

**RIGHTS
AND
ISSUES
INVESTMENT
TRUST
P.L.C.**

FINAL
REPORT
AND
ACCOUNTS
2006

A SELF MANAGED INVESTMENT TRUST

44

CAPITAL STRUCTURE

CAPITAL	INCOME	PREFERENCE
<p>ISSUE 1,640,000 shares of 25p each.</p>	<p>ISSUE 2,460,000 shares of 25p each.</p>	<p>ISSUE 200,000 shares of £1 each.</p>
<p>INCOME ENTITLEMENT A supplementary dividend payment of 2.75% net on the capital reserves in complete units of £160,000 in excess of £382,536 and 1/31st of the distribution of all profits after the payment of preference and supplementary capital dividends by way of dividend.</p>	<p>INCOME ENTITLEMENT 30/31st of the distribution of all profits after the payment of preference and supplementary capital dividends by way of dividend.</p>	<p>INCOME ENTITLEMENT A dividend payment of 5.5p net per share on 2nd January.</p>
<p>CAPITAL ENTITLEMENT 42.2278p per share and 75% of the surplus assets on liquidation.</p>	<p>CAPITAL ENTITLEMENT 29.0650p per share and 25% of the surplus assets on liquidation.</p>	<p>CAPITAL ENTITLEMENT Repayment at par on liquidation.</p>
<p>VOTING One and a half votes per share on ordinary business and ten votes on a motion to liquidate.</p>	<p>VOTING One vote per share.</p>	<p>VOTING No vote normally for ordinary business and one vote per share on a motion to liquidate.</p>
<p>PRICE (at 31st December, 2006): 3358p.</p>	<p>PRICE (at 31st December, 2006): 1013p.</p>	
<p>GROSS YIELD 2.3%.</p>	<p>GROSS YIELD 4.8%.</p>	
<p>DISCOUNT 8.5%.</p>	<p>PREMIUM 10.0%.</p>	
<p>DESCRIPTION Capital shares are of interest to capital orientated investors wishing some income.</p>	<p>DESCRIPTION Income shares are of interest to income orientated investors wishing some participation in capital growth.</p>	<p>DESCRIPTION Preference shares provide an element of gearing to the other classes.</p>

THE TRUST MAY BE LIQUIDATED AT ANY TIME, BUT THE BOARD OF DIRECTORS HAVE INDICATED THAT IT IS NOT THEIR PRESENT INTENTION TO DO SO PRIOR TO 25TH JULY, 2011.

Note: The above is a summary of rights. For full information shareholders should refer to the Articles of Association.

RECENT RECORD

Year to 31st December	Net asset value per Capital Share	Net asset value per Capital Share (Index 1984 = 100)	Net dividend per Capital Share	Net asset value per Income share	Net dividend per Income Share	FT All Share Index	FT All Share Index (Rebased 1984 = 100)
1984	116.2p	100	2.0275p	48.5p	3.8p	592.94	100
1985	138.5p	119	2.0375p	53.0p	4.0p	681.88	115
1986	191.3p	165	2.3125p	64.0p	4.25p	835.48	141
1987	266.3p	229	2.8550p	80.6p	4.6p	870.22	147
1988	333.7p	287	3.9450p	96.3p	5.4p	926.59	156
1989	392.7p	338	5.5750p	109.9p	6.5p	1204.70	203
1990	301.7p	260	6.9375p	90.3p	7.5p	1032.60	174
1991	357.8p	308	8.1805p	102.2p	8.0p	1187.70	200
1992	392.5p	338	8.4638p	109.4p	8.3p	1363.79	230
1993	545.7p	470	9.0204p	144.9p	8.7p	1682.17	284
1994	583.2p	502	10.6651p	154.1p	9.4p	1521.44	257
1995	699.8p	602	12.0616p	182.7p	10.5p	1802.56	304
1996	780.1p	671	13.2598p	204.8p	13.0p	2013.66	340
1997	1074.6p	925	15.4378p†	274.9p	19.0p†	2411.00	407
1998	1199.9p	1033	23.4990p	304.3p	19.25p	2673.92	451
1999	1590.9p	1369	28.7591p	396.3p	22.5p	3242.06	547
2000	1895.4p	1631	31.3238p	467.9p	25.5p	2983.81	503
2001	1858.4p	1599	41.2323p	465.8p	30.5p	2523.88	426
2002	1640.6p	1412	48.6012p	417.1p	33.0p	1893.7	319
2003	2194.5p	1889	50.8226p	542.9p	34.5p	2207.4	372
2004	2573.1p	2214	50.9226p	633.3p	36.5p	2410.8	407
2005	2928.1p	2520	58.0982p	751.8p	40.5p	2847.0	480
2006	3669.8p	3158	68.1750p	920.3p	43.5p	3221.4	543

† = includes special dividend

DIRECTORS AND ADVISERS

DIRECTORS

S. H. J. A. KNOTT *Chairman*

P. M. ALLEN F.C.A.

B. A. BEVERLEY

D. M. BRAMWELL

S. J. B. KNOTT

REGISTERED OFFICE

No. 1 Poultry

London EC2R 8JR

Company registration number 736898

Registered in England

MANAGERS AND SECRETARIES

DISCRETIONARY UNIT FUND MANAGERS LTD

No. 1 Poultry

London EC2R 8JR

SOLICITORS

EVERSHEDS

Senator House

85 Queen Victoria Street

London EC4V 4JL

AUDITORS

BEGBIES CHETTLE AGAR

Epworth House

25 City Road

London EC1Y 1AR

REGISTRARS

CAPITA REGISTRARS LTD

Northern House

Woodsome Park

Fenay Bridge

Huddersfield HD8 0LA

BROKERS

ARBUTHNOT SECURITIES LTD

20 Ropemaker Street

London EC2Y 9HR

BANKERS

HSBC BANK PLC

Poultry and Princes Street

London EC2P 2BX

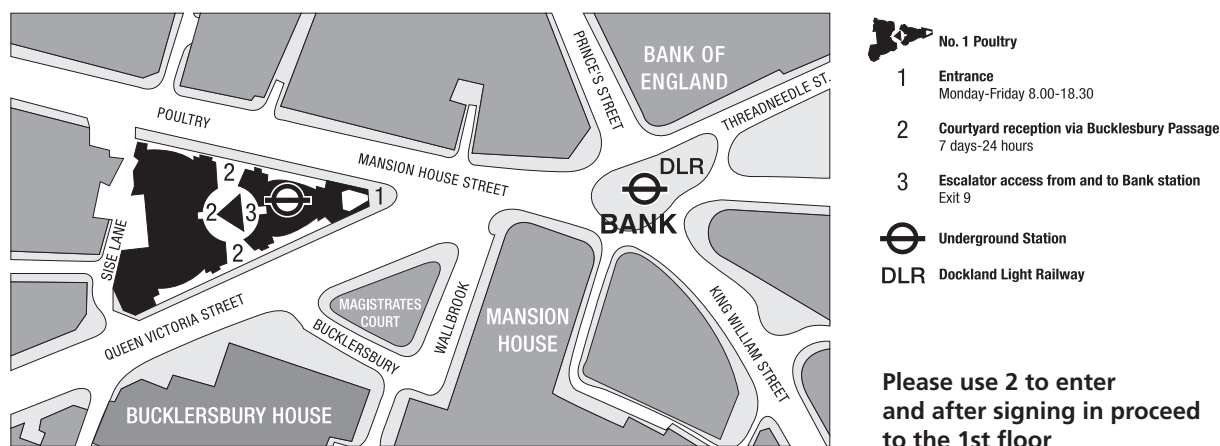
NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the FORTY FOURTH ANNUAL GENERAL MEETING of the members of RIGHTS AND ISSUES INVESTMENT TRUST PUBLIC LIMITED COMPANY will be held at No. 1 Poultry, London EC2R 8JR, on 22nd March, 2007, at 12 noon, for the following purposes:

1. To adopt the Directors' report, Directors' remuneration report and accounts for the year ended 31st December, 2006 and declare dividends.
2. To re-elect B. A. Beverley as a Director.
3. To re-elect S. J. B. Knott as a Director.
4. To re-elect P. Allen as a Director.
5. To re-elect S. H. J. A. Knott as a Director.
6. To reappoint Auditors and authorise the Directors to fix their remuneration.
7. To transact any other business at the Annual General Meeting.

By Order of the Board,
DISCRETIONARY UNIT FUND MANAGERS LIMITED
Secretaries

13th February, 2007



A member of the Company who is entitled to attend and vote may appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.

CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message must be transmitted so as to be received by the Company's agent, Capita Registrars (whose CREST ID is RA10) by the specified latest time(s) for receipt of proxy appointments. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

A register showing the transactions of each Director and so far as he is aware the transactions of his family in the Company's Income, Capital and Preference Shares will be available for inspection at the offices of the Secretaries, No. 1 Poultry, London EC2R 8JR, during normal business hours every weekday except Saturdays, from the above date to the day preceding that of the Annual General Meeting. It will also be available for inspection at the place of the meeting for 15 minutes prior to the Annual General Meeting and during the meeting. There are no contracts of service existing between the Company and any of the Directors.

CHAIRMAN'S STATEMENT

2006 turned out to be a reasonable year for equity markets. A 13.2% increase in the FTSE All-Share Index was a far stronger performance than had seemed likely earlier in the year. Smaller company progress was also very encouraging with the FTSE Small Cap index rising by 18.2% and FTSE Fledgling index by 17.1%.

The Trust experienced a good finish to the year and shareholders funds rose by 24.4% to another new record of £83.0m with both long standing and more recent investments contributing. The net asset value of the capital shares increased from 2928.1p to 3669.8p and that of the income shares from 751.8p to 920.3p. These rises of 25.3% and 22.4% both substantially exceeded the performance of the FTSE All-Share Index.

In 2006, the AIM content of the portfolio rose significantly from £3.3m to £14.8m and now represents 18% of shareholders funds. This warrants some explanation: There has been no change in your Board's healthy scepticism to AIM stocks but it does reflect the number of existing investments which have chosen to step down from a full listing to AIM. The twin forces of the onerous and expensive nature of the listing obligations and the burden that corporate governance poses for smaller companies means that this trend is set to continue.

Your Directors have decided to raise the dividend to 43.5p per income share and 2.175p per capital share for 2006. This 7% rise exceeds the rate of inflation. Additionally, the supplementary capital dividend of 66p per capital share was paid on 2nd January, 2007 and, barring unforeseen circumstances, the supplementary capital dividend for the current year will be increased by 4% to 68.6829p per capital share payable on 2nd January, 2008.

Discretionary Unit Fund Managers again produced record results with pre-tax profits of £500,000 and funds under management at 31st December were £65m.

During the last ten years the size of the Trust has risen more than four-fold while the equity market has only seen a 60% increase. The task therefore for the Trust is to find new investments that will also produce good long-term performance.

S. H. J. A. KNOTT

Chairman

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their forty-fourth Annual Report, together with audited accounts in respect of the year ended 31st December, 2006.

PRINCIPAL ACTIVITIES AND INVESTMENT TRUST STATUS

The Company is an investment trust and has two subsidiary undertakings, as referred to in note 12.

The Company has been approved by the Inland Revenue as an investment trust for all accounting periods up to 31st December, 2005. Since that date, the Company has directed its affairs so as to be able to continue to qualify for approval as an investment trust.

The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

REVIEW OF THE BUSINESS

Group assets have increased to £83,024,264 from £66,716,728 and at 31st December, 2006, the net assets values of the income and capital shares were 920.3p (2005: 751.8p) and 3669.8p (2005: 2928.1p) respectively.

The movement in the dividend equalisation reserve is shown in note 17 to the accounts.

The Capital Shareholders' supplementary dividend, subject to unforeseen circumstances, for the current year payable on 2nd January, 2008, will be 68.6829p net per Capital Share.

RESULTS AND DIVIDENDS

The results for the year are shown in the income statement on page 10. The dividends paid and proposed are disclosed in note 6 to the accounts.

FINANCIAL INSTRUMENTS

The group's financial instruments and related management risk policies are shown in note 21 to the accounts.

DIRECTORS

The Directors who served during the year and their interests in the shares of the Company were as follows:

	Capital		Income	
	31st December, 2006	31st December, 2005	31st December, 2006	31st December, 2005
S. H. J. A. Knott	225,670	225,670	203,505	203,505
P. M. Allen	2,500	2,500	–	–
B. A. Beverley	17,500	17,500	32,500	32,500
D. M. Bramwell	–	–	20,000	20,000
S. J. B. Knott	25,000	25,000	5,000	5,000

No changes in the Directors' interests shown above have occurred since 31st December, 2006.

P. Allen, B. A. Beverley, S. J. B. Knott and S. H. J. A. Knott are retiring. All being eligible, offer themselves for re-election.

No Director offering himself for re-election has a service contract.

DISCLOSURE OF INFORMATION TO AUDITORS

So far as each director at the date of approval of this report is aware:

- there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

REPORT OF THE DIRECTORS continued

SUBSTANTIAL SHAREHOLDINGS

The Company has been notified of the undermentioned shareholdings which are in excess of 3% of the respective classes of the issued share capital of the Company at 13th February, 2007.

	Capital Shares	Income Shares	Preference Shares
J. Barr Esq	72,540	96,829	–
Dartmoor Investment Trust	–	75,500	–
Discretionary Unit Fund	150,000	–	–
Giltspur Nominees	–	86,441	–
Barclays Plc	53,900	114,397	–
HSBC Global Custody Nominees (UK)	132,500	–	–
L.W. & B.I. Potter	–	140,000	–
Rulegale Nominees	–	–	67,934

The Directors are not aware of any other holdings amounting to 3% or more of any class of the issued share capital of the Company.

GENERAL

The Company and its affairs are administered on an agreed cost sharing basis by Discretionary Unit Fund Managers Ltd.

No charitable or political contributions have been made during the year.

It is the Company's payment policy to ensure settlement of suppliers' services in accordance with the stated terms.

In accordance with Section 384 of the Companies Act 1985, a resolution proposing the reappointment of Begbies Chettle Agar as auditors of the Company will be put to the Annual General Meeting.

By Order of the Board,
DISCRETIONARY UNIT FUND MANAGERS LIMITED
Secretaries

13th February, 2007

CORPORATE GOVERNANCE AND DIRECTORS' REMUNERATION

Significant matters relating to the governance of the Trust, including those in relation to the recommendations of the Combined Code 2006 are noted below.

THE BOARD OF DIRECTORS

The Board of Directors, which includes four non-executive directors, meets about six times a year to review the affairs of the Trust. Directors may take independent legal, accounting or other professional advice at the expense of the Trust in the furtherance of their duties. The Company Secretary's advice and services are available to all Board members.

PRINCIPLES OF GOOD GOVERNANCE

Full consideration has been given by the Board to the Principles of Good Governance as set out in the Combined Code annexed to the Listing Rules. In so far as they are applicable to a smaller self-managed investment trust, the Directors believe that they comply with the principles.

SCHEME OF DELEGATION

The Board delegates all investment matters to the Investment Director but reserves to itself all decisions concerning unquoted investments.

REPORTING AND CONTROLS

The Board is fully aware of its duty to present a balanced and understandable assessment of the Trust's position. It acknowledges its responsibility for the Trust's system of internal financial controls and their effectiveness. Your board meets regularly and reviews performance against approved plans and forecasts. In addition the day to day administration and accounting functions are carried out by the Company Secretary who reports regularly to the Board.

CORPORATE GOVERNANCE AND DIRECTORS' REMUNERATION *continued*

As part of the system of internal control, there is a process to identify, evaluate and manage the significant risks faced by the Trust, which has been in place during the year under review and upto the date of approval of the accounts. This has been reviewed by the Board and is in accordance with the guidelines issued. The system of risk analysis adopted by the Board is designed to manage rather than eliminate the risk of failure to achieve the investment objectives of the Trust. It must be stressed that undertaking an acceptable degree of controlled risk is always necessary in the conduct of any investment trust if above average performance is to be achieved. For this reason, the process can only provide reasonable and not absolute assurance against material misstatement or loss.

After reviewing the Trust's budget for 2007 and its medium-term plans, the Directors have reasonable expectation that the Trust has adequate resources to continue its operations for the foreseeable future. Therefore, they adopt the going concern basis in preparing the accounts.

RELATIONSHIP WITH SHAREHOLDERS

The Investment Director maintains a regular dialogue with major shareholders.

THE CODE OF BEST PRACTICE

The Trust complies with the appropriate recommendations of the above code but does not comply with the following paragraphs:

A.1.2

The Board sees no useful purpose in publishing the individual attendances by Directors.

A.4.6

The Board believes that for a company of this sort the establishment of a nomination committee is not necessary and the Board can adequately carry out any duties required in this area.

A.6.1 & A.7.2

The Board do not believe that there is a need for a formal performance review process of either itself or individual non-executive Directors as this does not recognise the special characteristics of a self-managed investment trust. Instead the Board takes joint responsibility for the stewardship and performance of the Trust and undertakes every five years a rigorous review of the Trust's performance against its benchmarks. All non-executive directors who have served for more than nine years submit themselves to annual re-election.

B.1.1 to B.2.4 (DIRECTORS' REMUNERATION)

The Board considers that shareholders suffer no disadvantage by it not complying with these aspects of the Code. Directors' salaries are only infrequently reviewed, reflecting its Investment Trust status. There are no bonus, share option, pension or profit related payment arrangements with any of the Directors, other than those disclosed below. In the light of this and the modest nature of Directors' remuneration, the Board sees no need for either a Remuneration Committee or further consideration in respect of Executive Directors' remuneration.

C.3.1 to C.3.7

The Board sees no need for an internal audit function in the light of the size of the organisation and the clear segregation of investment management and control of the assets.

The Board believes that for a company of this sort the establishment of an audit committee is not necessary as its duties required can be adequately carried out by the Board.

DIRECTORS' DETAILS

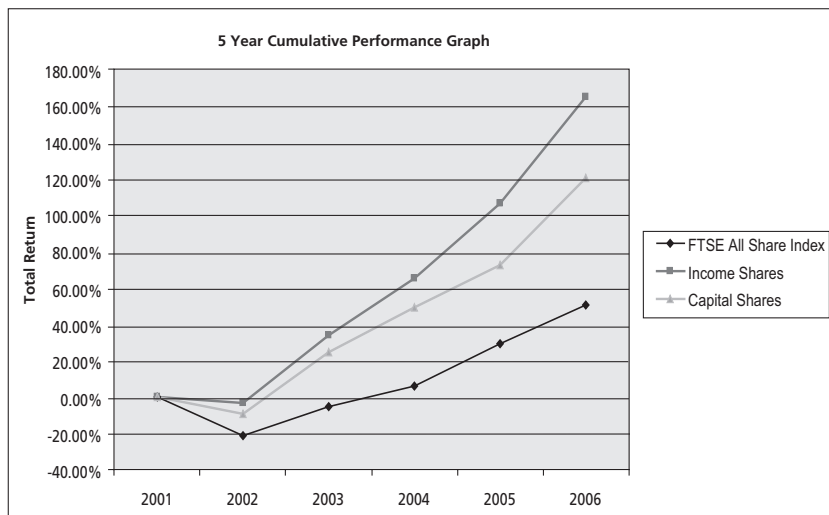
	Fees and Salaries	
	2006 £	2005 £
S. H. J. A. KNOTT <i>Chairman</i> , aged 75 years He was a Director of a number of PLCs	12,000	10,000
P. M. ALLEN <i>Non-executive</i> , aged 66 years He was a Director of HG Capital Trust PLC	6,000	4,000
B. A. BEVERLEY <i>Non-executive</i> , aged 71 years He was a Director of Greig Middleton & Co. Limited	6,000	4,000
D. M. BRAMWELL <i>Deputy Chairman and Senior Independent</i> , aged 59 years He is Chairman of Intelek PLC	11,750	9,400
S. J. B. KNOTT <i>Executive</i> , aged 48 years He is investment manager	135,000	110,000

THE DIRECTORS' REMUNERATION REPORT

The Trust does not have a remuneration committee.

THE TRUST'S POLICY ON DIRECTORS' REMUNERATION

There are no service contracts in respect of any Director. There are therefore no share options, long term investment schemes, pension, or profit related pay arrangements with any of the Directors. In the light of this and the modest nature of Directors' remuneration the Board considers that it currently is not necessary to have a remuneration policy.



The FTSE All Share Index has been used as the appropriate index as this is our benchmark index

DIRECTORS' EMOLUMENTS (AUDITED)

	S. H. J. A. Knott	P. M. Allen	B. A. Beverley	D. M. Bramwell	S. J. B. Knott
Emoluments and Compensation					
Salary and fees	12,000	6,000	6,000	11,750	120,000
Bonus	–	–	–	–	15,000
Ex gratia	–	–	–	–	–
Non-cash benefits	–	–	–	–	–
Total 2006	12,000	6,000	6,000	11,750	135,000
Total 2005	10,000	4,000	4,000	9,400	110,000
Share Options	–	–	–	–	–
Long term incentive schemes	–	–	–	–	–
Excess retirement benefits of past and current Directors	–	–	–	–	–
Compensation of past Directors	–	–	–	–	–
Sums paid to third parties in respect of Directors' services	–	–	–	–	–
S. H. J. A Knott, Director					
S. J. B. Knott, Director					

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the report and accounts in accordance with applicable law and regulations. They are also responsible for ensuring that the Annual Report includes information required by the Listing Rules of the Financial Services Authority.

Company law requires the Directors to prepare Accounts for each financial year. Under that law the Directors have elected to prepare the accounts in accordance with International Financial Reporting Standards (IFRSs) as adopted for use in the European Union. The accounts are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those Accounts 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 International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the Accounts;
- prepare the Accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are 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 Accounts comply with the Companies Act 1985. 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.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Rights and Issues Investment Trust PLC

We have audited the group and parent company financial statements (the 'financial statements') of Rights and Issues Investment Trust Plc for the year ended 31st December, 2006 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statement of Changes in Shareholders' Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited 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 whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition we report to you, if in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and whether the accounting policies are appropriate to the group's and 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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

OPINION

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of the group's affairs as at 31st December, 2006 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31st December, 2006;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

As explained in Note 1 to the group financial statements, the group in addition to complying with its legal obligation to comply with IFRSs as adopted for use in the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the group financial statements give a true and fair view, in accordance with IFRSs, of the state of the group's affairs as at 31st December, 2006 and of its profit for the year then ended.

BEGBIES CHETTLE AGAR
Registered auditors
13th February, 2007

25 City Road
London
EC1Y 1AR

CONSOLIDATED INCOME STATEMENT

for the year ended 31st December, 2006

	Notes	Year ended 31st December, 2006			Year ended 31st December, 2005		
		Revenue £	Capital £	Total £	Revenue £	Capital £	Total £
Investment income	2	2,008,203	–	2,008,203	1,891,490	–	1,891,490
Other operating income	2	750,360	–	750,360	859,838	–	859,838
Total income		2,758,563	–	2,758,563	2,751,328	–	2,751,328
Gains/(Losses) on fair value through profit or loss assets	10	102,765	16,211,851	16,314,616	125,070	8,408,773	8,533,843
		2,861,328	16,211,851	19,073,179	2,876,398	8,408,773	11,285,171
Expenses							
Investment management fee		–	–	–	–	–	–
Other expenses	3	514,179	–	514,179	473,730	–	473,730
		514,179	–	514,179	473,730	–	473,730
Profit before tax		2,347,149	16,211,851	18,559,000	2,402,668	8,408,773	10,811,441
Tax	5	91,654	–	91,654	139,964	–	139,964
Profit for the period		2,255,495	16,211,851	18,467,346	2,262,704	8,408,773	10,671,477
Earnings per share							
Return per income share (p)	7	45.7p	164.8p	210.5p	52.4p	85.5p	137.9p
Return per capital share (p)	7	68.3p	741.4p	809.7p	58.7p	384.6p	443.3p

The total column of this statement represents the Group's Income Statement, prepared in accordance with IFRS. The supplementary revenue return and capital return columns are both prepared under guidance published by the Association of Investment Companies. All items in the above statement derive from continuing operations.

All income is attributable to the equity holders of the parent company. There are no minority interests.

CONSOLIDATED BALANCE SHEET

as at 31st December, 2006

Notes	Company		Group	
	2006 £	2005 £	2006 £	2005 £
Non-current assets				
Goodwill	8	-	-	65,191
Investments – Fair value through profit or loss	10	80,731,783	60,367,907	59,936,435
		80,731,783	60,367,907	60,001,626
Current assets				
Trading investments		-	-	514,272
Trade and other receivables	14	216,648	128,377	572,544
Current tax receivable		-	-	-
Amounts due from group undertakings		613,038	555,759	-
Cash and cash equivalents		1,601,507	5,809,768	6,647,686
		2,431,193	6,493,904	7,734,502
Total assets		83,162,976	66,861,811	83,716,264
Current liabilities				
Trade and other payables	15	17,616	23,987	878,416
Current tax payable		-	-	140,984
		17,616	23,987	1,019,400
Total assets less current liabilities		83,145,360	66,837,824	83,024,264
Net assets		83,145,360	66,837,824	83,024,264
Equity				
Called up share capital	16	1,225,000	1,225,000	1,225,000
Share premium account	17	225,326	225,326	225,326
Retained reserves:				
Capital reserve	17	41,235,990	39,534,068	39,534,068
Revaluation reserve	17	38,134,169	23,624,240	23,624,240
Dividend equalisation reserve	17	2,324,875	2,229,190	2,108,094
Total equity		83,145,360	66,837,824	83,024,264
Net asset value per share				
Income shares			920.3p	751.8p
Capital shares			3,669.8p	2,928.1p

The financial statements were approved by the board and authorised for issue on 13th February 2007. They were signed on its behalf by:

S. H. J. A Knott, Director

S. J. B. Knott, Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December, 2006

	Share capital £	Share premium account £	Capital reserve £	Revaluation reserve £	Dividend equalisation reserve £	Total £
Balance at 31st December, 2004	1,225,000	225,326	33,665,251	21,084,284	1,728,420	57,928,281
Changes in equity for 2005						
Profit for the period	–	–	5,868,817	2,539,956	2,262,704	10,671,477
Total recognised income and expenses	–	–	5,868,817	2,539,956	2,262,704	10,671,477
Dividends	–	–	–	–	(1,883,030)	(1,883,030)
Balance at 31st December, 2005	1,225,000	225,326	39,534,068	23,624,240	2,108,094	66,716,728
Changes in equity for 2006						
Profit for the period	–	–	1,701,922	14,509,929	2,255,495	18,467,346
Total recognised income and expenses	–	–	1,701,922	14,509,929	2,255,495	18,467,346
Dividends	–	–	–	–	(2,159,810)	(2,159,810)
Balance at 31st December, 2006	1,225,000	225,326	41,235,990	38,134,169	2,203,779	83,024,264

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December, 2006

	Share capital £	Share premium account £	Capital reserve £	Revaluation reserve £	Dividend equalisation reserve £	Total £
Balance at 31st December, 2004	1,225,000	225,326	33,665,251	21,084,284	1,572,757	57,772,618
Changes in equity for 2005						
Profit for the period	–	–	5,868,817	2,539,956	2,539,463	10,948,236
Total recognised income and expenses	–	–	5,868,817	2,539,956	2,539,463	10,948,236
Dividends	–	–	–	–	(1,883,030)	(1,883,030)
Balance at 31st December, 2005	1,225,000	225,326	39,534,068	23,624,240	2,229,190	66,837,824
Changes in equity for 2006						
Profit for the period	–	–	1,701,922	14,509,929	2,255,495	18,467,346
Total recognised income and expenses	–	–	1,701,922	14,509,929	2,255,495	18,467,346
Dividends	–	–	–	–	(2,159,810)	(2,159,810)
Balance at 31st December, 2006	1,225,000	225,326	41,235,990	38,134,169	2,324,875	83,145,360

CASH FLOW STATEMENT

for the year ended 31st December, 2006

	Company		Group	
	2006	2005	2006	2005
Notes	£	£	£	£
Cashflows from operating activities				
Profit before tax	18,400,346	10,947,216	18,559,000	10,811,441
Adjustments for:				
(Gains)/losses on investments	(16,211,851)	(8,403,773)	(16,211,851)	(8,408,773)
Purchases of investments	19 (7,563,887)	(11,934,175)	(7,563,887)	(11,934,175)
Proceeds on disposal of investments	19 3,411,862	9,852,978	3,411,862	9,852,978
Movement in trading investments	-	-	104,546	(301,988)
Operating cash flows before movements in working capital	(1,963,530)	457,246	(1,700,330)	19,483
Decrease/(increase) in receivables	(78,550)	(368,922)	188,103	(216,262)
Increase/(decrease) in payables	(6,371)	7,569	(277,853)	656,155
Net cash from operating activities before income taxes	(2,048,451)	95,893	(1,790,080)	459,376
Income taxes paid	-	-	(141,201)	(70,560)
Net cash from operating activities	(2,048,451)	95,893	(1,931,281)	388,816
Cash flows from financing activities				
Dividends paid	(2,159,810)	(1,883,030)	(2,159,810)	(1,883,030)
Net cash (used in)/from financing activities	(2,159,810)	(1,883,030)	(2,159,810)	(1,883,030)
Net increase/(decrease) in cash and cash equivalents	(4,208,261)	(1,787,137)	(4,091,091)	(1,494,214)
Cash and cash equivalents at beginning of year	5,809,768	7,596,905	6,647,686	8,141,900
Cash and cash equivalents at end of year	1,601,507	5,809,768	2,556,595	6,647,686

NOTES TO THE ACCOUNTS

for the year ended 31st December, 2006

1. ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the group have been prepared in accordance with the International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee (IASC) that remain in effect, and to the extent that they have been adopted by the European Union.

The financial statements have been prepared on a historical cost basis, except for the revaluation of certain investments. The principle accounting policies are set out below. Where presentational guidance set out in the Statement of Recommended Practice (SORP) for investment trusts (AITC) in January 2003 as revised in December 2005 is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

Basis of Consolidation

The Group accounts include the accounts of the Company and all its subsidiary undertakings drawn up to 31st December, each year, from the effective date of acquisition. No revenue account is presented for Rights and Issues Investment Trust PLC, as provided by S230 of the Companies Act 1985.

Presentation of income statement

In order to better reflect the activities of an investment trust company and in accordance with the guidance issued by the AITC, supplementary information which analyses the income statement between items of a revenue and capital nature has been presented alongside the income statement. In accordance with the Company's status as a UK investment company under section 266 of the Companies Act 1985, net capital returns may not be distributed by way of dividend. Additionally, the net revenue is the measure the Directors believe appropriate in assessing the group's compliance with the certain requirements set out in Section 842 Income and Corporation Taxes Act 1988.

Income

Dividend income is included in the accounts on the ex-dividend date. All other income is included on an accruals basis.

Expenses

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

- expenses which are incidental to the acquisition of an investment are included within the cost of the investment.
- expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.

Taxation

The charge for taxation is based on the net revenue for the year. Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Investment trusts which have approval under Section 842 Income and Corporation Taxes Act 1988 are not liable for taxation on capital gains.

Investments

Investments are classified as fair value through profit or loss. As the entity's business is investing in financial assets with a view to profiting from their total return in the form of interest, dividends or increases in fair value, listed equities are designated as fair value through profit or loss on initial recognition.

Financial assets designated as at fair value through profit or loss are measured at subsequent reporting dates at fair value, which is the bid price. Where investments are designated upon initial recognition as fair value through profit or loss, gains and losses arising from changes in fair value are included in net profit or loss for the period as a capital item.

Trading investments are valued at fair value.

Unlisted investments are valued by the Directors applying the principles recommended by the British Venture Capital Association.

Goodwill

Goodwill represents the excess of cost of acquisition over the fair value of the separable net assets of business acquired. Goodwill is not amortised but an annual impairment review is carried out.

2. INCOME

	Group	
	2006	2005
	£	£
Income from investments		
Franked investment income	2,008,203	1,891,490
UK unfranked investment income	-	-
Other	-	-
	2,008,203	1,891,490
Other operating income		
Deposit interest	172,730	336,246
Underwriting commission	-	-
Stock lending fees	-	-
Other	577,630	523,592
	750,360	859,838
Total income	2,758,563	2,751,328
Total income comprises:		
Dividends	2,008,203	1,891,490
Interest	172,730	336,246
Other income	577,630	523,592
	2,758,563	2,751,328
Income from investments		
Listed UK	1,576,971	1,815,022
Unlisted	431,232	76,468
	2,008,203	1,891,490

3. OTHER EXPENSES

	2006	2005
	£	£
Staff costs (note 4)	317,020	288,826
Auditors remuneration		
– Audit	14,650	14,200
– Other services to the company and its subsidiaries	3,000	5,850
Other	179,509	164,854
	514,179	473,730

4. STAFF COSTS

	2006	2005
	£	£
Wages and salaries	279,900	254,663
Social security costs	27,120	25,463
Pensions	10,000	8,700
	317,020	288,826

	Number	Number
The average number of staff employed by the group was	3	3
Directors' emoluments (see page 8):		
Fees and salaries	£ 170,750	£ 137,400
Ex Gratia payments	-	-
	170,750	137,400

NOTES TO THE ACCOUNTS continued

for the year ended 31st December, 2006

5. TAX ON ORDINARY ACTIVITIES

	2006 £	2005 £
UK Corporation Tax at 30% (2005: 30%)	91,437	140,984
Adjustments to prior years	217	(1,020)
	91,654	139,964
Profit before tax	2,347,149	2,402,668
Tax on profit at standard rate	704,145	720,800
Factors affecting the recovery/charge for the year:		
Expenses not taxed	-	-
Income not taxable	(602,461)	(567,447)
Adjustment to prior year	217	(1,020)
Unutilised losses carried forward	-	-
Marginal relief	(10,247)	(7,054)
Losses utilised in period	-	(5,315)
	91,654	139,964

6. DIVIDENDS AND OTHER APPROPRIATIONS

Amounts recognised as distributions to equity holders in the period:

	2006 p	2005 p	2006 £	2005 £
Income				
Final dividend for the year ended 31st December, 2005	28.00	25.00	688,800	615,000
Interim dividend for the year ended 31st December, 2006	14.00	12.50	344,400	307,500
Capital				
Final dividend for the year ended 31st December, 2005	2.0250	1.8250	33,210	29,930
Supp cap dividend for the year ended 31st December, 2006	66.0000	56.0732	1,082,400	919,600
			2,148,810	1,872,030
Dividends on non-equity shares:				
Cumulative preference	5.5%	5.5%	11,000	11,000

The Articles provide for a Supplementary Dividend to Capital Shareholders to be paid not only in respect of future potential Preference Share issues which are not made, but also the 20,480,000 Preference Shares which could have been issued following the increases in the Capital Reserve revealed by the accounts since 1981.

	2006 p	2005 p	2006 £	2005 £
Income				
Proposed final dividend for the year ended 31st December, 2006	29.50	28.00	725,700	688,800
Capital				
Proposed dividend for the year ended 31st December, 2006	2.1750	2.025	35,670	33,210

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

6. DIVIDENDS AND OTHER APPROPRIATIONS (continued)

We also set out below the total dividend payable in respect of the financial year, which is the basis on which the requirements of Section 842 Income and Corporation Taxes Act 1988 are considered.

	2006 p	2005 p	2006 £	2005 £
Income				
Interim dividend for the year ended 31st December, 2006	14.00	12.50	344,400	307,500
Proposed final dividend for the year ended 31st December, 2006	29.50	28.00	725,700	688,800
	<u>43.50</u>	<u>40.50</u>		
Capital				
Supp cap dividend for the year ended 31st December, 2006	66.0000	56.0732	1,082,400	919,600
Proposed final dividend for the year ended 31st December, 2006	2.1750	2.025	35,670	33,210
	<u>68.1750</u>	<u>58.0982</u>	<u>2,188,170</u>	<u>1,949,110</u>
Dividends on non-equity shares:				
Cumulative preference	5.5%	5.5%	11,000	11,000

7. RETURN PER SHARE

	2006			2005		
	Income £	Capital £	Total £	Income £	Capital £	Total £
Return attributable to equity shareholders:						
Revenue return	1,124,608	1,119,887	2,244,495	1,289,132	962,572	2,251,704
Capital return	4,052,963	12,158,888	16,211,851	2,102,193	6,306,580	8,408,773
	<u>5,177,571</u>	<u>13,278,775</u>	<u>18,456,346</u>	<u>3,391,325</u>	<u>7,269,152</u>	<u>10,660,477</u>
	p	p		p	p	
Revenue return	45.7	68.3		52.4	58.7	
Capital return	164.8	741.4		85.5	384.6	
	<u>210.5</u>	<u>809.7</u>		<u>137.9</u>	<u>443.3</u>	

8. GOODWILL

	2006 £	2005 £
Cost		
At beginning and end of the year	65,191	65,191
Impairment losses		
At beginning end of year	-	-
Net Book Value		
At 31st December, 2006	<u>65,191</u>	65,191
At 31st December, 2005	<u>65,191</u>	65,191

NOTES TO THE ACCOUNTS continued

for the year ended 31st December, 2006

9. INVESTMENTS**Analysis of the investments**

The number of companies or institutions in which equities, convertibles or fixed interest securities were held was 42 (2005: 48).

	2006		2005	
	£	%	£	%
EQUITY GROUPS				
Basic Materials				
Chemicals	5,496,000	6.84	4,379,875	7.31
Industrials				
Construction & Materials	5,239,000	6.52	4,516,750	7.54
General Industrials	1,512,000	1.88	1,696,500	2.83
Electronic & Elec Equip	594,642	0.74	588,095	0.98
Industrial Engineering	7,742,520	9.64	6,063,525	10.12
Industrial Transportation	-	-	420,555	0.70
Support Services	27,047,590	33.68	22,131,382	36.92
Consumer Goods				
Household Goods	-	-	1,575,000	2.63
Health Care				
Health Care Equipment & Servs	3,225,000	4.02	1,562,808	2.61
CONSUMER SERVICES				
Technology				
Software & Computer Services	2,232,000	2.78	2,124,000	3.54
Technology Hardware & Equipment	-	-	1,147,500	1.91
Financials				
Banks	9,758,500	12.15	8,355,159	13.94
Non life Insurance	585,000	0.73	-	-
Real Estate	1,490,500	1.86	1,040,874	1.74
FIXED INTEREST				
Preference	614,000	0.76	620,000	1.03
Other				
AIM	14,763,559	18.40	3,189,412	5.32
UNQUOTED	-	-	525,000	0.88
Total UK	80,300,311	100.00	59,936,435	100.00

10. INVESTMENTS – FAIR VALUE THROUGH PROFIT OR LOSS

	Company		Group		
	2006 £	2005 £	2006 £	2005 £	
Investments listed on a recognised investment exchange					
Total listed investments	65,536,752	56,222,023	65,536,752	56,222,023	
Unlisted investments	14,763,559	3,714,412	14,763,559	3,714,412	
Subsidiary undertakings (note 12)	431,472	431,472	–	–	
Other investments	–	–	–	–	
	80,731,783	60,367,907	80,300,311	59,936,435	
			Listed	Unlisted	Total
Group:					
Opening book cost		32,491,776	4,622,919	37,114,695	
Opening unrealised appreciation		23,730,247	(106,007)	23,624,240	
Opening provision against impairments in value		–	(802,500)	(802,500)	
Opening valuation		56,222,023	3,714,412	59,936,435	
Movements in the year					
From Listed to Unlisted		(4,479,684)	4,479,684	–	
Purchases at cost		6,188,335	1,375,552	7,563,887	
Sales – proceeds		(2,043,161)	(1,368,701)	(3,411,862)	
– realised gains on sales		812,438	889,484	1,701,922	
Permanent impairment in value of investments		–	–	–	
Increase in unrealised appreciation		8,836,798	5,673,131	14,509,929	
Closing valuation		65,536,749	14,763,562	80,300,311	
Closing book cost		32,969,704	9,998,938	42,968,642	
Closing unrealised appreciation		32,567,045	5,567,124	38,134,169	
Closing provision against impairments in value		–	(802,500)	(802,500)	
		65,536,752	14,763,559	80,300,311	
Realised gains/losses on sales		812,438	889,484	1,701,922	
Increase/(decrease) in unrealised appreciation		8,836,798	5,673,131	14,509,929	
Gains/(losses) on investments		9,649,236	6,562,615	16,211,851	

11. UNQUOTED INVESTMENTS

During the year, transactions in unquoted investments were:

	Cost £	Carrying value at 31/12/06 £	Disposal Proceeds £	Gain £
Investment				
Safe Computing plc	60,600	–	525,524	464,924

During the year, the company revalued the following investments to a material extent:

	Cost £	Carrying value at 31/12/06 £	Carrying value at 31/12/05 £	Amount of revaluation £
Investment				
	–	–	–	–

NOTES TO THE ACCOUNTS continued

for the year ended 31st December, 2006

12. SUBSIDIARY UNDERTAKINGS

The Company had investments in the following subsidiary undertakings:

Name	Principal activity	Country of incorporation and operation	Description of shares held	Proportion of nominal value of issued shares and voting rights held
Rights Securities Ltd.	Investment dealing	England	Ordinary	100%
Discretionary Unit Fund Managers Ltd.	Fund management and secretarial services	England	Ordinary	100%

13. SIGNIFICANT INTERESTS

The Company or Group has a holding of 3% or more that is material in the context of the financial statements in the following investments:

Name	
Celsis International	6.8%
Chamberlin & Hill	13.5%
Colefax Group	12.8%
Dyson	3.0%
Eleco Holdings	5.5%
Honeycombe	5.7%
Intelek	14.3%
Litho Supplies	18.0%
LPA Industries	3.9%
Scapa Group	3.7%
Thorpe F.W.	4.2%
Titon Holdings	12.0%
Treatt	5.4%
UCM Group	10.4%

14. TRADE AND OTHER RECEIVABLES

	Company		Group	
	2006	2005	2006	2005
	£	£	£	£
Amounts due from brokers	-	-	-	-
Trade receivables	-	-	-	-
Corporation tax	67,000	-	-	-
Prepayments and accrued income	149,648	128,377	149,648	146,343
Other debtors	-	-	234,793	426,201
	216,648	128,377	384,441	572,544

15. TRADE AND OTHER PAYABLES

	Company		Group	
	2006 £	2005 £	2006 £	2005 £
Bank overdraft	-	-	-	-
Amounts due to brokers	-	-	-	-
Trade payables	-	-	582,947	787,077
Accruals	17,616	23,987	17,616	91,339
	17,616	23,987	600,563	878,416

16. SHARE CAPITAL

	2006 £	2005 £
Authorised		
200,000 5.5% (Net) Cumulative Preference Shares of £1 each	200,000	200,000
2,400,000 Capital Shares of 25p each	600,000	600,000
3,600,000 Income Shares of 25p each	900,000	900,000
	1,700,000	1,700,000
Allotted, Called Up and Fully Paid		
200,000 5.5% (Net) Cumulative Preference Shares of £1 each	200,000	200,000
1,640,000 Capital Shares of 25p each	410,000	410,000
2,460,000 Income Shares of 25p each	615,000	615,000
	1,225,000	1,225,000

17. RESERVES

	Share premium account £	Capital reserve- realised £	Revaluation reserve- unrealised £	Dividend equalisation reserve £
Group				
Beginning of year	225,326	39,534,068	23,624,240	2,108,094
Net gain/(loss) on realisation of investments	-	1,701,922	-	-
Permanent impairments in value of investments	-	-	-	-
Increase/(decrease) in unrealised appreciation	-	-	14,509,929	-
Retained net revenue for the year	-	-	-	95,685
End of year	225,326	41,235,990	38,134,169	2,203,779
Company				
Beginning of year	225,326	39,534,068	23,624,240	2,229,190
Net gain/(loss) on realisation of investments	-	1,701,922	-	-
Permanent impairments in value of investments	-	-	-	-
Increase/(decrease) in unrealised appreciation	-	-	14,509,929	-
Retained net revenue for the year	-	-	-	95,685
End of year	225,326	41,235,990	38,134,169	2,324,875

The net profit for the period includes £18,467,346 (2005: £10,948,236) which has been dealt with in the Accounts of the Company.

NOTES TO THE ACCOUNTS continued

for the year ended 31st December, 2006

18. NET ASSET VALUE PER SHARE

The net asset value per share and the net asset values attributable to each class of share calculated in accordance with the Articles of Association were as follows:

	Net asset value Per share attributable		Net asset value attributable	
	2006 p	2005 p	2006 £	2005 £
Preference shares	100	100	200,000	200,000
Income shares	920.3	751.8	22,639,816	18,495,445
Capital shares	3,669.8	2,928.1	60,184,448	48,021,283
			83,024,264	66,716,728

The movements during the year attributable to each classes were as follows:

	Preference shares	Income shares	Capital shares	Total
Total net assets attributable at beginning of year	200,000	18,495,445	48,021,283	66,716,728
Total recognised gains/(losses) for the year	–	4,052,963	12,158,888	16,211,851
Transfer to reserves	–	91,408	4,277	95,685
Total new assets attributable at end of year	200,000	22,639,816	60,184,448	83,024,264
No of shares in issue	200,000	2,460,000	1,640,000	

19. NOTES TO THE CASHFLOW STATEMENT

Cash and cash equivalent comprises of cash at bank.

Purchases and sales of investments are considered to be operating activities of the company, given its purpose, rather than investing activities. However, the cashflows associated with these activities are presented below:

	Company		Group	
	2006 £	2005 £	2006 £	2005 £
Proceeds on disposal of fair value through profit or loss investments	3,411,862	9,852,978	3,411,862	9,852,978
Purchases of fair value through profit or loss investments	7,563,887	11,934,175	7,563,887	11,934,175

20. RELATED PARTY TRANSACTIONS**Group**

Transactions between the company and its subsidiaries, which are related parties have been eliminated on consolidation.

Company

During the year the company had the following transactions with Discretionary Unit Fund Managers, one of its subsidiary undertakings:

	2006 £	2005 £
Rent recharged	24,450	23,970
Dividends received	395,012	633,942
	419,462	657,912
Amounts owed by subsidiary undertaking	613,038	575,759

21. FINANCIAL INSTRUMENTS

The financial instruments of the Company and Group comprise:

- Equity shares. These are held in accordance with the Company's investment objectives and policies.
- Bank loans for which the main purpose is to raise finance for the Company's operations.
- Short-term debtors, creditors and cash amounts arising directly from its operations.

As an investment trust, the Company invests in securities for the long-term. Accordingly it is, and has been, throughout the year under review, the Company's policy that no short-term trading in investments or other financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments is market price risk. The Board's policy for managing these risks is summarised below. These policies have remained unchanged since the beginning of the year to which these financial statements relate.

Market price risk

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

The Board meets at least quarterly to consider the asset allocation of the portfolio in order to minimise the risk associated with industry sectors. The fund manager has responsibility for monitoring the existing portfolio selected in accordance with the Company's investment objectives and seeks to ensure that individual stocks meet an acceptable risk-reward profile.

Interest rate risk profile of financial assets and financial liabilities

The majority of the Company's financial assets are equity shares or other investments which neither pay interest nor have a maturity date.

Liabilities

There were no long-term liabilities at the year end.

Fair value of financial instruments

Financial assets and liabilities are included in the balance sheet at values which represent fair values without exception.

APPENDIX

Details of the principal investments are given below by market value

	Holdings		Market Value	
	2006	2005	2006	2005
			£	£
UK Investments				
RPS Group	2,700,000	2,700,000	7,290,000	4,191,750
HBOS	525,000	525,000	5,943,000	5,205,375
White Young Green	1,283,333	1,283,333	5,839,165	4,555,832
Hill & Smith Holdings	1,673,038	1,525,000	4,513,020	3,278,750
Colefax Group	2,100,000	2,100,000	4,242,000	2,195,550
Low & Bonar	3,000,000	1,000,000	3,847,500	1,207,500
Northern Rock	325,000	200,000	3,815,500	1,885,000
Celsis Int'l	1,500,000	958,778	3,225,000	1,562,000
VP	1,000,000	1,000,000	3,130,000	2,450,000
Thorpe F.W.	500,000	500,000	2,750,000	1,575,000
Eleco Holdings	3,075,000	3,075,000	2,736,750	1,691,250
Litho Supplies	3,860,000	3,860,000	2,238,800	2,238,800
LogicaCMG	1,200,000	1,200,000	2,232,000	2,124,000
Dyson	1,000,000	925,000	2,170,000	2,173,750
Chamberlin & Hill	1,000,000	1,000,000	1,830,000	2,180,000
Treant	555,000	367,000	1,776,000	937,125
BSS Group	400,000	400,000	1,730,000	1,260,000
Domino Printing Sciences	500,000	500,000	1,601,250	1,285,000
Intelek	12,500,000	8,500,000	1,562,500	1,147,500
UCM Group	2,500,000	2,500,000	1,550,000	1,125,000

Unless otherwise specified, the actual holdings are, in each case, of ordinary shares or stock units and of the nominal value for which listing has been granted.



