

**Acorn Income Fund
Limited**

Half-yearly Financial Report

for the six months ended 30 June 2011

Acorn Income Fund Limited

INVESTMENT OBJECTIVES AND POLICY

The objectives of Acorn Income Fund Limited (the “Company”) are to provide shareholders with a high income and also the opportunity for capital growth.

The Company’s portfolio is invested in equities and high income and fixed interest securities in order to achieve its investment objectives. It is the aim of the Company to provide both income and capital growth predominantly through investment of approximately 70% of the portfolio in smaller capitalised United Kingdom companies admitted to the Official List of the United Kingdom Listing Authority and traded on the London Stock Exchange or traded on AIM. The Company also aims to further enhance income for shareholders by investing approximately 30% of its assets in high yielding securities which will be predominantly fixed interest securities (including corporate bonds, preference and permanent interest bearing shares, convertible and reverse convertible bonds and debentures) but may include up to 15% of the portfolio (measured at the time of acquisition) in high yielding investment company shares.

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Acorn Income Fund Limited

PERFORMANCE SUMMARY for the six months ended 30 June 2011

Total Return performance	30 Jun 2011	31 Dec 2010	% change
Total Return on Gross Assets*#			12.60%
Total Return on Net Assets (assets attributable to shareholders)*			16.02%
RBS Hoare Govett Smaller Companies Index (ex Investment Companies)	10,342	9,783	5.72%
FTSE All Share Index	4,234	4,112	2.97%
FTSE Small Cap (ex Investment Companies)	3,396	3,305	2.75%
Capital Return performance			
Gross Assets*			11.16%
Net Assets (assets attributable to shareholders)			14.17%
RBS Hoare Govett Smaller Companies Index (ex Investment Companies)	4,637	4,447	4.27%
FTSE All Share Index	3,097	3,062	1.13%
FTSE Small Cap (ex Investment Companies)	2,659	2,631	1.05%
Share Price and NAV returns	30 Jun 2011 Pence	31 Dec 2010 Pence	% change
Ordinary share			
NAV	224.90	194.98	15.35%
Mid price	200.50	167.00	20.06%

*assumes dividends reinvested

adjusted for debt repayment

Acorn Income Fund Limited

COMPANY SUMMARY

Launch date	11 February 1999	
Domiciled	Guernsey	
Registered in Guernsey	No. 34778	
Year end	31 December	
Shareholder funds	£19.6m at 30 June 2011	
Market Capitalisation	£17.5m at 30 June 2011	
Bank Loan	£6m Revolving Credit Facility arranged with the Bank of Scotland. £5m was drawn down as at 30 June 2011. Following the period end the remaining £1m of the loan facility was drawn down.	
Ordinary Income Shares	8,724,790	
Treasury Shares	215,000	
Dividend History	In respect of year end 31 December	Total dividends declared Pence
	2011 (to 30 June)	3.5
	2010	6.25
	2009	6.0
	2008	8.2
	2007	8.0
	2006	9.0**
	2005	9.0**
	2004	9.0**
	2003	9.0**
	2002	12.0
	2001	12.0
	2000	11.0
	1999	8.5
**includes four interim dividends and one special dividend		
Manager	Premier Asset Management (Guernsey) Limited	
Investment Advisers	Unicorn Asset Management Limited – Smaller Companies Portfolio	
	Premier Fund Managers Limited – Income Portfolio	
Management fee	0.7% per annum, charged 75% to Capital and 25% to Revenue, plus performance fee.	

Acorn Income Fund Limited

CHAIRMAN'S STATEMENT & INTERIM MANAGEMENT REPORT

Dear Shareholder

Markets traded in a relatively narrow range for the first half of 2011 and the small capitalization stocks moved very much in line with larger companies. In fact the FTSE All-Share Index (total return) and the FTSE Small Cap index (ex investment trusts) both rose 2.77% over the six month period to 30 June 2011. The Company's strong performance relative to market indices continued with the net asset value per share (NAV) rising 15.3% whilst dividends of 3.5p per share were distributed over the period.

At 30 June 2011 78.3% of gross assets were allocated to the Smaller Companies Portfolio and 19.6% to the Income Portfolio. Across the whole fund there was 4.8% in cash. The current split between the two portfolios is weighted towards equities rather than fixed interest as in the current low interest rate environment our managers see greater potential in equities. Your board have supported this stance.

Investment performance

The Company's total assets (adjusted for alterations in bank debt drawn down) rose 11.3% over the six months to 30 June 2011 and the Company's geared structure enhanced performance such that NAV per share rose 15.3% from 194.78p at the start of the period to 224.90 at 30 June 2011. NAV total return was 16.02% over the period once again providing a material outperformance of the UK small cap indices as well as the broader market.

Dividends

Earnings per share for the half year were 3.75p (3.04p) and two interim dividends (each of 1.75p), totalling 3.50p (3.00p) were paid during the period.

Gearing, Bank Facility

The Company started the year with its £4.35m bank facility fully drawn. With the banking covenants very comfortably covered a further £0.65m of loan was drawn down over the period. Subsequent to the period end the remaining £1m of the loan facility was drawn down.

Share Buybacks and Discount to NAV

50,000 shares were bought back over the period however the discount to NAV at which the Company's shares trade on the stock market reduced from 14.2% at the start of the period to 10.85% at the period end. Strong performance in relation to indices and other income generating investment trusts generated interest in the fund helping to support the shares on a narrower discount.

Acorn Income Fund Limited

CHAIRMAN'S STATEMENT & INTERIM MANAGEMENT REPORT

Continuation Resolution

At the General Meeting held on 24 August 2011 shareholders had an opportunity to vote for the winding up of the Company. The resolution that the Company should cease to continue as constituted was defeated by shareholders. In accordance with the Articles of Association shareholders will have an opportunity to vote on a similar resolution in another 5 years at the general meeting in 2016.

With the future of the Company now secured the directors and managers will be examining the best options for refinancing the Company's bank facility which currently runs to February 2012.

Outlook

The economic outlook in the US and Europe is particularly uncertain with investors unsettled by the downgrading of US sovereign debt, which focused attention on the scale of the US budget deficit, and at the same time the fragility of the Euro Zone with heavily indebted nations such as Greece and Italy unable to finance their debt without support from the EU. Nevertheless many companies appear to be performing well and dividend distributions are rising against a background where interest rates in the US and UK are likely to remain at the current low levels well into 2012. Companies that can sustain an attractive pay out during this prolonged period of low interest rates will be sought after by investors. Our managers believe that the Company's equity portfolio is well placed to benefit from any increased demand for good quality higher yielding equities.

John Boothman
Chairman.

Acorn Income Fund Limited

RESPONSIBILITY STATEMENT

for the period from 1 January 2011 to 30 June 2011

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS34 Interim Financial Reporting;

- the interim management 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 entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Signed on behalf of the Board of Directors on 24 August 2011

Helen Green
Director

Acorn Income Fund Limited

INVESTMENT ADVISERS' REPORT

Smaller Companies Portfolio

During the period under review the value of the Portfolio rose by 15.5% compared to a rise of 4.27% in the HGSC(ex IC). The outperformance was caused by a continued concentration on industrial and international earners which serve world growth markets.

A number of stocks performed very strongly during the first half as emerging markets continued to grow. Renishaw continued to recover with prospects in China improving resulting in a share price rise of 42.5%. Renishaw also announced significant capacity expansion at all three of its Gloucestershire sites and the purchase of the former manufacturing operation of Bosch in Cardiff which covers a 193 acre site and adds 450,000 sq ft of manufacturing space to the group. As a result Renishaw has access to a new pool of well qualified labour to meet its growth plans. Harvey Nash enjoyed continued growth as its geographic diversity paid dividends with continued strong growth. Castings rose by 25% as operational gearing kicked in as sales grew from £60.6m to £105.4m. The group has continued to invest in plant and machinery and has recently approved a further extension to the main manufacturing operation. Castings strong recruitment drive has continued throughout the recovery period. Diploma rose by 32.5% as its acquisition strategy started to work with improvements in the seals division and a recovery in the life sciences division. RPC was the main contributor to performance as the acquisition of Superfloss was fully integrated and the benefits of the strategic review have started to come through.

Holdings in RPC, James Halstead, Castings, VP Group, Stobart, Lupus Capital and MacFarlane were increased during the period. IMI was disposed of after many years of outperformance as it has now graduated to the FTSE 100 and is no longer a small or mid cap stock. Holdings in Renishaw, Devro Fenner and Diploma were reduced following a number of years of sustained outperformance.

The Portfolio remains invested in UK companies serving international markets which will benefit from sustained long term growth in emerging markets. There is very little direct exposure to the UK consumer who continues to suffer from increasing taxation both direct and indirect. UK interest rates look likely to remain low as the budget deficit was one of the first to be tackled and inflation remains under control. The uncertainty that results from industrial and social unrest remains in the background.

Acorn Income Fund Limited

INVESTMENT ADVISERS' REPORT

We are encouraged by the return of corporate activity to the market as valuations remain low with a great deal of potential to extract value.

John McClure

Unicorn Asset Management Limited

Acorn Income Fund Limited

INVESTMENT ADVISERS' REPORT

Income Portfolio

The UK base rate remained at 0.50% throughout the reporting period as the MPC continued to balance the risks of weak growth and stubbornly high inflation. With inflation remaining resilient markets factored in an early rate hike over the summer, however these expectations were pushed back to later in the year following the announcement that the UK economy had contracted in Q4 2010. With subsequent Q1 2011 GDP also disappointing, the Bank of England is likely to maintain an accommodative monetary policy to support growth pushing any expectations of a rate hike to next year.

We continued to maintain a gilt hedge to reduce the duration of the Income Portfolio over the period, limiting interest rate risk. This hedge insulated the Income Portfolio against rising rate expectations in the first quarter however the Income Portfolio did not fully benefit from the subsequent fall in government bond yields over the second quarter. Lower yields were driven by the deteriorating economic outlook and renewed fear over sovereign debt levels. Over the reporting period the UK government yield curve fell slightly over the short maturities although remained broadly unchanged at the long end.

Credit spreads tightened over the first quarter with financials and particularly subordinated financials benefitting. However, with the return of Euro Zone instability and weaker than anticipated economic releases, financials widened back out to where they began the year. We continue to believe that financials offer good value over the medium term although they are likely to suffer from increased volatility. Changing financial regulation is adding to current volatility, however these changes could lead to greater protection for bonds higher up the capital structure. In addition, new regulations are generating more interest in subordinated financials, such as our holding of Lloyds Contingent Convertibles (CoCo), which will benefit significantly from the increased capital requirement being proposed.

Over the reporting period we topped up our holding of Gas Natural bonds, increasing our exposure to corporates who are systematically important in troubled Euro Zone economies following a widening in credit spreads. We also increased our exposure to callable F&C subordinated debt and bought Electra Private Equity Convertible Unsecured Loan Stock (CULS), these CULS offer a suitable yield given their downside protection whilst also offering the opportunity for significant upside potential if the Company's assets perform. In the second quarter we continued to invest in financials adding a long date Barclays bond as well other diversified financials such as Henderson Group and Old Mutual bonds. We remain

Acorn Income Fund Limited

INVESTMENT ADVISERS' REPORT (continued)

supportive and confident in the growth of the contingent capital market, adding the Credit Suisse CoCo to the Income Portfolio whilst we also increased our investment company CULS exposure following weakness in equity markets in May and June. Finally we have added an additional position to the Fund via a bearish product linked to the Halifax House Price Index. This holding will benefit from house price falls in the UK and lose in the event house prices rally. Further weakness in the UK housing market could be seen as a risk for our bank exposures and so this position can be seen as a partial hedge.

The state of the UK and Global economy remains uncertain and volatile. However, with rates low and financing accessible, corporates in particular have successfully accessed the bond markets and have lengthened their debt maturity profiles. This bodes well for corporates and therefore periods of market volatility should not bring into question their survival. We are positioned for risk-free rates to rise quicker than the market anticipates and to capitalise on a tightening in credit spreads as economies recover and credit default rates fall. We believe credit risk is currently more attractive than interest rate risk. We remain overweight in financial bonds and realise this may lead to greater volatility but superior returns over the medium to long term. In a similar theme we have reduced the assets invested in the Income Portfolio as a proportion of the Company as we believe a greater weighting in the Smaller Companies Portfolio is likely to lead to superior returns worth consuming additional volatility in the short term.

Paul Smith and Ben Hamilton
Premier Fund Managers Limited

Acorn Income Fund Limited

SCHEDULE OF PRINCIPAL INVESTMENTS as at 30 June 2011

TOP 10 HOLDINGS	NOMINAL HOLDINGS	VALUATION GBP	TOTAL ASSETS %
Smaller Companies Portfolio			
RPC Group plc	446,875	1,622,156	6.48
Castings plc	384,112	1,286,775	5.14
James Halstead plc	245,500	1,153,850	4.61
Renishaw plc	65,193	1,142,833	4.56
VP plc	420,414	1,032,116	4.12
Stobart Group Ltd	676,000	974,792	3.89
Diploma plc	253,135	950,522	3.80
Fenner plc	228,375	916,926	3.66
Devro plc	325,000	875,225	3.49
Harvey Nash Group plc	1,085,000	846,300	3.38
		<u>10,801,496</u>	<u>43.13</u>
Income Portfolio			
Lloyds 7.8673% 2019	350,000	339,164	1.35
Invesco Leveraged High Yield Fund	500,000	293,750	1.17
ICAP Group 7.5% 2014	250,000	256,359	1.02
Greenwich Loan Income Fund Limited	625,000	250,000	1.00
Electra Private Equity 5% CULS 2017	200,000	218,000	0.87
Aviva 5.9021% PERP-20	250,000	214,879	0.86
ING Bank NV 6.875% 2023-18	200,000	208,231	0.83
Ecofin Wtr & Power 6% CULS 2016	200,000	206,000	0.82
Santander 7.3% 2019-14	200,000	205,982	0.82
HSBC Holdings plc	200,000	196,271	0.78
		<u>2,388,638</u>	<u>9.52</u>
TOTAL		<u>13,190,134</u>	<u>52.65</u>

Acorn Income Fund Limited

SCHEDULE OF PRINCIPAL INVESTMENTS as at 31 December 2010

TOP 10 HOLDINGS	NOMINAL HOLDINGS	VALUATION GBP	TOTAL ASSETS %
Smaller Companies Portfolio			
Fenner plc	395,788	1,412,172	6.55
Devro plc	525,000	1,316,175	6.10
Diploma plc	378,135	1,037,035	4.81
Renishaw plc	80,703	992,647	4.60
James Halstead plc	122,750	902,213	4.18
RPC Group plc	275,000	866,250	4.02
VP plc	352,914	811,702	3.76
Castings plc	284,112	752,897	3.49
IMI plc	79,300	749,385	3.47
Primary Health Properties	193,969	635,248	2.94
		<u>9,475,724</u>	<u>43.92</u>
Income Portfolio			
Lloyds 7.8673% 2019	350,000	304,675	1.41
ICAP Group 7.5% 2014	250,000	229,078	1.06
Invesco Leveraged High Yield Fund	400,000	220,000	1.02
ING Bank NV	200,000	202,117	0.94
Aviva 5.9021% PERP-20	250,000	198,056	0.92
Santander 7.3% 2019-14	200,000	194,058	0.90
HSBC Holdings plc	200,000	185,695	0.86
Greenwich Loan Income Fund Limited	625,000	178,125	0.83
JP Morgan Chase 26/9/13	200,000	168,132	0.78
Barclays Bank plc 4.875%	250,000	167,564	0.78
		<u>2,047,500</u>	<u>9.50</u>
TOTAL		<u>11,523,224</u>	<u>53.42</u>

Acorn Income Fund Limited

STATEMENT OF COMPREHENSIVE INCOME (Unaudited) for the period ended 30 June 2011

	Note		Period ended 30 Jun 2011		Period ended 30 Jun 2010
		Revenue GBP	Capital GBP	Total GBP	Total GBP
Net gains on financial assets designated as at fair value through profit or loss	9	-	2,751,513	2,751,513	1,555,310
(Losses) / gains on foreign currency contracts	4	-	(43,658)	(43,658)	54,345
Investment income	3	<u>455,758</u>	<u>-</u>	<u>455,758</u>	<u>397,160</u>
Total income and gains		455,758	2,707,855	3,163,613	2,006,815
Expenses	5	<u>(114,682)</u>	<u>(82,415)</u>	<u>(197,097)</u>	<u>(165,051)</u>
Return on ordinary activities before finance costs and taxation		341,076	2,625,440	2,966,516	1,841,764
Interest payable and similar charges		<u>(12,880)</u>	<u>(38,641)</u>	<u>(51,521)</u>	<u>(44,423)</u>
Return on ordinary activities before taxation		328,196	2,586,799	2,914,995	1,797,341
Taxation on ordinary activities		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive income for the period attributable to shareholders		<u>328,196</u>	<u>2,586,799</u>	<u>2,914,995</u>	<u>1,797,341</u>
		Pence	Pence	Pence	Pence
Return per Ordinary share	8	<u>3.75</u>	<u>29.52</u>	<u>32.27</u>	<u>20.13</u>
Dividend per Ordinary share	7	<u>3.50</u>	<u>0.00</u>	<u>3.50</u>	<u>3.02</u>

The Total column of this statement is the Statement of Comprehensive Income of the Company. The Company had no other comprehensive income during the period other than that reflected in the above Statement of Comprehensive Income.

The supplementary revenue return and capital return columns have been prepared in accordance with the Statement of Recommended Practice (SORP) issued by the Association of Investment Companies (AIC).

In arriving at the results for the financial period, all amounts above relate to continuing operations.

No operations were acquired or discontinued in the period.

The notes on pages 18 to 37 form an integral part of these financial statements.

Acorn Income Fund Limited

STATEMENT OF FINANCIAL POSITION (Unaudited) as at 30 June 2011

	Note	30 Jun 2011 GBP	31 Dec 2010 GBP
NON-CURRENT ASSETS			
Financial assets designated as at fair value through profit or loss	9	<u>23,513,376</u>	<u>20,712,993</u>
CURRENT ASSETS			
Receivables	10	319,402	308,050
Cash and cash equivalents		1,200,942	551,030
Derivative financial assets	17	<u>9,800</u>	<u>-</u>
		1,530,144	859,080
TOTAL ASSETS		<u>25,043,520</u>	<u>21,572,073</u>
CURRENT LIABILITIES			
Derivative financial liabilities	17	26,834	42,564
Payables – due within one year	11	<u>5,394,596</u>	<u>69,978</u>
NON-CURRENT LIABILITIES			
Payables – due after one year	12	<u>-</u>	<u>4,350,000</u>
TOTAL LIABILITIES		<u>5,421,430</u>	<u>4,462,542</u>
NET ASSETS		<u>19,622,090</u>	<u>17,109,531</u>
EQUITY			
Share capital	13	89,398	89,398
Share premium		79,173	79,173
Treasury shares	14	(303,211)	(207,018)
Revenue reserve		1,385,032	1,363,079
Special reserve		10,000,000	10,000,000
Capital reserve		<u>8,371,698</u>	<u>5,784,899</u>
TOTAL EQUITY		<u>19,622,090</u>	<u>17,109,531</u>
		Pence	Pence
Net asset value per Ordinary Share		<u>224.90</u>	<u>194.98</u>

The financial statements on pages 14 to 37 were approved by the Board of Directors and authorised for issue on 24 August 2011 and signed on its behalf by:

Helen Green
Director

The notes on pages 18 to 37 form an integral part of these financial statements.

Acorn Income Fund Limited

STATEMENT OF CASH FLOWS (Unaudited) for the period ended 30 June 2011

	Note	Period ended 30 Jun 2011 GBP	Period ended 30 Jun 2010 GBP
Operating activities			
Return on ordinary activities before taxation		2,914,995	1,797,341
Net gains on financial assets designated as at fair value through profit or loss	9	(2,751,513)	(1,555,310)
Investment income	3	(455,758)	(397,160)
Interest expense		51,521	44,423
Increase in derivative financial assets		(9,800)	-
Decrease in derivative financial liabilities		(65,229)	(45,620)
Increase / (decrease) in payables and appropriations	11	324,618	(7,927)
Decrease / (increase) in receivables excluding accrued investment income	10	28,367	(11,381)
Net cash inflow / (outflow) from operating activities before investment income		37,201	(175,634)
Investment income received		416,039	461,128
Net cash inflow from operating activities before taxation		453,240	285,494
Tax paid		-	-
Net cash inflow from operating activities after taxation		453,240	285,494
Investing activities			
Purchase of financial assets	9	(4,121,651)	(1,932,780)
Sale of financial assets		4,122,280	4,008,780
Net cash inflow from investing activities		629	2,076,000
Financing activities			
Equity dividends paid	7	(306,243)	(268,194)
Drawdown / (repayment) of bank loan	12	650,000	(1,650,000)
Purchase of own shares	14	(96,193)	(162,227)
Bank loan interest paid		(51,521)	(44,423)
Net cash inflow / (outflow) from financing activities		196,043	(2,124,844)
Increase in cash and cash equivalents		649,912	236,650
Cash and cash equivalents at beginning of period		551,030	958,929
Cash and cash equivalents at end of period		1,200,942	1,195,579

The notes on pages 18 to 37 form an integral part of these financial statements.

Acorn Income Fund Limited

STATEMENT OF CHANGES IN EQUITY (Unaudited) as at 30 June 2011

	Share Capital 30 Jun 2011 GBP	Share Premium 30 Jun 2011 GBP	Treasury Shares 30 Jun 2011 GBP	Revenue Reserve 30 Jun 2011 GBP	Special Reserve 30 Jun 2011 GBP	Capital Reserve 30 Jun 2011 GBP	Total 30 Jun 2011 GBP
Balance as at 1 January 2011	89,398	79,173	(207,018)	1,363,079	10,000,000	5,784,899	17,109,531
Total comprehensive income for the period attributable to shareholders	-	-	-	328,196	-	2,586,799	2,914,995
Treasury shares acquired	-	-	(96,193)	-	-	-	(96,193)
Dividends	-	-	-	(306,243)	-	-	(306,243)
Balance as at 30 June 2011	89,398	79,173	(303,211)	1,385,032	10,000,000	8,371,698	19,622,090

	Share Capital 31 Dec 2010 GBP	Share Premium 31 Dec 2010 GBP	Treasury Shares 31 Dec 2010 GBP	Revenue Reserve 31 Dec 2010 GBP	Special Reserve 31 Dec 2010 GBP	Capital Reserve 31 Dec 2010 GBP	Total 31 Dec 2010 GBP
Balance as at 1 January 2010	89,398	79,173	-	1,348,416	10,000,000	214,019	11,731,006
Total comprehensive income for the year attributable to shareholders	-	-	-	568,037	-	5,570,880	6,138,917
Treasury shares acquired	-	-	(207,018)	-	-	-	(207,018)
Dividends	-	-	-	(553,374)	-	-	(553,374)
Balance as 31 December 2010	89,398	79,173	(207,018)	1,363,079	10,000,000	5,784,899	17,109,531

The notes on pages 18 to 37 form an integral part of these financial statements.

Acorn Income Fund Limited

Notes to the Financial Statements (Unaudited) for the period ended 30 June 2011

1 ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements, which give a true and fair view, have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and with the AIC's SORP (as revised in January 2009) where this is consistent with the requirements of IFRS and all in compliance with The Companies (Guernsey) Law, 2008 (as amended). All accounting policies adopted for the period are consistent with IFRS issued by the IASB. The financial statements have been prepared on an historical cost basis except for the measurement at fair value of certain financial instruments.

Changes in accounting policy and disclosures

The following Standards or Interpretations have been adopted in the current period.

Their adoption has not had any impact on the amounts reported in these financial statements and is not expected to have any impact on future financial periods:

IFRS 8 *Operating Segments* (amendments)

IAS 1 *Presentation of Financial Statements* (amendments)

IAS 7 *Statement of Cash Flows* (amendments)

The following Standards or Interpretations have been issued by the IASB but not yet adopted by the Company:

IFRS 7 *Financial Instruments: Disclosures* effective for annual periods beginning on or after 1 July 2011.

IFRS 9 *Financial Instruments: Classification and Measurement* effective for annual periods beginning on or after 1 January 2013.

The Directors have considered the above and are of the opinion that the above Standards and Interpretations are not expected to have a material impact on the Company's financial statements except for the presentation of additional disclosures and changes to the presentation of components of the financial statements. These items will be applied in the first financial period for which they are required.

(b) Use of estimates and judgements

Management use estimates and judgements in allocating expenses between Revenue and Capital.

(c) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

(d) Taxation

The Company has been granted exemption under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 from Guernsey Income Tax, and has elected to remain exempt following changes in the Guernsey tax regime. The Company pays an annual fee of £600.

(e) Treasury shares

Treasury shares are classified as a deduction from equity and recorded for the consideration paid.

Acorn Income Fund Limited

Notes to the Financial Statements (Unaudited) (continued) for the period ended 30 June 2011

1 ACCOUNTING POLICIES (continued)

(f) Capital reserve

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- expenses charged to this account in accordance with the policy below;
- increases and decreases in the valuation of the investments held at the period end; and
- unrealised exchange differences of a capital nature.

(g) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged to the capital reserve where a connection with the maintenance or enhancement of the value of the investments can be demonstrated.

75% of the Company's management fee and financing costs are charged to the capital reserve in line with the Board's expected long-term split of returns between income and capital gains from the investment portfolio.

100% of any performance fee is charged to the capital account.

All other expenses are charged through the revenue account.

(h) Investment income

Interest income and distributions receivable are accounted for on an accruals basis. Interest income relates only to interest on bank balances. Bond income is accounted for on the effective interest rate ("EIR") basis.

(i) Foreign currency translation

The currency of the primary economic environment in which the Company operates (the functional currency) is Great Britain Pounds (GBP) which is also the presentation currency.

Transactions denominated in foreign currencies are translated into GBP at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities, other than investments, denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Statement of Comprehensive Income. Foreign exchange differences relating to investments are taken to the capital reserve. Realised and unrealised foreign exchange differences on non-capital assets or liabilities are taken to the Statement of Comprehensive Income in the period in which they arise.

(j) Cash and cash equivalents

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 an insignificant risk of changes in value. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash, deposits at bank and money market deposits.

(k) Investments

All investments have been designated as financial assets at "fair value through profit or loss". Investments are initially recognised on the date of purchase at cost, being the fair value of the consideration given. Subsequently, investments are measured at fair value, with unrealised gains and losses on investments and impairment of investments recognised in the Statement of Comprehensive Income. Investments are derecognised on the date of sale. Gains and losses on the sale of investments will be taken to the Statement of Comprehensive Income in the period in which they arise. For investments actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices as at the close of business on the reporting date.

Acorn Income Fund Limited

Notes to the Financial Statements (Unaudited) (continued)
for the period ended 30 June 2011

1 ACCOUNTING POLICIES (continued)

(l) Derivatives

Derivatives consist of forward exchange contracts which are stated at market value, with the resulting net realised and unrealised gains and losses being reflected in the Statement of Comprehensive Income.

(m) Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on the "trade date", i.e. the date 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 the timeframe generally established by regulation or convention in the market place.

(n) Segmental reporting

The Company retains two Investment Advisers, Unicorn Asset Management Limited and Premier Fund Managers Limited for the Smaller Companies Portfolio and Income Portfolio respectively. As the Board reviews the performance of each portfolio separately and decides on the allocation of resources based on this performance, the Board has determined that the Company has two reportable segments.

The Board is charged with setting the Company's investment strategy in accordance with the Prospectus. They have delegated the day to day implementation of this strategy to its Investment Advisers but retain responsibility to ensure that adequate resources of the Company are directed in accordance with their decisions. The investment decisions of the Investment Advisers are reviewed on a regular basis to ensure compliance with the policies and legal responsibilities of the Board. The Investment Advisers have been given full authority to act on behalf of the Company, including the authority to purchase and sell securities and other investments on behalf of the Company and to carry out other actions as appropriate to give effect thereto. Whilst the Investment Advisers may make the investment decisions on a day to day basis regarding the allocation of funds to different investments, any changes to the investment strategy or major allocation decisions have to be approved by the Board, even though they may be proposed by the Investment Advisers. The Board therefore retains full responsibility as to the major allocation decisions made on an ongoing basis. The Investment Advisers will always act under the terms of the Prospectus which cannot be radically changed without approval of the Board and the Shareholders.

The key measure of performance used by the Board to assess the Company's performance and to allocate resources is the total return on the Company's net asset value, as calculated under IFRS, and therefore no reconciliation is required between the measure of profit or loss used by the Board and that contained in the financial statements.

The schedule of principal investments held as at the period end are presented in the Investment Advisers' Report.

(o) Going Concern

The Company has adequate financial resources and as a consequence, the directors believe the Company is well placed to manage its business risks successfully despite the current economic climate.

Acorn Income Fund Limited

Notes to the Financial Statements (Unaudited) (continued) for the period ended 30 June 2011

2 OPERATING SEGMENTS

The Company has two reportable segments, being the Income Portfolio and the Smaller Companies Portfolio. Each of these portfolios is managed separately as they entail different investment objectives and strategies and contain investments in different products.

For each of the portfolios, the Board reviews internal management reports on a quarterly basis. The objectives and principal investment products of the respective reportable segments are as follows:

Segment	Investment objectives and principal investments products
Income Portfolio	To maximise income through investments in sterling denominated fixed interest securities including corporate bonds, preference and permanent interest bearing shares, convertibles, reverse convertibles, debentures and other similar securities.
Smaller Companies Portfolio	To maximise income and capital growth through investments in UK equities with a market capitalisation of under £1 billion.

Information regarding the results of each reportable segment is included below. Performance is measured based on the increase in value of each portfolio, as included in the internal management reports that are reviewed by the Board.

Segment information is measured on the same basis as those used in the preparation of the Company's financial statements.

	Income portfolio	Smaller companies portfolio	Unallocated	Total
	GBP	GBP	GBP	GBP
30 Jun 2011				
External revenues:				
Net gains on financial assets designated as at fair value through profit or loss	2,600,830	150,683	-	2,751,513
(Losses) / gains on foreign currency contracts	-	-	(43,658)	(43,658)
Investment income:				
Bank interest	-	-	999	999
Dividend income	32,883	290,765	-	323,648
Bond income	131,111	-	-	131,111
Sundry income	-	-	-	-
Total income and gains	2,764,824	441,448	(42,659)	3,163,613
Expenses	-	-	(197,097)	(197,097)
Interest payable and similar charges	-	-	(51,521)	(51,521)
Total comprehensive income for the period attributable to shareholders	2,764,824	441,448	(291,277)	2,914,996

Acorn Income Fund Limited

Notes to the Financial Statements (Unaudited) (continued)
for the period ended 30 June 2011

2 OPERATING SEGMENTS (continued)

	Income portfolio	Smaller companies portfolio	Unallocated	Total
	GBP	GBP	GBP	GBP
30 Jun 2011				
Financial assets designated as at fair value through profit or loss	4,771,011	18,742,365	-	23,513,376
Receivables	-	-	319,402	319,402
Derivative financial assets	9,800	-	-	9,800
Cash and cash equivalents	124,615	875,680	200,647	1,200,942
Total assets	4,905,426	19,618,045	520,049	25,043,520
Derivative financial liabilities	-	-	(26,834)	(26,834)
Payables	-	-	(5,394,596)	(5,394,596)
Total liabilities	-	-	(5,421,430)	(5,421,430)
31 Dec 2010				
External revenues:				
Net gains on financial assets designated as at fair value through profit or loss	148,404	5,583,053	-	5,731,457
(Losses) / gains on foreign currency contracts	-	-	8,178	8,178
Investment income:				
Bank interest	-	-	138	138
Dividend income	54,608	522,701	-	577,309
Bond income	213,281	-	-	213,281
Sundry income	-	-	36,004	36,004
Total income and gains	416,293	6,105,754	44,320	6,566,367
Expenses	-	-	(349,366)	(349,366)
Interest payable and similar charges	-	-	(78,084)	(78,084)
Total comprehensive income for the year attributable to shareholders	416,293	6,105,754	(383,130)	(6,138,917)
Financial assets designated as at fair value through profit or loss	3,946,251	16,766,742	-	20,712,993
Receivables	-	-	308,050	308,050
Cash and cash equivalents	93,850	314,095	143,085	551,030
Total assets	4,040,101	17,080,837	451,135	21,572,073
Derivative financial liabilities	(10,057)	-	(32,507)	(42,564)
Payables	-	-	(4,419,978)	(4,419,978)
Total liabilities	(10,057)	-	(4,452,485)	(4,462,542)

Acorn Income Fund Limited

Notes to the Financial Statements (Unaudited) (continued)
for the period ended 30 June 2011

2 OPERATING SEGMENTS (continued)

Geographical information

In presenting information on the basis of geographical segments, segment revenue and segment assets are based on the domicile countries of the investees and counterparties to derivative transactions.

	UK GBP	Guernsey GBP	Jersey GBP	Other Europe GBP	US GBP	Australia GBP	Total GBP
30 Jun 2011							
External revenues							
Total Revenue	<u>20,353,680</u>	<u>1,398,484</u>	<u>456,110</u>	<u>749,589</u>	<u>407,004</u>	<u>148,509</u>	<u>23,513,376</u>
	UK GBP	Guernsey GBP	Jersey GBP	Other Europe GBP	US GBP	Australia GBP	Total GBP
31 Dec 2010							
External revenues							
Total Revenue	<u>18,171,696</u>	<u>825,948</u>	<u>381,682</u>	<u>651,935</u>	<u>535,510</u>	<u>146,222</u>	<u>20,712,993</u>

The Company did not hold any non-current assets during the year other than financial instruments (Dec 2010: 0).

Major customers

The Company regards its shareholders as customers. The Company's only shareholder with a holding greater than 10% at the period end was Charles Stanley Group plc.

Acorn Income Fund Limited

Notes to the Financial Statements (Unaudited) (continued)
for the period ended 30 June 2011

3 INVESTMENT INCOME

	Period ended 30 Jun 2011 GBP	Period ended 30 Jun 2010 GBP
Bank interest	999	66
Dividend income	323,648	265,349
Bond income	131,111	129,439
Sundry income	-	2,306
	<hr/>	<hr/>
	455,758	397,160
	<hr/>	<hr/>

4 FOREIGN CURRENCY CONTRACTS

	Period ended 30 Jun 2011 GBP	Period ended 30 Jun 2010 GBP
Unrealised loss on forward foreign currency contracts	(9,785)	(4,717)
Realised (loss) / gains on forward foreign currency contracts	(33,873)	59,062
	<hr/>	<hr/>
	(43,658)	54,345
	<hr/>	<hr/>

5 EXPENSES

	Revenue GBP	Period ended 30 Jun 2011 Capital GBP	Total GBP
Manager's fee	20,229	60,686	80,915
Administrator's fee	29,137	-	29,137
Registrar's fee	2,174	-	2,174
Directors' fees	24,794	-	24,794
Custody fees	5,802	-	5,802
Audit fees	9,887	-	9,887
Directors' and Officers' insurance	6,044	-	6,044
Annual fees	9,018	-	9,018
Bank charges	3,058	-	3,058
Commission paid	-	21,729	21,729
Sundry costs	7,249	-	7,249
Legal and professional fees	-	-	-
(Gain) / loss on foreign exchange	(2,710)	-	(2,710)
	<hr/>	<hr/>	<hr/>
	114,682	82,415	197,097
	<hr/>	<hr/>	<hr/>

Acorn Income Fund Limited

Notes to the Financial Statements (Unaudited) (continued)
for the period ended 30 June 2011

5 EXPENSES (continued)

	Revenue GBP	Period ended 30 Jun 2010 Capital GBP	Total GBP
Manager's fee	16,058	48,175	64,233
Administrator's fee	27,274	-	27,274
Registrar's fee	3,021	-	3,021
Directors' fees	24,794	-	24,794
Custody fees	5,157	-	5,157
Audit fees	10,729	-	10,729
Directors' and Officers' insurance	5,964	-	5,964
Annual fees	9,756	-	9,756
Bank charges	1,946	-	1,946
Commission paid	-	2,156	2,156
Sundry costs	9,234	-	9,234
Legal and professional fees	-	-	-
(Gain) / loss on foreign exchange	787	-	787
	<u>114,720</u>	<u>50,331</u>	<u>165,051</u>

6 DIRECTORS' REMUNERATION

Under their terms of appointment, each Director is paid a fee of £15,000 per annum by the Company, except for the Chairman, who receives £20,000 per annum.

7 DIVIDENDS IN RESPECT OF EQUITY SHARES

	Period ended 30 Jun 2011 GBP	Pence per share
First interim payment	153,559	1.75
Second interim payment	<u>152,684</u>	<u>1.75</u>
	<u>306,243</u>	<u>3.50</u>
	Year ended 31 Dec 2010 GBP	Pence per share
First interim payment	134,097	1.50
Second interim payment	134,097	1.50
Third interim payment	131,622	1.50
Fourth interim payment	<u>153,558</u>	<u>1.75</u>
	<u>553,374</u>	<u>6.25</u>

Acorn Income Fund Limited

Notes to the Financial Statements (Unaudited) (continued) for the period ended 30 June 2011

8 EARNINGS PER SHARE

Ordinary shares

The total return per Ordinary share is based on the total return on ordinary activities for the period attributable to Ordinary shareholders of £2,914,995 (Jun 2010: £1,797,341) and on 8,760,978 (Jun 2010: 8,927,540) shares, being the weighted average number of shares in issue during the period. There are no dilutive instruments and therefore basic and diluted gain per share are identical.

The revenue return per Ordinary share is based on the revenue return on ordinary activities for the period attributable to Ordinary shareholders of £328,196 (Jun 2010: £271,334) and on 8,760,978 (Jun 2010: 8,927,540) shares, being the weighted average number of shares in issue during the period. There are no dilutive instruments and therefore basic and diluted gain per share are identical.

The capital return per Ordinary share is based on the capital return on ordinary activities for the period attributable to Ordinary shareholders of £2,586,799 (Jun 2010: £1,526,007) and on 8,760,978 (Jun 2010: 8,927,540) shares, being the weighted average number of shares in issue during the period. There are no dilutive instruments and therefore basic and diluted gain per share are identical.

9 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

INVESTMENTS	30 Jun 2011 GBP	31 Dec 2010 GBP
Opening portfolio cost	13,777,724	15,180,445
Unrealised appreciation on valuation brought forward	<u>6,935,269</u>	<u>1,167,465</u>
Opening valuation	20,712,993	16,347,910
Movements in the period / year		
Purchases at cost	4,121,651	3,081,851
Sales		
- proceeds	(4,122,280)	(4,479,905)
- realised gains / (losses) on sales	2,084,063	(4,667)
Unrealised appreciation on valuation for the period / year	<u>716,949</u>	<u>5,767,804</u>
Fair value of investments at 30 June 2011	<u>23,513,376</u>	<u>20,712,993</u>
Closing book cost	15,861,158	13,777,724
Closing unrealised appreciation	<u>7,652,218</u>	<u>6,935,269</u>
	<u>23,513,376</u>	<u>20,712,993</u>
Realised gains / (losses) on sales	2,084,063	(4,667)
Increase in unrealised appreciation	716,949	5,767,804
Appreciation / (depreciation) on fair value of derivative financial assets	19,857	(44,057)
Realised losses / (gains) on derivative financial assets	<u>(69,356)</u>	<u>12,377</u>
Net gains on financial assets designated as at fair value through profit or loss	<u>2,751,513</u>	<u>5,731,457</u>

Acorn Income Fund Limited

Notes to the Financial Statements (Unaudited) (continued) for the period ended 30 June 2011

9 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

As at 30 June 2011, the closing fair value of investments comprises £18,742,365 (Dec 2010: £16,766,742) of equity shares and £4,771,011 (Dec 2010: £3,946,251) of fixed income securities.

IFRS 7 requires the fair value of investments to be disclosed by the source of inputs using a three-level hierarchy as detailed below:

Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3)

The Investments held by the Company have been classified as Level 1. This is in accordance with the fair value hierarchy.

Details of the value of each classification are listed in the table below. Values are based on the market value of the investment as at the reporting date:

	30 Jun 2011 Market Value %	30 Jun 2011 Market Value GBP	31 Dec 2010 Market Value %	31 Dec 2010 Market Value GBP
Level 1	100	23,513,376	100	20,712,993
Total	100	23,513,376	100	20,712,993

There have been no transfers between levels of the fair value hierarchy during the period under review.

DERIVATIVE FINANCIAL ASSETS

The derivative financial assets held by the Company have been classified as Level 1. This is in accordance with the fair value hierarchy.

Details of the value of each classification are listed in the table below. Values are based on the market value of the derivative financial assets as at the reporting date:

Derivative financial assets designated as at fair value through profit or loss

	30 Jun 2011 Market Value GBP	31 Dec 2010 Market Value GBP
Assets – Level 1	9,800	-
Liabilities - Level 1	(26,834)	(42,564)
Total	(17,034)	(42,564)

There have been no transfers between levels of the fair value hierarchy during the year under review.

Acorn Income Fund Limited

Notes to the Financial Statements (Unaudited) (continued)
for the period ended 30 June 2011

10 RECEIVABLES

	30 Jun 2011 GBP	31 Dec 2010 GBP
Prepayments	14,948	2,554
Accrued income	172,756	133,037
Sundry receivables	131,698	172,459
	<u>319,402</u>	<u>308,050</u>

11 PAYABLES

(amounts falling due within one year)	30 Jun 2011 GBP	31 Dec 2010 GBP
Bank loan	5,000,000	-
Accrued expenses	92,152	68,778
Investment transactions not settled	290,138	-
Sundry payables	12,306	1,200
	<u>5,394,596</u>	<u>69,978</u>

12 PAYABLES

(amounts falling due after one year)	30 Jun 2011 GBP	31 Dec 2010 GBP
Long term bank loan	<u>-</u>	<u>4,350,000</u>

Under a loan agreement dated 13 February 2007 between the Company and the Bank of Scotland a £6,000,000 Revolving Credit Facility was arranged for a period of five years. The interest rate payable on this facility is 1% over Libor with a non-utilisation charge of 0.5% on any undrawn part of the facility.

The capital covenant on the facility requires a ratio of specified investments to debt of 2:1. Specified investments include UK listed securities with a market capitalisation of over £75 million, investment grade bonds and reverse convertible bonds meeting certain criteria relating to the issuer and the reference equity, gilts or US treasury stock and cash. During the year, the Company has complied with all loan covenants.

Acorn Income Fund Limited

Notes to the Financial Statements (Unaudited) (continued)
for the period ended 30 June 2011

13 SHARE CAPITAL

Authorised		GBP
Ordinary shares of 1p each		<u>10,000,000</u>
Issued		Number of Shares
The issue of shares took place as follows:		
Ordinary shares	11 February 1999	29,600,002
Tender offer	17 January 2007	<u>(20,660,212)</u>
Number of shares in issue at 1 January 2010		8,939,790
Purchase of treasury shares – year ended 31 December 2010		(165,000)
Purchase of treasury shares 12 May 2011		<u>(50,000)</u>
Number of shares in issue at 30 June 2011		<u>8,724,790</u>
		GBP
Issued capital as at 30 June 2011		<u>89,398</u>

14 TREASURY SHARES

	30 Jun 2011 GBP	31 Dec 2010 GBP
Balance as at 1 January 2011	(207,018)	-
Acquired during the period	<u>(96,193)</u>	<u>(207,018)</u>
	<u>(303,211)</u>	<u>(207,018)</u>

The treasury shares reserve represents 215,000 Ordinary shares purchased in the market at various prices ranging from £1.235 to £1.92 and held by the Company in treasury. No cancellations of Shares took place during the period under review.

15 RELATED PARTIES

Premier Asset Management (Guernsey) Limited is the Company's Manager and operates under the terms of the management agreement in force which gives it complete control over the Company's investment portfolio.

£80,915 (Jun 2010: £64,233) of costs were incurred by the Company with this related party in the period, of which £42,053 (Dec 2010: £36,365) was due to this related party as at 30 June 2011.

Directors' remuneration is disclosed in Note 5.

Acorn Income Fund Limited

Notes to the Financial Statements (Unaudited) (continued) for the period ended 30 June 2011

16 FINANCIAL INSTRUMENTS

The Company's main financial instruments comprise:

- (a) Cash and cash equivalents that arise directly from the Company's operations;
- (b) Investments in listed entities and derivative financial assets;
- (c) Long term bank loan; and
- (d) Derivative financial liabilities.

17 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The following table details the categories of financial assets and liabilities held by the Company at the reporting date:

	30 Jun 2011 GBP	31 Dec 2010 GBP
Financial assets		
Financial assets at fair value through profit or loss	23,513,376	20,712,993
Derivative financial assets	<u>9,800</u>	<u>-</u>
Total financial assets at fair value through profit or loss	<u>23,523,176</u>	<u>20,712,993</u>
Loans and receivables	<u>1,520,344</u>	<u>859,080</u>
Total assets	<u>25,043,520</u>	<u>21,572,073</u>
Financial liabilities		
Financial liabilities at fair value through profit and loss		
Bank loan	5,000,000	-
Accrued expenses	394,596	69,978
Derivative financial liabilities	<u>26,834</u>	<u>42,564</u>
Total financial liabilities at fair value through profit or loss	<u>5,421,430</u>	<u>112,542</u>
Financial liabilities measured at amortised cost	<u>-</u>	<u>4,350,000</u>
Total liabilities excluding net assets attributable to holders of Ordinary shares	<u>5,421,430</u>	<u>4,462,542</u>

Loans and receivables presented above represents cash and cash equivalents, balances due from brokers and other receivables as detailed in the Statement of Financial Position.

Financial liabilities measured at amortised cost presented above represents accrued expenses and loans payable as detailed in the Statement of Financial Position.

Derivative financial liabilities presented above represent forward foreign exchange contracts. Derivative financial assets represent long gilts.

The main risks arising from the Company's financial instruments are market price risk, credit risk, liquidity risk, interest rate risk and foreign exchange risk. The Board regularly review and agrees policies for managing each of these risks and these are summarised overleaf:

Acorn Income Fund Limited

Notes to the Financial Statements (Unaudited) (continued)
for the period ended 30 June 2011

17 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

(a) Market Price Risk

Market price risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Company might suffer through holding market positions in the face of price movements. The Investment Advisers actively monitors market prices and reports to the Board as to the appropriateness of the prices used for valuation purposes. The Investment Advisers also attempt to minimise market price risk by undertaking a detailed analysis of the risk/reward relationship of each investee company prior to any investment being made.

Details of the Company's Investment Objective and Policy are given inside the front cover of this Report.

Price sensitivity

The following details the Company's sensitivity to a 15% increase and decrease on the market prices, with 15% being the sensitivity rate used when reporting price risk internally to key management personnel and representing management's assessment of the possible change in market prices.

At 30 June 2011, if market prices had been 15% higher with all other variables held constant, the return attributable to shareholders for the period would have been £3,527,006 (Dec 2010: £3,106,949) greater, due to the increase in the fair value of financial assets at fair value through profit or loss. This would represent an increase in Net Assets of 17.97% (Dec 2010: 18.16%).

If market prices had been 15% lower with all the other variables held constant, the net return attributable to shareholders for the period would have been £3,527,006 (Dec 2010: £3,106,949) lower, due to the decrease in the fair value of financial assets at fair value through profit or loss. This would represent a decrease in Net Assets of 17.97% (Dec 2010: 18.16%).

(b) Credit Risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Company. The Directors receive financial information on a regular basis which is used to identify and monitor risk. It is Company policy not to invest more than 20% of the gross assets of the Company in the securities of any one company or group at the time the investment is made.

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties. At 30 June 2011 the Company's largest exposure to a single investment was £1,622,156 (Dec 2010: £1,412,172), 6.48% (Dec 2010: 6.55%) of total assets.

Investors should be aware that the prospective returns to Shareholders mirror the returns under the Quoted Securities held or entered into by the Company and that any default by an issuer of any such Quoted Security held by the Company would have a consequential adverse effect on the ability of the Company to pay some or all of the entitlement to Shareholders. Such a default might, for example, arise on the insolvency of an issuer of a Quoted Security.

Acorn Income Fund Limited

Notes to the Financial Statements (Unaudited) (continued) for the period ended 30 June 2011

17 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

(b) Credit Risk (continued)

The Company's financial assets exposed to credit risk are as follows:

	30 Jun 2011 GBP	31 Dec 2010 GBP
Investments	23,513,376	20,712,993
Derivative financial assets	9,800	-
Cash and cash equivalents	1,200,942	551,030
Interest, dividends and other receivables	319,402	308,050
	<u>25,043,520</u>	<u>21,572,073</u>

The credit ratings of the bonds, as rated by Moody's Investor Services Inc (Moody's) were:

Rating	30 Jun 2011	31 Dec 2010
Aaa	0.00%	4.13%
Aa	7.99%	9.20%
A	23.94%	25.58%
Baa	24.75%	25.95%
Ba	7.84%	9.01%
WR	0.94%	1.10%
No rating available	34.54%	25.03%

(c) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in realising assets or otherwise raising funds to meet financial commitments. The Company's main financial commitment is its ongoing operating expenses.

The Investment Advisers ensure that the Company has sufficient liquid resources available to fulfil its operational plans and to meet its financial obligations as they fall due. This is monitored by carrying out a solvency calculation on a quarterly basis by reference to management accounts and revenue projections. The Board approve a Solvency Certificate resolution prior to declaring any interim distributions.

The table below details the residual contractual maturities of financial liabilities:

As at 30 June 2011:	1-3 months GBP	3 months to 1 year GBP	Over 1 year GBP
<i>Financial liabilities including derivatives</i>			
Payables – due within one year	394,596	-	-
Derivative financial instruments	26,834	-	-
Loans payable	-	5,000,000	-
	<u>421,430</u>	<u>5,000,000</u>	<u>-</u>
As at 31 December 2010:	1-3 months GBP	3 months to 1 year GBP	Over 1 year GBP
<i>Financial liabilities including derivatives</i>			
Payables – due within one year	69,978	-	-
Derivative financial instruments	42,564	-	-
Loans payable	-	-	4,350,000
	<u>112,542</u>	<u>-</u>	<u>4,350,000</u>

Acorn Income Fund Limited

Notes to the Financial Statements (Unaudited) (continued)
for the period ended 30 June 2011

17 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

(d) Interest Rate Risk

In order to mitigate the potential risks to the Company should there be significant changes in interest rates, the Company could repay loans if the borrowing rate became no longer attractive. On the investment side, the Company could hedge interest rate risk using various different methods.

The following table details the Company's exposure to interest rate risks. It includes the Company's assets and liabilities at fair values, categorised by the earlier of contractual re-pricing or maturity date measured by the carrying value of the assets and liabilities:

As at 30 June 2011

	Less than 1 Month GBP	1 to 3 Months GBP	Over 1 year GBP	Fixed Interest GBP	Non-interest Bearing GBP	Total GBP
Financial Assets						
Financial assets at fair value through profit or loss on initial recognition	-	-	-	4,386,499	19,136,677	23,523,176
Derivative financial instruments	-	-	-	-	9,800	9,800
Balances due from brokers	-	-	-	-	-	-
Cash and cash equivalents	1,200,942	-	-	-	-	1,200,942
Interest, dividends and other receivables	-	-	-	-	319,403	319,403
Total Financial Assets	1,200,942	-	-	4,386,499	19,465,880	25,053,321
Financial Liabilities						
Derivative financial instruments	-	-	-	-	26,834	26,834
Accrued expenses	-	-	-	-	394,596	394,596
Loans payable	5,000,000	-	-	-	-	5,000,000
Total Financial Liabilities	5,000,000	-	-	-	421,430	5,421,430
Total interest sensitivity gap	3,799,058	-	-	4,386,499		

Acorn Income Fund Limited

Notes to the Financial Statements (Unaudited) (continued)
for the period ended 30 June 2011

17 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

(d) Interest Rate Risk (continued)

As at 31 December 2010:

	Less than 1 Month GBP	1 to 3 Months GBP	Over 1 year GBP	Fixed interest GBP	Non-interest Bearing GBP	Total GBP
Financial Assets						
Financial assets at fair value through profit or loss on initial recognition	-	-	-	3,642,210	17,070,783	20,712,993
Derivative financial instruments	-	-	-	-	-	-
Balances due from brokers	-	-	-	-	-	-
Cash and cash equivalents	551,030	-	-	-	-	551,030
Interest, dividends and other receivables	-	-	-	-	308,050	308,050
Total Financial Assets	551,030	-	-	3,642,210	17,378,833	21,572,073
Financial Liabilities						
Derivative financial instruments	-	-	-	-	42,564	42,564
Accrued expenses	-	-	-	-	69,978	69,978
Loans payable	4,350,000	-	-	-	-	4,350,000
Total Financial Liabilities	4,350,000	-	-	-	112,542	4,462,542
Total interest sensitivity gap	3,798,970	-	-	3,642,210		

Acorn Income Fund Limited

Notes to the Financial Statements (Unaudited) (continued)
for the period ended 30 June 2011

17 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

(d) Interest Rate Risk (continued)

Interest rate sensitivity only takes account of the effect of interest rate movements on cash balances and loan amounts. Any other interest rate risks are already reflected in the market price risk disclosure at Note 17a.

Interest rate sensitivity

If interest rates had been 25 basis points higher and all other variables were held constant, the Company's return attributable to shareholders for the period ended 30 June 2011 would have decreased by approximately £4,749 (Dec 2010: £9,497) or 0.02% (Dec 2010: 0.04%) of Total Assets due to an increase in the amount of interest receivable on the bank balances of £1,501 (Dec 2010: £1,378) offset by an increase in the amount of interest payable on the bank loan of £6,250 (Dec 2010: £10,875).

If interest rates had been 25 basis points lower and all other variables were held constant, the Company's return attributable to shareholders for the period ended 30 June 2011 would have increased by approximately £4,749 (Dec 2010: £9,497) or 0.02% (Dec 2010: 0.04%) of Total Assets due to a decrease in the amount of interest receivable on the bank balances of £1,501 (Dec 2010: £1,378) offset by a decrease in the amount of interest payable on the bank loan of £6,250 (Dec 2010: £10,875).

(e) Foreign Exchange Risk

Forward currency transactions are used to hedge the foreign currency exposure in bonds, other investments and cash balances held within the portfolio. The purpose of the hedge is to protect the Company's assets from a decline in value that might arise from the depreciation of a foreign currency against sterling.

As at 30 June 2011, the Company's holdings in derivatives translated into GBP were as specified as below:

Type of contract	Expiration	Underlying	Notional amount of contracts outstanding	Fair value assets/ (liabilities) GBP
Forward	September 2011	Sold USD	525,000	(6,090)
Forward	September 2011	Sold EUR	1,222,000	(21,602)
Forward	September 2011	Sold GBP	44,392	858
				<u>(26,834)</u>

As at 31 December 2010, the Company's holdings in derivatives translated into GBP were as specified below:

Type of contract	Expiration	Underlying	Notional amount of contracts outstanding	Fair value assets/ (liabilities) GBP
Forward	March 2011	Sold EUR	1,130,000	(22,644)
Forward	March 2011	Sold USD	310,000	(1,675)
Forward	March 2011	Sold AUD	220,000	(8,188)
				<u>(32,507)</u>

Acorn Income Fund Limited

Notes to the Financial Statements (Unaudited) (continued) for the period ended 30 June 2011

17 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

(e) Foreign Exchange Risk (continued)

Exchange rate exposures are managed by minimising the amount of foreign currency held at any one time and entering into forward exchange contracts.

The following table sets out the Company's total exposure to foreign currency risk and the net exposure to foreign currencies of the monetary assets and liabilities:

	Monetary Assets GBP	Monetary Liabilities GBP	Forward FX Contracts GBP	Net Exposure GBP
Euro	1,011,660	-	(1,082,366)	(70,706)
US Dollar	260,503	-	(320,952)	(60,449)
Australian Dollar	<u>14,529</u>	<u>-</u>	<u>-</u>	<u>14,529</u>

Amounts in the above table are based on the carrying value of monetary assets and liabilities and the underlying principal amount of forward currency contracts.

(f) Capital Management

The principal investment objectives of the Company are to provide shareholders with a high income and also the opportunity for income and capital growth by investing primarily in smaller capitalised United Kingdom companies admitted to the Official List of the United Kingdom Listing Authority and traded on the London Stock Exchange or traded on AIM.

The Company's portfolio is invested in equities and high income and fixed interest and other income-bearing securities in order to achieve its investment objectives. It is the aim of the Company to provide both income and capital growth predominantly through investment of approximately 70% of the portfolio in smaller capitalised United Kingdom companies. The Company also aims to further enhance income for shareholders by investing approximately 30% of its assets in high yielding securities which will be predominantly fixed income securities (including corporate bonds, preference and permanent interest bearing shares, convertible and reverse convertible bonds and debentures) but may include up to 15% of the portfolio (measured at time of acquisition) in high yielding investment company shares.

The Company employs gearing in the form of a bank loan. This gearing means that for any movement, up or down, in the Company's total assets there will, in most circumstances be a greater movement in the net asset value of the Ordinary shares. This in turn may be reflected in greater volatility in the share price of the Ordinary shares and adds to the risk associated with this investment. The Company is required to adhere to a number of covenants in respect of its gearing arrangements. Failure to meet these requirements could jeopardise the Company's future as these borrowings are secured by a prior charge on the Company's assets. The Board monitors the compliance with any covenants on a regular basis.

As the Company's Ordinary shares are traded on the London Stock Exchange, the Ordinary Shares may trade at a discount to their Net Asset Value per Share on occasion. However, the Directors and the manager monitor the discount on a regular basis.

The Company monitors capital on the basis of the carrying amount of equity as presented on the face of the statement of financial position. Capital for the reporting periods under reviews is summarised as follows:

Acorn Income Fund Limited

Notes to the Financial Statements (Unaudited) (continued)
for the period ended 30 June 2011

17 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

(f) Capital Management (continued)

	GBP
Distributable reserves	1,385,032
Share capital and share premium	168,571
Non distributable reserves	18,371,698
Treasury shares	(303,211)
Total	<u>19,622,090</u>

The distributable reserves comprises the revenue reserves. Included in non distributable reserves are the special reserve and the capital reserve. The special reserve was created on the cancellation of part of the Company's share premium account. The Directors have resolved that the capital reserve is a non distributable reserve.

Acorn Income Fund Limited

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John Michael McKean
Helen Foster Green

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