

**THE INDEPENDENT INVESTMENT TRUST PLC**

**HALF-YEARLY FINANCIAL REPORT**

For the six months ended 31 May 2010

## SUMMARY STATISTICS

for the six months ended 31 May 2010

Net asset value per share of 196.3p up 0.7%  
(since 30 November 2009)

Earnings per share 3.42p (2.12p)

Interim dividend per share of 2.00p (2.00p)

## OBJECTIVE AND POLICY

The Company's objective is to provide good absolute returns over long periods by investing the great majority of its assets in UK and international quoted securities. When appropriate, the directors will sanction relatively high levels of gearing and a relatively concentrated portfolio structure. The portfolio is constructed without reference to the composition of any stockmarket index.

## PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks facing the Company relate to the Company's investment activities. These risks are market price risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. An explanation of these risks and how they are managed is contained in note 18 of the Company's Annual Report and Financial Statements for the year to 30 November 2009, which is available on the Company's website: [www.independentinvestmenttrust.co.uk](http://www.independentinvestmenttrust.co.uk). The principal risks and uncertainties have not changed since the publication of the Annual Report. Other risks facing the Company include the following: regulatory risk (that the loss of investment trust status or a breach of applicable legal and regulatory requirements could have adverse financial consequences and cause reputational damage); operational/financial risk (failure of service providers' accounting systems could lead to inaccurate reporting or financial loss); the risk that the discount can widen; and gearing risk (the use of borrowing can magnify the impact of falling markets). The Company's policy is designed to allow the Company an unusually high degree of freedom to exploit the directors' judgement. To the extent that the directors' judgement is flawed, future results could be unusually poor.

## RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- a) the condensed set of financial statements has been prepared in accordance with the Accounting Standards Board's statement 'Half-Yearly Financial Reports';
- b) the Chairman's Statement includes a fair review of the information required by Disclosure and Transparency Rules 4.2.7R (indication of important events during the first six months, and their impact on the financial statements, and a description of principal risks and uncertainties for the remaining six months of the year); and
- c) the Half-Yearly Financial Report includes a fair review of the information required by Disclosure and Transparency Rules 4.2.8R (disclosure of related party transactions and changes therein).

By order of the board

Douglas McDougall  
Chairman

8 July 2010

None of the views expressed in this document should be construed as advice to buy or sell a particular investment. The Independent Investment Trust PLC, as a listed company, is subject to the requirements of the Listing Rules of the Financial Services Authority (FSA) but it is not directly regulated by the FSA, either as a collective investment scheme or as an authorised person. Moreover, its employees are not registered with the FSA as authorised persons. If you are in any doubt about the Company's regulatory status, you should consult your stockbroker or financial adviser.

The six month period ending 31 May 2010 saw our Company produce a total return of 4.8%, which compares with a total return notionally attributable to the FTSE All Share Index of 2.7%. An otherwise satisfactory performance was marred by our failure to anticipate the full stockmarket consequences of the tragic Deepwater Horizon accident in the Gulf of Mexico.

Our net asset value rose marginally over the period – from 194.9p to 196.3p – and we are declaring an unchanged interim dividend of 2p, to be paid on 27 August 2010 from earnings of 3.42p (2.12p last year). Our income account has benefited from the curious but firm advice of our auditors that we treat the exceptional capital distribution from Dunelm as income. As ever, it is difficult to offer any sensible guidance as to the outcome for the full year, which will depend on investment decisions taken in the second half, but we would remind shareholders that the portfolio is not being managed to meet any particular income target.

The story of the period has been one of progressive economic recovery punctuated by bouts of nervousness about the stability of the financial system. There has been particular concern about the finances of some of the weaker members of the Eurozone and about the difficulty they might have in engineering recovery in their economies, having surrendered the ability to devalue their currency. It has been the clearest possible illustration of the wisdom of the British government in steering clear of this fundamentally flawed project. Elsewhere, the pace of recovery has been sufficient to produce good profits growth, but not so rapid as to encourage the authorities to tighten monetary policy. It remains difficult to predict whether the recovery will be sustained or whether the weight of debt in the system will snuff it out. We have therefore persisted with our policy of hedging our bets by having substantial exposure to both defensive businesses and cyclical companies with sustainable finances.

Activity has been relatively modest during the period and has been driven primarily by decisions on individual stocks rather than by strategic considerations. Our cash balances fell from 11% at 30 November 2009 to 8% at 31 May 2010. Whilst remaining worried about the outlook for stockmarkets, we consider defensive investments with secure yields a better home for our money than a bank deposit account.

It is a great disappointment to be reporting on a period when buoyant oil prices have gone hand in hand with a dismal performance from our energy portfolio: a stake worth £31m at 30 November 2009 had fallen in value to £22.9m by 31 May 2010, albeit that £3.0m of this reduction can be attributed to net sales during the period. And this is after a considerable benefit from the movement in the sterling dollar exchange rate.

The drilling accident in the Gulf of Mexico has created understandable concern about the risks associated with the exploitation of deep water fields, which in turn has led to a six month moratorium on any deep water drilling in the Gulf. The stockmarket's view is that the rigs that have been occupied in the Gulf will have to find work elsewhere, destroying the delicate balance that existed in the market for deep water rigs. This creates considerable uncertainty in the short term, but has no bearing on the longer term arguments that we need to find more oil to avert a supply crunch and that the best chances of making new discoveries tend to be in the deep water prospects. Once again we find ourselves trying to wrestle with the conflicting influences of an uncertain short term outlook, cheap valuations and a seemingly bright long term future. On the evidence so far, we have not been attaching enough importance to the first of these.

Our retailing stake has shown underlying stability during the period: the increase in its value from £13.7m at 30 November 2009 to £18.1m at 31 May 2010 is largely attributable to net purchases of £4.3m (including the Dunelm capital distribution). Our traditional holdings, Dunelm and Topps, both performed poorly but our new holding in the fashion business Supergroup made good the deficit. We are excited by Supergroup's plans for future expansion, but conscious of the fact that we are ill placed personally to make judgements on the key aspect of its outlook: the durability of the appeal of its merchandise.

## CHAIRMAN'S STATEMENT

Our defensive positions in insurance, tobacco, utilities and pharmaceuticals have remained largely undisturbed and have had little impact on our overall performance. Of our more cyclical exposures, engineering, transport and mining have made a positive contribution, but commercial property and housebuilding have been a drag. The return of Persimmon to our portfolio reflects the extraordinary achievement of management in steering the company safely through the difficult conditions of the last three years without recourse to equity funding.

A good performance from our mainstream recruitment holdings was spoilt by a brief and painful entanglement with Healthcare Locums. Elsewhere, Aggreko, IG Group, Herald and Marston's all performed well.

We have once again been active buyers of our own shares on terms that have benefited continuing shareholders: during the period we bought 920,000 shares, which enhanced our net asset value by roughly 0.3p.

We are encouraged at the way in which improvements in global economic conditions have been feeding through to the profits of economically sensitive companies and we would have little difficulty in persuading ourselves of the cheapness of the shares of many such companies if we could only be sure that the recovery were sustainable. It still seems to us, however, that the risk of renewed instability in the financial system is significant enough to justify the retention of our defensive investments and a cautious approach to the deployment of our cash balances. We shall, of course, keep this conclusion under continuous review.

The principal risks facing the Company are set out on the inside front cover of this report. We draw your attention, in particular, to the unusually important role of the directors' judgement in the success or failure of the Company's policy.

Douglas McDougall  
8 July 2010

## LIST OF INVESTMENTS AS AT 31 MAY 2010

Sector	Name	Value £'000	%
Housebuilders	Berkeley Group	1,601	1.3
	Persimmon	2,448	2.0
		4,049	3.3
Industrials	Aggreko	8,837	7.3
Capital Goods	IMI	1,963	1.6
	Renishaw	1,056	0.9
		3,019	2.5
Retailing	Dunelm Group	11,110	9.2
	Supergroup	5,950	4.9
	Topps Tiles	990	0.8
		18,050	14.9
Recruitment	Michael Page International	2,380	2.0
	SThree	3,030	2.5
		5,410	4.5
Technology and Telecommunications	Herald Investment Trust	7,120	5.9
	Vodafone Group	1,382	1.2
		8,502	7.1
Mining	BHP Billiton	1,434	1.2
	BlackRock World Mining Trust	2,912	2.4
		4,346	3.6
Offshore Drillers	Diamond Offshore Drilling – USA	5,210	4.3
	Noble Corporation – USA	11,196	9.3
		16,406	13.6
Oilfield Services	Schlumberger – USA	5,021	4.2
Oil and Gas Producers	BP	1,484	1.2
Tobacco	British American Tobacco	5,106	4.2
	Imperial Tobacco	2,700	2.3
		7,806	6.5
Pharmaceuticals	GlaxoSmithKline	1,735	1.4
Leisure	Marston's	1,890	1.6
Transport	First Group	1,507	1.3
	Go-Ahead Group	1,025	0.9
	Stagecoach Group	2,761	2.3
		5,293	4.5
Utilities	† National Grid	2,771	2.3
	Scottish & Southern Energy	2,104	1.7
		4,875	4.0
Insurance	Amlin	2,249	1.9
	Beazley	1,695	1.4
	Catlin Group	979	0.8
	Chaucer Holdings	1,720	1.4
	Hiscox Insurance Portfolio Fund	1,894	1.6
		8,537	7.1
Property	Tamar European Industrial Fund	1,750	1.5
	Orchid Developments Group	450	0.4
		2,200	1.9
Miscellaneous Financials	Alliance Trust	751	0.6
	IG Group Holdings	2,661	2.2
		3,412	2.8
<b>TOTAL INVESTMENTS</b>		110,872	92.0
Net liquid assets		9,602	8.0
<b>SHAREHOLDERS' FUNDS</b>		120,474	100.0

All holdings are in equities domiciled in the UK unless otherwise stated.

†Includes a holding in nil paid shares.

INCOME STATEMENT  
(unaudited)

For the six months ended 31 May 2010

	<i>Notes</i>	Revenue £'000	Capital £'000	Total £'000
Losses on sales of investments		–	(1,625)	(1,625)
Changes in investment holdings gains/losses		–	2,648	2,648
Currency gains/(losses)		–	1,241	1,241
Income from investments and interest receivable		2,427	–	2,427
Other income		2	–	2
Administrative expenses		(254)	–	(254)
<b>Net return before finance costs and taxation</b>		<b>2,175</b>	<b>2,264</b>	<b>4,439</b>
Finance costs of borrowings		(17)	–	(17)
<b>Net return on ordinary activities before taxation</b>		<b>2,158</b>	<b>2,264</b>	<b>4,422</b>
Tax on ordinary activities		(42)	–	(42)
<b>Net return on ordinary activities after taxation</b>		<b>2,116</b>	<b>2,264</b>	<b>4,380</b>
<b>Net return per ordinary share:</b>	<b>3</b>			
Basic and Diluted (FRS 22)		3.42p	3.66p	7.08p
Note:				
Dividends per share paid and payable in respect of the period	4	2.00p		

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

All revenue and capital items in this statement derive from continuing operations. No operations were acquired or discontinued during the period.

A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above statement.

For the six months ended 31 May 2009			For the year ended 30 November 2009		
Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
–	(10,088)	(10,088)	–	(10,713)	(10,713)
–	24,327	24,327	–	43,915	43,915
–	(888)	(888)	–	(1,219)	(1,219)
1,665	–	1,665	3,247	–	3,247
14	–	14	18	–	18
(249)	–	(249)	(494)	–	(494)
1,430	13,351	14,781	2,771	31,983	34,754
(20)	–	(20)	(40)	–	(40)
1,410	13,351	14,761	2,731	31,983	34,714
(48)	–	(48)	(92)	–	(92)
1,362	13,351	14,713	2,639	31,983	34,622
2.12p	20.82p	22.94p	4.16p	50.42p	54.58p
2.00p			8.00p		

**BALANCE SHEET**  
(unaudited)

		At 31 May	At 31 May	At 30 November
	Notes	2010 £'000	2009 £'000	2009 £'000
<b>Fixed assets</b>				
Investments held at fair value through profit or loss		110,872	84,466	108,008
<b>Current assets</b>				
Debtors		3,366	927	404
Cash at bank and in hand		9,391	18,824	13,047
		12,757	19,751	13,451
<b>Creditors</b>				
Amounts falling due within one year	5	(3,155)	(23)	(27)
<b>Net current assets</b>		9,602	19,728	13,424
<b>Total net assets</b>		120,474	104,194	121,432
<b>Capital and reserves</b>				
Called-up share capital		15,346	15,812	15,576
Share premium		15,242	15,242	15,242
Special distributable reserve		31,974	35,013	33,600
Capital redemption reserve		1,186	720	956
Capital reserve		53,941	33,045	51,677
Revenue reserve		2,785	4,362	4,381
<b>Shareholders' funds</b>		120,474	104,194	121,432
<b>Net asset value per ordinary share</b>		196.3p	164.7p	194.9p
<b>Ordinary shares in issue</b>	6	61,385,000	63,250,000	62,305,000

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS  
(unaudited)

**For the six months ended 31 May 2010**

	Share Capital £'000	Share Premium £'000	Special Distri- butable Reserve £'000	Capital Redemp- tion Reserve £'000	Capital Reserve* £'000	Revenue Reserve £'000	Share- holders' Funds £'000
Shareholders' funds at 1 December 2009	15,576	15,242	33,600	956	51,677	4,381	121,432
Net return on ordinary activities after taxation	-	-	-	-	2,264	2,116	4,380
Shares bought back for cancellation	(230)	-	(1,626)	230	-	-	(1,626)
Dividends paid (see note 4)	-	-	-	-	-	(3,712)	(3,712)
Shareholders' funds at 31 May 2010	15,346	15,242	31,974	1,186	53,941	2,785	120,474

**For the six months ended 31 May 2009**

	Share Capital £'000	Share Premium £'000	Special Distri- butable Reserve £'000	Capital Redemp- tion Reserve £'000	Capital Reserve* £'000	Revenue Reserve £'000	Share- holders' Funds £'000
Shareholders' funds at 1 December 2008	16,295	15,242	37,377	237	19,694	5,394	94,239
Net return on ordinary activities after taxation	-	-	-	-	13,351	1,362	14,713
Shares bought back for cancellation	(483)	-	(2,364)	483	-	-	(2,364)
Dividends paid (see note 4)	-	-	-	-	-	(2,394)	(2,394)
Shareholders' funds at 31 May 2009	15,812	15,242	35,013	720	33,045	4,362	104,194

**For the year ended 30 November 2009**

	Share Capital £'000	Share Premium £'000	Special Distri- butable Reserve £'000	Capital Redemp- tion Reserve £'000	Capital Reserve* £'000	Revenue Reserve £'000	Share- holders' Funds £'000
Shareholders' funds at 1 December 2008	16,295	15,242	37,377	237	19,694	5,394	94,239
Net return on ordinary activities after taxation	-	-	-	-	31,983	2,639	34,622
Shares bought back for cancellation	(719)	-	(3,777)	719	-	-	(3,777)
Dividends paid (see note 4)	-	-	-	-	-	(3,652)	(3,652)
Shareholders' funds at 30 November 2009	15,576	15,242	33,600	956	51,677	4,381	121,432

\* The Capital Reserve balance at 31 May 2010 includes an investment holding gain of £1,830,000 (31 May 2009 – loss of £20,406,000; 30 November 2009 – loss of £818,000).

CONDENSED CASH FLOW STATEMENT  
(unaudited)

	For the six months ended 31 May	For the six months ended 31 May	For the year ended 30 November
	2010 £'000	2009 £'000	2009 £'000
Net cash inflow from operating activities	2,319	1,483	2,888
Net cash outflow from servicing of finance	(20)	(30)	(50)
Net cash (outflow)/inflow from financial investment	(619)	16,182	11,695
Equity dividends paid	(3,712)	(2,394)	(3,652)
<b>Net cash (outflow)/inflow before financing</b>	<b>(2,032)</b>	<b>15,241</b>	<b>10,881</b>
Net cash outflow from financing	(1,624)	(2,717)	(4,134)
<b>(Decrease)/increase in cash</b>	<b>(3,656)</b>	<b>12,524</b>	<b>6,747</b>
<b>Reconciliation of net cash flow to movement in net funds</b>			
(Decrease)/increase in cash in the period	(3,656)	12,524	6,747
Net funds at start of the period	13,047	6,300	6,300
<b>Net funds at end of the period</b>	<b>9,391</b>	<b>18,824</b>	<b>13,047</b>
<b>Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities</b>			
Net return before finance costs and taxation	4,439	14,781	34,754
Gains on investments	(1,023)	(14,239)	(33,202)
Amortisation of fixed interest book cost	–	27	27
Currency (gains)/losses	(1,241)	888	1,219
Change in debtors and creditors	186	74	182
Overseas tax	(42)	(48)	(92)
<b>Net cash inflow from operating activities</b>	<b>2,319</b>	<b>1,483</b>	<b>2,888</b>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS  
(unaudited)

1. The condensed set of financial statements comprises the statements set out on pages 4 to 8 together with the related notes on page 9. They have been prepared on the basis of the same accounting policies as set out in the Company's Annual Financial Statements at 30 November 2009 and in accordance with the ASB's Statement 'Half-Yearly Financial Reports' and have not been audited or reviewed by the Auditors pursuant to the Auditing Practices Board Guidance on 'Review of Interim Financial Information'. They have been prepared on the going concern basis as it is the directors' opinion that the Company will continue in operational existence for the foreseeable future.

2. The financial information contained within this Half-Yearly Financial Report comprises non-statutory accounts as defined in sections 434 to 436 of the Companies Act 2006. The financial information for the year ended 30 November 2009 has been extracted from the statutory accounts which have been filed with the Registrar of Companies. The Auditors' Report on those accounts was not qualified and did not contain statements under sections 498(2) or (3) of the Companies Act 2006.

3. **Net return per ordinary share**

	Six months ended 31 May	Six months ended 31 May	Year ended 30 November
	2010 £'000	2009 £'000	2009 £'000
Revenue return on ordinary activities after taxation	2,116	1,362	2,639
Capital return on ordinary activities after taxation	2,264	13,351	31,983
Total net return	4,380	14,713	34,622

The returns per share are based on the above returns and on 61,899,352 (31 May 2009 – 64,113,917; 30 November 2009 – 63,428,586) shares, being the weighted average number of shares in issue during each period.

There was no dilution of returns during any of the financial periods under review, as the average exercise price of the outstanding options was higher than the average share price.

4. **Dividends**

	Six months ended 31 May	Six months ended 31 May	Year ended 30 November
	2010 £'000	2009 £'000	2009 £'000
<b>Amounts recognised as distributions in the period:</b>			
Previous year's final dividend of 3.00p (2009 – 3.00p) paid 1 April 2010	1,856	1,915	1,915
Previous year's special dividend of 3.00p (2009 – 0.75p) paid 1 April 2010	1,856	479	479
Interim dividend for the year ended 30 November 2009 of 2.00p paid 28 August 2009	–	–	1,258
	3,712	2,394	3,652
<b>Amounts paid and payable in respect of the period:</b>			
Interim dividend for the year ending 30 November 2010 of 2.00p (2009 – 2.00p)	1,228	1,258	1,258
Final dividend (2009 – 3.00p)	–	–	1,856
Special dividend (2009 – 3.00p)	–	–	1,856
	1,228	1,258	4,970

The interim dividend in respect of the six months to 31 May 2010 was declared after the period end date and has therefore not been included as a liability in the balance sheet. It is payable on 27 August 2010 to shareholders on the register at the close of business on 6 August 2010. The ex dividend date is 4 August 2010.

5. The Company had a three year £20m facility with Lloyds TSB Scotland which expired in May 2010. There were no outstanding drawings at 31 May 2009 or 30 November 2009.

6. During the period the Company bought back 920,000 ordinary shares (nominal value £230,000) for cancellation at a total cost of £1,626,000. At 31 May 2010, the Company had authority to buy back 8,802,065 ordinary shares as well as the authority to allot new shares up to an aggregate nominal amount of £5,154,068.

At 31 May 2010 there were outstanding options to acquire 8,900,000 (31 May 2009 and 30 November 2009 – 8,900,000) ordinary shares in the Company. The options, which were granted to the founding shareholders on 11 September 2000 and expire on 31 August 2010, are exercisable at a price per share equivalent to the net asset value at the time of exercise. No options were exercised during the period.

7. Transaction costs incurred on the purchase and sale of the investments are added to the purchase cost or deducted from the sale proceeds, as appropriate. During the period, transaction costs on purchases amounted to £84,000 (31 May 2009 – £112,000; 30 November 2009 – £193,000) and transaction costs on sales amounted to £32,000 (31 May 2009 – £50,000; 30 November 2009 – £70,000).

**DIRECTORS**

DCP McDougall OBE (Chairman)  
MCB Ward (Managing Director)  
JGD Ferguson (Non-executive)  
The Hon. RJ Laing (Non-executive)

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