Statement (continued)

Dividends

The Board has declared a second quarterly dividend of 3.40p per share which together with the first quarterly dividend of 3.40p per share brings total dividends for the six months to 31 March 2016 to 6.80p per share. This compares with 6.60p per share for the six months to 31 March 2015.

The second quarterly dividend of 3.40p will be paid on 24 June 2016 to shareholders on the register on 3 June 2016, with an associated ex-dividend date of 2 June 2016.

It remains the Board's intention to continue to provide real growth in dividends over the long term.

Gearing

The Company has a £30m bank facility with Scotiabank (Ireland) Limited. This facility was in use throughout the period, with the average amount drawn down being £25m, reflecting our positive view of the prospects for the companies in our portfolio.

Share Issues

During the six month period there were a number of occasions when the Company's shares traded at a premium to net asset value and we were able to issue 1,005,000 new ordinary shares at an average price of 449p raising a total of £4.5m. These shares were sold at a premium to net asset value averaging 0.34%.

At the beginning of January the Company issued 728,215 new ordinary shares resulting from the exercise of subscription shares, raising a total of £2.33m. As a reminder, holders of subscription shares can take up new shares at 320p per share by giving notice at the end of June or December 2016, after which the subscription rights will expire.

Chairman's Statement (continued)

Governance and Board

As previously advised, Keith Percy will be standing down from the Board at the AGM in December. A formal search process for a replacement director is being undertaken.

Outlook

The Board does not believe that the results achieved in the last six months are indicative of a deterioration in the Company's long term prospects. In investment markets, periods of great success, such as we enjoyed in 2015, are very often followed by quieter periods. We continue to have confidence in our Manager's proven investment process and well-resourced investment team and, despite all the uncertainties facing investors today, notably the upcoming referendum on the UK's membership of the European Union, I remain confident in our ability to produce good returns for shareholders in the future.

Richard Burns
Chairman

25 May 2016

Principal Risks and Uncertainties

The Board has an ongoing process for identifying, evaluating and managing the principal risks and uncertainties of the Company. The process is regularly reviewed by the Board.

Most of the Company's principal uncertainties and risks are market related and no different from those of other investment trusts that invest primarily in the UK listed market. Risks may vary in significance from time to time. The Board considers the following to be the principal risks and uncertainties faced by the Company:

Investment Performance

The Board recognises that market risk is significant in achieving performance and your Board reviews strategy and investment guidelines to ensure that these are appropriate. Regular reports are received from the Manager on stock selection, asset allocation, gearing and costs of running the Company. The performance is reviewed in detail and discussed with the Manager at each Board meeting.

Operational Risk

In common with most investment trusts the Board delegates the operation of the business to third parties, the principal delegate being the Manager. As part of the assessment of key third party service providers, the internal control reports of the service providers are reviewed on a regular basis.

Discount/Premium to NAV

A significant share price discount or premium to net asset value per share could lead to high levels of uncertainty and could potentially reduce shareholder confidence. The Board keeps the level of the Company's discount/premium under continual review.

Regulatory Risk

The Company operates in an environment with significant regulation, including the UKLA Listing Rules, the Companies Act 2006, the Corporation Tax Act 2010 and the Alternative Investment Fund Managers Directive ('AIFMD'), the breach of which could lead to a number of detrimental outcomes and reputational damage.

Going Concern

The statement of Going Concern was set out in the Director's Report of the Company's Annual Report and Financial Statements to 30 September 2015 and there have been no significant changes to this in the period. The Directors continue to have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least the next 12 months, taking into account the diversified portfolio of readily realisable securities which can be used to meet short-term funding commitments, and the ability of the Company to meet all of its liabilities and ongoing expenses. Accordingly, it is reasonable for the Financial Statements to continue to be prepared on a going concern basis.

Manager's Report

Market Review

It was a volatile, but ultimately positive, six month period for the UK equity market. Fears over the health of the global economy remained centre stage, leading to high levels of financial stress which peaked in early 2016.

One of the key financial events of the period was the US Federal Reserve's (Fed) decision to raise interest rates in December. The move had been widely anticipated, having been deferred through the course of 2015 as the Fed awaited sufficient evidence that the US economic recovery had become sufficiently resilient to tolerate higher interest rates. This rate hike turned out to coincide with the peak in the value of the US dollar, as Fed members made clear that the pace of interest rate hikes would remain gradual.

The market's attention also focused on slowing Chinese economic growth, which led to concerns over the ability of the authorities to rebalance the country's economy away from investment-led growth to domestic consumption. China's decision to devalue its currency in January surprised markets and led to fears of a 'hard landing' for the world's second-largest economy. Falling commodity prices were a theme for much of the review period, mainly linked to weakening Chinese fixed-asset investment. Oil prices fell sharply on evidence of deteriorating global demand and a failure by OPEC to agree to curb oil production.

Closer to home, the European Central Bank (ECB) launched additional monetary stimulus measures in December in order to stimulate economic growth, although financial markets were underwhelmed. The ECB unveiled a bigger package of stimulus measures in March, including cutting the reserve rate, expanding its quantitative easing programme and launching a series of targeted longer-term refinancing operations for banks.

UK economic data held up well during the period, although sterling and domestic-facing UK stocks came under pressure in early 2016 after UK Prime Minister David Cameron called a referendum on the country's EU membership, which is likely to dominate sentiment until the result is known.

As the period drew to a close, hopes grew that global economic data would stabilise. In addition to the stimulus measures announced by Europe and Japan, it became clear that China was stepping up its own stimulus programme, leading to a steadying in commodity prices. Hopes of a more synchronised global economic rebound were boosted by dovish statements from members of the Fed, indicating that they would take into account the global ramifications of any interest rate decisions.

Sector performance remained volatile, driven as much by macro sentiment and investor positioning as by bottom-up company fundamentals. Defensive sectors, including consumer goods and tobacco, found themselves in favour among risk-averse investors. Mining and oil & gas stocks performed poorly in late 2015, as weak prices called into doubt the resilience of balance sheets and the ability to pay dividends. However, these sectors staged a rebound in early 2016 on hopes of a recovery in Chinese economic growth. Financials lagged the wider market, as the prospect of lower-for-longer interest rates weighed on the earnings outlook of the major UK banks.

Performance

For the six months to 31 March 2016, the Company's net asset value total return was 0.7%, underperforming the FTSE All-Share Index total return of 3.5%. Over the same period, the share price fell from 439.0p to 428.0p.

The decision not to hold resource stocks **Royal Dutch Shell**, **Glencore** and **BG Group** was a negative for performance as the sector rebounded strongly in the first quarter of 2016, reversing a prolonged period of underperformance in 2015. We remain cautious towards the oil majors as dividends are not covered by free cash-flow, raising questions about the sustainability of dividend policy. Slashing capex and building debt in order to preserve dividends appears to be an unsustainable policy over the longer term, in the absence of a sharp increase in the oil price.

At a time of falling bond yields, our lack of exposure to a number of defensives names **British American Tobacco**, **GlaxoSmithKline** and **Unilever** hurt performance as risk-averse investors sought shelter from market turbulence. We continue to avoid these names as we think there are more attractive valuation opportunities elsewhere in the UK market.

Manager's Report

The holding in recruitment company **Staffline** detracted from performance, as investors took profits after a period of very strong share price performance. The continued success of management in growing the business is reflected in January's announcement of a 48% increase in dividend per share.

On a more positive note, the Company continued to benefit from not holding several of the large banks, such as **HSBC, Barclays, Standard Chartered** or **RBS**. These fell sharply on market fears over deteriorating macroeconomic and credit conditions at a time of continued regulatory scrutiny. Earnings remain under pressure from low interest rates, anaemic loan growth and regulatory fines, which limit the pace at which banks can grow their capital to levels that will satisfy regulators. This in turn constrains the ability of bank management teams to grow their dividend payouts.

The Company's holding in software company **Sage** was a highlight during the period. The latest results underlined the new management team's success in accelerating revenue growth by improving sales execution and increasing product innovation. Also in the software sector, the holding in **MicroFocus** was a major contributor to performance. The company delivered excellent results that highlighted better-than-expected revenues and signs of further progress on cost synergies from recent acquisitions.

The position in **Rightmove**, the property portal, continued to boost performance as the company built on its dominant market position among estate agent, growing its market share while raising prices, having successfully fended off a nascent competitive threat.

Activity

Turning to activity, we bought a holding in **Lloyds Banking Group** during the period. Its recent results demonstrated its ability to maintain a healthy gap between mortgage pricing and deposit funding, while the generous dividend announcement provides comfort on the regulatory stance towards capital distributions. We believe Lloyds is set to emerge as an income champion among large-caps, in contrast to the dividend cuts being seen elsewhere in the FTSE 100.

We also added to the holding in **Sage**.

Meanwhile, we initiated a new position in **Investec** as its low valuation does not capture the strong track record of consistent net inflows into the Asset Management and Wealth Management divisions and the rapid improvement in returns at the Specialist Bank division. Having tackled the issues that have constrained profitability since the financial crisis, management is now confident in its ability to drive growth.

We reintroduced **Rio Tinto** to the portfolio following an indiscriminate sell-off in resource stocks at the start of 2016, which provided the opportunity to build a holding at very depressed levels. The market appeared to be ignoring the recent increase in Chinese steel and iron ore prices. In addition, Rio has one of the strongest balance sheets in the sector, as well as low production costs, putting it in a strategically strong position. In the same sector, we sold out of **BHP Billiton** where the Samarco dam disaster challenged the company’s ability to sustain its credit rating and dividend.

Elsewhere, we exited **Barclays** following a trading update that highlighted a continued struggle to improve returns due to weak profitability, rising regulatory costs and capital requirements, as well as fines and litigation. The barrage of new regulatory capital pressure showed little sign of abating, making it more challenging for management to rebuild capital. This has implications for Barclays’ ability to grow the dividend.

The Company also sold its holding in gaming software business **Playtech**, which has delivered excellent results as a Business-to-Business gaming software operation, but has an unproven track record in Business-to-Consumer activities, including CFD trading, in which the company embarked on an acquisition-led growth strategy.

Lastly, we took some profits in packaging company **DS Smith**, which has been a major contributor to performance in recent years.

Manager's Report

Outlook

Given the backdrop of subdued global GDP growth, low interest rates, low inflation, political uncertainty, market volatility, market liquidity concerns and high valuations, it is understandable that returns have become more subdued in recent months across the majority of asset classes, including UK equities.

During the rest of 2016, investors will monitor economic uncertainties such as the normalisation of interest rate policy in the US, ongoing unconventional monetary policy in Europe and Japan and economic rebalancing in China. There are also political uncertainties, such as the UK's referendum on Europe, the US presidential election, geopolitical tensions involving Russia and Europe's ongoing migrant crisis. While this will remain a nervous period for investors, it is our House View that the global economy is not heading for another economic recession.

The headline dividend yield of the UK equity market appears attractive relative to other asset classes. Indeed, the gap between dividend yields and bond yields is now at a very attractive level. However, this yield premium partly reflects well-founded investor caution towards equities given the ongoing threat of dividend cuts. During the period under review, several FTSE 100 companies reduced or passed their dividends in response to weakening dividend cover and stretched balance sheets. This highlights the increasing challenge faced by equity income investors and the benefits of an index-agnostic approach to income investing in sustaining a growing income stream through turbulent times.

The recent corporate reporting season has provided further evidence of solid earnings and dividend growth from many of the Company's holdings. This typically reflects the strength of these companies' market position and balance sheets. While the geographical sources of the portfolio's revenues are diverse, the Company has an above-average weighting to the UK via its heavy weightings in small- and mid-cap stocks. The UK consumer continues to enjoy favourable conditions, including rising real wages, disposable incomes and employment.

We continue to focus on companies with the scope for sustainable growth in their earnings, cash flows and dividends. Recent market action has been less favourable for our positioning, as share prices have, in the short term, decoupled from earnings and dividend fundamentals. The sharp rotation into large-cap stocks and away from small- and mid-cap stocks can be linked to a combination of macroeconomic uncertainty and investor positioning. We remain cautious on high-yield large-cap stocks whose dividend growth prospects are likely to be thwarted by their low dividend cover and slow growth.

At the same time, we also remain cautious towards low-yielding defensive large-cap stocks whose high valuations make them vulnerable to an increase in bond yields. Our preference is for stocks with sustainable yield, whose dividends are supported by the strength of their earnings, cash-flows and balance sheets.

At a time of dividend cuts across large swathes of the UK equity market, it is pleasing to report that the fundamentals of the portfolio remain strong, as reflected in the Company's ongoing strong track record in growing its revenues. While capital values will continue to fluctuate from period to period, the dividend progress of the underlying portfolio highlights the success of our highly selective, bottom-up approach to income investing. We remain confident that this approach provides the Company with the best prospects to grow sustainably in what is set to be a tough year for corporate earnings and dividends.

Thomas Moore
Standard Life Investments

25 May 2016

List of Holdings

As at 31 March 2016

UK Equities	£'000
Basic Materials	
Mining	
Rio Tinto	3,272
Industrials	
Construction & Materials	
Tyman	4,090
Kier	3,381
Volution	2,171
Ibstock	1,312
General Industrials	
DS Smith	3,143
Industrial Engineering	
Bodycote	1,978
Support Services	
Staffline	4,039
Essentra	3,908
Babcock International	3,735
Howden Joinery	3,567
Connect	2,818
Northgate	2,061
WS Atkins	1,871
Consumer Goods	
Beverages	
Britvic	4,876
Household Goods & Home Construction	
Bovis Homes	3,033
Galliford Try	3,582

UK Equities	£'000
Personal Goods	
Supergroup	4,260
Tobacco	
Imperial Brands	4,831
Consumer Services	
General Retailers	
Safestyle	4,525
Saga	4,389
DFS Furniture	3,775
Next	2,154
Majestic Wine	2,140
Inchcape	1,128
Media	
Relx	5,685
Rightmove	5,085
ITV	3,288
Moneysupermarket.com	2,458
Travel & Leisure	
National Express	3,488
International Consolidated Airlines	2,383
Telecommunications	
Fixed Line Telecommunications	
BT	9,149
Manx Telecom	3,455
Mobile Telecommunications	
Vodafone	6,024

List of Holdings

As at 31 March 2016

UK Equities	£'000
Utilities	
Gas Water & Multiutilities	
National Grid	3,546
Pennon	1,447
Financials	
Banks	
Lloyds Banking	2,900
Virgin Money	2,302
Non-life Insurance	
Beazley	4,228
Direct Line Insurance	4,058
Hiscox	2,599
Jardine Lloyd Thompson	2,356
RSA Insurance	2,125
Life Insurance/Assurance	
Aviva	6,682
Legal & General	5,109
Prudential	4,247
Chesnara	2,865
Real Estate Investment & Services	
Real Estate Investors	3,259
Real Estate Investment Trusts	
NewRiver Retail	4,282
Hansteen	3,434
Assura	3,138

UK Equities	£'000
Financial Services	
River & Mercantile	4,974
Close Brothers	4,691
John Laing	2,631
Rathbone Brothers	2,525
Investec	2,444
Paragon	2,376
Polar Capital	2,011
International Personal Finance	1,880
Hargreaves Lansdown	1,368
Investment Instruments	
Zegona Communications	1,882
Technology	
Software & Computer Services	
Sage	7,727
Micro Focus International	4,346
Total UK Equities	**218,486**
German Equities	
Consumer Services	
Travel & Leisure	
TUI	4,133
Total German Equities	**4,133**
Total Portfolio	**222,619**

Condensed Statement of Comprehensive Income

	Notes	Six months ended 31 March 2016 (unaudited) Revenue £'000	Capital £'000	Total £'000
Net (losses)/gains on investments at fair value		–	(2,061)	(2,061)
Income	2	3,998	–	3,998
Investment management fee		(224)	(524)	(748)
Administrative expenses		(222)	–	(222)
Currency gains		–	7	7
NET RETURN BEFORE FINANCE COSTS AND TAXATION		3,552	(2,578)	974
Finance costs		(59)	(137)	(196)
RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION		3,493	(2,715)	778
Taxation	3	(24)	–	(24)
RETURN ON ORDINARY ACTIVITIES AFTER TAXATION		**3,469**	**(2,715)**	**754**
RETURN PER ORDINARY SHARE	4			
BASIC		**7.92p**	**(6.20p)**	**1.72p**
DILUTED		**7.68p**	**(6.01p)**	**1.67p**

The total column of this statement represents the profit and loss account of the Company.

A Statement of Total Recognised Gains and Losses has not been prepared as all gains and losses are recognised in the Condensed Statement of Comprehensive Income.

All revenue and capital items in the above statement derive from continuing operations.

The accompanying notes are an integral part of the financial statements.

Condensed Statement of Comprehensive Income

Six months ended 31 March 2015 (unaudited)			Year ended 30 September 2015 (audited)		
Revenue £'000	**Capital £'000**	**Total £'000**	**Revenue £'000**	**Capital £'000**	**Total £'000**
—	19,046	19,046	—	20,270	20,270
3,300	—	3,300	7,957	—	7,957
(200)	(467)	(667)	(413)	(963)	(1,376)
(200)	—	(200)	(383)	—	(383)
—	2	2	—	—	—
2,900	18,581	21,481	7,161	19,307	26,468
(59)	(138)	(197)	(117)	(274)	(391)
2,841	18,443	21,284	7,044	19,033	26,077
—	—	—	—	—	—
2,841	**18,443**	**21,284**	**7,044**	**19,033**	**26,077**
7.00p	**45.46p**	**52.46p**	**17.18p**	**46.41p**	**63.59p**
6.77p	**43.92p**	**50.69p**	**16.55p**	**44.71p**	**61.26p**

Condensed Statement of Changes in Equity

Six months ended 31 March 2016 (unaudited)

	Note	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000
Balance at 30 September 2015		10,745	32,473	12,616
Issue of ordinary shares on conversion of subscription shares		182	2,148	–
Issue of ordinary shares		251	4,238	–
Return on ordinary activities after taxation		–	–	–
Dividends paid	5	–	–	–
BALANCE AT 31 MARCH 2016		**11,178**	**38,859**	**12,616**

Six months ended 31 March 2015 (unaudited)

	Note	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000
Balance at 30 September 2014		10,127	24,084	12,615
Issue of ordinary shares on conversion of subscription shares		40	472	–
Issue of ordinary shares		–	–	–
Return on ordinary activities after taxation		–	–	–
Dividends paid	5	–	–	–
BALANCE AT 31 MARCH 2015		**10,167**	**24,556**	**12,615**

Condensed Statement of Changes in Equity

Capital reserve £'000	Revenue reserve £'000	Total £'000
132,933	6,881	195,648
—	—	2,330
—	—	4,489
(2,715)	3,469	754
—	(3,540)	(3,540)
130,218	**6,810**	**199,681**

Capital reserve £'000	Revenue reserve £'000	Total £'000
113,900	5,746	166,472
—	—	512
—	—	—
18,443	2,841	21,284
—	(3,083)	(3,083)
132,343	**5,504**	**185,185**

Condensed Statement of Changes in Equity

Year ended 30 September 2015 (audited)

	Note	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000
Balance at 30 September 2014		10,127	24,084	12,615
Issue of ordinary shares on conversion of subscription shares		405	4,781	1
Issue of ordinary shares		213	3,608	—
Return on ordinary activities after taxation		—	—	—
Dividends paid	5	—	—	—
BALANCE AT 30 SEPTEMBER 2015		**10,745**	**32,473**	**12,616**

Condensed Statement of Changes in Equity

Capital reserve £'000	Revenue reserve £'000	Total £'000
113,900	5,746	166,472
—	—	5,187
—	—	3,821
19,033	7,044	26,077
—	(5,909)	(5,909)
132,933	**6,881**	**195,648**

Condensed Statement of Financial Position

	Notes	As at 31 March 2016 (unaudited) £'000	As at 30 September 2015 (audited) £'000
FIXED ASSETS			
Investments at fair value through profit or loss		222,619	210,877
CURRENT ASSETS			
Debtors		1,463	1,166
AAA money market funds		1,766	9,698
Cash and short term deposits		446	196
		3,675	11,060
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Bank loan		(26,000)	(25,000)
Other creditors		(613)	(1,289)
		(26,613)	(26,289)
NET CURRENT LIABILITIES		(22,938)	(15,229)
NET ASSETS		**199,681**	**195,648**
CAPITAL AND RESERVES			
Called-up share capital	6	11,178	10,745
Share premium account		38,859	32,473
Capital redemption reserve		12,616	12,616
Capital reserve	7	130,218	132,933
Revenue reserve		6,810	6,881
EQUITY SHAREHOLDERS' FUNDS		**199,681**	**195,648**
NET ASSET VALUE PER ORDINARY SHARE	8		
BASIC		**446.61p**	**455.24p**
DILUTED		**435.11p**	**440.65p**

The financial statements on pages 18 to 23 were approved by the Board of Directors and authorised for issue on 25 May 2015 and were signed on its behalf by:

RRJ BURNS
Chairman

Condensed Statement of Cash Flows

	Six months ended 31 March 2016 (unaudited) £'000	Six months ended 31 March 2015 (unaudited) £'000
NET RETURN ON ORDINARY ACTIVITIES BEFORE FINANCE COSTS AND TAXATION	974	21,481
Adjustments for:		
(Losses)/gains on investments at fair value	2,061	(19,046)
Net currency gains	(7)	(2)
Increase in accrued income	(654)	(440)
Increase in other debtors	(3)	(8)
Decrease in other creditors	(314)	(263)
Net cash outflow from servicing of finance	(172)	(193)
Net tax paid	(105)	(25)
NET CASH INFLOW FROM OPERATING ACTIVITIES	**1,780**	**1,504**
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash (outflow)/inflow from financial investment	(13,748)	4,428
NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES	**(13,748)**	**4,428**
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of ordinary shares from conversion of subscription shares	2,330	512
Issue of ordinary shares	4,489	–
Drawdown of loan	1,000	–
Equity dividends paid	(3,540)	(3,083)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	**4,279**	**(2,571)**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(7,689)**	**3,361**
Cash and cash equivalents at the beginning of the period	9,894	1,013
Currency movements	7	2
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**2,212**	**4,376**
COMPONENTS OF CASH AND CASH EQUIVALENTS		
AAA money market funds	1,766	4,356
Cash and short term deposits	446	20
	2,212	**4,376**

Notes to the Financial Statements

1. Accounting policies

(a) Basis of accounting

The condensed financial statements have been prepared in accordance with Financial Reporting Standard 104 (Interim Financial Reporting) and with the Statement of Recommended Practice for 'Financial Statements of Investment Trust Companies and Venture Capital Trusts'. They have also been prepared on a going concern basis and on the assumption that approval as an investment trust will continue to be granted.

These condensed financial statements are the first since FRS 102 (The Financial Reporting Standard applicable in the UK and Republic of Ireland) came into effect for accounting periods beginning on or after 1 January 2015. An assessment of the impact of adopting FRS 102 has been carried out and found that no restatement of balances as at the transition date, 1 October 2014, or comparative figures in the Condensed Statement of Financial Position or the Condensed Statement of Comprehensive Income is considered necessary.

The interim financial statements and the net asset value per share figures have been prepared in accordance with FRS 102 using the same accounting policies as the preceding annual accounts.

(b) Dividends payable

Dividends are recognised in the period in which they are paid.

2. Income	Six months ended 31 March 2016 £'000	Six months ended 31 March 2015 £'000
Income from investments		
Franked investment income		
Ordinary dividends	2,907	2,662
Special dividends	199	104
	3,106	2,766
Overseas and unfranked investment income		
Ordinary dividends	601	226
Special dividends	259	293
	860	519
	3,966	3,285
Other income		
AAA money market interest	28	7
Underwriting commission	4	8
	32	15
	3,998	**3,300**

3. Taxation on ordinary activities

The taxation charge for the period represents withholding tax suffered on overseas dividend income.

Notes to the Financial Statements

4. Return per ordinary share	Six months ended 31 March 2016 p	Six months ended 31 March 2015 p
Basic		
Revenue return	7.92	7.00
Capital return	(6.20)	45.46
Total return	**1.72**	**52.46**

The figures above are based on the following figures:

	£'000	£'000
Revenue return	3,469	2,841
Capital return	(2,715)	18,443
Total return	**754**	**21,284**
Weighted average number of ordinary shares	**43,813,625**	**40,574,544**
Diluted		
Revenue return	7.68	6.77
Capital return	(6.01)	43.92
Total return	**1.67**	**50.69**
Number of dilutive shares	**1,327,204**	**1,412,220**
Diluted shares in issue	**45,140,829**	**41,986,764**

The total return referred to in this note is an accounting term and represents the revenue and capital returns of the Company after taxation and before payment of dividends.

The calculation of the diluted total, revenue and capital returns per Ordinary share is carried out in accordance with IAS 33, "Earnings per Share". For the purposes of calculating diluted total, revenue and capital returns per Ordinary share, the number of Ordinary shares is the weighted average used in the basic calculation plus the number of Ordinary shares deemed to be issued for no consideration on exercise of all Subscription shares by reference to the average share price of the Ordinary shares during the period.

5. Dividends	**Six months ended 31 March 2016 £'000**	**Six months ended 31 March 2015 £'000**
Ordinary dividends on equity shares deducted from reserves:		
Fourth quarterly dividend for 2015 of 4.70p per share (2014 - 4.40p)	2,020	1,782
First quarterly dividend for 2016 of 3.40p (2015 - 3.20p)	1,520	1,301
	3,540	**3,083**

Notes to the Financial Statements

6. Called-up share capital

	Number	£'000
Issued and fully paid:		
Ordinary shares 25p each		
Balance at 30 September 2015	42,976,691	10,744
Issue of Ordinary shares on conversion of Subscription shares	728,215	182
Issue of Ordinary shares	1,005,000	251
Balance at 31 March 2016	44,709,906	11,177
Subscription shares of 0.01p each		
Balance at 30 September 2015	5,197,076	1
Conversion of Subscription shares into Ordinary shares	(728,215)	—
Balance at 31 March 2016	4,468,861	1
Called-up share capital at 31 March 2016		**11,178**

On 17 December 2010 the Company issued 7,585,860 subscription shares by way of a bonus issue to the ordinary shareholders on the basis of one subscription share for every five ordinary shares. Each subscription share confers the right, but not the obligation, to subscribe for one ordinary share on any subscription date, being the last business day of June and December in each year commencing June 2011 and finishing on the last business day of December in 2016, after which the rights under the subscription shares will lapse. The conversion price has been determined as being 320p.

During the six months ended 31 March 2016, shareholders exercised their right to convert 728,215 subscription shares into ordinary shares (31 March 2015 - 159,949) for a consideration of £2,330,000 (31 March 2015 - £512,000).

During the six months ended 31 March 2016, 1,005,000 ordinary shares (31 March 2015 - nil) were issued for a consideration of £4,489,000 (31 March 2015 - nil)

7. Capital reserve

The capital reserve figure reflected in the Condensed Statement of Financial Position includes investment holdings gains at the period end of £39,800,000 (30 September 2015 - gains of £43,661,000).

8. Net asset value per ordinary share

	As at 31 March 2016	As at 30 September 2015
Basic:		
Attributable net assets (£'000)	199,681	195,648
Number of ordinary shares in issue	44,709,906	42,976,691
NAV per ordinary share (p)	446.61	455.24
Diluted:		
Attributable net assets assuming exercise of subscription shares (£'000)	213,981	212,279
Number of potential ordinary shares in issue	49,178,767	48,173,767
NAV per ordinary share (p)	435.11	440.65

The diluted net asset value per Ordinary share has been calculated in accordance with guidelines issued by the Association of Investment Companies, and assumes that all outstanding subscription shares were converted into ordinary shares at the period end.

Notes to the Financial Statements

9. Transaction costs

During the period expenses were incurred in acquiring or disposing of investments classified as fair value through profit or loss. These have been expensed through capital and are included within losses/gains on investments in the Condensed Statement of Comprehensive Income. The total costs were as follows:

	Six months ended 31 March 2016 £'000	Six months ended 31 March 2015 £'000
Purchases	261	188
Sales	33	54
	294	**242**

10. Fair Value Hierarchy

FRS 102 requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following classifications:

Class A: quoted prices for identical instruments in active markets;
Class B: prices of recent transactions for identical instruments; and
Class C: valuation techniques using observable and unobservable market data.

All of the Company's investments are in quoted equities (30 September 2015 – same) that are actively traded on recognised stock exchanges, with their fair value being determined by reference to their quoted bid prices at the reporting date. The total value of the investments have therefore been deemed as class A (30 September 2015 - same).

Notes to the Financial Statements

11. Half Yearly Report

The financial information contained in this Half-Yearly Financial Report does not constitute statutory accounts as defined in Sections 434-436 of the Companies Act 2006. The financial information for the six months ended 31 March 2016 and 31 March 2015 has not been audited.

The information for the year ended 30 September 2015 has been extracted from the latest published audited financial statements which have been filed with the Registrar of Companies. The report of the auditors on those accounts contained no qualification or statement under Section 498 (2), (3) or (4) of the Companies Act 2006.

12.

This Half-Yearly Financial Report was approved by the Board on 25 May 2016.

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