

ACORN INCOME FUND LIMITED

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

CHAIRMAN'S STATEMENT

I am pleased to present to Shareholders the Company's unaudited interim results for the half-year ending 30 June 2006.

The financial position of the Company has continued to strengthen during the first half of 2006, with the net asset value ("NAV") per Ordinary Share, based on investments valued at bid market prices, rising by 13.41p to 187.15p on 30 June 2006, after distributing dividends totalling 4.0p per share in the period. The Company generated a total return for the period of 10.02%, outperforming the Extended Hoare Govett Smaller Companies Index (excluding investment companies), which achieved a total return over the same period of 6.76%. The market price of the Company's Ordinary Shares rose from 158.75p at 31 December 2005 to 181.50p at 30 June 2006.

The Company's NAV per Ordinary Share has outperformed its benchmark index since launch in 1999, achieving a total return of 172.55% compared to a total return of 127.21% for the Extended Hoare Govett Smaller Companies Index (excluding investment companies). Since the period end the NAV (with investments valued at bid prices) has continued to increase, reaching 189.42p at 31 August 2006.

A cessation vote was held on 26 June 2006 at the Company's Annual General Meeting. Although the Special Resolution that "the Company ceases to continue as an investment company" was not passed, a majority of voting Shareholders voted in favour of the Special Resolution. In accordance with its undertakings announced earlier in the year the Board and its advisers have considered various proposals in respect of the reconstruction of the Company. Further details will be released in the near future.

Martin Bralsford
Chairman
28 September 2006

INCOME STATEMENT

For the six months ended 30 June 2006 (*unaudited*)

		Six months ended 30 June 2006			Six months ended 30 June 2005	Year ended 31 December 2005
		<i>(unaudited)</i>			<i>(unaudited)</i>	<i>(audited)</i>
	Note	Revenue £'000	Capital £'000	Total £'000	Total £'000	Total £'000
Gains and losses on investments						
Realised gain on investments	8	-	1,247	1,247	2,842	3,947
Movement in unrealised gain on investments	8	-	3,561	3,561	579	8,230
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Net Investment gain		-	4,808	4,808	3,421	12,177
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Income	3	1,661	-	1,661	1,779	3,391
Management fee	4	(103)	(308)	(411)	(342)	(705)
Other expenses	5	(98)	(73)	(171)	(123)	(269)
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Net return on ordinary activities before finance costs		1,460	4,427	5,887	4,735	14,594
Interest payable and similar charges		(183)	(548)	(731)	(748)	1,493
		-----	-----	-----	-----	-----
Net return for the period		1,277	3,879	5,156	3,987	13,101
		-----	-----	-----	-----	-----
Return per Ordinary Share	7	4.32p	13.10p	17.42p	12.46p	24.14p
Dividend per Ordinary Share (distributed)	6	4.00p	-	4.00p	4.00p	9.00p

*The total columns of this statement represent the Income Statement of the Company.
The accompanying notes form an integral part of these unaudited interim results.
These results are unaudited and are not the Company's statutory accounts.*

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the six months ended 30 June 2006 (unaudited)

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

For the six months ended 30 June 2005 (unaudited)

	Note	Share Capital £'000	Share Premium £'000	Revenue reserve £'000	Special reserve £'000	Capital reserve £'000	Total £'000
Balance as at 1 January 2005		7,400	17,079	882	10,000	5,629	40,990
Return for the period		-	-	1,426	-	2,561	3,987
Dividends Paid	6	-	-	(1,184)	-	-	(1,184)
Balance as 30 June 2005		7,400	17,079	1,124	10,000	8,190	43,793

For the year ended 31 December 2005 (audited)

	Note	Share Capital £'000	Share premium £'000	Revenue reserve £'000	Special reserve £'000	Capital reserve £'000	Total £'000
Balance as at 1 January 2005		7,400	17,079	882	10,000	5,629	40,990
Return for the year		-	-	2,684	-	10,417	13,101
Dividends Paid	6	-	-	(2,664)	-	-	(2,664)
Balance as 31 December 2005		7,400	17,079	902	10,000	16,046	51,427

The accompanying notes form an integral part of these unaudited interim results. These results are unaudited and are not the Company's statutory accounts.

BALANCE SHEET
as at 30 June 2006(unaudited)

		30 June 2006	30 June 2005	31 December 2005
	<i>Note</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>
		£'000	£'000	£'000
Fixed assets				
Listed investments	8	75,156	62,795	72,075
Current assets				
Debtors		440	385	651
Cash at bank		5,895	6,640	5,238
		-----	-----	-----
		6,335	7,025	5,889
Creditors - amounts falling due within one year				
Creditors		(476)	(411)	(921)
Bank loan	9	(25,616)	(25,616)	(25,616)
		-----	-----	-----
		(26,092)	(26,027)	(26,537)
		-----	-----	-----
Net current liabilities		(19,757)	(19,002)	(20,648)
		-----	-----	-----
Net assets		55,399	43,793	51,427
		-----	-----	-----
Share capital and reserves				
Called-up share capital	10	7,400	7,400	7,400
Share premium		17,079	17,079	17,079
Special reserve		10,000	10,000	10,000
Revenue reserve		995	1,124	902
Capital reserve		19,925	8,190	16,046
		-----	-----	-----
Total shareholders' funds attributable to equity interests		55,399	43,793	51,427
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Net asset value per Ordinary Share	11	187.15p	147.95p	173.74p

*The accompanying notes form an integral part of these unaudited interim results.
These results are unaudited and are not the Company's statutory accounts.*

CASH FLOW STATEMENT

For the six months ended 30 June 2006(*unaudited*)

		<i>Six months ended 30 June 2006 (unaudited) £'000</i>	<i>Six months ended 30 June 2005 (unaudited) £'000</i>	<i>Year ended 31 December 2005 (audited) £'000</i>
Net cash inflow from operating activities	12	1,261	1,608	2,533
Servicing of finance				
Interest paid		(671)	(908)	(1,607)
Net cash outflow from servicing of finance		(671)	(908)	(1,607)
Investing activities				
Purchase of investments at fair value through profit and loss		(14,646)	(8,129)	(16,377)
Sale of investments at fair value through profit and loss		15,897	11,011	19,111
Net cash inflow from investing activities		1,251	2,882	2,734
Equity dividends paid	6	(1,184)	(1,184)	(2,664)
Cash inflow before financing		657	2,398	996
Net cash flow from financing		-	-	-
Increase in cash in the period		657	2,398	996
Opening cash balance		5,238	4,242	4,242
Increase in cash in the year		657	2,398	996
Closing cash balance		5,895	6,640	5,238

*The accompanying notes form an integral part of these unaudited interim results.
These results are unaudited and are not the Company's statutory accounts.*

NOTES TO THE UNAUDITED INTERIM RESULTS for the six months ended 30 June 2006

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 results, are set out below:

a) Accounting convention

The unaudited interim results 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 accruals 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;
- (iii) transaction costs (see 1(e)); and
- (iv) expenses charged to the capital reserve in accordance with the above accounting policies.

e) Transaction costs

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

f) Investments

Classification

In accordance with FRS 26, all investments are classified as "fair value through profit and loss".

Recognition

The Company recognises financial assets held as fair value through profit and 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.

Measurement

Fair value through profit and loss assets are initially recognised at cost, being the fair value of the consideration given, excluding transaction costs associated with the investment (see note 1(e)). Subsequent to initial recognition, all fair value through profit and 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 and 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 and loss assets sold are calculated as the difference between the sales proceeds (excluding transaction costs (see note 1(e))) and costs. Fair value through profit and 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. Income

	<i>Six months ended 30 June 2006 (unaudited) £'000</i>	<i>Six months ended 30 June 2005 (unaudited) £'000</i>	<i>Year ended 31 December 2005 (audited) £'000</i>
Dividend income	1,188	1,342	2,512
Bond interest	325	311	634
Bank interest	148	126	245
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	1,661	1,779	3,391
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4. Management fee

The Manager of the Company is entitled under the Management Agreement with the Company to receive a management fee from the Company at the annual rate of 1.0% of the total assets of the Company, valuing investments using mid market prices, payable quarterly in arrears. Where any investments comprised in the assets of the Company are in funds managed by or advised by the Manager or Investment Adviser or an affiliate of either of them, the mid market value of such investments is deducted from total assets for the purposes of calculating the management fee.

In addition, the Manager is entitled to receive a performance fee, payable at the end of each financial period of the Company, at the rate of 15% of any excess of the net asset value per share (valuing investments using mid market prices) over the benchmark net asset value per share as at the last calculation day in the relevant financial period, multiplied by the time weighted number of shares in issue within such period. The benchmark net asset value per share is the higher of 104.80p, compounded at 10% per annum since 31 December 1999, and the highest net asset value per share as of the last calculation day in any preceding financial period. When calculating the performance fee, the net asset value per share is reduced by the amount that the dividend per share paid during that financial year is less than 8.50p. As at 30 June 2006 the benchmark net asset value per share was 194.94p (30 June 2005: 177.15p, 31 December 2005: 185.66p). No performance fee has been paid or accrued in respect of the period ended 30 June 2006 (30 June 2005: nil, 31 December 2005: nil).

The Manager has delegated the obligations for the performance of the investment management services to Unicorn Asset Management Limited ("the Smaller Companies Investment Adviser") and Collins Stewart Asset Management Limited ("the High Income Investment Adviser"). The agreements are between the Investment Advisers and the Manager, not the Company. All Investment Advisory fees are paid out of the management fees and performance fees received by the Manager from the Company.

Both Investment Advisers are entitled to receive from the Manager an annual fee at the rate of 0.5% of the total assets attributable to the investments based on mid market prices in relation to which the Investment Adviser acts. The Smaller Companies Investment Adviser is entitled to 5/8ths of the Manager's performance fee, while the Manager may, at its discretion, pay the High Income Investment Adviser a proportion of the remaining performance fee. In addition, the Smaller Companies Investment Adviser is entitled to receive, from the Manager, a fixed annual fee of £7,500 in relation to marketing services provided to investors.

The Investment Advisory Agreements may be terminated by the Manager or the Investment Advisers, giving not less than 12 months' notice in writing, or otherwise in circumstances where one of the parties has a receiver appointed over its assets or if an order is made or an effective resolution passed for the winding up of one of the parties. On termination, the Investment Adviser shall be entitled to receive all fees accrued up to the date of the termination (or thereafter if the Investment Adviser necessarily incurs expenses arising out of the termination of the agreement) but shall not be entitled to compensation, except in the case of a wrongful termination by the Manager.

5. Other expenses

	<i>Six months ended 30 June 2006</i>			<i>Six months ended 30</i>	<i>Year ended 31</i>
	<i>(unaudited)</i>			<i>June 2005</i>	<i>December 2005</i>
	<i>Revenue</i>	<i>Capital</i>	<i>Total</i>	<i>(unaudited)</i>	<i>(audited)</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Custody and settlement fees	23	-	23	18	39
Auditors' remuneration	8	-	8	5	9
Directors' remuneration	20	-	20	20	40
Transaction charges	-	73	73	43	111
Other expenses	47	-	47	37	70
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	98	73	171	123	269
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6. Dividends in respect of equity shares

	<i>Six months ended 30</i>	<i>Six months ended 30</i>	<i>Year ended 31</i>
	<i>June 2006</i>	<i>June 2005</i>	<i>December 2005</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Dividends on Ordinary Shares:			
First interim paid of 2.00p (2005: 2.00p)	592	592	592
Second interim paid of 2.00p (2005: 2.00p)	592	592	592
Third interim paid, n/a (2005: 2.00p)	-	-	592
Special dividend paid, n/a (2005: 1.00p)	-	-	296
Fourth interim paid, n/a (2005: 2.00p)	-	-	592
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	1,184	1,184	2,664
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7. Return per Ordinary Share

The revenue return per Ordinary Share is based on net revenue of £1,277,402 (30 June 2005: £1,425,805, 31 December 2005: £2,684,205) and on a weighted average number of 29,600,002 (30 June 2005 and 31 December 2005: 29,600,002) Ordinary Shares in issue throughout the period. The capital gain per Ordinary Share is based on the net capital gain of £3,878,990 (30 June 2005: £2,561,160, 31 December 2005: £10,416,826) and on a weighted average number of 29,600,002 (30 June 2005 and 31 December 2005: 29,600,002) Ordinary Shares in issue throughout the period.

8. Fair value through profit and loss investments

	<i>Six months ended 30 June 2006 (unaudited) £'000</i>	<i>Six months ended 30 June 2005 unaudited £'000</i>	<i>Year ended 31 December 2005 audited £'000</i>
Opening valuation	72,075	61,616	61,616
Purchases at cost	14,146	8,490	17,185
Sales - proceeds	(15,873)	(10,732)	(18,903)
- realised gains	1,247	2,842	3,947
Movement in unrealised appreciation	3,561	579	8,230
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Closing valuation	75,156	62,795	72,075
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Closing book cost	45,779	44,630	46,259
Closing unrealised appreciation	29,377	18,165	25,816
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Closing valuation	75,156	62,795	72,075
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9. Bank loan

	<i>30 June 2006 (unaudited) £'000</i>	<i>30 June 2005 (unaudited) £'000</i>	<i>31 December 2005 (audited) £'000</i>
Bank of Scotland International facility	25,616	25,616	25,616
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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 has been made available. The loan is due for repayment on 31 October 2006.

The interest rates payable on the loan are based on LIBOR plus a margin of 1% plus Mandatory Liquid Asset ("MLA") costs.

10. Share capital

	<i>30 June 2006 (unaudited) £'000</i>	<i>30 June 2005 (unaudited) £'000</i>	<i>31 December 2005 (audited) £'000</i>
<i>Authorised:</i>			
40,000,000 Ordinary Shares of 25p	10,000	10,000	10,000
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<i>Allotted, called up and fully paid:</i>			
29,600,002 Ordinary Shares of 25p	7,400	7,400	7,400
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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 £55,398,767 (30 June 2005: £43,793,000, 31 December 2005: £51,427,357) and on 29,600,002 (30 June 2005 and 31 December 2005: 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

	<i>Six months ended 30 June 2006 (unaudited) £'000</i>	<i>Six months ended 30 June 2005 (unaudited) £'000</i>	<i>Year ended 31 December 2005 (audited) £'000</i>
Net revenue before finance costs and taxation	1,460	1,613	3,057
Management fees charged to the capital reserve	(308)	(256)	(529)
Other expenses charged to the capital reserve	(73)	(43)	(111)
Decrease in accrued income	186	295	102
Decrease in other debtors	-	4	1
(Decrease)/increase in other creditors and accruals	(4)	(5)	13
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Net cash inflow from operating activities	1,261	1,608	2,533
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