



Acorn Income Fund Limited

Half-yearly Condensed
Report (unaudited) for the
six months ended 30 June
2018



Investment Objectives and Policy

Investment Objectives

The investment objective and policy of Acorn Income Fund Limited (the "Company" or "Acorn") is to provide Shareholders with high income and also the opportunity for capital growth.

The Company's assets comprise investments in equities and fixed interest securities in order to achieve its investment objective. The Company's investments are held in two portfolios. Approximately 70% to 80% of the Company's assets are invested in smaller capitalised United Kingdom companies, admitted to the Official List of the Financial Conduct Authority (the "FCA") and traded on the main market of the London Stock Exchange (the "LSE") or traded on the Alternative Investment Market ("AIM") at the time of investment. The Company also aims to enhance income for Ordinary Shareholders by investing approximately 20% to 30% of the Company's assets in high yielding instruments which are predominantly fixed interest securities but may include up to 15% of the Company's overall portfolio (measured at the time of acquisition) in high yielding investment company shares.

The proportion of the overall portfolio held in the Smaller Companies Portfolio and the Income Portfolio varies from day to day as the market prices of investments move. The Directors retain discretion to transfer funds from one portfolio to the other and generally expect between 70% to 80% of the investments to be held in the Smaller Companies Portfolio.

While the Company's investment policy is to spread risk by maintaining diversified portfolios, there are no restrictions on the proportions of either of the portfolios which may be invested in any one geographical area, asset class or industry sector. However, not more than 7.5% of the Company's gross assets may be invested in securities issued by any one company as at the time of investment, save that (i) in respect of the Income Portfolio only, investments may be made in other investment funds subject only to the restriction set out in paragraph (c) of the section headed "Investment Restrictions" below; and (ii) in respect of the Smaller Companies Portfolio only, provided that not more than 10% of the Company's gross assets are invested in securities issued by any one company at any time, the 7.5% limit may be exceeded on a short term basis, with Board approval, where a company whose securities form part of the Smaller Companies Portfolio issues new securities (for example by way of a rights issue).

The Company's capital structure is such that the underlying value of assets attributable to the Ordinary Shares is geared relative to the rising capital entitlements of the Preference Shares ("ZDP Shares"). The Company's gearing policy is not to employ any further gearing through long-term bank borrowing. Save with the prior sanction of ZDP Shareholders, the Company will incur no indebtedness other than short term borrowings in the normal course of business such as to settle share trades or borrowings to finance the redemption of the ZDP Shares.

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Investment Restrictions

For so long as required by the LSE Listing Rules in relation to closed-ended investment companies, the Company has adopted the following investment and other restrictions:

- the Company will at all times invest and manage its assets in a way which is consistent with its objective of spreading investment risk and in accordance with its published investment policy;
- the Company will not conduct any significant trading activity; and
- not more than 10% in aggregate of the value of the total assets of the Company at the time the investment is made will be invested in other listed closed-ended investment funds. The Listing Rules provide an exception to this restriction to the extent that those investment funds which have stated investment policies to invest no more than 15% of their total assets in other listed closed-ended investment companies.

Derivatives

The Company may invest in derivatives, money market instruments and currency instruments including contracts for difference, futures, forwards and options. These investments may be used for hedging positions against movements in, for example, equity markets, currencies and interest rates, for investment purposes and for efficient portfolio management. The Company's use of such instruments for investment purposes is limited to 5 per cent of the total assets of the Company. The Company will not use such instruments to engage in any significant trading activity. The Company will not maintain derivative positions should the total underlying exposure of these positions (excluding any currency hedges) exceed one times adjusted total capital and reserves.

Dividend Policy

The Company's policy is to provide Ordinary Shareholders with a high income relative to the average dividend yield of the UK Smaller companies comprised in the Numis Smaller Companies Index ex Investment Companies. The Company aims to pay a regular quarterly dividend in March, June, September and December. It is intended to distribute substantially all of the Company's net income after expenses and taxation, however the Company may retain a proportion of the Company's income in each year as a revenue reserve to assist in providing long term stability in dividend distributions. Dividends may be paid to holders of Ordinary Shares whenever the financial position of the Company, in the opinion of the Directors, justifies such payment, subject to the Company being able to satisfy the solvency test, as defined under the Companies (Guernsey) Law 2008. The Board is alert to the potential for new share issuance to dilute earnings and accordingly will have regard to the size and timing of new share issues. The ZDP shares do not carry a right to a dividend.

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Performance Summary

for the six months ended 30 June 2018

	30/6/2018	31/12/2017	% change/ return
Total Return Performance*			
Total Return on Gross Assets*			0.19%
Numis Smaller Companies (Ex Investment Companies) Index	22,528.78	22,794.71	-1.17%
FTSE All Share Index	7,388.69	7,265.66	1.69%
FTSE Small Cap (Ex Investment Companies) Index	7,873.22	7,864.09	0.12%

Share Price and NAV Returns

Ordinary Shares

Share Price	471.50p	463.50p	1.73%
NAV**	474.53p	486.84p	-2.53%
IFRS NAV#	474.37p	486.65p	-2.52%
Total return on Net Assets*			-0.47%
Ordinary Share Price Total Return			3.90%
Discount (-) to NAV on Ordinary Shares	-0.64%	-4.79%	

ZDP Shares

Share Price	151.00p	151.25p	-0.17%
NAV**	145.54p	142.83p	1.90%
IFRS NAV	145.67p	142.97p	1.89%
Premium (+) to NAV on ZDP Shares	+3.75%	+5.90%	
Cover on ZDP Shares***	2.70:1		
Package Premium (+) Discount (-) to NAV Combined Ordinary and ZDP Shares	+0.64%	-1.77%	-

	6 months to 30/6/2018	6 months to 30/6/2017	% change/ return
Dividends and Earnings			
Revenue return per ordinary share	10.30p	9.11p	13.06%
Dividends declared per ordinary share	9.90p	9.00p	10.00%

* assumes dividends reinvested

** NAV calculated in accordance with the Articles

*** non cumulative cover – source JP Morgan Cazenove

NAV calculated in accordance with International Financial Reporting Standards

Company Summary

History

The Company was incorporated on 5 January 1999 and commenced its activities on 11 February 1999. The portfolio is divided into two sub portfolios, a Smaller Companies Portfolio representing approximately 70-80% of the total with the balance invested in an Income Portfolio investing in fixed income securities, investment company shares and structured investments. The Company has always been leveraged, initially through bank debt and now through Zero Dividend Preference Shares. In December 2016, shareholders approved the extension of the Zero Dividend Preference Shares setting a new redemption date of 28 February 2022.

Capital Structure

Zero Dividend Preference Shares (1p each)	21,365,221 (excluding treasury shares).
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The ZDP Shares will have a final capital entitlement of 167.2 pence per ZDP Share on 28 February 2022 following the extension of the life of the existing shares from 31 January 2017, subject to there being sufficient capital in the Company. The ZDP Shares are not entitled to any dividends. ZDP shareholders rank ahead of the ordinary shareholders in regards to rights as to capital. The ZDP shareholders have the right to receive notice of all general meetings of the Company, but do not have the right to attend or vote unless the business of the meeting involves an alteration of the rights attached to the ZDP Shares, in which case the holders of ZDP Shares can attend and vote.

Ordinary Shares (1p each)	15,916,687 (excluding treasury shares).
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The Ordinary Shares, excluding treasury shares, are entitled to participate in all dividends and distributions of the Company. On a winding-up holders of Ordinary Shares are entitled to participate in the distribution and the holders of Ordinary Shares are entitled to receive notice of and attend and vote at all general meetings of the Company.

Treasury Shares	As at 30 June 2018, there were 1,275,972 Ordinary and 1,712,757 ZDP Shares held in treasury.
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Shareholder Funds (calculated in accordance with IFRS)	£75.50 million as at 30 June 2018.
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Market Capitalisation of the Ordinary Shares	£75.05 million as at 30 June 2018.
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The Board	The Board consists of three independent non-executive directors ("the Directors"), Helen Green (Chairman), Nigel Ward and David Warr.
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Company Summary (continued)

Investment Manager	Premier Asset Management (Guernsey) Limited ("PAMG"), is a subsidiary of Premier Asset Management Group PLC ("PAM"). PAM had approximately £6.8bn of funds under management as at 30 June 2018. PAMG Ltd is licensed under the provisions of the Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended, by the Guernsey Financial Services Commission to carry on controlled investment business.
Investment Advisers	Premier Fund Managers Limited ("PFM Ltd") – the Company's Income Portfolio is managed by Paul Smith. Unicorn Asset Management Limited ("Unicorn Ltd") – the Company's Smaller Companies Portfolio is managed by Simon Moon and Fraser Mackersie.
Secretary/Administrator	Northern Trust International Fund Administration Services (Guernsey) Limited.
Corporate Broker	Numis Securities Limited ("Numis") provide all corporate broking services.
Management Fee	0.7% per annum (Total Assets) charged 75% to capital and 25% to revenue. Minimum annual management fee £100,000. In addition, a performance fee is payable at the year-end if the target set out on page 24 is achieved.
Registrar	Anson Registrars Limited.

Financial Calendar

Company's year end	31 December
Annual results announced	March/April
Company's half year end	30 June
Annual General Meeting	20 August 2018
Half-year results announced	August
Dividend payments	At the end of March, June, September and December
Company Website	https://www.premierfunds.co.uk/investors/investments/investment-trusts/acorn-income-fund

Chairman's Statement and Interim Management Report

30 June 2018

Dear Shareholder

After a period of rising stock markets leading up to the end of 2017, UK equities suffered a setback over the first quarter of 2018 triggered initially by a decline in the US market which was responding to fears of rising inflation and higher interest rates. In the UK the broad market indices and the small cap sector fell sharply. The second quarter brought recovery as confidence recovered and the FTSE All-Share index closed the six month period to 30 June with a total return of 1.69%. Smaller Companies were slower to recover with the FTSE Small Cap index returning just 0.12% and the Numis Smaller Companies (ex investment Companies) index posting a return of -1.17% over the half year. Acorn performed marginally better than the small cap sector. Total assets showed a return of 0.19% over the half year while the NAV total return for the ordinary shares was -0.47% with the cost of gearing from the Zero Dividend Preference Shares being a drag on performance. Ordinary shareholders benefitted from a narrowing of the discount to asset value over the period resulting in a share price total return (with dividends reinvested) of 3.9%.

The Zero Dividend Preference Shares declined by 0.17% over the six months.

Asset Allocation

Since July 2016 the directors and their Investment Advisers have favoured a weighting towards Smaller Companies rather than bonds. The allocation split at that date was set at 80% Smaller Companies Portfolio and 20% to the Income Portfolio. Relatively better performance from the Smaller Companies Portfolio increased the small cap weighting to 83% at the start of the year. The directors and their Investment Advisers remain cautious about the outlook for fixed interest securities but consider that the yield and potential return from small cap equities remains attractive. The Board have therefore allowed this asset allocation split to continue.

Over the six months to 30 June the Smaller Companies Portfolio generated a small positive return of 0.04% before expenses and the Income Portfolio performed marginally better.

The ICE Bank of America Merrill Lynch sterling non gilt index (which is used as an indicator of bond market performance) fell 1.25% demonstrating the weakness of the sterling bond market as a whole. However the Income Portfolio with its broader spread of asset classes and focus on absolute return generated a positive return sufficient to enhance the total fund performance.

Discount and premium management

The Company has power to issue shares at a premium to net asset value and to buy back into Treasury or for cancellation at a discount. These transactions are executed in both classes of share in the correct ratio to maintain the capital structure. Issues are done at a premium to the package net asset value (the NAV of ordinary shares and ZDPs combined) and buy backs at a discount to the package net asset value, such that the transaction will always be cover enhancing for the ZDP shares and NAV enhancing for the ordinary shares. No shares were issued or bought back during the period under review.

The ordinary share discount to NAV reduced from 4.79% at the start of the year to 0.64% at 30 June 2018. At the period end the package of ordinary shares and ZDPs was trading on a small premium to NAV, although a modest discount has developed more recently and some share buybacks have been effected.

Earnings and Dividends

Revenue earnings in the first half were 10.30 pence per ordinary share compared to 9.11 pence in the first six months of 2017. The stable income stream from the Company's Portfolio and a continuing favourable outlook for rising dividends from investee Companies in the Smaller Companies Portfolio has enabled the Board to increase the dividend paid to ordinary shareholders.

Chairman's Statement and Interim Management Report (continued)

30 June 2018

A first interim dividend of 4.95p was paid on 29 March 2018. This represented a 10% increase on the corresponding dividend for 2017 which had been 4.5p.

A second interim dividend of 4.95p (also a 10% increase on the corresponding dividend for the previous year) was paid on 29 June 2018 to shareholders on the register at 15 June 2018.

Outlook

There is little doubt that the uncertainties surrounding Brexit are impacting the market valuation of smaller companies with a domestic focus. Risks of a 'no deal' Brexit appear to be gathering with little progress apparently being made in key areas of dispute. This is a situation with which our investment advisers and your directors are increasingly uncomfortable. Accordingly, post the period end, the board have agreed to alter the allocation between the two portfolios to take a more defensive position. Initially it is intended to move towards a split of 75% in the Smaller Companies Portfolio and 25% in the Income Portfolio (having had over 80% in the Smaller Companies Portfolio at 30 June). Within the Income Portfolio the focus will be on investments that are less exposed to a 'no deal' Brexit scenario and the greater part of the money added to the Income Portfolio is likely to be directed towards alternative and defensive investments rather than conventional sterling bonds.

Helen Green

Chairman

20 August 2018

Statement of Principal Risks and Uncertainties

30 June 2018

The principal risks assessed by the Board relating to the Company were disclosed in the Annual Report and Audited Financial Statements for the year ended 31 December 2017. The principal risks disclosed include market risk, liquidity risk, foreign currency risk and reinvestment risk. A detailed explanation can be found in the annual report. The Board and Portfolio Manager do not consider these risks to have changed and remain relevant for the remaining six months of the financial year.

- **Market risk**

Market risk is the risk associated with changes in market prices including spreads, interest rates, economic uncertainty, changes in laws and national and international political circumstances.

- **Reinvestment risk**

Reinvestment risk is the risk that monies resulting from principal and income payments from a bond will not be reinvested at the prevailing interest rate when the bond was initially purchased.

- **Credit risk**

The investment portfolio is comprised of equities and bonds which expose the Company to credit risk, being the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company.

- **Liquidity risk**

Liquidity risk is that the Company does not have sufficient cash resources to meet obligations, including the dividend target as they fall due or can only do so on terms that are materially disadvantageous.

- **Foreign currency risk**

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The majority of the Company's assets and liabilities are denominated in sterling however some of the investments in the Income Portfolio may be denominated in foreign currencies. Generally,

these exposures are hedged back to sterling and there is unlikely to be any significant direct currency risk.

- **Interest rate risk**

The Company's investment portfolios, particularly the Income Portfolio, include investments bearing interest at fixed rates. Generally when interest rates rise the market prices of fixed interest securities fall and when interest rates fall the prices of fixed interest securities rise. The Company will therefore be exposed to movements in interest rates. The Company has fixed rate leverage through its ZDP Shares. In January 2017, the redemption date of the Company's ZDP shares was extended to 28 February 2022 at a rate of 3.85% per annum. Replacing this leverage in 2022 might involve the Company paying a higher accrual rate on an issue of new ZDP Shares if interest rates have risen.

- **Discount Volatility**

Being a closed-end fund, the Company's shares may trade at a discount or premium to their NAV. The magnitude of this discount or premium 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 NAV. 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.

- **Brexit**

The UK's vote to leave the EU has introduced new uncertainties and instability into the financial markets. As the process of a major country leaving the EU has no precedent, the Board and the Investment Manager expect an ongoing period of market uncertainty as the implications are processed.

Statement of Principal Risks and Uncertainties (continued)

30 June 2018

Related Parties

Related party balances and transactions are disclosed in note 14 of these unaudited condensed interim financial statements.

Going Concern

The Directors are required to satisfy themselves that it is reasonable to assume that the company is a going concern and to identify any material uncertainties to the Company's ability to continue as a going concern for at least 12 months from the date of approving the financial statements.

The Board believes that it is appropriate to adopt the going concern basis in preparing the unaudited condensed interim financial statements in view of its holdings in cash and cash equivalents and certain more liquid investments within the portfolio and the income deriving from those investments, meaning the Company has adequate financial resources to meet its liabilities as they fall due.

Responsibility Statement

for the period from 1 January 2018 to 30 June 2018

The Directors are responsible for preparing the Unaudited Half-yearly Financial Report (the “condensed Financial Statements”), which has not been audited or reviewed by an independent auditor, and confirm that to the best of their knowledge:

- the condensed set of financial statements has been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting;
- the interim management report includes a fair review of the information required by:
 - (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Signed on behalf of the Board by:

Helen Green

Chairman

20 August 2018

Investment Advisers' Reports

The Smaller Companies Portfolio

In the six months from 31 December 2017 to 30 June 2018, the Smaller Companies portfolio generated a total return +0.2% (before expenses), outperforming the benchmark index, the NSCI (ex IC), which produced a total return of -1.2%.

It is pleasing to post a relative outperformance against the benchmark index given that the portfolio faced one significant stock specific issue over the period. It speaks to the underlying strength of the portfolio as a whole that despite this setback a positive return was achieved. The Spring reporting season was a good one and saw the vast majority of holdings meet or beat market expectations helping portfolio performance in the six months to June.

Over the period under review equity markets were characterised by heightened volatility and significant short term moves as concerns on trade wars, primarily between the US and China, were realised. Closer to home and with less than a year left to Brexit, smaller, more domestically focused, companies were not immune from this volatility. The uncertainty surrounding the terms of the UK's exit from the EU is high and progress is slow. As such we have seen a persistent discount of smaller companies relative to larger companies as this uncertainty feeds through to lower valuations. We take the view that this provides an opportunity to top up holdings in high quality companies that we have known for a number of years and that are cheaper than they have historically been.

The Smaller Companies Portfolio initiated positions in four new holdings, one of which was an initial public offering (IPO) and exited two existing holdings in full during the period under review. The new positions initiated during the period were: Iomart, a provider of cloud computing and hosting services; Marshalls, the UK market leader in paving; and Saga, which provides a range of products and services for the over 50s, primarily insurance and

holidays. The three companies above have been held in other Unicorn Funds for many years which gives us a great degree of confidence when adding them to a new portfolio. The IPO was Integrafyn, a platform provider to financial advisors; it is pleasing to note that this has made a meaningful positive contribution since its listing date.

The biggest stock specific story of the period is, unfortunately, a negative one: Conviviality (-333bps), was the primary detractor from performance during the period. Despite issuing an inline trading update at the end of January, just 5 weeks later the company released a series of extremely disappointing market updates in quick succession, and ultimately confirmed that it had appointed administrators. We wrote down the value of our remaining holding to zero after the suspension of the shares. Whilst performance for the period has been severely hampered by Conviviality, we remain in positive territory overall on this investment as a result of active profit taking and dividend income received during our holding period of over four and a half years. We also exited the portfolio's holding in Headlam over the period.

As mentioned above, the overall effect of this disappointment was more than compensated for by strong operating performances across most of the portfolio: Macfarlane, a packaging materials company, was the strongest contributor to returns, helping performance by +132bps. The company released strong final results in the period followed by a positive AGM statement which drove a re-rating. The company was also promoted to the FTSE Small Cap index which increased demand for the shares. Somero, a manufacturer of machinery used in concrete screeding, added +98bps to performance as it continued to trade well, increased its dividend payout ratio to 50%, and paid a special dividend. Polar Capital (+77bps) also warrants mention as it saw significant fund inflows over the period.

Investment Advisers' Reports (continued)

A key consideration of our investment process is the sustainability of a company's dividend payments. Many of the underlying investee companies have long established track records of increasing dividend payments, which, in turn, are comfortably covered by earnings. During periods of uncertainty, the reliability of these dividend flows is of even greater value. It was also pleasing to see five investee companies return excess cash to shareholders in the form of special dividends during the period, highlighting the strong cash generative characteristics that we look for in companies.

As we move closer to March 2019 we will see a clearer picture emerge of the terms of Brexit. We feel that, at the very least, this will add certainty for equity markets which will hopefully remove the current 'Brexit discount' we're seeing on smaller, domestically focused companies. In the mean time we will continue to take advantage of volatility and buy into mispriced stocks.

Fraser Mackersie and Simon Moon

Unicorn Asset Management Limited

The Income Portfolio

Over the first half of the year, the portfolio delivered a positive return whilst corporate bond indices fell as the diversification of strategies helped to create a more stable return profile during an eventful period. After a highly complacent 2017, markets appear to have begun to reappraise aspects of risk this year. A sharp sell off was seen in February across equities and bonds and although sentiment improved the later part of the second quarter saw tensions rise again; risk aversion increased in credit whilst equities moved higher with greater dispersion across equity indices as investors responded to the risk created by developments in Italian politics, increased global trade tensions and hurdles in the Brexit negotiations.

In this nervous environment, core Sovereign yields continue to find support around historical lows whilst credit spreads have edged wider partly due to an increase in issuance into a less receptive marketplace. With the 'buy the dip' mentality of last year losing conviction, the extra premium corporates are having to pay when issuing new bonds relative to existing ones, to ensure deals are taken up, has seen us participate in some new deals for the first time in a while with large issuers such as BP, Toyota and Verizon offering spreads of around 20-30 basis points more than existing issues on their new deals. This supply-demand dynamic could find itself tested further as the ECB ends its bond buyback programme, which has artificially supported corporate instruments, at the end of the year. Meanwhile increased issuance of U.S treasuries and the Bank of Japan's slight monetary policy adjustments could create additional headwinds.

Opportunities outside of the bond market continue to look more attractive from a risk-return perspective. We continue adopting a more absolute return approach and are comfortable maintaining positioning which is away from bond index exposures. Examples include a new position in investment company, BioPharma Credit, who provide capital to the life sciences industry and have investments secured by royalties and Pershing Square which traded on an attractive discount to Net Asset Value.

The weighting of the Income Portfolio is at the lower end of the typical range, whilst unconvincing bond valuations persist, although we continue to add value through both bond management and alternative strategies.

Paul Smith

Premier Fund Managers Limited

Schedule of Principal Investments

as at 30 June 2018

Position	Company	Market Value £'000	Percentage of Portfolio	Percentage of Total Assets 2018
Smaller Companies Portfolio				
1	Macfarlane Group plc	3,292,326	3.78	3.06
2	Somero Enterprises Inc	3,138,485	3.60	2.92
3	Polar Capital Holdings plc	2,870,882	3.30	2.67
4	DiscoverIE Group plc	2,561,384	2.94	2.38
5	Secure Trust Bank plc	2,311,400	2.65	2.15
6	Mucklow A&J Group plc	2,200,000	2.53	2.04
7	Clipper Logistics plc	2,188,370	2.51	2.03
8	Numis Corporation plc	2,181,584	2.50	2.03
9	Severfield plc	2,059,200	2.36	1.91
10	Marshalls plc	2,040,000	2.34	1.90
11	Wincanton plc	2,040,000	2.34	1.90
12	Amino Technologies plc	2,020,000	2.32	1.88
13	Vesuvius plc	2,016,694	2.31	1.87
14	James Halstead plc	2,010,000	2.31	1.87
15	Hill & Smith Holdings plc	1,967,321	2.26	1.83
16	FDM Group Holdings plc	1,958,000	2.25	1.82
17	Palace Capital plc	1,889,171	2.17	1.76
18	Warpaint London plc	1,880,000	2.16	1.75
19	Dairy Crest Group plc	1,865,800	2.14	1.73
20	Primary Health Properties plc	1,862,400	2.14	1.73
		44,353,017	50.91	41.23
Income Portfolio				
1	APQ Global Limited 3.5% CULS 30/09/24	956,748	5.85	0.89
2	United Kingdom 1 1/4% IL Treasury 22/11/27	571,812	3.50	0.53
3	US. Tsy. Infl. 0.875% 15/2/2047	570,043	3.49	0.53
4	St Modwen Properties 2.875% Convertible 06/03/2019	502,500	3.07	0.47
5	J Sainsbury plc 6.5% perp	480,111	2.94	0.45
6	British Land White plc	480,000	2.94	0.45
7	RM Zdp plc	450,000	2.75	0.42
8	Helical Bar Jersey 4.00% 2019 convertible	401,500	2.46	0.37
9	Aberdeen Asian Smaller Companies Investment Trust plc	400,000	2.45	0.37
10	Investec Bank 9.625% 2022	398,012	2.43	0.37
11	Burford Capital 6.5% 2022	379,698	2.32	0.35
12	ITV 2.125% 2022	371,199	2.27	0.35
13	Tesco Personal Finance 1.00% 2019	350,745	2.15	0.33
14	Workspace Group Plc 6.00% 09/10/19	332,313	2.03	0.31
15	Pershing Square Holdings Ltd	317,182	1.94	0.29
16	Biopharma Credit plc	301,307	1.84	0.28
17	BP Capital Markets plc 2.274% 3/7/26	300,231	1.84	0.28
18	Barclays plc 8% Perp - 20	276,270	1.69	0.26
19	BAA Fndg. 7.075%	273,259	1.67	0.25
20	Supermarket Income REIT plc	272,860	1.67	0.25
		8,385,790	51.30	7.80
TOTAL				

Schedule of Principal Investments (continued)

as at 31 December 2017

Position	Company	Market Value £'000	Percentage of Portfolio	Percentage of Total Assets 2017
Smaller Companies Portfolio				
1	DiscoverIE Group plc	3,275,287	3.75	3.01
2	Macfarlane Group plc	2,926,000	3.35	2.69
3	Somero Enterprises Inc	2,832,000	3.24	2.60
4	Warpaint London plc	2,793,283	3.19	2.57
5	Clipper Logistics plc	2,625,000	3.00	2.41
6	Conviviality Retail plc	2,508,868	2.87	2.31
7	Numis Corporation plc	2,448,750	2.80	2.25
8	FDM Group Holdings plc	2,240,400	2.56	2.06
9	Secure Trust Bank plc	2,220,000	2.54	2.04
10	Park Group plc	2,156,250	2.47	1.98
11	Polar Capital Holdings plc	2,008,125	2.30	1.85
12	Mucklow A&J Group plc	2,004,000	2.29	1.84
13	Midwich Group plc	1,953,000	2.23	1.79
14	Telecom Plus plc	1,916,800	2.19	1.76
15	Vesuvius plc	1,898,000	2.17	1.74
16	Primary Health Properties plc	1,864,000	2.13	1.71
17	Wincanton plc	1,864,000	2.13	1.71
18	Tyman plc	1,806,250	2.07	1.66
19	Flowtech Fluidpower plc	1,793,000	2.05	1.65
20	Alumasc Group plc	1,782,000	2.04	1.64
		44,915,013	51.37	41.27
Income Portfolio				
1	Bank of America 7.75% 30/04/18	1,022,262	6.44	0.94
2	Apq Global Limited 3.5% CULS 30/09/24	537,499	3.39	0.49
3	United Kingdom 2.50% IL Treasury 2020	510,779	3.22	0.47
4	St Modwen Properties 2.875% Convertible 06/03/2019	501,875	3.16	0.46
5	HSBC 6% 29/03/2040	413,250	2.61	0.38
6	EJF Investments Ltd	400,000	2.52	0.37
7	Burford Capital 6.5% 2022	385,330	2.43	0.35
8	Itv 2.125% 2022	372,534	2.35	0.34
9	Tesco Personal Finance 1.00% 2019	352,527	2.22	0.32
10	EDF 6.125% 02/06/2034	342,401	2.16	0.31
11	DW Catalyst Fund Limited	321,974	2.03	0.30
12	Heathrow 7.075% 04/08/2028	284,258	1.79	0.26
13	Spirit Issuer 5.472% 28/12/2034	275,000	1.73	0.25
14	Aviva 5.9021% Perp - 2020	271,000	1.71	0.25
15	Telefonica Emisiones 5.375% 02/02/18	270,994	1.71	0.25
16	Vodafone Group Plc 8.125% 26/11/18	266,040	1.68	0.25
17	Fidelity International 7.125% 2024	251,358	1.58	0.23
18	Northumbrian Water Finance plc 6.875% 2023	249,625	1.57	0.23
19	Investec Bank 9.625% 2022	249,414	1.57	0.23
20	Firstgroup plc 8.75% 2021	244,042	1.54	0.22
	TOTAL	7,522,162	47.41	6.90

Condensed Statement of Comprehensive Income (unaudited)

for the period ended 30 June 2018

	Notes	Revenue GBP	Capital GBP	Period ended 30 June 2018 Total GBP	Period ended 30 June 2017 Total GBP
Net (losses)/gains on financial assets designated as at fair value through profit or loss	8	–	(1,018,734)	(1,018,734)	11,293,640
(Losses)/gains on derivative financial instruments		–	(85,701)	(85,701)	57,138
Investment income	3	1,913,194	–	1,913,194	1,789,702
Total income and gains		1,913,194	(1,104,435)	808,759	13,140,480
Expenses	4	(273,635)	(337,307)	(610,942)	(1,180,157)
Return on ordinary activities before finance costs and taxation		1,639,559	(1,441,742)	197,817	11,960,323
Interest payable and similar charges	5	–	(576,809)	(576,809)	(771,881)
(Loss)/return on ordinary activities before taxation		1,639,559	(2,018,551)	(378,992)	11,188,442
Taxation on ordinary activities		–	–	–	–
Other comprehensive income		–	–	–	–
Total comprehensive (loss)/income for the period attributable to ordinary shareholders		1,639,559	(2,018,551)	(378,992)	11,188,442
		Pence	Pence	Pence	Pence
Return/(loss) per Ordinary Share	7	10.30	(12.68)	(2.38)	70.30
Dividend per Ordinary Share	6	9.90	–	9.90	9.00
Return per ZDP Share	7	–	2.70	2.70	3.63

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

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

No operations were acquired or discontinued in the period.

The notes on pages 19 to 31 form an integral part of these financial statements.

Condensed Statement of Financial Position (unaudited)

as at 30 June 2018

	Notes	30 June 2018 GBP	31 Dec 2017 GBP
NON-CURRENT ASSETS			
Financial assets designated as at fair value through profit or loss	8	103,469,799	103,298,819
CURRENT ASSETS			
Receivables	9	662,943	534,936
Cash and cash equivalents		3,441,970	4,976,255
Derivative financial instruments		18,746	29,577
		4,123,659	5,540,768
TOTAL ASSETS		107,593,458	108,839,587
CURRENT LIABILITIES			
Derivative financial instruments		212,357	972
Payables – due within one year	10	755,622	835,202
		967,979	836,174
NON-CURRENT LIABILITIES			
ZDP Shares	11	31,122,020	30,545,210
TOTAL LIABILITIES		32,089,999	31,381,384
NET ASSETS		75,503,459	77,458,203
EQUITY			
Share capital and premium	12	27,633,383	27,633,383
Revenue reserve		2,950,679	2,886,872
Capital reserve		39,487,635	41,506,186
Other reserves	13	5,431,762	5,431,762
TOTAL EQUITY		75,503,459	77,458,203
		Pence	Pence
Net asset value per Ordinary Share (per Articles)		474.53	486.84
Net asset value per Ordinary Share (per IFRS)		474.37	486.65
Net asset value per ZDP Share (per Articles)		145.54	142.83
Net asset value per ZDP Share (per IFRS)		145.67	142.97

The financial statements on pages 15 to 31 were approved by the Board of Directors and authorised for issue on 20 August 2018 and signed on its behalf by:

Helen Green
Chairman

David Warr
Director

The notes on pages 19 to 31 form an integral part of these financial statements.

Condensed Statement of Cash Flows (unaudited)

for the period ended 30 June 2018

	Notes	Period ended 30 June 2018 GBP	Period ended 30 June 2017 GBP
Operating activities			
Return on ordinary activities before taxation		(378,992)	11,188,442
Net losses/(gains) on financial assets designated as at fair value through profit or loss	8	1,018,734	(11,293,640)
Investment income	3	(1,913,194)	(1,789,702)
Interest expense	5	576,809	771,881
Decrease in derivative financial assets		10,831	91,470
Increase in derivative financial liabilities		211,385	19,955
(Decrease)/increase in payables and appropriations excluding amount due to brokers	10	(616,801)	463,859
Increase in receivables excluding accrued investment income and due from brokers	9	(28,981)	(7,540)
Net cash flow used in operating activities before investment income		(1,120,209)	(555,275)
Investment income received		2,021,202	1,797,522
Net cash flow from operating activities before taxation		900,993	1,242,247
Tax paid		-	-
Net cash flow from operating activities		900,993	1,242,247
Investing activities			
Purchase of financial assets designated at fair value through profit or loss		(16,988,808)	(19,645,029)
Sale of financial assets designated at fair value through profit or loss		16,129,282	20,329,051
Net cash flow (used in)/from investing activities		(859,526)	684,022
Financing activities			
Equity dividends paid	6	(1,575,752)	(1,432,502)
Issue of Ordinary Shares	12	-	25,494
ZDP shares redeemed	11	-	(2,531,141)
ZDP Shares issued	11	-	2,579,090
Cost of issue of ZDP Shares		-	(370,479)
Net cash flow used in financing activities		(1,575,752)	(1,729,538)
(Decrease)/increase in cash and cash equivalents		(1,534,285)	196,731
Cash and cash equivalents at beginning of period		4,976,255	5,071,818
Cash and cash equivalents at end of period		3,441,970	5,268,549

The notes on pages 19 to 31 form an integral part of these financial statements.

Condensed Statement of Changes in Equity (unaudited)

as at 30 June 2018

	Share Capital and Premium 30 June 2018 GBP	Revenue Reserve 30 June 2018 GBP	Capital Reserve 30 June 2018 GBP	Other Reserves 30 June 2018 GBP	Total 30 June 2018 GBP
Balances as at 1 January 2018	27,633,383	2,886,872	41,506,186	5,431,762	77,458,203
Total comprehensive loss for the period attributable to ordinary shareholders	–	1,639,559	(2,018,551)	–	(378,992)
Dividends	–	(1,575,752)	–	–	(1,575,752)
Balances as at 30 June 2018	27,633,383	2,950,679	39,487,635	5,431,762	75,503,459

As at 30 June 2017

	Share Capital and Premium 30 June 2017 GBP	Revenue Reserve 30 June 2017 GBP	Capital Reserve 30 June 2017 GBP	Other Reserves 30 June 2017 GBP	Total 30 June 2017 GBP
Balances as at 1 January 2017	27,607,889	2,511,830	29,236,469	5,431,762	64,787,950
Total comprehensive income for the period attributable to ordinary shareholders	–	1,450,010	9,738,432	–	11,188,442
Dividends	–	(1,432,502)	–	–	(1,432,502)
Issue of Ordinary Shares	25,494	–	–	–	25,494
Balances as at 30 June 2017	27,633,383	2,529,338	38,974,901	5,431,762	74,569,384

The notes on pages 19 to 31 form an integral part of the financial statements.

Notes to the Condensed Financial Statements (unaudited)

for the period ended 30 June 2018

1 ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements for the six months ended 30 June 2018 have been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union, the AIC's SORP (as revised in January 2017) and applicable legal and regulatory requirements of the Companies (Guernsey) Law, 2008.

The Unaudited Condensed Interim Financial Statements do not include all the information and disclosures in the Annual Financial Statements and should be read in conjunction with the Company's Annual Report and Audited Financial Statements for the year ended 31 December 2017.

The accounting policies and methods of computation followed in this Interim Unaudited Condensed set of Financial Statements are consistent with those of the latest Annual Audited Financial Statement for the year ended 31 December 2017 which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

(b) Presentation of information

The Unaudited Condensed Interim Financial Statements have been prepared on a going concern basis under the historical cost convention adjusted to take account of the revaluation of the Company's investments at fair value.

In order to better reflect the activities of an Investment Company and in accordance with the guidance issued by the Association of the Investment Companies, supplementary information which analyses the Statement of Comprehensive Income between items of capital and revenue nature has been presented within the Statement of Comprehensive Income.

2 OPERATING SEGMENTS

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

Notes to the Condensed Financial Statements (unaudited) (continued)

for the period ended 30 June 2018

2 OPERATING SEGMENTS (continued)

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

Segment	Investment objectives and principal investments products
Income Portfolio	To maximise income through investments in sterling denominated fixed interest securities including corporate bonds, preference and permanent interest bearing shares, convertibles, reverse convertibles, debentures and other similar securities.
Smaller Companies Portfolio	To maximise income and capital growth through investments in smaller capitalised UK companies.

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

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

	Income Portfolio GBP	Smaller Companies Portfolio GBP	Unallocated GBP	Total GBP
30 June 2018				
External revenues:				
Net gains/(losses) on financial assets designated as at fair value through profit or loss	952,642	(1,971,376)	–	(1,018,734)
Losses on derivative financial instruments	(85,701)	–	–	(85,701)
Dividend income	27,435	1,655,437	–	1,682,872
Bond income	230,322	–	–	230,322
Total income and gains/(losses)	1,124,698	(315,939)	–	808,759
Expenses	–	–	(610,942)	(610,942)
Interest payable and similar charges	–	–	(576,809)	(576,809)
Total comprehensive income/(loss) for the period attributable to shareholders	1,124,698	(315,939)	(1,187,751)	(378,992)

Notes to the Condensed Financial Statements (unaudited) (continued)

for the period ended 30 June 2018

2 OPERATING SEGMENTS (continued)

	Income Portfolio GBP	Smaller Companies Portfolio GBP	Unallocated GBP	Total GBP
30 June 2018				
Financial assets designated as at fair value through profit or loss	16,349,970	87,119,829	–	103,469,799
Receivables	345,833	317,110	–	662,943
Derivative financial instruments	18,746	–	–	18,746
Cash and cash equivalents	1,713,756	1,728,214	–	3,441,970
Total assets	18,428,305	89,165,153	–	107,593,458
Derivative financial instruments	212,357	–	–	212,357
Payables	–	–	755,622	755,622
Total current liabilities	212,357	–	755,622	967,979

	Income Portfolio GBP	Smaller Companies Portfolio GBP	Unallocated GBP	Total GBP
30 June 2017				
External revenues:				
Net gains on financial assets designated as at fair value through profit or loss	735,920	10,557,720	–	11,293,640
Gains on derivative financial instruments	57,138	–	–	57,138
Bank interest	–	–	1,399	1,399
Dividend income	80,034	1,525,770	–	1,605,804
Bond income	182,499	–	–	182,499
Total income and gains	1,055,591	12,083,490	1,399	13,140,480
Expenses	–	–	(1,180,157)	(1,180,157)
Interest payable and similar charges	–	–	(771,881)	(771,881)
Total comprehensive income/(loss) for the period attributable to shareholders	1,055,591	12,083,490	(1,950,639)	11,188,442

Notes to the Condensed Financial Statements (unaudited) (continued)

for the period ended 30 June 2018

2 OPERATING SEGMENTS (continued)

	Income Portfolio GBP	Smaller Companies Portfolio GBP	Unallocated GBP	Total GBP
31 December 2017				
Financial assets designated as at fair value through profit or loss	15,862,279	87,436,540	–	103,298,819
Receivables	277,100	257,836	–	534,936
Derivative financial instruments	29,577	–	–	29,577
Cash and cash equivalents	2,058,116	2,918,139	–	4,976,255
Total assets	18,227,072	90,612,515	–	108,839,587
Derivative financial instruments	972	–	–	972
Payables	–	–	835,202	835,202
Total current liabilities	972	–	835,202	836,174

Geographical information

In presenting information on the basis of geographical segments, segment revenue and segment assets are based on the domicile countries of the investees and counterparties to derivative transactions. The table below excludes net gains on financial assets designated as at fair value through profit or loss and gains or losses on derivative instruments.

	UK GBP	Guernsey GBP	Jersey GBP	Other Europe GBP	Rest of the world GBP	Total GBP
30 June 2018						
External revenues						
Total Revenue	1,572,609	73,431	–	70,626	196,528	1,913,194
30 June 2017						
External revenues						
Total Revenue	1,512,348	76,737	–	38,426	162,191	1,789,702

The Company did not hold any non-current assets during the period other than financial instruments (2017: £ Nil).

Major customers

The Company regards its shareholders as customers. The Company's only shareholder with a holding greater than 10% at the period end was HSBC Issuer Services Common Depository Nominee (UK) Limited (2017: HSBC Issuer Services Common Depository Nominee (UK) Limited).

Notes to the Condensed Financial Statements (unaudited) (continued)

for the period ended 30 June 2018

3 INVESTMENT INCOME

	Period ended 30 June 2018 GBP	Period ended 30 June 2017 GBP
Bank interest	–	1,399
Dividend income	1,682,872	1,605,804
Bond income	230,322	182,499
	1,913,194	1,789,702

4 EXPENSES

	Period ended 30 June 2018			Period ended 30 June 2017		
	Revenue GBP	Capital GBP	Total GBP	Revenue GBP	Capital GBP	Total GBP
Manager's fee*	92,537	277,611	370,148	89,244	267,731	356,975
Administrator's fee***	45,108	–	45,108	46,102	–	46,102
Registrar's fee	14,532	–	14,532	5,895	–	5,895
Directors' fees	48,154	–	48,154	46,578	–	46,578
Custody fees	301	–	301	19,946	–	19,946
Audit fees	15,334	–	15,334	14,814	–	14,814
Directors' and Officers' insurance	3,605	–	3,605	3,897	–	3,897
Annual fees	6,370	–	6,370	17,811	–	17,811
AIFMD Fees	9,515	–	9,515	–	–	–
Performance fee**	–	–	–	–	469,050	469,050
Commissions and charges paid	–	59,696	59,696	–	103,684	103,684
Legal and professional fees	14,667	–	14,667	8,691	–	8,691
Broker fees	19,050	–	19,050	19,001	–	19,001
Bank interest	596	–	596	–	–	–
Sundry costs	11,004	–	11,004	6,046	–	6,046
Loss/(gain) on foreign exchange	(7,138)	–	(7,138)	61,667	–	61,667
	273,635	337,307	610,942	339,692	840,465	1,180,157

Manager's fee

* The Company has entered into a Management Agreement with Premier Asset Management (Guernsey) Limited, a wholly-owned, Guernsey incorporated subsidiary of Premier Asset Management Limited. The Investment Manager receives a management fee of 0.7% per annum of total assets (subject to a minimum of £100,000) calculated monthly and payable quarterly in arrears, out of which it pays fees to the Investment Advisers. The Investment Manager is also paid a shareholder communication and support fee, currently £3,100 for the twelve months from 1 May 2017 to 30 June 2018. Please refer to Note 1(h) in the Company's Annual Report and Audited Financial Statements for the year ended 31 December 2017 for details on how expenses are charged to the capital reserve and revenue account. The Management Agreement may be terminated by either party on 12 months' written notice. The Company has entered into an agreement with the Investment Manager for the provision of AIFM reporting services for a fee of £19,450 per annum from 1 September 2017.

Notes to the Condensed Financial Statements (unaudited) (continued)

for the period ended 30 June 2018

4 EXPENSES (continued)

Performance fee

**The Investment Manager is also potentially entitled to a performance fee at the year end equal to 15% of any excess of the NAV per Ordinary Share (together with any dividends paid) over the higher of the first benchmark or the second benchmark. The first benchmark is the NAV per share immediately following the tender in January 2007 increasing at 10% per annum compound. The second benchmark is the highest NAV per Ordinary Share as of the last calculation day in any preceding financial period commencing after completion of the tender in January 2007 in respect of which a performance fee has been paid compounded at 10% per annum. A performance fee amounting to £Nil was accrued for the period ended 30 June 2018 (31 Dec 2017: 559,967).

Administrator's fee

***The Company entered into an Administration Agreement with Northern Trust International Fund Administration Services (Guernsey) Limited on 1 April 2015. The Company shall pay the Administrator a fee of 12 basis points per annum on the net assets between £0 – £100 million, 10 basis points per annum on the net assets between £100 million – £150 million and 8 basis points per annum on the net assets over £150 million subject to a minimum of £7,000 per month. The Administration Agreement may be terminated by either party on ninety days notice.

5 INTEREST PAYABLE AND SIMILAR CHARGES

	Period ended 30 June 2018			Period ended 30 June 2017		
	Revenue GBP	Capital GBP	Total GBP	Revenue GBP	Capital GBP	Total GBP
Appropriation in respect of ZDP shares	–	576,809	576,809	–	611,402	611,402
ZDP issue costs (2022)	–	–	–	–	160,479	160,479
	–	576,809	576,809	–	771,881	771,881

Notes to the Condensed Financial Statements (unaudited) (continued)

for the period ended 30 June 2018

6 DIVIDENDS IN RESPECT OF ORDINARY SHARES

	Period ended 30 June 2018	
	GBP	Pence per share
First interim payment	787,876	4.95
Second interim payment	787,876	4.95
	1,575,752	9.90

	Period ended 30 June 2017	
	GBP	Pence per share
First interim payment	716,251	4.50
Second interim payment	716,251	4.50
	1,432,502	9.00

Further details on the Company's dividend policy can be found on page 2.

7 EARNINGS PER SHARE

Ordinary Shares

The total loss per Ordinary Share (per IFRS) is based on the total loss on ordinary activities for the period attributable to Ordinary shareholders of £378,992 (30 June 2017: gain of £11,188,442) and on 15,916,687 (30 June 2017: 15,915,655) shares, being the weighted average number of shares in issue during the period. There are no dilutive instruments and therefore basic and diluted gains per share are identical.

The revenue return per Ordinary Share (per IFRS) is based on the revenue return on activities for the period attributable to Ordinary shareholders of £1,639,559 (30 June 2017: £1,450,010) and on 15,916,687 (30 June 2017: 15,915,655) shares, being the weighted average number of shares in issue during the period. There are no dilutive instruments and therefore basic and diluted gains per share are identical.

The capital loss per Ordinary Share (per IFRS) is based on the capital loss on ordinary activities for the period attributable to Ordinary shareholders of £2,018,551 (30 June 2017: gain of £9,738,432) and on 15,916,687 (30 June 2017: 15,915,655) shares, being the weighted average number of shares in issue during the period. There are no dilutive instruments and therefore basic and diluted gains per share are identical.

ZDP shares

The return per ZDP Share (per IFRS) is based on the appropriation in respect of ZDP Shares and the amortisation of ZDP Share issue costs totaling £576,809 (30 June 2017: £771,881) and on 21,365,221 (30 June 2017: 21,245,847) shares, being the weighted average number of ZDP Shares in issue during the period.

Notes to the Condensed Financial Statements (unaudited) (continued)

for the period ended 30 June 2018

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

	30 June 2018 GBP	31 Dec 2017 GBP
INVESTMENTS		
Opening portfolio cost	76,561,591	69,405,067
Purchases at cost	17,526,029	31,758,253
Sales		
– proceeds	(16,336,315)	(30,490,860)
– realised gains on sales	5,401,799	8,328,032
– realised losses on sales	(1,226,099)	(2,438,901)
Closing book cost	81,927,005	76,561,591
Unrealised appreciation on investments	26,629,370	29,091,144
Unrealised depreciation on investments	(5,086,576)	(2,353,916)
Fair value	103,469,799	103,298,819
Realised gains on sales	5,401,799	8,328,032
Realised losses on sales	(1,226,099)	(2,438,901)
Increase/(decrease) in unrealised appreciation on investments	(2,461,774)	8,393,589
(Decrease)/increase in unrealised depreciation on investments	(2,732,660)	576,444
Net (losses)/gains on financial assets designated as at fair value through profit or loss	(1,018,734)	14,859,164

As at 30 June 2018, the closing fair value of investments comprises £87,119,829 (31 Dec 2017: £87,436,540) of Smaller Companies Portfolio, £16,355,562 (31 Dec 2017: £15,862,279) of Income Portfolio. The Market value of open Futures totalled £(5,592) (31 Dec 2017: £10,387).

IFRS 13 requires the fair value of investments to be disclosed by the source of inputs using a three-level hierarchy as detailed below:

Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and

Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Notes to the Condensed Financial Statements (unaudited) (continued)

for the period ended 30 June 2018

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

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

Financial assets designated as at fair value through profit or loss

	30 June 2018 Market value %	30 June 2018 Market value GBP	31 Dec 2017 Market value %	31 Dec 2017 Market value GBP
Level 1	86.85	89,861,827	85.93	88,768,979
Level 2	13.15	13,607,972	13.75	14,207,406
Level 3	–	–	0.32	322,434
Total	100.00	103,469,799	100.00	103,298,819

Bonds and structured investments are priced by reference to market quotations which incorporate assessment of yield, maturity and the instrument's terms and conditions.

The following table is a reconciliation of investments the Company held during the period ended 30 June 2018 and year ended 31 December 2017 at fair value using unobservable inputs (Level 3):

	30 June 2018 Market value GBP	31 Dec 2017 Market value GBP
Balance at start period/year end	322,434	372
Transfer from Level 1 to Level 3	–	321,974
Unrealised gain/(loss) on investments	(322,434)	88
Balance at end period/year end	–	322,434

For investments categorised in Level 3 as at 30 June 2018, the below details the valuation methodologies used:

Petromena AS 10.85% 2014 – The bonds are in default and are priced from a Bloomberg bond valuation model.

Silverdell plc – The stock is suspended and is valued at zero. The Investment Adviser does not expect any return of capital.

DW Catalyst Fund – The stock is suspended as the company has been placed in liquidation, following a vote by shareholders, to enable its assets to be sold and the proceeds distributed to shareholders. At 31 December 2017 two distributions had been made with at least two further distributions expected.

The investment DW Catalyst is valued by reference to the net asset value estimate announced by the company's directors adjusted for distributions already made and then applying a discount to allow for realization costs. The discount selected was 7% giving a value for the holding of £321,974. If the discount level adopted was increased to 9% this would result in a reduction in Acorn's year end NAV per share of 0.0089% and if the discount adopted was reduced to 5% this would result in an increase in Acorn's year end NAV per share of 0.0089%.

Notes to the Condensed Financial Statements (unaudited) (continued)

for the period ended 30 June 2018

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

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

	30 June 2018 Market value %	30 June 2018 Market value GBP	31 Dec 2017 Market value %	31 Dec 2017 Market value GBP
Level 2 derivative financial assets	100.00	18,746	100.00	29,577
Level 2 derivative financial liabilities	100.00	212,357	100.00	972

It is the Company's policy to recognise all the transfers into the levels and transfers out of the levels at the end of the reporting year. Transfers into each level shall be disclosed and discussed separately from transfer out of each level.

There was a transfer from Level 1 to Level 3 during the period for Conviviality Plc with a Nil market value.

There was a transfer from Level 1 to Level 2 during the period for Natwest 9% Pref Stock.

The derivative financial instruments held by the Company have been classified as Level 2. This is in accordance with the fair value hierarchy. The Company uses widely recognised valuation models for determining fair value of derivative financial instruments that use only observable market data and require little management judgement and estimation.

9 RECEIVABLES

	30 June 2018 GBP	31 Dec 2017 GBP
Due from brokers	207,034	–
Prepayments	37,084	8,103
Accrued investment income	418,825	526,833
	662,943	534,936

10 PAYABLES

	30 June 2018 GBP	31 Dec 2017 GBP
Accrued expenses	30,404	86,979
Amounts due to brokers	537,221	–
Trade creditors	187,997	188,256
Performance fee	–	559,967
	755,622	835,202

Notes to the Condensed Financial Statements (unaudited) (continued)

for the period ended 30 June 2018

11 ZDP SHARES

	30 June 2018 GBP	31 Dec 2017 GBP
ZDP Share entitlement	31,122,020	30,545,210
The above entitlement comprises the following:		
21,357,174 ZDP Shares issued to date up to 31 Dec 2016	–	22,989,154
21,365,221 ZDP Shares issued to date up to 31 Dec 2017	23,037,103	–
1,842,207 ZDP Shares issued during the year up to 31 December 2017	–	2,579,090
1,834,160 ZDP Shares redeemed during the year up to 31 December 2017	–	(2,531,141)
ZDP Premium	(26,609)	(30,206)
Appropriation in respect of ZDP Shares	8,084,917	7,508,107
ZDP value (calculated in accordance with the Articles)	31,095,411	30,515,004
ZDP issue costs	–	–
Issue costs amortised	–	–
Add back ZDP Premium	26,609	30,206
ZDP value (calculated in accordance with IFRS)	31,122,020	30,545,210

The fair value of the ZDP Shares as at 30 June 2018 was £32,261,483 (31 December 2017: £32,314,897).

The ZDP shares are classified under Level 1 based on unadjusted quoted prices in active markets. Since valuations are based on quoted prices that are readily and regularly available in an active market, the valuation does not entail a significant degree of judgement (2017: level 1)

A Continuation Offer was made to ZDP Shareholders whereby such holders were given an opportunity to either receive their 2017 Final Capital Entitlement of 138p or to continue their investment in the existing ZDP Shares.

Following the proposals, 19,523,014 ZDP Shares were elected for the Continuation Offer with a further 1,842,207 New ZDP Shares being issued through an Initial Placing at 140.0p which represented a premium of 1.4% to the opening NAV per New ZDP Share.

1,834,160 ZDP Shares were elected for Redemption at their 2017 Final Capital Entitlement of 138p.

ZDP Shares carry no entitlement to income distributions to be made by the Company. The ZDP Shares will not pay dividends but have a final capital entitlement at the end of their life on 28 February 2022 of 167.2 pence following the extension of the life of the existing ZDP Shares from 31 January 2017.

It should be noted that the predetermined capital entitlement of a ZDP Share is not guaranteed and is dependent upon the Company's gross assets being sufficient on 28 February 2022 to meet the final capital entitlement of ZDP Shares.

Under the Articles of Incorporation, the Company is obliged to redeem all of the ZDP Shares on 28 February 2022 (if such redemption has not already been effected).

The number of authorised ZDP Shares is 50,000,000. The number of issued ZDP Shares is 21,365,221 (31 Dec 2017: 21,365,221). The non-amortisation of the ZDP Shares in line with the Articles has the effect of increasing the NAV per Ordinary Share by 0.17 pence.

Notes to the Condensed Financial Statements (unaudited) (continued)

for the period ended 30 June 2018

12 SHARE CAPITAL AND PREMIUM

Authorised

	GBP
Ordinary Shares of 1p each	unlimited

Issued

	Number of Shares
Number of shares in issue at 31 December 2017	15,916,687
Issue of shares	–
Number of shares in issue at 30 June 2018	15,916,687
Issued and fully paid capital as at 30 June 2018	£197,106

	Share Capital 30 June 2018 GBP	Share Premium 30 June 2018 GBP	Total 30 June 2018 GBP
Opening share capital and premium	197,106	27,436,277	27,633,383
Closing share capital and premium	197,106	27,436,277	27,633,383

The Ordinary Shares (excluding treasury shares) are entitled to participate in all dividends and distributions of the Company. On a winding-up holders of Ordinary Shares are entitled to participate in the distribution and the holders of Ordinary Shares are entitled to receive notice of and attend and vote at all general meetings of the Company.

The issue and fully paid capital as at 30 June 2018 was £197,106 (31 Dec 2017: £197,106).

Notes to the Condensed Financial Statements (unaudited) (continued)

for the period ended 30 June 2018

13 OTHER RESERVES

TREASURY RESERVE

	30 June 2018 GBP	31 Dec 2017 GBP
Balance as at 1 January	(4,568,238)	(4,568,238)
Balance as at 30 June	(4,568,238)	(4,568,238)

The other reserves presented on the Statement of Financial Position comprise the treasury reserve of (£4,568,238) and special reserve of £10,000,000 totalling £5,431,762.

	30 June 2018 No. Shares	31 Dec 2017 No. Shares
Balance as at 1 January	1,275,972	1,275,972
Balance as at 30 June	1,275,972	1,275,972

A Special reserve of £10,000,000 was created on the cancellation of part of the Company's Share premium account.

14 RELATED PARTIES

Premier Asset Management (Guernsey) Limited is the Company's Investment Manager and operates under the terms of the Management Agreement in force which delegates its authority over the Company's investment portfolios.

£370,148 (30 June 2017: £356,975) of costs were incurred by the Company with this related party in the period, of which £187,997 (31 Dec 2017: £188,256) was due to this related party as at 30 June 2018.

During the period ended 30 June 2018, £Nil (30 June 2017: £469,050) was charged as performance fees of which, £Nil (31 Dec 2017: £559,967) remained payable at period end.

The directors' remuneration is disclosed in Note 4.

David Warr holds 63,000 (31 Dec 2017: 63,000) Ordinary Shares in the capital of the Company, which represented an interest of 0.40% (31 Dec 2017: 0.40%) of the Company's Ordinary Shares in issue as at 30 June 2018.

15 SUBSEQUENT EVENTS

These Financial Statements were approved for issue by the Board on 20 August 2018. Subsequent events have been evaluated until this date.

No significant events have occurred after the statement of financial position date in respect of the Company that may be deemed relevant to the accuracy of these Financial Statements.

Directors, Advisers and Contacts

Directors

Helen Foster Green (Chairman)
John Nigel Ward
David John Warr

Shareholders are welcome to contact the Chairman directly by emailing her at: Acorn_Income_Fund Limited@ntrs.com

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Registrar

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Email: registrars@anson-group.com

Company's Registered Office

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Company Details

Company Number: 34778
GIIN Number: CY0IXM.99999.SL.831

Ordinary Shares
ISIN: GB0004829437
Ticker: AIF

ZDP Shares
ISIN: GG00BYMS7X48
Ticker: AIFZ

