

SR Europe Investment Trust plc

Half Yearly Report
2009



SR Europe Investment Trust plc

Investment objective

SR Europe Investment Trust plc invests in an actively managed portfolio of quoted companies and debt instruments in the United Kingdom and continental Europe, including emerging Europe and Russia, with the objective of generating capital growth without neglecting income.

Capital structure

Issued share capital		£
29,695,234	Ordinary shares of 10 pence each	2,969,523
5,937,927	Subscription shares of 1 pence each	59,379

The Articles of Association of the Company provide that at the Annual General Meeting of the Company held to approve the Company's financial statements in respect of the financial year ending 31 December 2011, the Directors will propose an Ordinary Resolution for the continuation of the Company in its current form. If this resolution is passed, a similar resolution will be proposed at every third Annual General Meeting thereafter.

If such a resolution is not passed, an Extraordinary General Meeting of the Company will be convened within the following four months to consider proposals for the liquidation, reorganisation or reconstruction of the Company.

Subscription shares

Registered holders of Subscription shares will have the opportunity to convert their Subscription shares at a rate of 1 Ordinary share per Subscription share and a conversion price of 244p in the thirty days preceding the Annual General Meeting in any of the years between 2010 and 2012 (inclusive).

Investment policy

SR Europe Investment Trust plc invests in an actively managed portfolio of quoted companies and, occasionally, debt instruments in the United Kingdom and continental Europe, including emerging Europe and Russia.

The objective is to generate capital growth without neglecting income rather than holding a portfolio of shares to try to outperform the European equity indices.

The portfolio will be made up of stocks priced mainly in Euros and Sterling, but also in a variety of other currencies. The Investment Managers are authorised to hedge against anticipated weakness in any of these currencies – including Sterling, the currency in which we report.

Asset allocation and risk diversification

The Company's investment policy is to concentrate on sectors, investment themes and individual companies that have a pan-European perspective, but including companies operating outside Europe. The Investment Managers' initial consideration is to identify reasonable absolute upside on any individual investment, whilst also paying particular attention to possible absolute downside risks, irrespective of potential return relative to an index.

Limited attention is paid to geographical weightings of the portfolio, either in absolute terms or relative to the MSCI Europe (including UK) Index. However, for risk purposes, the Investment Managers monitor individual country allocations to ensure that these do not become unreasonably high. Whilst there is no prescribed single country limit, outside of the core markets of the UK, Germany and France exposure to any single country would normally not exceed 30% of the portfolio at the time of investment. In the case of emerging markets, the comparable figure would be 20%.

The Investment Managers' aim is to capture the upside in European equity markets over longer time periods, whilst trying to avoid major loss of value when medium term market prospects are poor. They believe that risk reduction and the delivery of attractive absolute returns over time are best achieved by finding several independent and uncorrelated investment themes where valuations look attractive. Whilst not specifically proscribed, it is unlikely that exposure to any single investment sector will exceed 30% of the portfolio at the time of acquisition.

The portfolio is invested across the full spectrum size of individual companies, from small, higher risk emerging businesses up to the largest quoted European multinationals. It is constructed typically with a 'mid-cap' bias, as the Investment Managers believe that the best long-term shareholder returns come from investing in medium-sized businesses that have the potential to develop into much larger enterprises over time – even though this can result in the portfolio having higher short-term volatility. Maximum exposure to any single share is capped at 15% of the portfolio at the time of investment, though in practice it would not normally exceed 7%.

Investment policy (continued)

Gearing

The Investment Managers enjoy a high degree of flexibility in both balance sheet deployment, individual stock choices and size of positions in the Company's portfolio. They may reduce the exposure to equities, if they believe that prospects for equity markets are unfavourable, by one or more of: increasing the cash position, investing in bonds and using appropriate hedging strategies. Investors should note that hedging activities may not be perfectly correlated to the underlying portfolio's equity positions; hence undertaking hedging positions is not a 'risk free' exercise and can result in further losses if both positions were to move in opposite directions. This ought to be a rare event as the Investment Managers seek to use hedging instruments that realistically match the portfolio and generally hedging positions are used only at irregular intervals.

The Investment Managers try to be pragmatic in their balance sheet positioning, taking into account the general global outlook and liquidity environment. The Company has authority to borrow up to a maximum of 50% of shareholders' funds, but the Directors and Investment Managers have for the time being agreed a maximum figure of 22% at the time the borrowings are made (though any cash margin held may be offset against borrowings).

Even in negative market conditions a minimum gross level of equity exposure of at least 40% is likely to be maintained, although the net exposure could be reduced by, for example, hedging in extreme circumstances. Shareholders will not be immune to weak markets and currencies, or to poor stock selection, but the overall aim is to cushion the worst effects.

Financial summary

	1 January 2009 to 30 June 2009	1 January 2008 to 31 December 2008	1 January 2008 to 30 June 2008
Revenue:			
Net return after taxation	£883,000	£1,314,000	£368,000
Return per Ordinary share – basic	2.97p	4.43p	1.24p
– diluted	2.97p	4.43p	1.03p
Dividend declared/paid in respect of period	1.00p	5.55p	0.40p
Capital:			
Net return after taxation	£3,105,000	(£23,034,000)	(£5,795,000)
Return per Ordinary share – basic	10.46p	(77.57)p	(19.52)p
– diluted	10.46p	(77.57)p	(16.26)p
	As at	As at	As at
	30 June 2009	31 December 2008	30 June 2008
Assets (investments valued at bid-market prices):			
Net assets	£55,186,000	£52,727,000	£69,139,000
Net asset value per Ordinary share ('NAV') – basic	185.84p	177.56p	232.83p
– diluted	185.84p	177.56p	232.83p
Middle market quotation:			
Ordinary shares	165.00p	144.00p	213.00p
Subscription shares	10.50p	11.50p	28.00p
Discount to basic NAV:			
Ordinary shares	(11.21)%	(18.90)%	(8.52)%
	1 January 2009 to 30 June 2009	1 January 2008 to 31 December 2008	1 January 2008 to 30 June 2008
SR Europe Total Return*	7.85%	(28.99)%	(6.57)%
MSCI Europe (including UK) Total Return Index	(4.66)%	(26.65)%	(12.31)%

* includes dividends reinvested as at the ex-dividend date.

Investment Manager's report

The net asset value per share ('NAV') of the Company (including current period revenue) on a total return basis rose by 7.9% during the first half of 2009; for comparison the MSCI Europe (including UK) Index fell by 4.7%. European markets fell significantly during the first quarter (the March low was -24.1% year to date) before staging a sharp rally during the second quarter. Similarly to 2008, the first half of 2009 for European equity markets has been dominated by the global economic outlook and the ongoing recession. Analyst earnings' estimates continued to fall during the period but the rate of decline has slowed significantly during the second quarter as the economic environment appears to be stabilising, albeit at a lower level. Volatility in many asset classes remained high in the early part of the year, although not at the extremes of 2008 seen during the Lehman collapse, and has been on a significantly declining trend since, as it moves towards a level that one might associate with a more stable market. Intra sector rotation has also been an important performance factor for stock markets, where a clear bias towards traditional defensive sectors during the first quarter shifted one hundred and eighty degrees into indebted banks and cyclicals for the second quarter. With the benefit of perfect hindsight this would have been the best investment strategy.

The portfolio was defensively positioned during the first quarter with cash and near-cash (i.e. government bonds) levels at 50-60%, an equity weighting at a low level of around 30% and with some tactical hedging in place. The bulk of the losses during this quarter were due to the Company's currency positioning. In contrast to 2008, when Sterling was weak against the Euro and other currencies, it was strong through the first half of 2009 when it rose over 10% against the Euro. The NAV suffered from this Euro weakness against Sterling, as most assets, including bonds and cash,

were held in Euros and some UK exposure was also hedged into Euros.

The corporate bond exposure was gradually increased from 14%, at the start of the year, to 31% by the end of May, as the Company took advantage of some unprecedentedly low valuations in this asset class to good effect. Equity exposure was steadily increased from March to reach 85% by the end of June, making the Company's balance sheet almost fully deployed. This allowed the Company to significantly participate in the rebound in equity markets. At the stock level, notable positive returns were generated from Wirecard, Rocksource, Carphone Warehouse and several smaller oil related companies.

Interest received on our bond holdings has resulted in a substantial increase in net revenue after tax to £883,000 in the first half of 2009 against £368,000 in the comparable period in 2008, resulting in earnings per share of 2.97p against 1.24p. An interim dividend of 1.00p per Ordinary share has been declared (payable on 30 September 2009 to shareholders on the register on 11 September 2009) compared to the interim dividend of 0.40p in 2008. Interest from high yielding bond holdings boosted revenues in 2008 and will do so again in 2009, but these levels of income should be regarded as exceptional and are likely to revert closer to levels in previous years as and when the bond holdings are reduced. This is likely to happen when we see better potential returns from equities relative to the intrinsic risks in the these two different asset classes.

Although it appears that the worst of the economic decline is behind us, this should not be confused with an economic recovery being just around the corner. Instead, we expect growth rates to remain low, especially in the developed world, with only Asia, led by China, having a more positive structural outlook. Deleveraging in the western world is a necessary and long drawn out process that will require personal savings rates to be rebuilt.

It is also clear that governments will need to reign in expenditure during 2010 and beyond, whilst levels of unemployment are likely to remain stickily high. This all points to a continued tough, and most likely low growth, economic environment. For stock markets, it could be argued that the precipitous falls in 2008 and early 2009 have discounted much of this and that signs of stabilisation and so-called 'green shoots' of recovery are enough to produce a sustained rally through 2009, especially with investor expectations so low. If this is the case and 2009 proves to be the trough year for earnings, then valuation multiples still have some way to rise from their current low levels, especially given very low global interest rates and the accommodative monetary policies currently in place. We believe markets are currently in a normalisation phase where valuation multiples expand somewhat from their low levels. However, once this is complete it is much harder to see a sustained new bull market in the medium term, given the weak economic outlook, with only a sustained earnings expansion possibly producing such an outcome. The Company will continue to utilise a flexible balance sheet and a clear bottom-up stock selection process, seeking to add value at both levels. Despite our guarded economic outlook we do see many investment opportunities, mainly focused on low absolute valuation levels and some secular growth themes.

Sloane Robinson LLP

28 August 2009

Interim Management Report and Responsibility Statement of the Directors

Interim Management Report

The important events that have occurred during the period under review, the key factors influencing the financial statements and principal uncertainties for the remaining six months of the financial year are all set out in the Investment Manager's report.

The principal risks facing the Company are substantially unchanged since the date of the annual report for the year ended 31 December 2008 and continue to be as set out in that report. Risks faced by the Company include, but are not limited to, liquidity/marketability risk, interest rate risk, gearing risk, currency risk, maturity risk, market price risk, risks associated with non-compliance with Section 842 of the Income and Corporation Taxes Act 1988, risks associated with hedging, credit risk and risks associated with the engagement of third parties.

Responsibility Statement

The Directors confirm that to the best of their knowledge:

- the condensed set of financial statements is prepared in accordance with IAS 34 Interim Financial Reporting and gives a true and fair view of the assets, liabilities, financial position and profit of the Company and the subsidiary undertaking included in the consolidation taken as a whole; and
- this Half Yearly Financial Report includes a fair review of the information required by:

- (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
- (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Company during that period; and any changes in the related party transactions described in the last annual report that could do so.

This Half Yearly Report was approved by the Board of Directors on 28 August 2009 and the above responsibility statement was signed on its behalf by Martin Riley, Chairman.

Statement of comprehensive income

(unaudited) for the six months ended 30 June 2009

	Note	1 January 2009 to 30 June 2009 (unaudited)			1 January 2008 to 31 December 2008 (audited)			1 January 2008 to 30 June 2008 (unaudited)		
		Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Income										
Investment income		1,112	–	1,112	1,583	–	1,583	555	–	555
Other income		28	–	28	838	–	838	544	–	544
Net gains/(losses) on investments at fair value through profit or loss		–	4,967	4,967	–	(29,399)	(29,399)	–	(8,063)	(8,063)
Currency exchange (losses)/gains		(29)	(697)	(726)	36	2,887	2,923	3	1,821	1,824
Forward foreign exchange contracts (losses)/gains		–	(1,399)	(1,399)	–	3,268	3,268	–	–	–
Dealing gains/(losses) of subsidiary		59	–	59	(116)	–	(116)	(24)	–	(24)
Total income		1,170	2,871	4,041	2,341	(23,244)	(20,903)	1,078	(6,242)	(5,164)
Expenses										
Investment Manager's fee		(105)	(105)	(210)	(245)	(245)	(490)	(138)	(138)	(276)
VAT refund – Investment Manager's fee 6		181	181	362	–	–	–	–	–	–
Investment Manager's performance fee 6		–	–	–	–	689	689	–	689	689
Other expenses		(114)	–	(114)	(271)	–	(271)	(129)	–	(129)
Profit/(loss) before finance costs and taxation		1,132	2,947	4,079	1,825	(22,800)	(20,975)	811	(5,691)	(4,880)
Finance costs		(12)	(12)	(24)	(346)	(346)	(692)	(241)	(241)	(482)
Profit/(loss) before taxation		1,120	2,935	4,055	1,479	(23,146)	(21,667)	570	(5,932)	(5,362)
Taxation	3	(237)	170	(67)	(165)	112	(53)	(202)	137	(65)
Profit/(loss) and total comprehensive income for the period	4	883	3,105	3,988	1,314	(23,034)	(21,720)	368	(5,795)	(5,427)
		pence	pence	pence	pence	pence	pence	pence	pence	pence
Earnings per Ordinary share										
– Basic	4	2.97	10.46	13.43	4.43	(77.57)	(73.14)	1.24	(19.52)	(18.28)
– Diluted	4	2.97	10.46	13.43	4.43	(77.57)	(73.14)	1.03	(16.26)	(15.23)

The Company does not have any income or expense that is not included in profit/(loss) for the period, and therefore the "Profit/(loss) for the period" is also the "Total comprehensive income for the period", as defined in International Accounting Standard 1 (revised). All of the profit for the year and the total comprehensive income for the year is attributable to the Shareholders of the Group.

The total column of this statement is the statement of comprehensive income of the Group which incorporates the trading subsidiary, Frankrate Limited, prepared under International Financial Reporting Standards ('IFRS'). The supplementary revenue and capital return columns are presented for information purposes as recommended by the Statement of Recommended Practice issued by the Association of Investment Companies ('AIC'). All revenue and capital items in the above statement derive from continuing operations. These accounts are unaudited and are not the Group's statutory accounts.

Consolidated statement of changes in equity

(unaudited) for the six months ended 30 June 2009

	Share capital £'000	Share premium £'000	Capital reserves £'000	Retained earnings £'000	Total £'000
For the six months ended 30 June 2009 (unaudited)					
31 December 2008	3,028	26,127	20,842	2,730	52,727
Net increase in net assets from operations	–	–	3,105	883	3,988
Dividends paid:					
Final dividend for the year ended 31 December 2008 (5.15p)	–	–	–	(1,529)	(1,529)
30 June 2009	3,028	26,127	23,947	2,084	55,186
For the year ended 31 December 2008 (audited)					
31 December 2007	3,028	26,125	43,876	1,891	74,920
Net decrease in net assets from operations	–	–	(23,034)	1,314	(21,720)
Conversion of Subscription shares	–	2	–	–	2
Dividends paid:					
Final dividend for the year ended 31 December 2007 (1.20p)	–	–	–	(356)	(356)
Interim dividend for the year ended 31 December 2008 (0.40p)	–	–	–	(119)	(119)
31 December 2008	3,028	26,127	20,842	2,730	52,727
For the six months ended 30 June 2008 (unaudited)					
31 December 2007	3,028	26,125	43,876	1,891	74,920
Net decrease in net assets from operations	–	–	(5,795)	368	(5,427)
Conversion of Subscription shares	–	2	–	–	2
Dividends paid:					
Final dividend for the year ended 31 December 2007 (1.20p)	–	–	–	(356)	(356)
30 June 2008	3,028	26,127	38,081	1,903	69,139

Consolidated balance sheet

(unaudited) as at 30 June 2009

	30 June 2009 (unaudited) £'000	31 December 2008 (audited) £'000	30 June 2008 (unaudited) £'000
Non-current assets			
Investments			
Fair value	60,531	34,524	63,239
Current assets			
Trade and other receivables	3,477	1,279	2,927
Cash and cash equivalents	1,031	20,432	19,351
	4,508	21,711	22,278
Total assets	65,039	56,235	85,517
Current liabilities			
Bank overdraft	(8,033)	(3,068)	(13,724)
Trade and other payables	(1,820)	(440)	(2,654)
Current and total liabilities	(9,853)	(3,508)	(16,378)
Net assets	55,186	52,727	69,139

Consolidated balance sheet (continued)

(unaudited) as at 30 June 2009

		30 June 2009 (unaudited) £'000	31 December 2008 (audited) £'000	30 June 2008 (unaudited) £'000
Shareholders' equity				
Share capital		3,028	3,028	3,028
Share premium		26,127	26,127	26,127
Capital reserves		23,947	20,842	38,081
Retained earnings		2,084	2,730	1,903
Total Shareholders' equity		55,186	52,727	69,139
		pence	pence	pence
Net asset value per Ordinary share				
Basic	5	185.84	177.56	232.83
Diluted	5	185.84	177.56	232.83
		number	number	number
Shares in issue:				
Ordinary shares		29,695,234	29,695,234	29,695,234
Subscription shares outstanding		5,937,927	5,937,927	5,937,927

The consolidated balance sheet incorporates the trading subsidiary, Frankrate Limited.

These accounts have been prepared under IFRS.

Consolidated statement of cash flows

(unaudited) for the six months ended 30 June 2009

	Six months ended 30 June 2009 (unaudited) £'000	Year to 31 December 2008 (audited) £'000	Six months ended 30 June 2008 (unaudited) £'000
Cash flows from operating activities			
Net return before taxation	4,055	(21,667)	(5,362)
Adjustment to reconcile:			
Less: (gains)/losses on investments	(4,967)	29,399	8,063
Less: dividends reinvested	(63)	(30)	–
Realised exchange losses/(gains)	697	(2,887)	(1,821)
Losses/(gains) on forward foreign exchange contracts	1,399	(3,268)	–
Unrealised exchange losses/(gains) on income	15	(36)	–
Plus: finance costs	24	692	482
Increase in trade and other receivables	(204)	(51)	(57)
Decrease in trade and other payables	(1)	(871)	(844)
Tax deducted from unfranked investment income	(88)	(107)	(107)
	<hr/>	<hr/>	<hr/>
Cash generated from operations	867	1,174	354
Overdraft interest paid	(20)	(805)	(547)
Tax credits recovered on unfranked investment income	–	3	4
	<hr/>	<hr/>	<hr/>
Net cash flows generated from/(used in) operating activities	847	372	(189)
	<hr/>	<hr/>	<hr/>
Cash flows from investing activities			
Purchases of investments	(79,240)	(128,116)	(56,065)
Sales of investments	57,018	138,576	61,961
Exchange (losses)/gains on settlement	(30)	114	70
Exchange (losses)/gains on currency	(1,608)	6,055	2,203
Exchange (losses)/gains on futures contracts	(89)	145	85
(Losses)/gains on index futures contracts	(29)	4,459	1,692
Open futures and option contracts deposits	294	(154)	(162)
	<hr/>	<hr/>	<hr/>
Net cash flows (used in)/from investing activities	(23,684)	21,079	9,784
	<hr/>	<hr/>	<hr/>
Cash flows from financing activities			
Share issues	–	2	2
Equity dividends paid	(1,529)	(475)	(356)
Subscription share issue costs	–	(10)	(10)
	<hr/>	<hr/>	<hr/>
Net cash flows used in financing activities	(1,529)	(483)	(364)
	<hr/>	<hr/>	<hr/>
(Decrease)/increase in cash and cash equivalents for period	(24,366)	20,968	9,231
Cash and cash equivalents at start of period	17,364	(3,604)	(3,604)
	<hr/>	<hr/>	<hr/>
Cash and cash equivalents at end of period	(7,002)	17,364	5,627
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These accounts have been prepared under IFRS.

Notes to the Half Yearly Report

for the six months ended 30 June 2009

1 General information

The financial information contained in this Half Yearly Report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The financial information for the six months ended 30 June 2009 and 30 June 2008 has not been audited nor reviewed by the Company's Auditor.

The statutory accounts for the year ended 31 December 2008, which contained an unqualified auditors' report, have been lodged with the Registrar of Companies and did not contain a statement required under Section 237 (2) or (3) of the Companies Act 1985. For this Half Yearly Report, the Company has adopted the new Statement of Recommended Practice ('SORP') (issue by the Association of Investment Companies in January 2009) together with International Accounting Standard 1 (revised January 2009), both of which result in presentational changes and have no material effect on the financial information provided.

The Board of Directors believes that, to the best of their knowledge, the Half Yearly Financial Report for the six months ended 30 June 2009 gives a true and fair view of the assets, liabilities, financial position and return of the Group.

2 Accounting policies

SR Europe Investment Trust plc is a company domiciled in the United Kingdom. The consolidated Half Yearly Financial Report of the Company for the period ended 30 June 2009 is comprised of the Company and its subsidiary (together referred to as the 'Group').

Basis of preparation/statement of compliance

The consolidated Half-Yearly Financial Report of the Group has been prepared in accordance with International Financial Reporting Standards ('IFRS') for interim financial statements: IAS 34 Interim Financial Reporting, and reflects the following policies which have been adopted and applied consistently. It does not include all of the information required for full financial statements. All accounting policies are consistent with the policies used in the last annual report and accounts.

Accounting convention

The financial statements are presented in Sterling, being the primary environment in which the Group operates, rounded to the nearest thousand (£'000). The financial statements have been prepared on a going concern basis. Investment and derivative financial instruments have been measured at fair value of investments classified as fair value through profit or loss.

Basis of consolidation

The Group financial statements consolidate the financial statements of SR Europe Investment Trust plc and its wholly owned subsidiary undertaking, Frankrate Limited, drawn up to 30 June 2009.

Segmental reporting

The Directors are of the opinion that the Group is engaged in a single segment of business, being investment business. The Group invests in companies listed in the United Kingdom and continental Europe, including emerging Europe and Russia.

Notes to the Half Yearly Report

for the six months ended 30 June 2009

Investments

All investments held by the Company are classified as 'fair value through profit or loss'. Investments are initially recognised at cost, being the fair value of the consideration given.

After initial recognition, investments are measured at fair value, with unrealised gains and losses on investments and impairment of investments recognised in the statement of comprehensive income and allocated to capital. Realised gains and losses on investments sold are calculated as the difference between sales proceeds and cost.

For investments actively traded in organised financial markets, fair value is generally determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date, without adjustment for transaction costs necessary to realise the asset.

Investments held as current assets by the subsidiary undertaking are disclosed as 'held for trading' and are shown at the lower of cost and net realisable value. There are no investments held by the subsidiary at either 30 June 2009, 31 December 2008 or 30 June 2008.

Fair value of derivative financial instruments

The Group uses derivative financial instruments in the form of index futures contracts and options to hedge against market exposure in order to safeguard the assets of the Group. These contracts are accounted for as trading instruments. They are initially recognised at cost and subsequently are stated at fair value, being their closing price at the balance sheet date. The gain or loss on remeasurement to fair value is recognised in the statement of comprehensive income and allocated to capital.

Forward foreign exchange contracts

Forward foreign exchange contracts are initially recognised at fair value and subsequently stated at fair value, being the forward exchange rate at the balance sheet date. The gain or loss on remeasurement to fair value is recognised in the statement of comprehensive income and allocated to capital.

Foreign currency

Transactions denominated in foreign currencies are converted to Sterling at the actual exchange rate as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rate of exchange ruling at that date. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in the statement of comprehensive income and depending on the nature of the gain or loss is allocated to either revenue or capital.

Trade date accounting

All 'regular way' purchases and sales of financial assets are recognised on the 'trade date' i.e. the day that the entity commits to purchase or sell the asset. Regular way purchases, or sales, are purchases or sales of financial assets that require delivery of the asset within a time frame generally established by regulation or convention in the market place.

Income recognition

Dividends receivable on quoted equity shares are taken into account on the ex-dividend date. Where no ex-dividend date is quoted, they are brought into account when the Company's right to receive payment is established. Income arising on fixed interest securities is recognised on an effective interest rate basis. Other investment income and interest receivable is included in the financial statements on an accruals basis. Dividends received from UK registered companies are accounted for net of imputed tax credits.

Notes to the Half Yearly Report

for the six months ended 30 June 2009

Expenses

All expenses are accounted for on an accruals basis. Transaction costs incurred on the acquisition or disposal of an investment classified as fair value through profit or loss are not included within the cost of that investment but are charged separately through the statement of comprehensive income and allocated to capital. Transaction costs amounting to £139,264 (31 December 2008: £299,000), (30 June 2008: £48,000) and £32,829 (31 December 2008: £505,000), (30 June 2008: £110,000) on purchases and sales respectively, are included within gains/(losses) on investments at fair value. The Company's investment management and administration fees, finance costs (including interest on the bank facility) and all other expenses are charged through the statement of comprehensive income. These expenses are allocated to revenue with the exception of 50% of the Investment Manager's fee and 50% of finance costs which are allocated to capital.

Cash and cash equivalents

Cash in hand and in banks and short-term deposits which are held to maturity are carried at cost. Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Bank overdrafts that are repayable on demand, which form an integral part of the Group's cash management, are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Bank loans and borrowings

All bank loans and borrowings are initially recognised at cost, being the fair value of the consideration received, less issue costs where applicable. After initial recognition, all interest bearing loans and borrowings are subsequently measured at amortised cost. Any difference between cost and redemption value has been recognised in the statement of comprehensive income over the period of the borrowings on an effective interest basis.

Taxation

Corporation tax on the profit or loss for the period comprises current and deferred tax. Corporation tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. The tax effect of different items of expenditure is allocated between revenue and capital on the same basis as the particular item to which it relates, using the Company's effective rate of tax, as applied to those items allocated to revenue, for the accounting period.

Deferred corporation tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax basis of assets and liabilities and their carrying amount for financial reporting purposes. Deferred corporation tax liabilities are measured at the tax rates that are expected to apply to the period when the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Dividends payable to Shareholders

Dividends to Shareholders are recognised in the period in which they have been paid or approved in general meetings and are charged to the statement of changes in net equity.

The declared interim dividend payable on 30 September 2009 of 1.00p is therefore not included as part of these financial statements.

Notes to the Half Yearly Report

for the six months ended 30 June 2009

3 Taxation

The estimated effective corporation tax rate is 0% as investment gains are exempt from tax owing to the Company's status as an investment trust and there is expected to be an excess of management expenses over taxable income. The total tax assessed is however higher than 0% due to the payment of overseas tax which is not recoverable.

4 Return per Ordinary share

	Six months ended 30 June 2009			Year ended 31 December 2008			Six months ended 30 June 2008		
	Net Weighted Average return £'000	number of Ordinary shares	Per share pence	Net Weighted Average return £'000	number of Ordinary shares	Per share pence	Net Weighted Average return £'000	number of Ordinary shares	Per share pence
Basic Revenue									
Basic return per share	883	29,695,234	2.97	1,314	29,694,907	4.43	368	29,694,576	1.24
Capital									
Basic return per share	3,105	29,695,234	10.46	(23,034)	29,694,907	(77.57)	(5,795)	29,694,576	(19.52)
Total									
Basic return per share	3,988	29,695,234	13.43	(21,720)	29,694,907	(73.14)	(5,427)	29,694,576	(18.28)
Diluted Revenue									
Diluted return per share	883	29,695,234	2.97	1,314	29,694,907	4.43	368	35,632,503	1.03
Capital									
Diluted return per share	3,105	29,695,234	10.46	(23,034)	29,694,907	(77.57)	(5,795)	35,632,503	(16.26)
Total									
Diluted return per share	3,988	29,695,234	13.43	(21,720)	29,694,907	(73.14)	(5,427)	35,632,503	(15.23)

Notwithstanding that for the six months ended 30 June 2009 and year ended 31 December 2008, the average market value of an Ordinary share was lower than the conversion price of 244p, the dilutive effects on earnings per share from the Subscription shares is also disclosed on the face of the statement of comprehensive income.

Notes to the Half Yearly Report

for the six months ended 30 June 2009

5 Net asset value ('NAV') per share

	30 June 2009 (unaudited) pence	31 December 2008 (audited) pence	30 June 2008 (unaudited) pence
Ordinary share			
– Basic	185.84	177.56	232.83
– Fully diluted	185.84	177.56	232.83

The NAVs per share have been calculated in accordance with the Articles of Association and are based on:

	£'000	£'000	£'000
Net assets attributable to Ordinary shareholders	55,186	52,727	69,139
Number of Ordinary shares in issue at the period end	29,695,234	29,695,234	29,695,234
Subscription shares outstanding at the period end	5,937,927	5,937,927	5,937,927

The fully diluted NAVs are shown as the same figure as the basic NAV because the conversion price of the Subscription shares of 244p is above the basic NAV per Ordinary share.

6 Related party transactions

The Investment Manager, Sloane Robinson LLP, is regarded as a related party of the Company. The total charge to the Company for investment management fees and performance fees is disclosed in the statement of comprehensive income. Amounts payable to the Investment Manager as at 30 June 2009 for investment management fees totalled £111,358 (31 December 2008: £104,343) (30 June 2008: £137,499). Amounts payable in respect of the performance fee totalled £nil (31 December 2008: £nil) (30 June 2008: £nil).

A performance fee is payable in 2012 based on performance over a period of approximately 5¼ years. Despite assets increasing in the six months, there is no performance fee owing at 30 June 2009.

The Company ceased to pay VAT on its management and performance fees from 1 July 2007 when HM Revenue & Customs announced acceptance that VAT was not chargeable on such fees. £362,765 of VAT paid in past years was recovered during the period. This has been allocated 50% to capital and 50% to revenue.

Portfolio investments

as at 30 June 2009

Top 20 holdings	Country of quotation	Market value £'000	% of total investments
Wirecard	Germany	2,953	4.88
Petroleum Geo 2.7% 03/12/12	Norway	2,782	4.59
Roche Holdings	Switzerland	2,528	4.18
Rocksource	Norway	2,492	4.12
Seadrill 3.625% 08/11/12	Norway	2,280	3.77
Telefonica	Spain	2,262	3.74
Novo Nordisk	Denmark	2,204	3.64
Vodafone Group	United Kingdom	2,202	3.64
Man Group 11%	United Kingdom	2,058	3.40
Koninklijke	Netherlands	1,762	2.91
EDF	France	1,638	2.71
Fresenius	Germany	1,557	2.57
Carphone Warehouse	United Kingdom	1,514	2.50
BP	United Kingdom	1,473	2.43
Total	France	1,334	2.20
Solarworld	Germany	1,287	2.13
E.ON	Germany	1,283	2.12
Sonata 1.5% 09/12/10	Spain	1,256	2.07
PV Crystalox	United Kingdom	1,223	2.02
Dana Petroleum	United Kingdom	1,221	2.02
		37,309	61.64

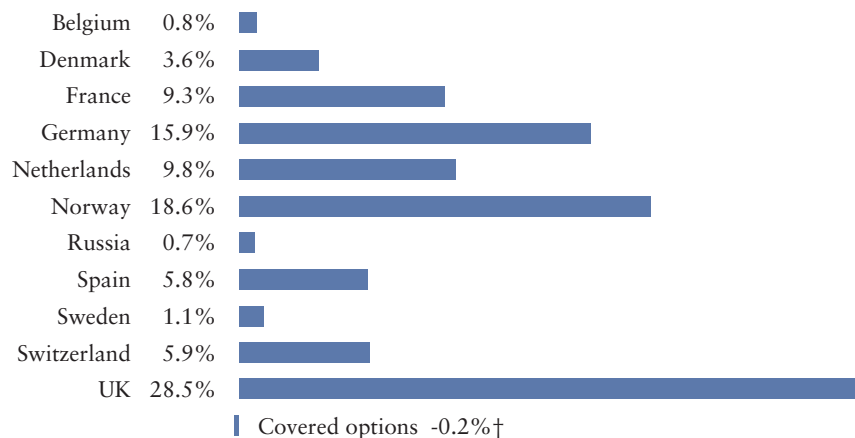
The total portfolio consisted of 59 holdings. There are no holdings in the subsidiary as at 30 June 2009.

Total portfolio investments valued at bid as at 30 June 2009: £60,531,000.

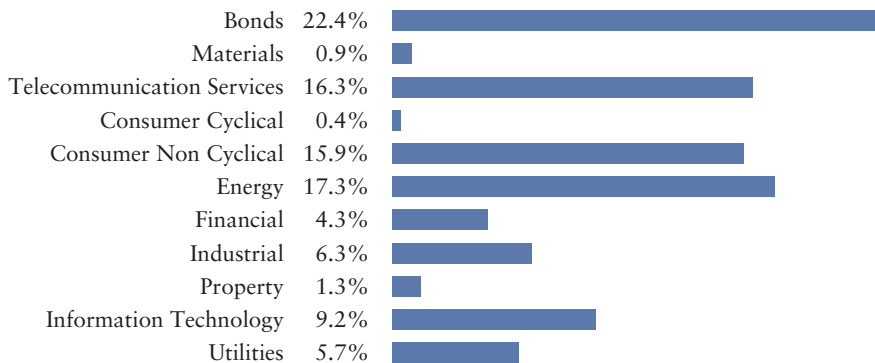
Total portfolio investments

as at 30 June 2009

Geographical breakdown*



Sector breakdown*



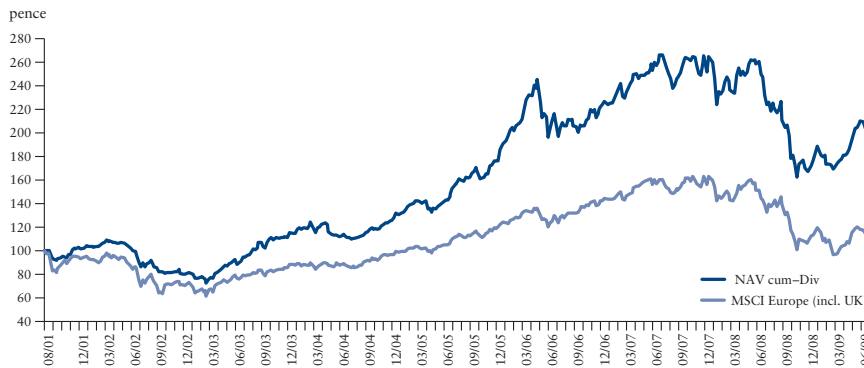
* as a percentage of the total portfolio of equity investments at 30 June 2009: £60,531,000.

† includes the short-term call options where the underlying stock is held. This indicates that the net exposure of the Company against the portfolio is 99.8%.

Correction to performance record

The Company's Investment Manager, Sloane Robinson LLP, recently discovered an error in the programme they have been using for calculating the cumulative total return on SREIT's NAV (including dividends reinvested) since the inception of the Company in August 2001. All NAVs published by SREIT have been stated correctly. Prior to 2006 the error resulted in the cumulative total return NAV being incorrect by no more than 0.5% on a cumulative basis (0.1% per annum), although by 30 June 2009 it had grown to 9.9% (1.1% per annum). The error, which resulted from an incorrect calculation of the dividend factor to be applied to the NAV when determining SREIT's total return performance, has only come to light following the most recent dividend payment being larger than normal. This total return record has been shown in graphic form in the Company's annual reports and in the monthly reports circulated by the Investment Manager. The Company's website also showed these figures in tabular and graphic form, and these have now been corrected.

For the record, the corrected performance graph is shown below. Further information is available from David Gale at Sloane Robinson LLP (david@sloanerobinson.com).



Index rebased to 14/08/2001 = 100

Directors and Advisers

Directors

M R Riley (Chairman)*
I C S Barby*
D S Boyle*
T W N Guinness*
H P Sloane

* Independent of the Investment Manager

Registered in England
Company Number
4223875

An investment company as defined under Section
833 of the Companies Act 2006

AIC
The Company is a member of the
Association of Investment Companies

Secretary and Registered Office

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