ACORN INCOME

2006

Acorn Income Fund Limited

annual report & accounts
for the year ended
31 December 2006

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 year ended 31 December 2006

Total return performance

	% change
Total assets*	+22.9**
Hoare Govett Smaller Companies Index	+28.0

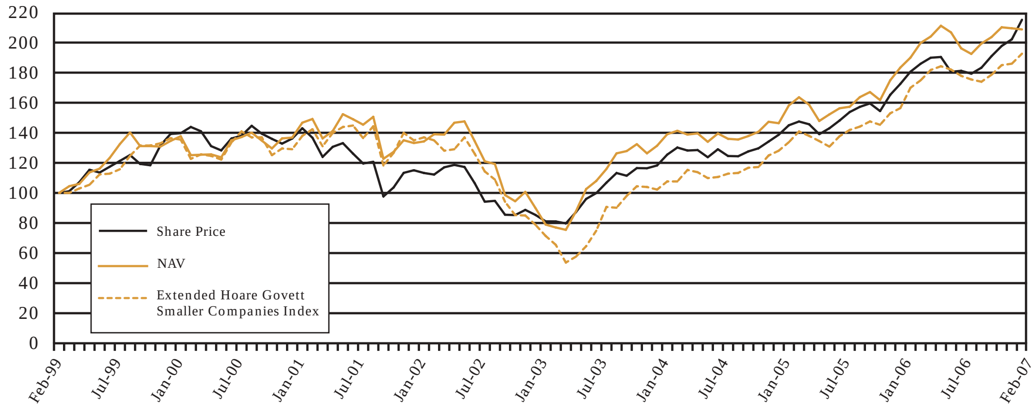
Capital Return performance

Total assets*	+15.2
Hoare Govett Smaller Companies Index	+24.7

Share price and NAV returns

	31 December 2006	31 December 2005	% change
Ordinary share			
NAV	200.40p	176.04p	+13.84
Mid price	195.50p	158.75p	+23.15
Earnings per Ordinary share	8.25p		
Net dividends declared per Ordinary share	9.0p		

	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



All data is rebased at 100. Initial price: 101.5p. Initial NAV: 96p.

* Total assets take into account deduction for current liabilities.

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

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

Data as at 31 December 2006, all performance figures for the year ended 31 December 2006.

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	£59.27m at 31 December 2006 £17.92m at 17 January 2007
Market Capitalisation	£57.87m at 31 December 2006 £17.57m at 17 January 2007
Bank Loan	No bank loan at 31 December 2006 New facility of £6m Revolving Credit Facility arranged with the Bank of Scotland. £5.5m was drawn down on 2 April 2007
Ordinary Income shares	29,600,002 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
2006	9.0p*
2005	9.0p*
2004	9.0p*
2003	9.0p*
2002	12.0p
2001	12.0p
2000	11.0p
1999	8.5p

*includes 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	1.0%, charged 75% to Capital and 25% to Revenue, plus performance fee 0.7% per annum, charged 75% to Capital and 25% to Revenue, plus performance fee, on appointment of Premier Asset Management (Guernsey) Limited

Chairman's statement

for the year ended 31 December 2006

Dear Shareholder,

This is my first opportunity to address shareholders since taking over as Chairman and I am very pleased to be able to report on the continuation of the Company following the arrangements that were put in place towards the end of last year to allow an exit for shareholders wishing to redeem their holdings.

The Company has had another successful year. On 31 December 2006 the net asset value per share was 200.24p, an increase of 15.25% during the course of the year. The share price rose 23.1% over the same period from 158.75p to 195.5p. Additionally, dividends totalling 9.0p were paid during the year.

You will recall that, at the Annual General Meeting held on 26 June 2006, a resolution to wind-up the Company was supported by 67.67% of those who voted. Although this was less than the 75% threshold specified for a winding-up, the Directors decided to examine a range of alternative proposals to provide an opportunity for shareholders to remain invested whilst providing an exit for those who wished to redeem their investment. After careful consideration of the merits of the various propositions the Board decided to proceed with a proposal put forward by Premier Asset Management plc in conjunction with the incumbent investment adviser for the Smaller Companies portfolio, Unicorn Asset Management. This scheme involved a tender to allow shareholders who wanted to sell their holding to exit at close to net asset value while the remaining shareholders could continue with their investment in Acorn. Premier Asset Management (Guernsey) Limited would take over the management of the Company from Collins Stewart Fund Management Limited and retain Unicorn to manage the Smaller Companies portfolio.

The proposal was put to shareholders at an Extraordinary General Meeting on 5 January 2007 and carried. The tender for shares was completed on 17 January 2007. 20,660,212 shares (equivalent to 69.80% of the total shares in issue) were tendered at 201.6p and shareholders representing 8,939,790 shares (30.20%) retained their investment in the Company. The overall effect of this process was to contract the total assets of the Company from £59.67 million to £18.02 million. The management and administration of the Company was transferred to Premier Asset Management (Guernsey) Ltd with effect from 17 January 2007.

Banking arrangements

The original banking facility with Bank of Scotland was repaid at the end of October 2006. A new bank facility for £6 million has been arranged with Bank of Scotland. 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 £50 million, investment grade bonds and reverse convertible bonds meeting certain criteria relating to the issuer and the reference equity.

It is intended to utilise the bank facility so that the net assets of the Company can be geared by 30%. At 2 April 2007, £5.5 million of the loan facility was drawn down and net assets were geared 29.2%.

Chairman's statement

for the year ended 31 December 2006

Dividends

The Company declared dividends in respect of the year to 31 December 2006 totalling 9.0p (2005: 9.0p), comprising of four interim dividends of 2.0p each and a special dividend of 1.0p. In the Circular to shareholders dated 13 December 2006, the Board indicated that for the year to 31 December 2007 it was expected, in the absence of unforeseen circumstances, to maintain a dividend of 8p per share.

Investment strategy

While the overall investment objectives for Acorn are intended to be much the same as in the past, the Circular to shareholders dated 13 December 2006 sets out in detail the proposed strategy and this was approved by Shareholders at the EGM. In summary, the strategy is to allocate approximately 70% of the portfolio to Smaller Companies with approximately 30% to income generating assets in the Income portfolio. The Income portfolio will invest in bonds, including reverse convertible bonds (RCBs), and may have some exposure to investment companies, although this will not exceed 15% of the total portfolio (measured at the time of acquisition). The alteration to the investment policy has introduced some additional risks to the Income portfolio, specifically the equity risk associated with RCBs and the increased credit risk associated with sub investment grade bonds. Investors' attention is drawn to the section headed 'Principal risks associated with the Company' on page 14.

Investment Performance and Outlook

During the year to 31 December 2006, the UK stock market continued the upward trend established in 2003. The FTSE All-Share Index rose 13.2% (16.8% total return). The smaller companies sector outperformed the broader market with the Hoare Govett Smaller Companies Index ex Investment Trusts (HGSC ex IT) generating a total return of 28%. Acorn's total assets (less current liabilities) rose 15.25% over the year and with a dividend of 9p, the total assets total return was 22.9% (source: Fundamental Data).

The Income portfolio that had been invested principally in investment grade bonds was liquidated in October 2006 and the bank debt repaid with the proceeds. During December 2006, sales were made from the Smaller Companies portfolio in order to raise cash to finance the redemptions expected through the Tender Offer. With the market rising strongly during December (The HGSC ex IT Total Return Index rose 6.5% during the month) the need to raise cash did have an adverse impact on the return that the portfolio would otherwise have generated during the final month of the year.

The principal focus of the Smaller Companies portfolio has been towards industrial companies. The portfolio has had little exposure to consumer related stocks. With a background of rising interest rates and indirect taxes, this stance has been maintained as we enter 2007. Our investment manager and adviser remain confident on the potential for the smaller companies sector to deliver opportunities for income and capital growth.

Rising UK interest rates during 2006 dampened activity in the bond markets and there was little scope for actively trading the Income portfolio during most of the year. Towards the Company's year end, the bond holdings were liquidated as part of the process of raising funds to repay the bank facility ahead of the Tender Offer. Going forward, income generation will be achieved by investing in a broader range of instruments.

Chairman's statement

for the year ended 31 December 2006

Board changes

Following the Tender Offer, Martin Bralsford and Eitan Milgram stood down from the Board and Helen Green joined the Board. Martin had served as Chairman of the Company since inception and during a period of volatile investment markets, made an invaluable contribution to its success. I should like to record our appreciation and thanks for his leadership of the Board. I would also like to record my thanks to Eitan Milgram whose input during the process of deciding on the future of the Company and in dealing with the complexity of the Tender Offer was of great assistance to the Board. I welcome Helen Green to the Board. Helen brings both her professional skills as an accountant and experience from sitting on the boards of other investment companies.

John Boothman

21 March 2007

Investment Advisers' report

for the year ended 31 December 2006

SMALLER COMPANIES PORTFOLIO

The Smaller Companies portfolio has performed well during the past twelve months. We have continued to focus on companies with strong cash flows and asset backing with the potential for long-term dividend growth. The Company remains focused on industrial companies with very little exposure to consumer related stocks which have suffered due to increased interest rates and rising indirect taxes.

The portfolio is substantially invested in companies serving overseas markets and as a result shareholders are gaining exposure to some of the world's fastest growing economies. Our strategy is to seek out and invest in companies with good market positions where there is an element of pricing power to protect profitability throughout the business cycle.

During the year, a number of our companies benefited from improved trading conditions as global business confidence continued its steady recovery from the lows of recent years. Robert Walters, the international recruitment company, was the largest contributor to performance with a rise in share price of 123% on the back of a very strong recovery in trading. Abacus Group performed strongly as the benefits of the Deltron acquisition began to come to fruition and the share price rose by 83.9%. The Company's exposure to international engineers served us well and share price gains at Rotork (24.8%), Weir Group (41.1%), Halma (22.6%) and Fenner (32.0%) made a good contribution to performance. A special mention goes to the management team at James Halstead where once again a special dividend was declared of 30p per share, highlighting the cash generative nature of the business.

Portfolio activity during the second half of the year was much higher than usual and we would have liked due to the Tender Offer at the end of the year. However, with this matter behind us we would expect activity levels to once again become fairly moderate. We strongly believe in running our winners.

There were two additions to the portfolio during the year. These were, RPC, a European packaging company and Lupus Capital, a global building products manufacturer. Our investment in DX Services was sold because trading did not meet our expectations.

The immediate outlook for the Company remains positive with improvements in global business confidence leading to improvements in trading for many of our investments. The Company's deliberate strategy to minimise exposure to consumer related sectors and heavily financially indebted sectors of global economies should bode well for shareholders in the year ahead.

Peter Webb & John McClure
Unicorn Asset Management Limited
22 March 2007

Investment Advisers' report

for the year ended 31 December 2006

INCOME PORTFOLIO

The year started off broadly in the same vein as it finished, with bond markets continuing to drift higher and the risk/reward profile pushed to the extreme. UK Long Bond yields in particular were driven to unsustainable levels as momentum, provided by speculation and forced pension fund buying, continued to override the fundamentals. However as we moved into February, the media-hyped pension fund demand for ultra long conventional and index-linked stock appeared unfounded as an auction of 50 year bonds was poorly received by the market. The auction was only covered 1.49 times with the majority of the stock ending up in the hands of the market makers. Continued hawkish comments from the MPC provided a further catalyst for bond market weakness which continued into the second quarter. Over this period we viewed the market with caution and held the Income portfolio in a relatively defensive position, focused on floating rate notes and lower duration stocks. This stance proved to be successful, as markets drifted lower.

Global bond market volatility increased significantly in the second quarter as we transitioned away from the Greenspan era into the new era of 'openness and transparency' under Ben Bernanke, Chairman of the Federal Reserve. In the early days of his tenure, Bernanke struggled to articulate the Fed's views clearly. As a result, market participants placed significant emphasis on economic data as well as speeches and statements from the various Fed governors in the search for some insight into the Fed's thinking. As we reach a turning point in the cycle, Central Banks, on both sides of the Atlantic, clearly face a difficult time balancing consumer slow down and inflationary pressures. Markets invariably look towards Central Banks for clarity and guidance on the health of the economy; however, far from clarity, Central Bankers openly wrestled with the slowing growth/peaking inflation conundrum which proved to be very unsettling for bond markets. The increased volatility provided an opportunity to increase the Income portfolio's duration in the second quarter. When the Income portfolio was liquidated to finance the repayment of the bank loan in October 2006, the decision to increase duration had added value to the Income portfolio.

Mark Despres
Collins Stewart, Fund Management Limited
29 March 2007

INVESTMENTS – Income

as at 31 December 2006

Stock	Sector	Market Value[1] £'000
Nationwide FRN June 2010	Building Society	2,503
Empyrean Finance FRN April 2013	Consultants	483
		2,986

The investments in income securities represent 13.61% of the investment portfolio (2005: 15.75%).

10 PRINCIPAL INVESTMENTS – Smaller Companies

as at 31 December 2006

Stock	Sector	Market Value[1] £'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 GBP0.25	Electronics	826
		11,579

The 10 principal investments in smaller companies represent 52.77% of the investment portfolio (2005: 55.57%).

[1]Valued at bid prices.

INVESTMENTS – Income

as at 31 December 2005

Stock	Sector	Market Value[1] £'000
Conversion 9% Loan Stock 2011	UK Gilt	4,328
Nationwide FRN June 2010	Building Society	2,501
Centrica 5.875% EMTN November 2012	Gas, energy and telecoms	1,052
Barclays Bank 9.875% Und Sub Nts (Var)(Br)	Banking	778
Transco 6% June 2017	Energy	715
Blue Chip Value & Income Fund Ord GBP 0.125	Investment Company	706
Royal Bank of Scotland 8.375% Sub Nts January 2007	Banking	519
Empyrean Finance FRN March 2013	Consultants	500
European Value & Income Fund Ord GBP 0.10	Investment Company	255
		11,354

10 PRINCIPAL INVESTMENTS – Smaller Companies

as at 31 December 2005

Stock	Sector	Market Value[1] £'000
James Halstead Ord GBP 0.10	Miscellaneous Manufacturing	5,792
Rotork Ord GBP 0.05	Engineering	5,368
Pendragon Ord GBP 0.25	Motor Distributors	4,160
Robert Walters Ord GBP 0.20	Recruitment Services	3,843
Renishaw Ord GBP 0.20	Electronics	3,822
Diploma Ord GBP 0.05	Distributions & Wholesale	3,760
Laird Group Ord GBP0.25	Electronics	3,653
Fenner Ord GBP0.25	Miscellaneous Manufacturing	3,282
BSS Group Ord GBP 0.20	Retail & Building Products	3,232
Vp Ord GBP 0.05	Construction and Building Material	3,143
		40,055

[1]Valued at bid prices.

Directors

John Campbell Boothman (Chairman)

John is aged 55 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 and he also acted as a director of Deutsche Bank Group Companies in the United Kingdom, Jersey, Guernsey and the Cayman Islands. Prior to that he was banking and treasury director.

John Michael McKean

Michael is aged 75 and is a resident of Guernsey. He is a solicitor and also a non-executive director of other Guernsey registered funds.

Helen Green (appointed 17 January 2007 and Chairman of Audit Committee)

Helen is aged 44 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 November 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 three AIM quoted companies and two other 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:

Shane Le Prevost – resigned 8 May 2006
Martin Bralsford – resigned 17 January 2007
Eitan Milgram – appointed 3 July 2006 and resigned 17 January 2007

Investment Manager, Investment Advisers and Secretary

Investment Manager: Premier Asset Management (Guernsey) Limited

Premier Asset Management (Guernsey) Limited is a subsidiary of Premier Asset Management plc, an AIM quoted company with over £1.56 billion of funds under management.

Investment Advisers

Unicorn Asset Management Limited – Smaller Companies portfolio

Unicorn Asset Management Limited is an independent, privately owned investment management company and is authorised and regulated by the Financial Services Authority. Unicorn has grown funds under management from £140 million in 2000 to over £385 million at 31 December 2006. The Smaller Companies portfolio is managed by Peter Webb and John McClure.

Premier Fund Managers Limited – Income portfolio

Premier Fund Managers Limited is a subsidiary of Premier Asset Management plc and is authorised and regulated by the Financial Services Authority. The Income portfolio is managed by Paul Smith and Howard Crossen.

Secretary: Northern Trust International Fund Administration Services (Guernsey) Limited

Northern Trust International Fund Administration Services (Guernsey) Limited act on behalf of Premier Asset Management (Guernsey) Limited in providing company secretarial and administrative services for the Company.

Report of the Directors

for the year ended 31 December 2006

The Directors present their report and the audited financial statements for the year ended 31 December 2006.

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.

Tender Offer

At the Company's Annual General Meeting in 2006, the special resolution proposed at that meeting, that the Company ceased as an investment company, was not carried by the necessary 75% majority of votes cast. Notwithstanding this and in accordance with its earlier undertakings, the Board announced that it would put forward proposals to Shareholders which would provide the opportunity for Shareholders wishing to realise or reduce their investment in the Company to do so at close to net asset value.

The Board together with its advisers received and reviewed a number of proposals and consulted widely with Shareholders. During that process it became apparent that a significant number of Shareholders wanted to continue their investment in the Company. In light of this, the Company, having been independently advised by Fairfax I.S. Limited, made a Tender Offer to repurchase up to all of its Ordinary shares at net asset value, calculated after taking account of all costs (including portfolio realisation costs) incurred in relation to the proposals, and otherwise in accordance with the Company's normal accounting policies. This allowed all of those Shareholders who wanted to realise their investment to do so.

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 (Guernsey) Limited.

Investment Objectives

The Company's investment objectives are to provide Shareholders with a high income and also the opportunity for capital growth.

Report of the Directors

for the year ended 31 December 2006

Investment Policy

Prior to the Tender Offer the Company's investment policy was to allocate approximately 75% of the Company's assets to the Smaller Companies portfolio with the balance allocated to the Income portfolio. As proposed and agreed at the Tender Offer, approximately 70% is now allocated to the Smaller Companies portfolio with the balance to the Income portfolio.

The Smaller Companies portfolio will principally be invested in UK equities with a market capitalisation of under £1 billion. Unicorn as the Investment Adviser of the Smaller Companies portfolio, will focus on companies with experienced and well motivated management products or services supplying growth markets, sound operational and management controls, good cash generation and a progressive dividend. Unicorn intends to target a yield on this part of the portfolio of around 3.75% per annum.

Premier Fund Managers Limited will manage the Income portfolio and aim to maximise income with the objective of capital protection. The Income portfolio will include sterling denominated fixed interest securities including corporate bonds, preference and permanent interest bearing shares, convertibles, reverse convertibles, debentures and other similar securities. The Income portfolio may also contain higher yielding shares of other investment companies, including property investment companies, however these will not exceed 15% of the overall portfolio (at the time of acquisition). The target yield on this part of the portfolio will initially be around 8% per annum.

Results and dividends

The results attributable to Shareholders for the year and the transfer to reserves are shown on page 26. The Company made a revenue return for the year of 8.25p (2005: 9.07p) and a capital gain of 27.24p (2005: gain of 35.19p) per Ordinary share.

The Company paid dividends during the year as follows:–

	Pay date	Dividend per share
First interim	31 March 2006	2.00p
Second interim	30 June 2006	2.00p
Third interim	29 September 2006	2.00p
Fourth interim	22 December 2006	2.00p
Special	22 December 2006	1.00p
		9.00p

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 £59,270,687 (2005: £51,427,357) and the net asset value per Ordinary share was 200.24p (2005: 173.74p).

Report of the Directors

for the year ended 31 December 2006

Fixed asset investments

The market value of the Company's investments (valued at bid prices) as at 31 December 2006 was £21,942,729 (2005: £72,075,287), showing a surplus of £6,645,514 (2005: surplus of £25,816,830) against book cost. At the year end 86.39% (2005: 84.25%) 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 2006 there was an unrealised surplus of £6,657,154 (2005: surplus of £26,783,564) on the Smaller Companies portfolio (excluding cash) and an unrealised deficit of £11,640 (2005: deficit £966,734) 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.

Principal risks associated with the Company

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.

Report of the Directors

for the year ended 31 December 2006

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.

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.

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.

Management

During the year, Collins Stewart Fund Management Limited ("CSFM") 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. 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, CSFM received an aggregate annual fee from the Company payable quarterly in arrears, at the rate of 1% of the total assets of the Company. In addition, CSFM was eligible for a performance fee payable at the end of each year, provided that the total assets per share attributable to the Ordinary shares grew at a compound rate in excess of 10% per annum (the benchmark) and a minimum total dividend of 8.5p is paid. The benchmark was subject to a "high-water mark" whereby if at the end of any preceding financial period, a higher net asset value per share had been achieved, then that higher figure became the benchmark. If the conditions were met, a fee of 15% of any excess of the net asset value per share over the benchmark, weighted for the average number of shares in issue, was payable to CSFM. CSFM was responsible for paying the fees of the Investment Advisers. As part of the termination agreement, the Company agreed to pay CSFM a performance fee of £150,000, this amount has been included in creditors at 31 December 2006.

On 5 January 2007, following completion of the Tender Offer, Premier Asset Management (Guernsey) Limited ("Premier") were appointed as the Company's managers in place of CSFM. Unicorn continues as Investment Adviser to the Smaller Companies portfolio.

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.

The principal terms of the proposal from Premier 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 have 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.

Directors

The present members of the Board are detailed on page 10.

At 31 December 2006 the Directors' interests in the share capital of the Company were as follows:

	Ordinary 25p shares
John Campbell Boothman	–
John Michael McKean	20,000
Martin Bralsford	150,000
Eitan Milgram	–

Martin Bralsford tendered his holding in January 2007. There were no other changes in the interests of the Directors between 31 December 2006 and 21 March 2007. There are no service contracts in place between the Company and Directors.

Future Prospects

The Directors are reasonably confident that the good performance of the Company can be maintained over the coming year. Further details are given in the Chairman's Statement and the Investment Advisers' Reports on pages 3 to 7.

Report of the Directors

for the year ended 31 December 2006

Substantial Shareholdings

On 5 April 2007 the following interests in 3% or more of the issued Ordinary Share Capital had been notified to the Company by Euroclear.

	Number of shares	Percentage of share capital
Funds managed by:		
Rathbone Brothers plc	591,575	6.6%

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, strictly speaking, required to comply with the new Combined Code published by the Financial Reporting Council (the "2003 FRC Code"). However, the Directors place a high degree of importance on ensuring that high standards of Corporate Governance are maintained and the Company complies with the Guidance on Corporate Governance in the Finance Sector in Guernsey, issued by the Guernsey Financial Services Commission. As a result, many of the principles set out in the 2003 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 2003 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 performance review 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.

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 2003 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 2003 FRC Code on directors' remuneration. However, the fee that was paid to each Director during the period is shown in note 8 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 2006, there were eleven Board meetings, one Audit Committee meeting and one Announcement Committee meeting.

Report of the Directors

for the year ended 31 December 2006

	Board meetings	Audit Committee meeting	Announcement Committee meeting
John Boothman	11/11	1/1	0/0
Michael McKean	11/11	1/1	1/1
Martin Bralsford	8/11	1/1	1/1
Shane Le Prevost	4/4	0/0	0/0
Eitan Milgram	2/3	0/0	0/0

Audit Committee

The audit committee comprises the full Board of the Company and will normally 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 Advisers 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, acting on behalf of Premier Asset Management plc, (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).

Report of the Directors

for the year ended 31 December 2006

Payment to Creditors

Amounts due to suppliers and service providers are settled promptly within the terms of the payment, except in cases of dispute. The Company does not have any trade creditors.

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 23 to the financial statements and a more detailed risk warning is given on page 14.

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 Report is prepared in accordance with applicable company law. They are also responsible for ensuring that the Annual 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 Green	**Michael McKean**
Director	Director
4 May 2007	*4 May 2007*

Independent Auditors' 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 2006 which comprise the Income Statement, Statement of Total Recognised Gains and Losses, 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 12.

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 2006 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
4 May 2007

Income statement

for the year ended 31 December 2006

	Note	Revenue 2006 £'000	Capital 2006 £'000	Total 2006 £'000	Revenue 2005 £'000	Capital 2005 £'000	Total 2005 £'000
Gains on investments	3	–	10,178	10,178	–	12,177	12,177
Income	4	3,158	–	3,158	3,391	–	3,391
Management fee	5	(195)	(586)	(781)	(176)	(529)	(705)
Performance fee	5	–	(150)	(150)	–	–	–
Costs of Tender Offer	6	–	(189)	(189)	–	–	–
Other expenses	7	(206)	(249)	(455)	(158)	(111)	(269)
Net return on ordinary activities before finance costs		2,757	9,004	11,761	3,057	11,537	14,594
Interest payable and similar charges	9	(313)	(940)	(1,253)	(373)	(1,120)	(1,493)
Net return for the year		2,444	8,064	10,508	2,684	10,417	13,101
Total return per Ordinary Share	11	8.25p	27.24p	35.49p	9.07p	35.19p	44.26p

The total columns of this statement represent the Income Statement of the Company.

Statement of total recognised gains and losses

for the year ended 31 December 2006

	Note	Revenue 2006 £'000	Capital 2006 £'000	Total 2006 £'000	Revenue 2005 £'000	Capital 2005 £'000	Total 2005 £'000
Net return for the year		2,444	8,064	10,508	2,684	10,417	13,101
Prior year adjustment	24	–	–	–	–	(601)	(601)
Total recognised gains and losses recognised since last annual report		2,444	8,064	10,508	2,684	9,816	12,500

The revenue and capital columns represent supplementary information.

All revenue and capital items in the above statements derive from continuing operations.

The accompanying notes on pages 28 to 37 form an integral part of the financial statements.

Reconciliation of movements in shareholders' funds

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	Share capital £'000	Share premium £'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	10	–	–	(2,664)	–	–	(2,664)
Balance as at 31 December 2006		7,400	17,079	682	10,000	24,110	59,271

FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	Share capital £'000	Share premium £'000	Revenue reserve £'000	Special reserve £'000	Capital reserve £'000	Total £'000
Balance as at 1 January 2005							
as previously stated		7,400	17,079	882	10,000	6,230	41,591
Prior year adjustment		–	–	–	–	(601)	(601)
Balance as at 1 January 2005							
as restated		7,400	17,079	882	10,000	5,629	40,990
Return for the year		–	–	2,684	–	10,417	13,101
Dividends paid	10	–	–	(2,664)	–	–	(2,664)
Balance as at 31 December 2005		7,400	17,079	902	10,000	16,046	51,427

The accompanying notes on pages 28 to 37 form an integral part of the financial statements.

Balance sheet
as at 31 December 2006

	Note	2006 £'000	2005 £'000
Fixed assets			
Listed investments	12	21,943	72,075
Current assets			
Debtors	13	159	651
Cash at bank		37,547	5,238
		37,706	5,889
Creditors – amounts falling due within one year			
Other creditors	14	(378)	(921)
Bank loan	15	–	(25,616)
		(378)	(26,537)
Net current assets/(liabilities)		37,328	(20,648)
Total assets less current liabilities		59,271	51,427
Share capital and reserves			
Called-up share capital	16	7,400	7,400
Share premium		17,079	17,079
Revenue reserve		682	902
Special reserve		10,000	10,000
Capital reserve		24,110	16,046
Total shareholders' funds attributable to equity interests		59,271	51,427
Net asset value per Ordinary Share	18	200.24p	173.74p

These financial statements on pages 23 to 37 were approved by the Board of Directors on 4 May 2007.

Signed on behalf of the Board

Helen Green
Director
4 May 2007

Michael McKean
Director
4 May 2007

The accompanying notes on pages 28 to 37 form an integral part of the financial statements.

Cash flow statement

for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Net cash inflow from operating activities	19	2,159	2,533
Servicing of finance			
Interest paid		(1,452)	(1,607)
Net cash outflow from servicing of finance		(1,452)	(1,607)
Investing activities			
Purchase of investments		(14,646)	(16,377)
Sale of investments		74,528	19,111
Net cash inflow from investing activities		59,882	2,734
Equity dividends paid		(2,664)	(2,664)
Cash inflow before financing		57,925	996
Financing Activities			
Repayment of bank loan		(25,616)	–
Net cash outflow from financing		(25,616)	–
Increase in cash in the year	20	32,309	996
Opening cash balance		5,238	4,242
Increase in cash in the year		32,309	996
Closing cash balance		37,547	5,238

The accompanying notes on pages 28 to 37 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, 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 accruals basis. Dividends received from United Kingdom registered companies are accounted for net of imputed 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 reserve except as follows:

(i) expenses which are incidental to the acquisition or disposal of an investment are charged through the capital reserve;

(ii) 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

(iii) 100% of any performance fee is charged to the capital reserve.

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) Transaction costs

In accordance with Financial Reporting Standard 26 "Financial Instruments: Measurement" ("FRS 26"), transaction costs are now charged through the Income Statement to the capital reserve in the period in which they are incurred.

1. ACCOUNTING POLICIES (CONTINUED)

f) 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.

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 (see note 1e). 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 Income Statement 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 (see note 1e)) 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 (2005: £600).

3. GAINS ON INVESTMENTS

	2006 £'000	2005 £'000
Realised gain on sales	29,349	3,947
Movement in unrealised appreciation	(19,171)	8,230
	10,178	12,177

4. INCOME

	2006 £'000	2005 £'000
Dividend income	2,040	2,512
Bond interest	543	634
Bank interest	575	245
	3,158	3,391

5. MANAGEMENT FEE

During the year Collins Stewart Fund Management Limited ("CSFM") 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. 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, CSFM received an aggregate annual fee from the Company payable quarterly in arrears, at the rate of 1% of the total assets of the Company. In addition, CSFM was eligible for a performance fee payable at the end of each year, provided that the total assets per share attributable to the Ordinary shares grew at a compound rate in excess of 10% per annum (the benchmark) and a minimum total dividend of 8.5p is paid. The benchmark was subject to a "high-water mark" whereby if at the end of any preceding financial period, a higher net asset value per share had been achieved, then that higher figure became the benchmark. If the conditions were met a fee of 15% of any excess of the net asset value per share over the benchmark, weighted for the average number of shares in issue, was payable to the CSFM. CSFM was responsible for paying the fees of the Investment Advisers. As part of the termination agreement the Company agreed to pay CSFM a performance fee of £150,000, this amount has been included in creditors at 31 December 2006.

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 CSFM. Unicorn continues as Investment Adviser to the Smaller Companies portfolio. Premier Fund Managers Limited became Investment Adviser to the Income portfolio.

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.

The principal terms of the proposal from Premier 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 have 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. COSTS OF TENDER OFFER

At the Company's Annual General Meeting earlier this year, the special resolution proposed at that meeting, that the Company ceased as an investment company, was not carried by the necessary 75% majority of votes cast. Notwithstanding this and in accordance with its earlier undertakings, the Board announced that it would put forward proposals to Shareholders which would provide the opportunity for Shareholders wishing to realise or reduce their investment in the Company to do so at close to net asset value.

The Board together with its advisers received and reviewed a number of proposals and consulted widely with Shareholders. During that process, it became apparent that a significant number of Shareholders wanted to continue their investment in the Company. In light of this, the Company, having been independently advised by Fairfax I.S. Limited, made a tender offer to repurchase up to all of its Ordinary Shares at net asset value, calculated after taking account of all costs (including portfolio realisation costs) incurred in relation to the proposals, and otherwise in accordance with the Company's normal accounting policies. This allowed all of those Shareholders who wanted to realise their investment to do so.

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 (Guernsey) Limited, as described in note 5.

7. OTHER EXPENSES

	Revenue 2006 £'000	Capital 2006 £'000	Total 2006 £'000	Revenue 2005 £'000	Capital 2005 £'000	Total 2005 £'000
Custody and settlement fees	47	–	47	39	–	39
Auditors' remuneration	13	–	13	9	–	9
Directors' remuneration (note 8)	40	–	40	40	–	40
Transaction charges	–	249	249	–	111	111
Other expenses	106	–	106	70	–	70
	206	249	455	158	111	269

8. DIRECTORS' REMUNERATION

	2006 £'000	2005 £'000
David Martin Bralsford	16	16
John Michael McKean	12	12
John Boothman	12	12
Shane Le Prevost	–	–
Eitan Milgram	–	–
	40	40

No bonus or pension contributions were paid or payable 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 16.

Shane Le Prevost and Eitan Milgram waived their rights to their Directors' fees for the year.

9. INTEREST PAYABLE AND SIMILAR CHARGES

The interest payable relates to interest due on the bank loan, details of which are disclosed in note 15.

10. DIVIDENDS IN RESPECT OF EQUITY SHARES

	2006 £'000	2006 pence per share	2005 £'000	2005 pence per share
Dividends on Ordinary Shares:				
First interim paid	592	2.00	592	2.00
Second interim paid	592	2.00	592	2.00
Third interim paid	592	2.00	592	2.00
Fourth interim paid	592	2.00	592	2.00
Special dividend paid	296	1.00	296	1.00
	2,664	9.00	2,664	9.00

11. RETURN PER ORDINARY SHARE

The revenue return per Ordinary share is based on net revenue of £2,443,560 (2005: £2,684,205) and on a weighted average number of 29,600,002 (2005: 29,600,002) Ordinary shares in issue throughout the year. The capital gain per Ordinary share is based on the net capital gain of £8,064,770 (2005: gain of £10,416,826) and on a weighted average number of 29,600,002 (2005: 29,600,002) Ordinary shares in issue throughout the year.

12. LISTED INVESTMENTS

	Smaller Companies Portfolio 2006 £'000	High Income Portfolio 2006 £'000	Total 2006 £'000	Smaller Companies Portfolio 2005 £'000	Higher Income Portfolio 2005 £'000	Total 2005 £'000
Opening valuation	60,721	11,354	72,075	52,626	8,990	61,616
Purchases at cost	6,581	7,566	14,147	8,519	8,666	17,185
Sales – proceeds	(58,622)	(15,835)	(74,457)	(12,462)	(6,441)	(18,903)
– realised gains/(losses)	30,403	(1,054)	29,349	4,036	(89)	3,947
Movement in unrealised appreciation/depreciation	(20,126)	955	(19,171)	8,002	228	8,230
Closing valuation	18,957	2,986	21,943	60,721	11,354	72,075
Closing book cost	12,299	2,998	15,297	33,938	12,321	46,259
Closing unrealised appreciation/ (depreciation)	6,658	(12)	6,646	26,783	(967)	25,816
Closing valuation	18,957	2,986	21,943	60,721	11,354	72,075

Previously recognised as unrealised appreciation/depreciation

	Smaller Companies Portfolio 2006 £'000	High Income Portfolio 2006 £'000	Total 2006 £'000	Smaller Companies Portfolio 2005 £'000	Higher Income Portfolio 2005 £'000	Total 2005 £'000
Realised gains/(losses) attributable to current year	5,561	(80)	5,481	662	4	666
Amounts previously recognised as unrealised appreciation/(depreciation) on these sales	24,842	(974)	23,868	3,374	(93)	3,281
Gains/(losses) realised on investments sold	30,403	(1,054)	29,349	4,036	(89)	3,947

13. DEBTORS

	2006 £'000	2005 £'000
Accrued income	153	563
Amounts due from brokers	–	71
Other debtors	6	17
	159	651

14. OTHER CREDITORS

	2006 £'000	2005 £'000
Investments outstanding for settlement	–	499
Management fee	150	185
Performance fee	150	–
Bank interest	–	199
Other creditors	78	38
	378	921

15. BANK LOAN

	2006 £'000	2005 £'000
Bank of Scotland International facility	–	25,616

Under loan agreements dated 28 September 1999 and 21 December 2000 between the Company and Bank of Scotland International, a term loan of £25,616,000 had been made available. The Company extended the repayment date of the loan during the year before repaying the loan in October and November, with the balance being repaid on 15 November 2006.

A new bank facility for £6 million has been arranged with Bank of Scotland. 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 £50 million, investment grade bonds and reverse convertible bonds meeting certain criteria relating to the issuer and the reference equity.

16. SHARE CAPITAL

	2006 £'000	2005 £'000
Authorised:		
40,000,000 Ordinary shares of 25p	10,000	10,000
Allotted, called up and fully paid:		
29,600,002 Ordinary shares of 25p	7,400	7,400

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.

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.

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

17. RESERVES

The special reserve was created when the Company cancelled part of its share premium account, transferring it to a distributable reserve to allow the buy-back and cancellation of up to 14.99% of the Ordinary shares.

The capital reserve comprises of an unrealised capital reserve of £6,645,514 (2005: £25,816,830) and a nil deficit on the realised capital reserve (2005: £9,770,940).

18. NET ASSET VALUE PER ORDINARY SHARE

The net asset value per Ordinary share is based on the net assets attributable to equity Shareholders of £59,270,687 (2005: £51,427,357) and on 29,600,002 (2005: 29,600,002) Ordinary shares in issue at the end of the year.

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

	2006 £'000	2005 restated £'000
Net revenue return before finance costs and taxation	2,757	3,057
Management fee charged to the capital reserve	(586)	(529)
Performance fee charged to the capital reserve	(150)	–
Transaction costs charged to the capital reserve	(249)	(111)
Tender offer costs charged to capital reserve	(189)	–
Decrease in accrued income and other debtors	421	103
Increase in other creditors and accruals	155	13
Net cash inflow from operating activities	2,159	2,533

20. RECONCILIATION OF NET CASH FLOW TO NET DEBT

	1 January 2006 £'000	Cash flows £'000	31 December 2006 £'000
Cash at bank and in hand	5,238	32,309	37,547
Debt due in less than one year	(25,616)	25,616	–
Total	(20,378)	57,925	37,547

21. CAPITAL COMMITMENTS

All contracted capital commitments have been provided for.

22. RELATED PARTIES

Details of the relationships between the Company, Premier Asset Management (Guernsey) 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.

Eitan Milgram is an employee of Weiss Asset Management LLC, which was the ultimate beneficiary of 8,201,488 Ordinary Shares at the year end.

During the year the Company received stockbroking services from Collins Stewart Limited in respect of its London Stock Exchange listing, for which a fee of £6,250 per annum was paid, and from Collins Stewart (CI) Limited in respect of The Channel Islands Stock Exchange listing, for which a fee of £6,250 per annum was paid.

The Company paid Collins Stewart (CI) Limited £46,809 (2005: £39,102) in respect of the Custodian services provided.

Collins Stewart (CI) Limited, Collins Stewart Fund Management Limited and Collins Stewart Limited are all members of the Collins Stewart Tullett plc Group.

The Directors are not aware of any ultimate controlling party.

23. RISK PROFILE OF FINANCIAL ASSETS AND LIABILITIES

The main risks arising from the Company's financial instruments are market price risk, interest rate risk and liquidity risk.

Market price risk

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 8 and 9. 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.

The magnitude of any change in the net asset value of the portfolio arising from market price movements is increased by the Company's policy of employing gearing. A 10% increase / decrease in the market prices of investments would have resulted in a 3.70% (2005: 14.01%) increase / decrease in the net asset value per Ordinary share as at the balance sheet date.

Interest rate risk

The Company now finances its operations through shareholders' capital and retained profits. Before repaying the £25,616,000 term loan from Bank of Scotland International on 15 November 2006, 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.

Liquidity risk

Certain of the Company's investments are or may be illiquid, and the marketability of investments that are normally liquid may be affected by unsettled market conditions.

Interest rate risk – profile

At 31 December 2006, the Company did not hold any fixed interest financial assets (2005: £7,393,575 – weighted average coupon rate 8.31%, fixed for a weighted average period of 6.03 years, an investment with a market value of £778,400 and a fixed income of 9.875% is undated).

The balance of the investment portfolio consists of investments bearing interest at floating rates or non-interest bearing investments.

Financial assets

	Non-interest bearing 2006 £'000	Fixed rate 2006 £'000	Floating rate 2006 £'000	Total 2006 £'000	Non-interest bearing 2005 £'000	Fixed rate 2005 £'000	Floating rate 2005 £'000	Total 2006 £'000
Equity shares	18,957	–	–	18,957	61,681	–	–	61,681
Debt investments	–	–	2,986	2,986	–	7,394	3,000	10,394
Cash at bank	–	–	37,547	37,547	–	–	5,238	5,238
	18,957	–	40,533	59,490	61,681	7,394	8,238	77,313

The above analysis excludes short-term debtors as all the material amounts are non-interest bearing.

23. RISK PROFILE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Fixed rate financial assets

	Weighted average rate 2006 %	Weighted average period 2006 Years	Weighted average rate 2005 %	Weighted average period 2005 Years
Debt investments	–	–	8.31	6.03

Financial liabilities

	Fixed rate financial liabilities 2005 £'000	Fixed rate financial liabilities 2005 £'000
Bank loan	–	25,616

The above analysis excludes short-term creditors as all the material amounts are non-interest bearing. The Company repaid the bank loan in October and November, with the balance being repaid on 15 November 2006.

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, 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 2006 the Company's largest exposure to a single investment was £2,502,750, 4.20% of total assets (2005: £5,792,000, 11.26%).

Currency risk

The majority of the Company's assets are denominated in Sterling. There is unlikely to be any significant currency risk.

24. PRIOR YEAR ADJUSTMENT

In compliance with Financial Reporting Standard 25 "Financial Instruments: Disclosure and Presentation" ("FRS 25") and FRS 26, the Company designated and reclassified all investments to "fair value through profit or loss" for the first time in 2005. Fair value through profit or loss assets are now measured at Stock Exchange quoted market bid prices whereas, prior to 2005, they were valued at quoted mid prices.

In addition, prior to 2005, the transaction costs incurred on the purchase and sale of investments were included within the cost of the investment or deducted from the proceeds of a sale, whereas they are now charged through the Income Statement in the period in which they are incurred.

Directors and Advisers

Directors:	John Campbell Boothman (Chairman) John Michael McKean Helen 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 Premier Fund Managers Limited Eastgate Court High Street Guildford, GU1 3DE
Administrator, Secretary, Registered Office and sponsor to The Channel Islands Stock Exchange:	Northern Trust International Fund Administration Services (Guernsey) Limited PO Box 255 Trafalgar Court Les Banques St Peter Port Guernsey, GY1 3QL
Custodian:	Northern Trust (Guernsey) Limited PO Box 255 Trafalgar Court Les Banques St Peter Port Guernsey, GY1 3QL
United Kingdom Stockbrokers:	Fairfax I.S. PLC 46 Berkeley Square Mayfair London, W1J 5AT
Auditors:	KPMG Channel Islands Limited PO Box 20 20 New Street St Peter Port Guernsey, GY1 4AN

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the eighth ANNUAL GENERAL MEETING of ACORN INCOME FUND LIMITED will be held at Trafalgar Court, Les Banques, St Peter Port, Guernsey GY1 3QL on 11 June 2007 at 10.00am for the following purposes: -

Resolution on form of proxy

As ordinary business:

Resolution 1

To receive and, if thought fit, to accept the reports of the Directors and Auditors and the audited financial statements for the year ended 31 December 2006.

Resolution 2

To re-appoint KPMG Channel Islands Limited as Auditors.

Resolution 3

That the Company be and is hereby generally and unconditionally authorised in accordance with The Companies (Purchase of Own Shares) Ordinance 1998 to make market purchases, as defined in that Ordinance, of and cancel its Ordinary shares of 1p each, provided that:

(i) the maximum number of Ordinary shares hereby authorised to be purchased shall be 1,340,075;

(ii) the minimum price which may be paid for an Ordinary share shall be 10p;

(iii) the maximum price which may be paid for an Ordinary share shall be an amount equal to £10;

(iv) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2008, unless the authority is renewed prior to such time;

(v) the Company may make a contract to purchase Ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary shares pursuant to any such contract; and

(vi) any Ordinary Shares so purchased shall be cancelled or if the Directors so determine and subject to the provisions of The Companies (Purchase of Own Shares) Ordinance, 2006 and any applicable regulations of the United Kingdom Listing Authority, be held as treasury shares.

Notice of Annual General Meeting

Resolution 4

To elect Mrs Green as a Director of the Company in accordance with the provisions of the Articles of Association.

By order of the Board

Northern Trust International Fund Administration Services Limited

Secretary

4 May 2007

Registered office:
Trafalgar Court
Les Banques
St Peter Port
Guernsey
GY1 3QL

A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his or her stead. A proxy need not also be a member of the Company. To be effective, forms of proxy must be lodged with the Company's Secretary, not less than 48 hours before the time appointed for holding the meeting. Lodgement of the form of proxy will not preclude a shareholder from attending the meeting and voting in person.

Note:

The following documents will be available for inspection at the registered office of the Company during usual business hours on any weekday (except Saturdays, Sundays and public holidays) until the date of the meeting and at the place of the meeting for a period of 15 minutes prior to and during the meeting:

a) A statement of Directors' interests in the share capital of the Company; and

b) The Articles of Association.

Proxy form

for use at the Annual General Meeting

Acorn Income Fund Limited

BLOCK CAPITALS PLEASE

I/We, the undersigned, ...

being a member/members of Acorn Income Fund Limited, hereby appoint the Chairman of the meeting/

....

as my/our proxy to vote for me/us on my/our behalf at Trafalgar Court, Les Banques, St Peter Port, Guernsey, GY1 3QL on 11 June 2007 at 10.00 am and at any adjournment thereof and at his discretion on any other matter arising at such meeting.

Signature ....

Dated 2007

Please indicate with an X in the spaces below how you wish your votes to be cast.

		For	Against	Abstain
Resolution 1	To receive and, if thought fit, to adopt the reports of the Directors and Auditors and the audited financial statements for the year ended 31 December 2006.			
Resolution 2	To re-appoint KPMG Channel Islands Limited as Auditors of the Company and to authorise the Directors to agree their remuneration.			
Resolution 3	To authorise the Company to buy back its own shares.			
Resolution 4	To elect Mrs Green as a Director.			

Notes

1. A member may appoint a proxy of his or her own choice. If such an appointment is made, delete the words ‘the Chairman of the meeting’ and insert the name of the person appointed proxy in the space provided.
2. If the appointor is a corporation, this form must be under its common seal or under the hand of some officer or attorney duly authorised in that behalf.
3. In the case of joint holders, the signature of any one holder will be sufficient, but the names of all joint holders should be stated.
4. If this form is returned without any indication as to how the person appointed proxy shall vote, he or she will exercise his or her discretion as to how he or she votes or whether he or she abstains from voting.
5. To be valid, this form must be completed and deposited at the office of the Company’s Registrar not less than 48 hours before the time fixed for holding the meeting or adjourned meeting.

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For the attention of Gemma Barette

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