ACORN INCOME

2007

Acorn Income Fund Limited

interim report (unaudited)
for the six months ended
30 June 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-end investment company, incorporated under
The Companies (Guernsey) Law, 1994.

REGISTERED IN GUERNSEY No. 34778

Company highlights

for the 6 months ended 30 June 2007

Total return performance (from 17 January 2007)

	% change
Total assets*	1.1**
Hoare Govett Smaller Companies Index	4.7

Capital Return performance (from 17 January 2007)

Total assets*	0.9
Hoare Govett Smaller Companies Index	3.7

Share price and NAV returns

	30 June 2007	31 December 2006	% change
Ordinary share			
NAV	204.56p	200.40p	2.08
Mid price	192.25p	195.50p	–1.66
Earnings per Ordinary share	5.07p	8.25p	
Net dividends declared per Ordinary share	4.00p	9.00p	

* Total assets are stated after deduction of current liabilities.

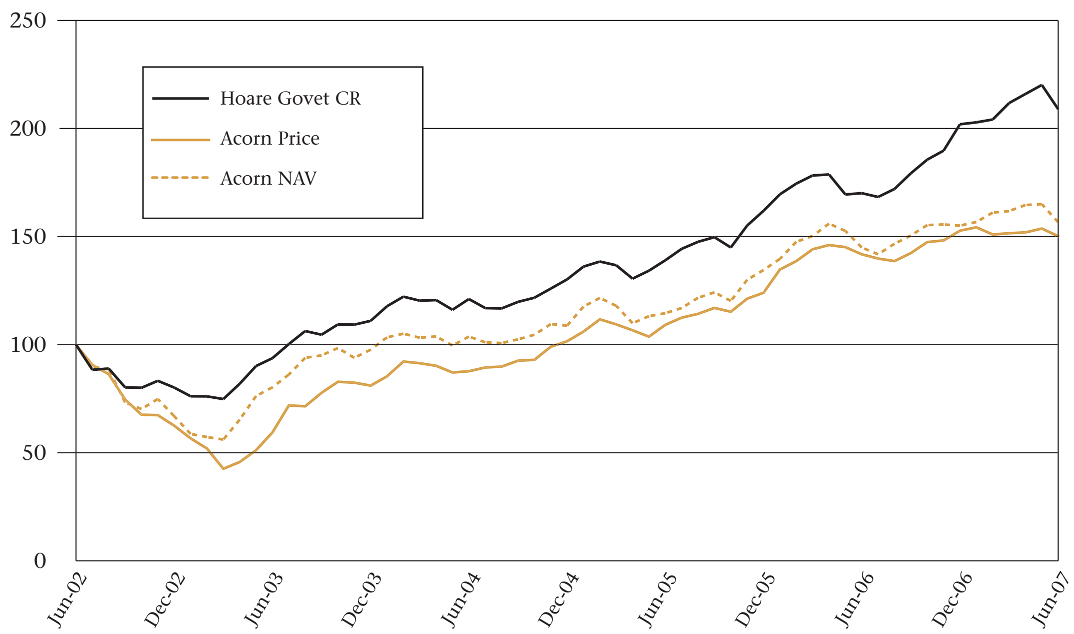
** Source: Fundamental Data. (All rights reserved.)

Company highlights (continued)

for the 6 months ended 30 June 2007

	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
30 June 2007	204.56p	192.25p	(6.02%)	4,416.76	8,691.15

Acorn performance index – 5 years to 30 June 2007



* Investments valued at mid prices. Source: Bloomberg.

Data as at 30 June 2007, all performance figures for the period ended 30 June 2007. Performance figures are taken from 17 January 2007 when the Tender Offer was completed, representing a fairer comparison to total assets at 30 June 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	£18.18m at 30 June 2007
Market Capitalisation	£17.19m at 30 June 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 (to 30 June)	4.0p*
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 two interim dividends
** comprises four interim dividends and one special dividend

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

Dear Shareholder,

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 Net Asset Value ('NAV'). This was followed by the transfer of the investment management contract to Premier Asset Management (Guernsey) Ltd ('Premier'). Premier assumed responsibility for the management of the Income portfolio whilst Unicorn Asset Management were retained as investment adviser responsible for the management of the Smaller Companies portfolio.

A new banking facility was arranged with the Bank of Scotland under which a flexible £6m loan was made available to the Company at a variable interest rate of 1% 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.

Investment performance

As a consequence of the tender offer in January the Company's net assets fell from £59.3m to £18.02m. The Net Asset Value per share (on mid price valuations) rose from 200.40p to 204.56p over the first half year. UK equity markets also rose during the period. The FTSE All-Share Index was up 5.7%, although smaller company shares (in which the Company is mainly invested) tended to under-perform the broader market; the Hoare Govett Smaller Companies ex investment trust (HGSMC) Index rose by only 3.4%.

The Company's performance over the first few weeks of the year was affected by the need to raise a substantial amount of cash to finance the tender offer. This was carried out during a period of rising markets, causing a cash drag on performance relative to the benchmark index. It is therefore more relevant to look at performance from 17 January, the date the tender was completed. The NAV of the shares rose by 0.9% from this date to the half year end. The HGSMC Index rose by 3.7%. Net Asset Value Total Return (taking account of dividends paid during the period) was 1.1% compared to the total return on the HGSMC Index of 4.7%.

Dividends

Earnings per share during the half year were 5.07p and second interim dividend of 2.0p was paid on 29 June 2007 making a total distribution in respect of the first half of the year of 4.0p. A third interim dividend of 2.0p was declared on 19 September 2007 and will be payable to shareholders on 26 October 2007.

Chairman's statement

Outlook

Since the year end, markets have suffered a period of uncertainty triggered initially by the rising level of defaults on sub-prime mortgages in the United States. The potential damage from these defaults was magnified as a result of the way in which mortgage liabilities had been packaged in complex and in some cases highly leveraged financial instruments. This in turn caused a more widespread credit crisis as the banks themselves lost confidence in lending to one another. The outcome was a credit crunch which required an injection of liquidity by central banks to stabilise markets and restore confidence. The Company has ridden this storm with relative ease. The Smaller Companies portfolio has been focused on companies with low gearing and the portfolio has had minimal exposure to the unsettled financial sector. The Income portfolio, with its high yield requirement, might have been drawn into sub-prime instruments in search of yield. However, it has had no direct exposure to sub-prime and with a mix of gilts, reverse convertible bonds and carefully selected corporate instruments and investment company shares, the portfolio has not suffered materially from the market disruption. Meanwhile the equity markets, buoyed by robust earnings and the prospect of a downturn in the interest-rate cycle, have performed quite well in the face of turbulence elsewhere.

The overall outcome is that the Company's Net Asset Value has held up well relative to markets and has not experienced the degree of volatility that might have been expected. It is too soon to judge whether the credit crisis of the last few months is over or whether it might even cause a period of economic recession. The outlook therefore remains uncertain but, with its balance of asset classes, the Company is reasonably well positioned to weather a further period of unsettled market conditions.

John Bootham
Chairman
28 September 2007

Investment Advisers' report

SMALLER COMPANIES PORTFOLIO

During the period under review, the Smaller Companies portfolio has continued to make progress. The ongoing bias towards industrial and business services stocks and minimal exposure to consumer stocks has served the portfolio well. Our strategy is to seek out companies serving international markets who have pricing power to protect profits during a downturn with potential for long-term dividend growth.

Corporate activity continued with the takeover of Alpha Airports by Autogrill of Italy. We expect more corporate activity as business confidence improves.

A number of companies in the portfolio performed well during the interim period. Weir Group, the pumps and valve manufacturer's share price grew by 35.5% following the disposal of its stake in Devonport dockyard and subsequent purchase of SPM Flow Control Inc for $653m. Bodycote International, a heat treatment specialist, rose by 22.0% following a failed takeover attempt by Sulzer AG. De La Rue, the world's largest commercial security printer, rose by 19.3% following continued strong results and further special dividend payments.

Additions to the portfolio during the period included Nationwide Accident Repair Services, a provider of automotive crash repair services, ACP Capital, a small merchant bank, MacFarlane, a distributor and manufacturer of packaging products, and Devro, a collagen products manufacturer for the food industry. Devro is expected to benefit from growth opportunities in Eastern Europe.

We top sliced shareholdings in Weir Group, Bodycote International, De La Rue, IMI, Diploma, and Abacus to provide finance for new investments.

The outlook for the Smaller Companies portfolio remains positive with global economic growth providing a strong trading background for many of our investments.

Peter Webb & John McClure
Unicorn Asset Management Limited
28 September 2007

Investment Advisers' report

HIGH INCOME PORTFOLIO

At the half year end the Income portfolio represented 28.9% of the Company's total assets (excluding cash) with most of the investments being made in the period following the draw down of the bank facility in early April 2007.

During the second quarter, Global, European and Sterling bond indices lost capital value as sovereign yields rose sharply. However, credit spreads remained relatively tight, only showing signs of weakness towards the end of the period. The Merrill Lynch Euro High Yield Index lost 1.43% in capital terms and provided a positive total return of just 0.26%. Investment Grade and Sovereign indices produced inferior returns, with the Merrill Lynch UK Gilts Index delivering negative total returns of 2.69% and 3.49% over three and six months respectively. Pleasingly, the Income portfolio marginally outperformed these indices despite the costs of initial investment.

A large proportion of the Income portfolio was initially invested in a high-coupon short-dated gilt generating a high income stream whilst better investment opportunities were sought. High yield credit markets were, in our view, generally offering poor value; however we were able to turn to 'Alternative Fixed Income' instruments such as Reverse Convertible Bonds (RCBs) to satisfy the portfolio's income requirement without incurring unwarranted credit risk.

The 'Alternative Fixed Income' holdings were gradually increased during the period, with approximately 10.4% of the total Fund exposed to predominantly RCBs and a few investment company holdings at the period end. These alternative holdings enable the generation of a high income whilst diversifying away from the risk of a potential widening in credit spreads. The majority of the Income portfolio is invested directly into Sterling denominated bonds and securities although a small exposure to the US curve has been acquired and the US Dollar exposure hedged back into Sterling using Forward Currency contracts.

The duration of the Income portfolio (excluding investment trust holdings) was gradually lengthened during the period to around four years as gilt yields rose. Despite the high income requirement demand of the Income portfolio, the list of largest holdings are predominantly occupied by gilts as better value is currently seen in government securities rather than credit and equities. This is likely to remain the case until bond yield spreads widen or economic data provides more comfort on the Global economy; the US in particular.

Paul Smith
Premier Fund Managers Limited
28 September 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 and unlisted 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. The Company's revenue levels are monitored on a regular basis by the Board and the Investment Manager.

Risk factors

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.

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.

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.

Principal investments

Investments – High income

As at 30 June 2007

Holding	Stock	Sector	Market Value (Bid price) £'000
850,000	Treasury 7.25% 07/12/2007	Gilts	855
500,000	Treasury 8% UKT 2015	Gilts	581
400,000	Treasury 8% STK	Gilts	448
300,000	UK Treasury 8% 07/06/2021	Gilts	377
350,000	HBOS 6.3673% 17/06/2019	Banking	328
300,000	UK Treasury 4.75% 07/03/2020	Gilts	284
200,000	RBS 10.5% SB BDS 01/03/2013	Banking	239
250,000	AVIVA 5.9021%	Life Assurance	228
200,000	UK Treasury 6% 07/12/2028	Gilts	224
200,000	Rabo/Prudential 9.62% 03/07/09	Life Assurance	202
			3,766

The 10 Principal Investments in income securities represent 55.26% of the investment portfolio.

Investments – Smaller Companies

As at 30 June 2007

Holding	Stock	Sector	Market Value (Bid price) £'000
177,777	Laird Group Ord GBP 0.25	Electronics	972
135,450	Bespak Ord GBP 0.10	Pharmaceutical supplies	909
374,340	Fenner Ord GBP 0.25	Miscellaneous manufacturing	886
93,990	Rotork Ord GBP 0.05	Engineering	859
821,405	Abacus Polar Ord GBP 0.25	Electronics	810
212,914	VP Ord GBP 0.25	Construction and building material	804
77,677	Spirax-Sarco Eng Ord GBP 0.25	Boiler management	780
4,257,143	Lupus Capital Ord GBP 0.005	Manufacturing	766
249,333	Transport Development Group	Industrial Transportation	726
259,300	Bodycote International	Industrial Engineering	710
			8,222

The 10 Principal Investments in smaller companies represent 51.2% of the investment portfolio.

Statement of total return (unaudited)

for the period from 1 January 2007 to 30 June 2007

	Note	Six months ended 30 June 2007 (unaudited) Revenue £'000	Capital £'000	Total £'000	Six months ended 30 June 2006 (unaudited) Total £'000	Year ended 31 December 2006 (audited) Total £'000
Gains and losses on investments						
Realised gain on investments at fair value through profit and loss	8	–	1,691	1,691	1,247	29,349
Movement in unrealised gain/(loss) on investments at fair value through profit or loss	8	–	(1,230)	(1,230)	3,561	(19,171)
Net investment gain		–	461	461	4,808	10,178
Income	3	721	–	721	1,661	3,158
Management fee	4	(16)	(48)	(64)	(411)	(781)
Performance fee		–	–	–	–	(150)
Costs of Tender Offer		–	–	–	–	(189)
Other expenses	5	(92)	(22)	(114)	(171)	(455)
Net return on ordinary activities before finance costs		613	391	1,004	5,887	11,761
Interest payable and similar charges	9	(21)	(62)	(83)	(731)	(1,253)
Net return on ordinary activities for the period/year		592	329	921	5,156	10,508
Return per Ordinary Share	7	5.07p	2.82p	7.89p	17.42p	35.49p

These unaudited interim accounts have been prepared in accordance with United Kingdom generally accepted accounting practice and the principles set out in the Statement of Recommended Practice for Financial Statements of Investment Trust Companies and using the accounting policies adopted for the Company's statutory annual accounts.

The accompanying notes on pages 15 to 19 form an integral part of these unaudited interim accounts.

These accounts are unaudited and are not the Company's statutory accounts.

Reconciliation of movements in shareholders' funds

for the period from 1 January 2007 to 30 June 2007

FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)

	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 period		–	–	–	592	–	329	921
Dividends paid	6	–	–	–	(358)	–	–	(358)
Balance as at 30 June 2007		89	79	207	916	10,000	6,892	18,183

FOR THE SIX MONTHS ENDED 30 JUNE 2006 (UNAUDITED)

	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 period		–	–	–	1,277	–	3,879	5,156
Dividends paid	6	–	–	–	(1,184)	–	–	(1,184)
Balance as at 30 June 2006		7,400	17,079	–	995	10,000	19,925	55,399

FOR THE YEAR ENDED 31 DECEMBER 2006 (AUDITED)

	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	6	–	–	–	(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 15 to 19 form an integral part of these unaudited interim accounts.

These accounts are unaudited and are not the Company's statutory accounts.

Balance sheet (unaudited)

As at 30 June 2007

	Note	30 June 2007 £'000	30 June 2006 £'000	31 December 2006 £'000
Fixed assets				
Investments at fair value through profit or loss	8	22,874	75,156	21,943
Current assets				
Debtors		411	440	159
Cash at bank		682	5,895	37,547
		1,093	6,335	37,706
Creditors – amounts falling due within one year				
Creditors		(284)	(476)	(378)
Net current assets		809	5,859	37,328
Total assets less current liabilities		23,683	81,015	59,271
Creditors – amounts falling due after more than one year				
Long term bank loan	9	(5,500)	(25,616)	–
Net asset value		18,183	55,399	59,271
Share capital and reserves				
Called-up share capital	10	89	7,400	7,400
Share premium		79	17,079	17,079
Capital redemption reserve		207	–	–
Revenue reserve		916	995	682
Special reserve		10,000	10,000	10,000
Capital reserve		6,892	19,925	24,110
Total shareholders' funds attributable to equity interests		18,183	55,399	59,271
Net asset value per Ordinary Share	11	203.40p	187.15p	200.24p

These financial statements on pages 11 to 19 were approved by a committee of the Board of Directors on 28 September 2007 and signed on its behalf by:

John Michael McKean **Helen Foster Green**

The accompanying notes on pages 15 to 19 form an integral part of these unaudited interim accounts.

These accounts are unaudited and are not the Company's statutory accounts.

Cash flow statement (unaudited)

for the period from 1 January 2007 to 30 June 2007

	Note	Six months ended 30 June 2007 (unaudited) £'000	Six months ended 30 June 2006 (unaudited) £'000	Year ended 31 December 2006 (audited) £'000
Net cash inflow from operating activities	12	186	1,261	2,159
Servicing of finance				
Interest paid		(83)	(671)	(1,452)
Net cash outflow from servicing of finance		(83)	(671)	(1,452)
Investing activities				
Purchase of investments at fair value through profit or loss		(16,896)	(14,646)	(14,646)
Sale of investments at fair value through profit or loss		16,437	15,897	74,528
Net cash (outflow)/inflow from investing activities		(459)	1,251	59,882
Equity dividends paid	6	(358)	(1,184)	(2,664)
Cash (outflow)/inflow before financing		(714)	657	57,925
Financing activities				
Payment on redemption of redeemable participating preference 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 period/year		(36,865)	657	32,309
Opening cash balance		37,547	5,238	5,238
(Decrease)/increase in cash in the period/year		(36,865)	657	32,309
Closing cash balance		682	5,895	37,547

The accompanying notes on pages 15 to 19 form an integral part of these unaudited interim accounts.

These accounts are unaudited and are not the Company's statutory accounts.

1. ACCOUNTING POLICIES

The accounting policies, all of which have been applied consistently throughout the period, in the preparation of the Company's unaudited interim accounts, are set out below:

a) Accounting convention

The unaudited interim 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.

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.

e) Investments

Classification In accordance with FRS 26, all investments 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.

1. ACCOUNTING POLICIES (CONTINUED)

e) Investments (continued)

Measurement Fair value through profit or loss assets are initially recognised at cost, being the fair value of the consideration given, excluding transaction costs associated with the investment. Subsequent to initial recognition, all fair value through profit or loss assets 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 asset 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 assets 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 assets. The Company uses the weighted average method to determine realised gains and losses on derecognition.

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

	Six months ended 30 June 2007 (unaudited) £'000	Six months ended 30 June 2006 (unaudited) £'000	Year ended 31 December 2006 (audited) £'000
Dividend income	495	1,188	2,040
Bond interest	225	325	543
Bank interest	1	148	575
	721	1,661	3,158

4. 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.

5. OTHER EXPENSES

	Six months ended 30 June 2007 (unaudited) Revenue £'000	Capital £'000	Total £'000	Six months ended 30 June 2006 (unaudited) £'000	Year ended 31 December 2006 (audited) £'000
Custody and settlement fees	4	–	4	23	47
Auditors' remuneration	14	–	14	8	13
Directors' remuneration	20	–	20	20	40
Transaction charges	–	22	22	73	249
Other expenses	54	–	54	47	106
	92	22	114	171	455

6. 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	2.00	592	2.00
Second interim paid	179	2.00	592	2.00
Third interim paid	–	–	592	2.00
Fourth interim paid	–	–	592	2.00
Special dividend paid	–	–	296	1.00
	358	4.00	2,664	9.00

7. RETURN PER ORDINARY SHARE

The revenue return per Ordinary Share is based on net revenue of £592,762 (30 June 2006: £1,277,402, 31 December 2006: £2,443,560) and on a weighted average number of 11,685,444 (30 June 2006 and 31 December 2006: 29,600,002) Ordinary Shares in issue throughout the period. The capital gain per Ordinary Share is based on the net capital gain of £329,020 (30 June 2006: £3,878,990, 31 December 2006: £8,064,770) and on a weighted average number of 11,685,444 (30 June 2006 and 31 December 2006: 29,600,002) Ordinary Shares in issue throughout the period.

8. INVESTMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

	Six months ended 30 June 2007 (unaudited) Smaller Companies Portfolio £'000	High Income Portfolio £'000	Total £'000	Six months ended 30 June 2006 (unaudited) Total £'000	Year ended 31 December 2006 (audited) Total £'000
Opening valuation	18,957	2,986	21,943	72,075	72,075
Purchases at cost	8,921	8,087	17,008	14,146	14,147
Sales – proceeds	(15,375)	(1,163)	(16,538)	(15,873)	(74,457)
– realised gains	1,688	3	1,691	1,247	29,349
Movement in unrealised appreciation/(depreciation)	1,847	(3,077)	(1,230)	3,561	(19,171)
Closing valuation	16,038	6,836	22,874	75,156	21,943
Closing book cost	7,533	9,925	17,458	45,779	15,297
Closing unrealised appreciation/(depreciation)	8,505	(3,089)	5,416	29,377	6,646
Closing valuation	16,038	6,836	22,874	75,156	21,943

9. LONG TERM BANK LOAN

	30 June 2007 (unaudited) £'000	30 June 2006 (unaudited) £'000	31 December 2006 (audited) £'000
Bank of Scotland International facility	5,500	25,616	–

Under loan agreements dated 13 February 2007 between the Company and Bank of Scotland International a £6,000,000 Revolving Credit Facility was arranged. 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 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.

10. SHARE CAPITAL

	30 June 2007 (unaudited) £'000	30 June 2006 (unaudited) £'000	31 December 2006 (audited) £'000
Authorised:			
Ordinary Shares	10,000	10,000	10,000
No. of Ordinary Shares	1,000,000,000	40,000,000	40,000,000
Nominal value per Ordinary Shares	1p	25p	25p
Allotted, called up and fully paid:			
Ordinary Shares	89	7,400	7,400
No. of Ordinary Shares	8,939,790	29,600,002	29,600,002

10. SHARE CAPITAL (CONTINUED)

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.

11. NET ASSET VALUE PER ORDINARY SHARE

The net asset value per Ordinary Share is based on the net assets attributable to equity Shareholders of £18,183,889 (30 June 2006: £55,398,767, 31 December 2006: £59,270,687) and on 8,939,790 (30 June 2006 and 31 December 2006: 29,600,002) Ordinary Shares in issue at the end of the period.

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

	Six months ended 30 June 2007 (unaudited) £'000	Six months ended 30 June 2006 (unaudited) £'000	Year ended 31 December 2006 (audited) £'000
Net revenue before finance costs and taxation	613	1,460	2,757
Management fees charged to the capital reserve	(48)	(308)	(586)
Performance fee charged to the capital reserve	–	–	(150)
Transaction costs charged to the capital reserve	(22)	–	(249)
Tender offer costs charged to capital reserve	–	(73)	(189)
Increase/(decrease) in accrued income and other debtors	(151)	186	421
(Decrease)/increase in other creditors and accruals	(206)	(4)	155
Net cash inflow from operating activities	186	1,261	2,159

Directors and Advisers

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