ACORN INCOME

2007

Acorn Income Fund Limited

annual financial report
for the year ended
31 December 2007

PREMIER
ASSET MANAGEMENT

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.

contents

A closed-ended investment company, incorporated under
The Companies (Guernsey) Law, 1994.

REGISTERED IN GUERNSEY No. 34778

Company highlights

for the year ended 31 December 2007

Total return performance (from 17 January 2007)#

	% change
Total assets* (NAV)	-11.30%**
Hoare Govett Smaller Companies Index*	-8.50%

Capital Return performance (from 17 January 2007)

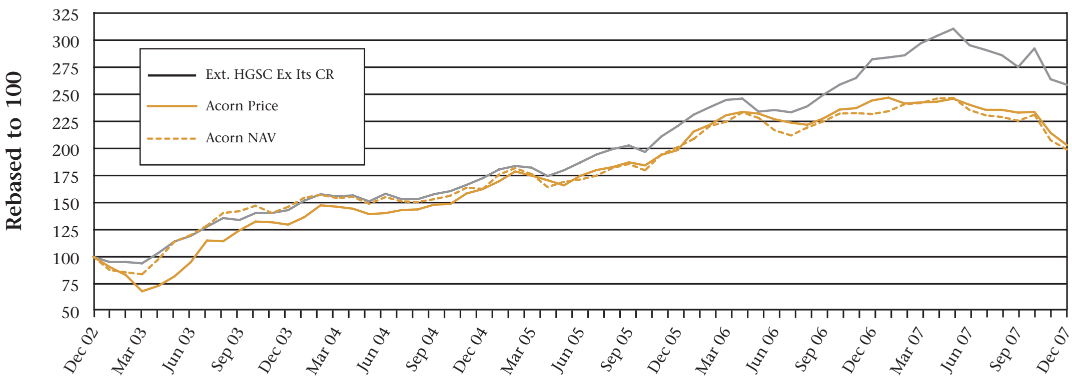
Total assets* (NAV)	-14.90%
Hoare Govett Smaller Companies Index*	-10.30%

Share price and NAV returns

	31 December 2007	31 December 2006	% change
Ordinary share			
NAV***	173.08p	200.40p	-15.79%
Mid price	162.50p	195.50p	-16.88%
Earnings per Ordinary share	8.52p	8.25p	
Net dividends declared per Ordinary share	8.00p	9.00p	

	Net Asset Value per share***	Mid Price per share	Premium/ (discount)	Extended HGSC Index (excl. Investment Trusts) – Capital	Extended HGSC Index (excl. Investment Trusts) – Total Return
Launch date (11 February 1999)	96.00p	100.00p	4.00%	1,984.22	3,049.99
31 December 1999	126.74p	138.50p	9.28%	2,762.91	4,359.01
31 December 2000	131.33p	131.00p	(0.25%)	2,702.18	4,395.94
31 December 2001	127.85p	137.00p	7.16%	2,283.43	3,836.08
31 December 2002	86.37p	80.00p	(7.38%)	1,693.90	2,942.85
31 December 2003	126.12p	103.75p	(17.74%)	2,346.73	4,209.12
31 December 2004	140.51p	128.50p	(8.55%)	2,752.20	5,079.26
31 December 2005	176.04p	158.75p	(9.82%)	3,423.17	6,490.98
31 December 2006	200.40p	195.50p	(2.45%)	4,269.50	8,309.39
31 December 2007	173.08p	162.50p	(6.11%)	3,832.75	7,617.37

Acorn Income Fund Performance 5 years to 31 December 2007



Source: Fundamental Data Ltd

* Total assets are stated after deduction of current liabilities. (NAV)

** Source: Fundamental Data. (All rights reserved.)

*** Investments valued at mid prices. Source: Bloomberg.

\# Data as at 31 December 2007, all performance figures for the period ended 31 December 2007. Performance figures are taken from 17 January 2007 when the Tender Offer was completed, representing a fairer comparison to total assets at 31 December 2007.

Past Performance and dividends paid are not a guide to future returns.

Company summary

Launch date	11 February 1999
Domiciled	Guernsey
Year end	31 December
Shareholder funds	£15.37m at 31 December 2007
Market Capitalisation	£14.44m at 31 December 2007
Bank Loan	£6m Revolving Credit Facility arranged with the Bank of Scotland £5.5m was drawn down on 2 April 2007
Ordinary Income Shares	8,939,790 following completion of the Tender Offer on 17 January 2007

Dividend History

In respect of year end 31 December	Total dividends declared
2007	8.0p
2006	9.0p*
2005	9.0p*
2004	9.0p*
2003	9.0p*
2002	12.0p
2001	12.0p
2000	11.0p
1999	8.5p

* comprises four interim dividends (2.0p) and one special dividend (1.0p)

Investment Manager	Premier Asset Management (Guernsey) Limited – appointed 17 January 2007
Investment Advisers	Unicorn Asset Management Limited – Smaller Companies Portfolio (since launch)
	Premier Fund Managers Limited – Income portfolio (appointed 17 January 2007)
Management fee	0.7% per annum, charged 75% to Capital and 25% to Revenue, plus performance fee, on appointment of Premier Asset Management (Guernsey) Limited. Previously 1.0% charged 75% to Capital and 25% to Revenue, plus performance fee

Chairman's statement

for the year ended 31 December 2007

Dear Shareholder,

In January 2007 a tender offer scheme allowed shareholders an opportunity to sell all or part of their investment in Acorn Income Fund at a price close to net asset value (NAV). At the same time, the investment management contract was transferred to Premier Asset Management (Guernsey) Ltd. Premier Fund Managers assumed responsibility for the management of the Income Portfolio whilst Unicorn Asset Management was retained as investment adviser responsible for the management of the Smaller Company Portfolio.

Investment performance

The Company's net assets fell from £59.3 million at the start of the year to £15.4 million at the year end. The greater part of this fall was due to the tender offer which saw a substantial contraction in the size of the fund. However net assets per share also declined over the year against a background of particular weakness for smaller company stocks. From the tender offer date of 17 January 2007, the NAV per share fell by 14.74% from 201.60p to 171.88p. The Hoare Govett Smaller Companies ex investment trust (HGSMC) index fell 10.3% (capital return) and the FTSE Small Cap ex IT Index was down 18.6%.

The manager of our Smaller Companies portfolio maintained a focus on manufacturing companies and had minimal exposure to the consumer and financial sectors that have been most exposed to the "credit crunch" that emerged in the latter half of 2007. Smaller company stocks however suffered as investors sought safety and liquidity. The portfolio performed well relative to the broader small company market.

The high Income portfolio managers were nervous about the outlook for corporate bonds during much of the year and maintained a substantial exposure (at one stage over 50%) to UK government securities. This defensive position enabled them to face the crisis in credit markets from a position of relative strength. Gilt edged stocks did not generate the level of yield required and the yield target was achieved by investing in reverse convertible bonds.

Dividends

In the tender scheme circular, the Directors indicated that it was expected to maintain dividends of 2p per quarter throughout 2007. This objective was achieved. Earnings per share for the year were 8.52p (2006: 8.25p) and dividends totalling 8.00p (2006: 9.00p including special of 1.00p) were paid during the year.

Gearing and Bank Facility

A new banking facility was arranged with the Bank of Scotland under which a flexible £6.0m loan was made available to the company at a variable interest rate of 1 percent over the London Inter Bank offered rate (LIBOR). £5.5m of this facility was drawn down and committed to investments in the Income Portfolio at the beginning of April.

Chairman's statement

for the year ended 31 December 2007

Outlook

The credit crisis that was triggered by over lending in the US subprime mortgage market has continued to impact financial markets in the first quarter of 2008. The nationalisation of Northern Rock in the UK has been followed by the rescue of the investment bank Bear Sterns in the US. Problems in the credit markets have impacted on equity markets and stock market indices around the world have fallen. Drastic measures have been taken by the US authorities to stabilise the financial system but investors remain nervous; uncertainty and market volatility can be expected to continue for some months. Against this background, investment in both equity and bond markets is difficult. However, our Smaller Companies portfolio remains positioned in relatively defensive sectors and from current levels the dividend yields on many smaller companies are looking attractive. The credit crisis has caused a severe shake out in bond markets providing opportunity to move our gilt holdings into higher yielding corporate issues which have fallen to levels that are discounting all but the most pessimistic scenarios.

It is difficult to be optimistic in the very short term but looking out 12 months or more the outlook for the potential returns from current levels is encouraging.

John Boothman
Chairman
29 April 2008

Investment Advisers' report

for the year ended 31 December 2007

SMALLER COMPANIES PORTFOLIO

During the period under review the portfolio produced a negative result as small companies significantly underperformed during the second half of the year. We continue to focus on industrial companies manufacturing proprietary products serving international markets which are continuing to grow.

A number of companies performed strongly during the year. The share price of Weir Group, the pumps and valves manufacturer's, share price grew by 53.7%, De La Rue, the world's largest security printer, rose by 52.8%, International engineers continued to outperform with Rotork rising by 17.4% and Fenner rising by 12.2%. Laird Group rose by 22.0% as a result of its disposal of its building products division and subsequent concentration on electronics manufacturing.

Special dividends were paid by Laird Group, De La Rue and James Halstead. Corporate activity continued with Alpha Airports takeover by Autogrill of Italy.

There were six additions to the portfolio during the year. These were MacFarlane Group, a distributor of packaging products, ACP Capital, a small merchant bank, Devro a food products manufacturer, Nationwide Accident Repair a provider of automotive crash repair services, Abbey Protection a niche insurance company and Avesco a rental company.

The company continues to have minimal exposure to consumer related sectors and heavily indebted companies which leaves the company well placed to benefit from global economic growth.

Unicorn Asset Management Limited
29 April 2008

Investment Advisers' report

for the year ended 31 December 2007

HIGH INCOME PORTFOLIO

The income portfolio suffered in extremely unfavourable market conditions, although it outperformed high yield bond indices. The income portfolio's mandate is to generate an income yield in excess of 8% whilst attempting to maintain capital. This target was extremely challenging at the beginning of 2007. Bond yields generally are low with corporate bonds offering little excess return over their government equivalents. We firmly held the opinion that bond investors were not being adequately compensated for the inherent risks in holding corporate names, particularly the more speculative grade paper. Accordingly, the initial composition of the portfolio had a high weighting in Gilts (over 50%). To meet the targeted yield without taking excess credit risk, reverse convertible bonds (RCBs) were employed. These offer enhanced yields but assume the downside risk of the associated equities.

In the early summer our expectations about credit materialised, albeit in a more spectacular manner than we had anticipated. The credit crunch was precipitated by US sub-prime mortgage losses, causing a widespread loss of faith in the banking systems and indirectly resulting in the Bank of England being required to support Northern Rock. The turmoil caused money markets to seize up, equity markets to fall and credit spreads to significantly widen. The iTraxx Series 6 € Crossover Index widened 46 basis points (bps). The Merrill Lynch Euro High Yield index reported a capital loss of 8.90%. (2.26%. loss in total return terms) with the vast majority of the decline in value occurring in the last six months. Between June to December the index recorded a capital loss of 7.45%. Comparably the income portfolio declined 3.75% in capital terms and was marginally positive on a total return basis.

The Gilt holdings were the prime driver of the strong comparative performance. Since June, the flight to quality has been clear. Gilt yields have declined significantly, the generic 10 year government bond yield fell 95 bps to 4.51% by the end of December, offering a real return of approximately 2.40%. More generally the FTSE Actuaries Government Securities All Stocks index gained 5.86% in capital terms over the same period. The exposure to gilts was reduced (to approximately 13%) as yields declined. The exposure to RCBs was reduced in October when the equity market reached its recent highs. In hindsight the exposure should have been reduced more aggressively as equities, particularly those linked to retail and financial were significantly hurt. Proceeds have generally been reinvested into select corporate bonds where value has improved.

We continue to be cautious as to the outlook on high yield bonds; we anticipate spreads will widen further and default rates will increase. Value has begun to return to corporate bonds, however we believe the volatility experienced in the last six months will continue for many months to come.

Premier Fund Managers Limited

29 April 2008

PRINCIPAL INVESTMENTS

Investments – Smaller Companies

as at 31 December 2007

Holding	Stock	Sector	Market Value (Bid price) £'000
374,340	Fenner Ord GBP0.25	Industrial engineering	904
135,450	Consort Medical	Health care equipment and services	808
91,944	Weir Group Ord	Industrial engineering	743
115,703	Renishaw Ord	Electronic and electical equipment	715
75,627	Diploma Ord	Support services	703
212,914	VP Ord	Support services	702
68,990	Rotork Ord	Industrial engineering	667
120,250	James Halstead Plc	Constructions and materials	658
281,410	Halma Ord	Electronic and electical equipment	619
102,777	Laird Group Ord	Electronic and electical equipment	596
			7,115

The 10 principal investments in smaller companies represent 35.03% of the investment portfolio.

Investments – High Income

as at 31 December 2007

Holding	Stock	Sector	Market Value (Bid price) £'000
350,000	HBOS 6.3673% 17/06/2019	Banking	309
250,000	UK Treasury 8% 27/09/2013	Gilts	293
300,000	Middlefield Canadian Inc	Other closed ended fund	243
200,000	UK Treasury 6% 07/12/2028	Gilts	241
200,000	RBS 10.5% SB BDS 01/03/2013	Banking	236
250,000	AVIVA 5.9021%	Life insurance	230
200,000	CQS Rig Fin C Ord	Other closed ended fund	202
150,000	UK Treasury 8% 07/06/2021	Gilts	201
200,000	Rabo/Prudential 9.62% 03/07/09	Life insurance	197
200,000	T2 Income Fund Ord	Other closed ended fund	190
			2,342

The 10 principal investments in high income securities represent 11.53% of the investment portfolio.

PRINCIPAL INVESTMENTS

Investments – Smaller Companies

as at 31 December 2007

Holding	Stock	Sector	Market Value (Bid price) £'000
	Abacus Ord GBP 0.05	Electronics	2,205
	Lupus Capital Ord GBP 0.005	Manufacturing	1,846
	Diploma Ord GBP 0.05	Distributions & Wholesale	1,274
	Spirax-Sarco Engineering Ord GBP 0.25	Boiler management	979
	Weir Group Ord GBP 0.125	Manufacturing	957
	De La Rue Ord GBP 0.2777	Supply of Security products	919
	Renishaw Ord GBP 0.20	Electronics	866
	Primary Health Properties Ord GBP 0.50	Investment Property	856
	Bespak Ord GBP 0.10	Pharmaceutical supplies	851
	Laird Group Ord GBP 0.25	Electronics	826
			11,579

The 10 principal investments in smaller companies represent 52.77% of the investment portfolio.

Investments – High Income

as at 31 December 2007

Holding	Stock	Sector	Market Value (Bid price) £'000
	Nationwide FRN June 2010	Building Society	2,503
	Empyrean Finance FRN April 2013	Consultants	483
			2,986

The 2 investments in high income securities represent 13.61% of the investment portfolio.

Directors

John Campbell Boothman (Chairman)

John is aged 56 and is a resident of Jersey. He is currently non-executive chairman of Aztec Financial Services Limited and a non-executive director of Jersey Telecom Group Limited. He was managing director of Deutsche Bank International Limited from 1994 to 2002. He is a director of a number of other investment funds and on the board of the Jersey Financial Services Commission.

John Michael McKean

Michael is aged 76 and is a resident of Guernsey. He is a solicitor and also a non-executive director of other Guernsey registered funds.

Helen Foster Green

Helen is aged 45 and is a chartered accountant and a partner in Saffery Champness. She joined the firm in 1984, qualified as a chartered accountant in 1988, and became a partner in the London office in 1997. Since 2000 she has been based in the Guernsey office where she is the client liaison director responsible for trust and company administration. She is on the board of four AIM quoted companies and four Official List companies. Mrs Green is also a director of two non-listed property funds and a non-executive director of a number of Cayman Islands and Irish registered funds.

The other changes to the Directors on the Board are as follows:

Martin Bralsford – resigned 17 January 2007
Eitan Milgram – resigned 17 January 2007
Helen Foster Green – appointed 17 January 2007

Report of the Directors

for the year ended 31 December 2007

The Directors present their report and the audited financial statements for the year ended 31 December 2007.

Status and activities

The Company is a closed-end investment company registered under the provisions of the Companies (Guernsey) Law, 1994.

The Ordinary Shares of the Company are listed on the Official List of the United Kingdom Listing Authority and are traded on the London Stock Exchange. The shares are also listed on the Official List of The Channel Islands Stock Exchange by way of a secondary listing.

The Company's objectives 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.

Tender offer

The opening month of the year saw the completion of the tender offer scheme that provided shareholders with an opportunity to realise all or part of their investment in Acorn Income Fund (the Company) at a price close to NAV. This was followed by the transfer of the investment management contract to Premier Asset Management (Guernsey) Ltd (Premier).

Applications under the Tender Offer were received for 20,660,212 Ordinary Shares, leaving 8,939,790 Ordinary Shares in issue after the Extraordinary General Meeting on 5 January 2007.

At the 5 January 2007 Extraordinary General Meeting it was resolved that the issued share capital of the Company be reduced from £7,400,000.50 to £296,000.02, effected by the cancellation of 24p per issued Ordinary Share, thus reducing the nominal amount of such shares from 25p to 1p per Ordinary Share. It was also resolved that £17,000,000 standing to the credit of the Company's share premium account be cancelled. The £7,104,000.48, resulting from the cancellation of share capital, and the £17,000,000, resulting from the cancellation of the share premium account, were credited to a distributable reserve.

As part of the Tender Offer the Manager changed from Collins Stewart Fund Management Limited to Premier Asset Management Limited, as described below.

Report of the Directors

for the year ended 31 December 2007

Results and dividends

The results attributable to Shareholders for the year and the transfer to reserves are shown on page 22. The Company made a revenue return for the year of 8.52p (2006: 8.25p) and a capital loss of 24.15p (2006: gain of 27.24p) per Ordinary Share.

The Company paid dividends during the year as follows:–

	Pay date	Dividend per share
First interim	10 April 2007	2.00p
Second interim	29 June 2007	2.00p
Third interim	26 October 2007	2.00p
Fourth interim	28 December 2007	2.00p
		8.00p

The Directors do not propose a final dividend for the year.

Net Asset Value Per Ordinary Share

At the year end the net assets of the Company (with investments valued at bid prices) were £15,365,670 (2006: £59,270,687) and the net asset value per Ordinary Share was 171.88p (2006: 200.24p).

Fixed asset investments

The market value of the Company's investments (valued at bid prices) as at 31 December 2007 was £20,311,037 (2006: £21,942,729), showing a surplus of £2,292,938 (2006: surplus of £6,645,514) against book cost. At the year end 67.78% (2006: 86.39%) of the portfolio (excluding cash) related to the smaller companies portfolio which, in respect of capital return, has outperformed the high income portfolio since the Company's inception. At 31 December 2007 there was an unrealised surplus of £2,608,939 (2006: surplus of £6,657,154) on the smaller companies portfolio (excluding cash) and an unrealised deficit of £316,009 (2006: deficit £11,640) on the high income portfolio.

Taxation

The Company has been granted exemption from Guernsey taxation under the terms of the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 so that the Company is exempt from Guernsey taxation on income arising outside Guernsey and bank interest receivable in Guernsey. The Company is therefore only liable to a fixed fee of £600 per annum.

Authority to buy back shares

No shares were purchased for cancellation during the period. However, as a result of the Tender Offer, on 5 January 2007 the Company repurchased 20,660,212 Ordinary Shares for 201.60p each, leaving 8,939,790 Ordinary Shares in issue.

The Company intends to seek to renew the necessary authority to buy back Ordinary Shares at the forthcoming Annual General Meeting.

Report of the Directors

for the year ended 31 December 2007

Risk Factors

Structure of the Company and gearing

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.

Risks associated with investments held in the Smaller Companies portfolio

Investing in smaller companies, including AIM companies can carry greater risks than those usually associated with larger capitalised companies. Liquidity, in particular, can be lower in such shares.

Risks associated with investments held in the Income portfolio

The Income portfolio will primarily contain fixed interest securities. Bond prices and interest rates are inversely correlated. Thus, when interest rates increase, the price of a bond with a fixed coupon will decline. Alternatively, when interest rates decline, the price of a bond with a fixed coupon will increase. Therefore, interest rate movements are carefully monitored by the Investment Adviser.

Reverse convertible bonds ('RCBs') will be redeemed in the form of an underlying equity security (or cash equivalent in the case of an index) in the event that the value of that equity security (or index) on the RCBs redemption date is lower than the RCBs' strike price. This may result in such RCBs being redeemed at a capital loss. Also, the equity security that may be acquired in this manner might have a considerably lower dividend yield than that provided by the associated RCB.

The Income portfolio may contain higher yielding investment company shares (including shares of split capital investment trusts) and bonds (including reverse convertible bonds). As a result of the underlying gearing in some investment company shares, any increase or decrease in the value of such shares might magnify movements in their net asset values and consequently affect the value of the Income portfolio accordingly. In accordance with the Listing Rules, the Company will make monthly stock exchange announcements detailing its holdings in other UK listed investment companies which themselves do not have a stated investment policy to invest no more than 15% of their gross assets in other UK listed investment companies (including investment trusts).

Dividend levels

Dividends paid on the Company's Ordinary shares rely on receipt of interest payments and dividends from the securities in which the Company invests and may rise and fall accordingly. The Company's revenue levels are monitored on a regular basis by the Board and the Investment Manager.

Currency risk

The majority of the Company's assets and all of its liabilities are denominated in sterling. To the extent that the Company has fixed interest investments denominated in foreign currency, this exposure is likely to be hedged back to sterling. Therefore, there is unlikely to be any significant risk although companies in which investments are made may themselves incur such risks, e.g. as a result of translating foreign currency earnings.

Credit risk

The value of bonds and other interest-bearing securities held by the company may fall irrespective of interest-rate movements if the market perceives that there is an increased risk of default by the issuers of such instruments.

Market price risk

Since the Company invests in financial instruments, market price risk is inherent in these investments. In order to minimise this risk, a detailed analysis of the risk/reward relationship of each investee company is undertaken by the Investment Advisers prior to making investments.

Interest rate risk

The Company's investment portfolio consists of investments bearing interest at floating rates or non-interest bearing investments. Interest-rate movements can effect both the value of securities and their income yield.

Liquidity risk

Liquidity risk is the risk that the Company will encounter in realising assets or otherwise raising funds to meet financial commitments. This risk may be enhanced as a result of holding securities for which there is limited market depth, or when market conditions are strained.

Discount volatility

Being a closed-end fund, the Company's shares may trade at a discount to their net asset value. The magnitude of this discount fluctuates daily and can vary significantly. Thus, for a given period of time, it is possible that the market price could decrease despite an increase in the Company's shares' net asset value. The Directors review the discount levels regularly. The Investment Advisers actively communicate with the Company's major Shareholders and potential new investors, with the aim of managing discount levels.

Management

During the year Premier Asset Management (Guernsey) Limited ("Premier") managed the Company's affairs and provided administration, registration and secretarial services to the Company, in accordance with the policies laid down by the Directors. Premier was appointed on 17 January 2007, following the completion of the Tender Offer. Premier was appointed as the Company's manager in place of Collins Stewart Fund Management Limited ("CSFM"). Under the Investment Advisory Agreements, CSFM had appointed Unicorn Asset Management Limited and Collins Stewart Portfolio Management Limited as Investment Advisers to the Company. Under the Investment Advisory Agreements, CSFM ensured that Unicorn Asset Management Limited ("Unicorn") and Collins Stewart Portfolio Management Limited acted in accordance with the policies laid down by the Directors and in accordance with the investment restrictions referred to in those Agreements and the Articles of Association. Under the Management Agreement, Premier received an aggregate annual fee from the Company, at the rate of 0.7% of gross assets together with a performance fee of 15% over a total return of 10% per annum. Premier has also agreed to cap the total expense ratio of the Company at 1.5% of gross assets excluding performance fees and non-routine administration and professional fees.

Having carefully considered the various alternative proposals submitted to it, the Board preferred the proposal put forward by Premier and Unicorn in the belief that it best reflected the views of the substantial majority of those Shareholders who wanted to continue their investment in the Company.

Report of the Directors

for the year ended 31 December 2007

Directors

The present members of the Board are listed on the inside back cover. On 17 January 2007 Martin Bralsford and Eitan Milgram resigned from the Board and Helen Green was appointed.

At 31 December 2007 the Directors' interests in the share capital of the Company were as follows:

	Ordinary shares
John Campbell Boothman	–
John Michael McKean	20,000
Helen Foster Green	–

There were no changes in the interests of the current Directors between 31 December 2007 and 25 April 2008. There are no service contracts in place between the Company and the Directors.

Future Prospects

The Directors are reasonably confident that the good performance of the Company relative to market benchmarks can be maintained over the coming year. Further details are given in the Chairman's Statement and the Investment Advisers' Reports on pages 3-6.

Substantial Shareholdings

On 29 February 2008 the following interests in 3% or more of the issued Ordinary Share Capital had been notified to the Company.

	Number of shares	Percentage of share capital
Funds managed by:		
HSBC Issuer Services Common Depository Nominee (UK) Limited A/c EUROCL	5,504,150	61.57
HSBC Issuer Services Common Depository Nominee (UK) Limited A/c CLEARS	2,723,900	30.47
Apollo Nominees Ltd	552,746	6.18

Going Concern

After making reasonable enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Litigation

The Company is not engaged in any litigation or claim of material importance, nor, so far as the Directors are aware, is any litigation or claim of material importance pending or threatened against the Company.

Auditors

KPMG Channel Islands Limited have expressed their willingness to continue to act as Auditors to the Company and a resolution for their reappointment will be proposed at the forthcoming Annual General Meeting.

Corporate Governance

As the Company is not incorporated within the United Kingdom it is not required to comply with the new Combined Code published by the Financial Reporting Council (the "2006 FRC Code"). However, the Directors place a high degree of importance on ensuring that high standards of Corporate Governance are maintained. In the absence of a formal corporate governance regime in its country of incorporation, the Board has put in place a framework for corporate governance which it believes is suitable for an investment company and which enables the Company voluntarily to comply with the main requirements of the Code, which sets out principles of good governance and a code of best practice. As a result, many of the principles set out in the 2006 FRC Code have been adopted and these are summarised below, together with the areas of non-compliance.

The Company complied throughout the year with the provisions of the Combined Code Principles of Good Governance and Code of Best Practice, except in the following aspects:

A.1.3 The non-executive Directors have not met separately, without the Chairman present, to appraise the Chairman's performance. The Board decided that this was not appropriate given the nature of the Company.

A.3.3 The Chairman, Mr Boothman, is the senior non-executive Director. This is not in accordance with provision A3.3 of the 2006 FRC Code but is felt to be appropriate for the size and nature of the Company.

A.4.4 The terms and conditions of appointment of the Directors are not available for inspection as the Board did not deem it necessary to formalise the terms and conditions of appointment or to sign letters of appointment.

Since the Directors did not formalise letters of appointment and as the schedule of Board and committee meetings is subject to change according to the exigencies of the business, the Directors do not have fixed time commitments. All Directors are expected to demonstrate their commitment to the work of the Board on an ongoing basis.

A.6.1 The Board did not undertake a formal review of performance of the Board, its committees or the individual Directors during the period. The Board decided that this was not appropriate given the nature of the Company.

A.7.1 The Directors are not subject to re-election by the Shareholders at intervals of no more than three years as this was not felt to be appropriate for the size and nature of the Company.

A.7.2 The Directors are not appointed for specific terms as this was not felt to be appropriate for the size and nature of the Company.

B.2.1 The Board has not established a remuneration committee as it does not have any executive directors and does not consider it to be appropriate for the size and composition of the Board.

Report of the Directors

for the year ended 31 December 2007

Board Responsibilities

The Board currently comprises three members, all of whom are independent non-executive directors. The Company has no executive directors. As all the Directors are non-executive, the Chairman (Mr Boothman) is the senior non-executive director. This is not in accordance with provision A.2.1 of the 2006 FRC Code but is felt to be appropriate for the size and nature of the Company.

The Board has engaged external companies to undertake the investment management, administrative and custodial activities of the Company. Clear documented contractual arrangements are in place with these firms which define the areas where the Board has delegated responsibility to them. The Company holds at least four Board meetings per year, at which the Directors review the Company's investments and all other important issues to ensure control is maintained over the Company's affairs.

Since all the Directors are non-executive, the Company is not required to state how it applied B.1 to B.3 of the 2006 FRC Code on directors' remuneration. However, the fee that was paid to each Director during the period is shown in note 7 to the financial statements.

All members of the Board are expected to attend each Board meeting and to arrange their schedules accordingly, although non-attendance is unavoidable in certain circumstances. The table below details the number of Board and Committee meetings attended by each Director. During the year ended 31 December 2007 there were six Board meetings, two Audit Committee meetings.

	Board meetings	Audit Committee meetings
John Boothman	6	2
Michael McKean	6	2
Helen Green	6	2

Audit Committee

The audit committee comprises the full Board of the Company and will meet at least twice a year. The function of the Audit Committee is to ensure that the Company maintains high standards of integrity, financial reporting and internal controls. It provides a forum through which the Company's auditors report to the Board. The Audit Committee has formal written terms of reference which define clearly its responsibilities.

Dialogue with Shareholders

The Directors are always available to enter into dialogue with shareholders. All Ordinary Shareholders will have the opportunity, and indeed are encouraged, to attend and vote at the Annual General Meeting during which the Board and the Investment Managers will be available to discuss issues affecting the Company. The Board stays abreast of Shareholders' views via regular updates from the Investment Managers as to meetings they have held with Shareholders.

Internal Control and Financial Reporting

The Board is responsible for establishing and maintaining the Company's system of internal control. Internal control systems are designed to meet the particular needs of the Company and the risks to which it is exposed, and, by their very nature, provide reasonable, but not absolute, assurance against material misstatement or loss. The key procedures which have been established to provide effective internal controls are as follows:

- Northern Trust International Fund Administration Services (Guernsey) Limited (previously Collins Stewart Fund Management Limited) is responsible for the provision of administration and company secretarial duties and the custody of assets.

- The duties of investment management, accounting and the custody of assets are segregated. The procedures are designed to complement one another.

- The non-executive Directors of the Company clearly define the duties and responsibilities of their agents and advisers in the terms of their contracts.

- The Board reviews financial information produced by the Manager on a regular basis.

- The Company does not have an internal audit department. All of the Company's management functions are delegated to independent third parties and it is therefore felt that there is no need for the Company to have an internal audit facility.

- The Board reviews the internal controls of the Manager via the quarterly compliance reports it receives from Northern Trust International Fund Administration Services (Guernsey) Limited (previously Collins Stewart (CI) Limited).

Payment to Creditors

Amounts due to suppliers and service providers are settled promptly within the terms of the payment, except in cases of dispute.

Financial Risk Profile

The Company's financial instruments comprise investments, cash, loans and various items such as debtors and creditors that arise directly from the Company's operations. The main purpose of these instruments is the investment of Shareholders' funds.

The main risks are market price, liquidity, interest rate, and credit risks. Further details are given in note 21 on pages 32 to 36 to the financial statements and a more detailed risk warning is given on page 37.

Report of the Directors

for the year ended 31 December 2007

Directors' responsibilities

The Directors are responsible for preparing financial statements for each financial period which give a true and fair view of the state of affairs of the Company for that period and are in accordance with applicable laws. In preparing those financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 1994. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for ensuring that the Report of the Directors and other information included in the Annual Financial Report is prepared in accordance with applicable company law. They are also responsible for ensuring that the Annual Financial Report includes information required by the Listing Rules of the Financial Services Authority in the United Kingdom.

Signed on behalf of the Board of Directors

Helen Foster Green	**John Michael McKean**
Director	Director
29 April 2008	*29 April 2008*

Independent Auditor's Report to the members of Acorn Income Fund Limited

We have audited the financial statements of Acorn Income Fund Limited for the year ended 31 December 2007 which comprise the Income Statement, Reconciliation of Movements in Shareholders' Funds, Balance Sheet, Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 64 of The Companies (Guernsey) Law, 1994. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable Guernsey law and United Kingdom accounting standards as set out in the Report of the Directors on page 18.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with The Companies (Guernsey) Law, 1994. We also report to you if, in our opinion, the Company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent Auditors' report to the members of Acorn Income Fund Limited

OPINION

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Accounting Standards, of the state of the Company's affairs as at 31 December 2007 and of its return for the year then ended; and

- have been properly prepared in accordance with The Companies (Guernsey) Law, 1994.

KPMG Channel Islands Limited
Chartered Accountants
Guernsey
29 April 2008

Income statement

for the year ended 31 December 2007

	Note	31 December 2007 Revenue £'000	Capital £'000	Total £'000	31 December 2006 Revenue £'000	Capital £'000	Total £'000
Gains and losses on investments							
Realised gain on investments at fair value through profit or loss		–	2,364	2,364	–	29,349	29,349
Movement in unrealised gains on investments at fair value through profit or loss		–	(4,354)	(4,354)	–	(19,171)	(19,171)
Losses on foreign currency contracts	4	–	(29)	(29)	–	–	–
Net Investment gain		–	(2,019)	(2,019)	–	10,178	10,178
Income	3	1,136	–	1,136	3,158	–	3,158
Management fee	5	(38)	(114)	(152)	(195)	(586)	(781)
Performance fee		–	–	–	–	(150)	(150)
Costs of Tender Offer		–	–	–	–	(189)	(189)
Other expenses	6	(188)	(33)	(221)	(206)	(249)	(455)
Net return on ordinary activities before finance costs		910	(2,166)	(1,256)	2,757	9,004	11,761
Interest payable and similar charges	8	(71)	(212)	(283)	(313)	(940)	(1,253)
Net return on ordinary activities for the year		839	(2,378)	(1,539)	2,444	8,064	10,508
Return per Ordinary Share	10	8.52p	(24.15p)	(15.63p)	8.25p	27.24p	35.49p
Dividend per Ordinary Share (distributed)	9	8.00p	0.00p	8.00p	9.00p	0.00p	9.00p

The total columns of this statement represent the income statement of the Company.

There are no recognised gains and losses other than stated above.

The accompanying notes on pages 25 to 36 form an integral part of the financial statements.

Reconciliation of movements in shareholders' funds

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	Share capital £'000	Share premium £'000	Capital Redemption reserve £'000	Revenue reserve £'000	Special reserve £'000	Capital reserve £'000	Total £'000
Balance as at 1 January 2007		7,400	17,079	–	682	10,000	24,110	59,271
Transfer to distributable reserve		(7,104)	(17,000)	–	–	–	24,104	–
Tender offer		(207)	–	207	–	–	(41,651)	(41,651)
Return for the year		–	–	–	839	–	(2,378)	(1,539)
Dividends paid	9	–	–	–	(715)	–	–	(715)
Balance as at 31 December 2007		89	79	207	806	10,000	4,185	15,366

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	Share capital £'000	Share premium £'000	Capital Redemption reserve £'000	Revenue reserve £'000	Special reserve £'000	Capital reserve £'000	Total £'000
Balance as at 1 January 2006		7,400	17,079	–	902	10,000	16,046	51,427
Return for the year		–	–	–	2,444	–	8,064	10,508
Dividends paid	9	–	–	–	(2,664)	–	–	(2,664)
Balance as at 31 December 2006		7,400	17,079	–	682	10,000	24,110	59,271

The accompanying notes on pages 25 to 36 form an integral part of the financial statements.

Balance sheet

as at 31 December 2007

	Note	31 December 2007 £'000	31 December 2006 £'000
Fixed assets			
Investments at fair value through profit or loss	11	20,311	21,943
Current assets			
Debtors	14	221	159
Cash at bank		477	37,547
		698	37,706
Creditors – amounts falling due within one year			
Derivative financial liability	21	(32)	–
Creditors	15	(111)	(378)
Net current assets		555	37,328
Total assets less current liabilities		20,866	59,271
Creditors – amounts falling due after more than one year			
Long term bank loan	13	(5,500)	–
Net asset value		15,366	59,271
Share capital and reserves			
Called–up share capital	16	89	7,400
Share premium		79	17,079
Capital redemption reserve		207	–
Revenue reserve		806	682
Special reserve		10,000	10,000
Capital reserve		4,185	24,110
Total shareholders' funds attributable to equity interests		15,366	59,271
Net asset value per Ordinary Share	17	171.88p	200.24p

These financial statements on pages 21 to 36 were approved by the Board of Directors on 29 April 2008 and signed on its behalf by:

Helen Foster Green **John Michael McKean**

The accompanying notes on pages 25 to 36 form an integral part of the financial statements.

Cash flow statement

for the year ended 31 December 2007

	Note	31 December 2007 £'000	31 December 2006 £'000
Net cash inflow from operating activities	18	434	2,159
Servicing of finance			
Interest paid		(283)	(1,452)
Net cash outflow from servicing of finance		(283)	(1,452)
Investing activities			
Purchase of investments at fair value through profit or loss		(21,335)	(14,646)
Sale of investments at fair value through profit or loss		20,977	74,528
Realised gain on forward currency contracts		3	–
Net cash (outflow)/inflow from investing activities		(355)	59,882
Equity dividends paid	9	(715)	(2,664)
Cash (outflow)/inflow before financing		(919)	57,925
Financing activities			
Payment on redemption of ordinary shares		(41,651)	–
Drawdown/(repayment) of bank loan		5,500	(25,616)
Net cash outflow from financing		(36,151)	(25,616)
(Decrease)/increase in cash in the year		(37,070)	32,309
Reconciliation of net cash flows to movement in net debt			
(Decrease)/increase in cash in the year		(37,070)	32,309
Cash inflow from increase in loans		(5,500)	–
Repayment of loan		–	25,616
Movement in net debt		(42,570)	57,925
Net debt at 1 January		37,547	(20,378)
Net debt at 31 December		5,023	37,547

The accompanying notes on pages 25 to 36 form an integral part of the financial statements.

1. ACCOUNTING POLICIES

The accounting policies, all of which have been applied consistently throughout the year, in the preparation of the Company's financial statements, are set out below:

a) Accounting convention

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments, and in accordance with applicable United Kingdom accounting standards and with the revised Statement of Recommended Practice ("SORP"), for Financial Statements of Investment Trust Companies ("ITC"), issued in December 2005.

Change in Accounting Policies

In the current year the Company has adopted for the first time FRS 29 Financial Instruments: Disclosures in its 2007 Financial Statements. FRS 29 Financial Instruments: Disclosures is mandatory for reporting periods beginning on 1 January 2007 or later. All disclosures relating to financial instruments including all comparative information have been updated to reflect the new requirements. In particular, the Company's financial statements now feature a sensitivity analysis, to explain the Company's market risk exposure in regards to its financial instruments, and a maturity analysis that shows the remaining contractual maturities of financial liabilities, each as at the balance sheet date. The first-time application of FRS 29, however, has not resulted in any prior-period adjustments of cash-flows, net income or balance sheet line items.

b) Income

Dividends receivable on equity shares are taken into account on the ex-dividend date. Income on debt and fixed interest securities is recognised on an effective interest rate basis. Dividends received from United Kingdom registered companies are accounted for net of implied tax credits. Bank interest is accounted for on an accruals basis.

c) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account except as follows:

(i) 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; and

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

d) Capital reserve

The following are accounted for in the capital reserve:

(i) realised gains and losses on the realisation of investments;

(ii) unrealised gains and losses on investments; and

(iii) expenses charged to the capital reserve in accordance with the above accounting policies.

1. ACCOUNTING POLICIES (CONTINUED)

e) Investments

Classification In accordance with FRS 26, all investments including forward foreign exchange contracts are classified as "fair value through profit or loss". The Smaller Companies portfolio and the High Income Portfolio are managed and their performance evaluated on a fair value basis, in accordance with a documented investment strategy. Information about each portfolio is provided internally to the Company's Board of Directors. Accordingly, upon initial recognition, the investments are designated by the Company as at "fair value through profit or loss".

Recognition The Company recognises financial assets held as fair value through profit or loss assets on the date it commits to purchase the instruments. From this date, any gains and losses arising from the changes in fair value of the assets are recognised in the capital reserve.

Measurement Fair value through profit or loss investments are initially recognised at fair value (transaction price), being the fair value of the consideration paid, excluding transaction costs associated with the investment. Subsequent to initial recognition, all fair value through profit or loss investments are measured at fair value with changes in value being recognised in the Statement of Total Return and taken to the capital reserve. 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 Balance Sheet date.

Derecognition A fair value through profit or loss investment is derecognised when the Company loses control over the contractual rights that comprise that asset. This occurs when rights are realised, expire or are surrendered. Realised gains and losses on fair value through profit or loss assets sold are calculated as the difference between the sales proceeds (excluding transaction costs) and costs. Fair value through profit or loss investments that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Company commits to sell the investment. The Company uses the weighted average method to determine realised gains and losses on derecognition.

f) Long Term Bank Loan

Long term bank loan are carried at amortised cost using the effective interest rate method.

g) Foreign exchange

Foreign currency assets and liabilities are translated into Sterling at the rate of exchange ruling at the Balance Sheet date. Transactions are denominated in foreign currency are translated at the rate of exchange ruling at the date of the transaction. Differences on exchange are included in the Income Statement.

2. TAXATION

The Company has been granted exemption from Guernsey taxation under the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 and is charged an annual exemption fee of £600 (2006: £600).

3. INCOME

	2007 £'000	2006 £'000
Income from securities designated at fair value through profit or loss		
Dividend	775	2,040
Bond income	333	543
Interest income from financial assets which are not at fair value through profit or loss		
Bank interest	28	575
	1,136	3,158

4. LOSSES ON FOREIGN CURRENCY CONTRACTS

	2007 £'000	2006 £'000
Realised gain on forward foreign currency contracts	3	–
Unrealised loss on forward foreign currency contracts	(32)	
	(29)	–

5. MANAGEMENT FEE

On 17 January 2007, following completion of the Tender Offer, Premier Asset Management (Guernsey) Limited ('Premier") were appointed as the Company's manager in place of Collins Stewart Fund Management Limited ("CSFM"). Unicorn Asset Management Limited ("Unicorn") continues as Investment Adviser to the smaller companies' portfolio.

The principal terms of the management agreement dated 11 December 2006 are that the management fee would be 0.7% per annum of gross assets together with a performance fee of 15% over a total return of 10% per annum. Premier has also agreed to cap the total expense ratio of the Company at 1.5% of gross assets excluding performance fees and non-routine administration and professional fees.

6. OTHER EXPENSES

		2007			2006		
	Note	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Custody and settlement fees		5	–	5	47	–	47
Auditors' remuneration		17	–	17	13	–	13
Directors' remuneration	7	50	–	50	40	–	40
Transaction charges		–	33	33	–	249	249
Other expenses		116	–	116	106	–	106
		188	33	221	206	249	455

7. DIRECTORS' REMUNERATION

	2007 £'000	2006 £'000
John Boothman	20	12
John Michael Mckean	15	12
Helen Green	15	–
David Martin Bralsford	–	16
Eitan Milgram	–	–
	50	40

No bonus or pension contributions were paid on behalf of the Directors. Details of the Directors' interests in the share capital are set out in the Report of the Directors on page 10-18.

8. INTEREST PAYABLE AND SIMILAR CHARGES

The interest payable relates to interest due on the bank loan, details of which are disclosed in note 13.

9. DIVIDENDS IN RESPECT OF EQUITY SHARES

	2007 £'000	2007 pence per share	2006 £'000	2006 pence per share
Dividends on Ordinary Shares:				
First interim paid	179	2.0	592	2.0
Second interim paid	179	2.0	592	2.0
Third interim paid	179	2.0	592	2.0
Fourth interim paid	178	2.0	592	2.0
Special dividend paid	–	–	296	1.0
	715	8.0	2,664	9.0

10. RETURN PER ORDINARY SHARE

The revenue return per Ordinary Share is based on net revenue of £839,395 (31 December 2006: £2,443,560) and on a weighted average number of 9,845,443 (31 December 2006: 29,600,002) Ordinary Shares in issue throughout the period. The capital loss per Ordinary Share is based on the net capital loss of £2,378,426 (31 December 2006: £8,064,770) and on a weighted average number of 9,845,443 (31 December 2006: 29,600,002) Ordinary Shares in issue throughout the period.

11. FAIR VALUE THROUGH PROFIT OR LOSS INVESTMENTS

	2007			2006		
	Smaller Companies Portfolio £'000	High Income Portfolio £'000	Total £'000	Smaller Companies Portfolio £'000	High Income Portfolio £'000	Total £'000
Opening valuation	18,957	2,986	21,943	60,721	11,354	72,075
Purchases at cost	10,115	11,220	21,335	6,581	7,566	14,147
Sales – proceeds	(13,619)	(7,358)	(20,977)	(58,622)	(15,835)	(74,457)
– realised gains	2,363	1	2,364	30,403	(1,054)	29,349
Movement in unrealised depreciation	(4,050)	(304)	(4,354)	(20,126)	955	(19,171)
Closing valuation	13,766	6,545	20,311	18,957	2,986	21,943
Closing book cost	11,158	6,861	18,019	12,299	2,998	15,297
Closing unrealised appreciation/(depreciation)	2,608	(316)	2,292	6,658	(12)	6,646
Closing valuation	13,766	6,545	20,311	18,957	2,986	21,943

12. FINANCIAL ASSETS AND LIABILITIES

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

	2007 £'000	2006 £'000
Assets		
Financial assets at fair value through profit or loss		
Equity Investments	14,516	18,957
Debt investments	5,795	2,986
Total financial assets at fair value through profit or loss	20,311	21,943
Loans and other receivables	698	37,706
Total Assets	21,009	59,649
Liabilities		
Financial liabilities at fair value through profit or loss		
Derivative financial liability	(32)	–
	(32)	–
Financial liabilities measured at amortised cost		
Long term bank loan	(5,500)	–
Creditors	(111)	(378)
	(5,611)	378
Total liabilities excluding net assets attributable to holders of ordinary shares	(5,643)	(378)

Loans and receivables presented above represents cash and cash equivalents and interest, dividends and other receivables as detailed in the balance sheet.

Financial liabilities measured at amortised cost presented above represents accounts payable and long term bank loan and creditors as detailed in the balance sheet.

	2007 % of Portfolio	2006 % of Portfolio
Investment Assets		
Equity investments:		
Listed equities	71.47	86.39
Total equity investments	71.47	86.39
Debt investments	28.53	13.61
Total investment assets	100.00	100.00

13. LONG TERM BANK LOAN

	2007 £'000	2006 £'000
Bank of Scotland International facility	5,500	–

Under loan agreements dated 13 February 2007 between the Company and Bank of Scotland International a £6,000,000 Revolving Credit Facility was arranged for a period of 5 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 borrower has entered into a Security Interest Agreement on 23 March 2007. The capital covenant on the facility requires a ratio of specified investment to debt of 2:1. Specified investments includes UK listed securities with a market capitalisation of over £75million, 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 the loan covenants.

14. DEBTORS

	2007 £'000	2006 £'000
Accrued income	219	153
Other Debtors	2	6
	221	159

15. CREDITORS

	2007 £'000	2006 £'000
Management fee	39	150
Performance fee	–	150
Bank interest	10	–
Directors fee	13	–
Other creditors	49	78
	111	378

16. SHARE CAPITAL

	2007 £'000	2006 £'000
Authorised:		
Ordinary Shares	10,000	10,000
No. of Ordinary Shares	1,000,000,000	40,000,000
Nominal value per Ordinary Share	1p	25p

	2007 £'000	2006 £'000
Allotted, called up and fully paid:		
Ordinary Shares	89	7,400
Ordinary Shares at 1 January 2007	29,600,002	29,600,002
Tender offer during the year	(20,660,212)	–
Ordinary Shares at 31 December 2007	8,939,790	29,600,002

At the 5 January 2007 Extraordinary General Meeting it was resolved that the issued share capital of the Company be reduced from £7,400,000.50 to £296,000.02, effected by the cancellation of 24p per issued Ordinary Share, thus reducing the nominal amount of such shares from 25p to 1p per Ordinary Share. It was also resolved that £17,000,000 standing to the credit of the Company's share premium account be cancelled. The £7,104,000.48, resulting from the cancellation of share capital, and the £17,000,000 resulting, from the cancellation of the share premium account, were credited to the capital reserve.

No shares were purchased for cancellation during the period. However, as a result of the Tender Offer, on 17 January 2007 the Company repurchased 20,660,212 Ordinary Shares for 201.6p each, leaving 8,939,790 Ordinary Shares in Issue.

17. NET ASSET VALUE PER ORDINARY SHARE

The net asset value per Ordinary Share is based on the net assets attributable to equity Shareholders of £15,365,670 (31 December 2006: £59,270,687) and on 8,939,790 Ordinary Shares (December 2006: 29,600,002) in issue at the end of the period.

18. RECONCILIATION OF NET REVENUE BEFORE FINANCE COSTS AND TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2007 £'000	2006 £'000
Net revenue before finance costs and taxation	910	2,757
Management fees charged to the capital reserve	(114)	(586)
Performance fee charged to the capital reserve	–	(150)
Transaction costs charged to the capital reserve	(33)	(249)
Tender offer costs charged to capital reserve	–	(189)
(Increase)/decrease in accrued income and other debtors	(62)	421
Increase in other creditors and accruals	(267)	155
Net cash inflow from operating activities	434	2,159

19. CAPITAL COMMITMENTS

All contracted capital commitments have been provided for.

20. RELATED PARTIES

Details of the relationships between the Company, Premier Asset Management Limited, Northern Trust International Fund Administration Services (Guernsey) Limited, Collins Stewart Fund Management Limited, Collins Stewart Portfolio Management Limited and Collins Stewart (CI) Limited are disclosed in the Report of the Directors and note 5. Administration fee of £52,213 has been received by Northern Trust of which £13,863 remained accrued as at 31 December 2007.

The Directors are not aware of any ultimate controlling party.

21. FINANCIAL INSTRUMENTS & ASSOCIATED RISKS

Financial Summary

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 iterest bearing shares, convertible and reverse convertible bonds and debentures) but may include up to 15% of the portfolio (measured at time of requisition) in high yielding investment company shares.

The comparison figures for 2006 are distorted by the high cash weighting the Company was carrying ahead of the tender in January 2007. At 31 December 2007, 67.78% (2006: 86.39%) of the portfolio related to the smaller companies portfolio.

In addition, the Company holds cash and liquid resources as well as having debtors and creditors that arise directly from its operations. The main risks arising from the Company's financial instruments are market price risk, interest rate risk and liquidity risk.

21. FINANCIAL INSTRUMENTS & ASSOCIATED RISKS (CONTINUED)

Market price risk

Market price risk arises mainly from the uncertainty about future prices of the financial instruments held by the Company. It represents the potential loss the Company may suffer through holding market positions in the face of price movement.

The Company's exposure to market price risk consists mainly of movements in the value of the Company's investments. The Company's investment portfolio complies with the investment parameters as disclosed in its prospectus and the spread of the principal investments is disclosed on pages 7 and 8. The Board manages the market price risks inherent in the investment portfolios by ensuring full and timely access to relevant information from the Investment Advisers. The Board meets regularly and at each meeting reviews investment performance.

Price risk is managed by the Fund's Investment Manager by constructing a diversified portfolio of investment instruments.

Market price sensitivity analysis

The fund's equity investments in the smaller companies portfolio represented 67.78% of total assets at 31 December 2007. A 3% increase in these investments would have increased net assets by 2.69%. An equal change in the opposite direction would have decreased net assets by 2.69%. A 3% move in total assets would alter net assets by 4.1% (in either direction). The comparable figures for the 31 December 2006 year end are misleading as at that point in time the Company was carrying 63% of its total assets in cash in readiness for the tender that was to take place in January. The Company had repaid its bank loan and had no gearing so a 3% move in the 32% of total assets invested in equities would have caused a move of 0.96% in net assets (in either direction).

As at 31 December 2007 a 3% move in stock prices of the equity portfolio would have increased or decreased the total return per ordinary share (revenue and capital return) by 4.42p based on a weighted average number of shares in issue of 9,845,443.

21. FINANCIAL INSTRUMENTS & ASSOCIATED RISKS (CONTINUED)

Foreign currency risk

Foreign currency risk arises from fluctuations in the value of foreign currency. It represents the potential loss the Company may suffer through holding foreign currency assets or liabilities in the face of foreign exchange movements.

The Fund may invest in financial instruments and enter into transactions denominated in currencies other than its functional currency. Consequently, the Fund is exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse affect on the value of that portion of the Fund's assets or liabilities denominated in currencies other than pounds sterling.

The Fund's currency risk is managed on a daily basis by the Investment Manager in accordance with management policies and procedures in place. The Investment Manager uses financial instruments to minimize the risk.

A breakdown of the net assets denominated by currency is listed below:

	2007 £'000	2006 £'000
Australian Dollar	3	–
Euro	(11)	–
GBP	15,342	–
US Dollar	1	–
	15,335	–

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company now finances its operations through shareholders' capital, retained profits and a bank loan. Under the loan agreement dated 13 February 2007 between the Company and Bank of Scotland International, a £6,000,000 revolving credit facility was arranged. The interest payable under the facility was fixed at regular intervals, based on the aggregate rate of LIBOR plus certain additional regulatory costs charged by the bank and a margin of 1.0% per annum.

The investment portfolio includes investments bearing interest at fixed and floating rates, and non-interest bearing investments. Interest receivable on bank deposits will be affected by fluctuations in interest rates.

21. FINANCIAL INSTRUMENTS & ASSOCIATED RISKS (CONTINUED)

The table below summarises the Company's exposure to interest rate risks. It includes the Company's financial assets and liabilities at fair values.

	Floating rate 2007 £'000	Fixed interest 2007 £'000	Non-interest bearing 2007 £'000	Total 2007 £'000	Floating rate 2006 £'000	Fixed interest 2006 £'000	Non-interest bearing 2006 £'000	Total 2006 £'000
Financial Assets								
Equity Shares	–	–	14,516	14,516	–	–	18,957	18,957
Debt investments	–	5,795	–	5,795	2,986	–	–	2,986
Cash at bank	477	–	–	477	37,547	–	–	37,547
Debtors	–	–	221	221	–	–	159	159
	477	5,795	14,737	21,009	40,533	–	19,116	59,649
Financial Liabilities								
Creditors	–	–	111	111	–	–	378	378
Derivative financial liability	–	–	32	32	–	–	–	–
Long term bank loan	5,500	–	–	5,500	–	–	–	–
	5,500	–	143	5,643	–	–	378	378

Interest rate sensitivity

The Investment Manager manages the Company's exposure to interest rate risk on a regular basis in accordance with the Company's investment objectives and policies. The Company's overall exposure to interest rate risk is monitored on a quarterly basis by the Board of Directors. At 31 December 2007, the Company is exposed to changes in market interest rates through its bank borrowings, which are subject to variable interest rates. As in the previous year, all other financial assets and liabilities have fixed rates.

Based on year end borrowings of £5.5 million, a movement of 25 basis points in the interest rate payable would over the course of a year, have increased or decreased the cost of borrowing by £13,750 and would have changed the net assets attributable to holders of ordinary shares by the same amount.

Liquidity risk

Liquidity risk is the risk that the Company will encounter in realising assets or otherwise raising funds to meet financial commitments.

The Company's liquidity risk is managed by the Investment Manager who monitors the cash positions on a regular basis. The Company's overall liquidity risks are monitored on a quarterly basis by the board of directors. Accrued expenses of £85,985 is payable between 1 to 3 months (2006: £300,000); accounts payable of £25,348 is payable between 3 months to 1 year (2006: £78,000). The derivative financial liability amounting to £32,203 is payable between 1 to 3 months (2006: £Nil).

21. FINANCIAL INSTRUMENTS & ASSOCIATED RISKS (CONTINUED)

Credit risk

The risk that counterparties might default on their obligations is monitored on an ongoing basis. As stated in the Prospectus, it is the Company's 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 Group's principal financial assets are equity shares, bonds, cash at bank and other receivables. The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties. At 31 December 2007 the Company's largest exposure to a single investment was £904,031, 4.30% of total assets (2006: £2,502,750, 4.20%).

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

	2007 £'000	2006 £'000
Investments in equity shares	14,516	18,957
Investments in Debt instruments	5,795	2,986
Cash and cash equivalents	477	37,547
Interest, dividends and other receivables	221	159
Total	21,009	59,649

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.

At 31 December 2007, the Fund's holdings in derivatives translated into GBP were as specified in the table below.

Type of contract	Expiration	Underlying	Notional amount of contracts outstanding	Fair value assets/ (liabilities) £
Forward	March 2008	Foreign currencies (Sale of AUD)	AUD 470,000	(206,863)
Forward	January 2008	Foreign currencies (Sale of EUR)	EUR 519,000	(381,400)
Forward	January to March 2008	Foreign currencies (Purchase of GBP)	GBP 832,744	832,744
Forward	February 2008	Foreign currencies (Sale of USD)	USD 550,000	(276,684)
				(32,203)

Risk Warning

An investment in the Company is only suitable for financially sophisticated investors who are capable of evaluating the risks and merits of such investment, or other investors who have been professionally advised with regard to investment, and who have sufficient resources to bear any loss which might result from such investment. There can be no guarantee that investors will recover their initial investment. This investment employs gearing and may be subject to sudden and large falls in value. You should be aware that movements in the net asset value of the Company, and therefore the price of the shares, may be more volatile than movements in the price of the underlying investments and that there is a risk that you may lose all the money that you have invested. Investors considering an investment should consult their stockbroker, bank manager, solicitor, accountant or other independent financial adviser.

Investors contemplating an investment in Ordinary Shares should recognise that the market value of, and the income derived from, such shares can fluctuate and may not always reflect the underlying value of the Company's portfolio. Securities listed on recognised exchanges are valued at their bid market prices as at the close of business on 31 December 2007. The market prices at which these investments are valued may not be the realisable value of those investments, taking into account both the size of the Group's holding, the frequency with which such investments are traded and the spread between the bid and offer prices.

Future dividends on the Ordinary Shares will depend on the dividend and capital growth of investments in the underlying portfolio. Dividend cuts by companies within the portfolio or falls in the share prices of the underlying investments may result in the Ordinary Shares yielding less in future years. Falling bond prices or reductions in bond yields may also lead to a reduction in dividends on the Ordinary Shares. Any change in the tax treatment of dividends or interest paid or received by the Company may reduce the level of dividend received by Ordinary Shareholders.

There can be no guarantee that the Company's investment objectives will be met.

Directors and Advisers

Directors:	John Campbell Boothman (Chairman) John Michael McKean Helen Foster Green
Investment Manager:	Premier Asset Management (Guernsey) Limited PO Box 255 Trafalgar Court Les Banques St Peter Port Guernsey, GY1 3QL
Investment Advisers:	Unicorn Asset Management Limited Preacher's Court The Charterhouse Charterhouse Square London, EC1M 6AU
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