

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

FINAL
REPORT
AND
ACCOUNTS
2008

A SELF MANAGED INVESTMENT TRUST



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, 2008): 1500p.</p>	<p>PRICE (at 31st December, 2008): 440p.</p>	
<p>GROSS YIELD 5.2%.</p>	<p>GROSS YIELD 8.3%.</p>	
<p>DISCOUNT 8.7%.</p>	<p>DISCOUNT 4.1%.</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)
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
2007	3342.1p	2876	70.9829p	851.4p	46.0p	3286.7	554
2008	1643.3p	1414	70.3329p	459.0p	33.0p	2209.29	373

† = includes special dividend

DIRECTORS AND ADVISERS

DIRECTORS

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

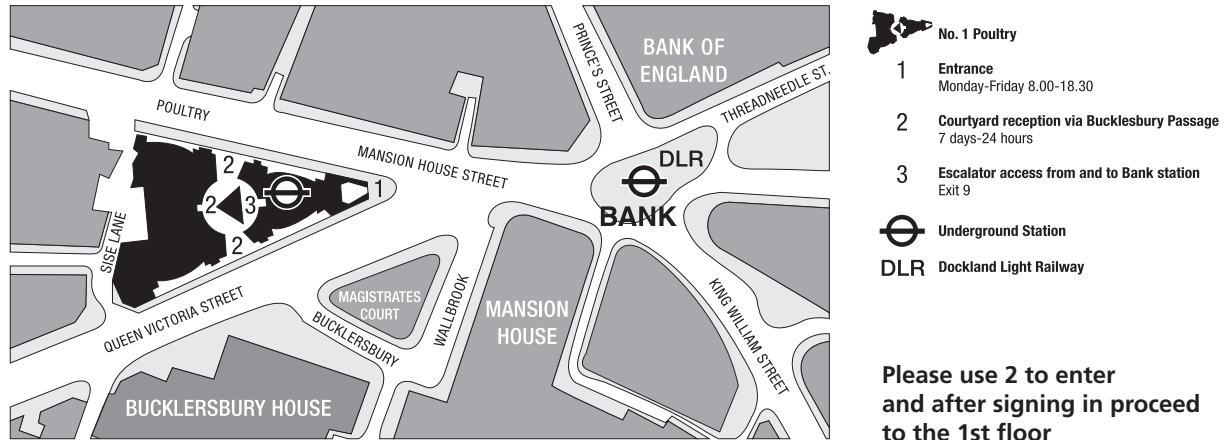
NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the FORTY SIXTH 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 26th March, 2009, at 12 noon, for the following purposes:

1. To adopt the Directors' report, Directors' remuneration report and accounts for the year ended 31st December, 2008 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 D. Bramwell 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

26th February, 2009



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.

To appoint more than one proxy, additional proxy forms may be obtained by contacting the registrars. Please indicate in the box under the resolution the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instructions are one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.

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

Since the Trust refocused its aims in 1984, I have witnessed many highs and lows in the UK stock market. 2008, without doubt, has proved to be the most difficult year of all. The bare statistic of a 32.8% fall in the FTSE All Share index does not describe the full agony of this past year. The performance of the FTSE Small Cap and the FTSE Fledgling indices which plunged by 45.8% and 42.3% respectively brings out the full extent of the tragedy.

The international banking crisis progressively worsened during the year and the failure of Lehman Brothers' in September opened the flood gates. Until that point the impact of the financial markets on the real economy was merely a pronounced slowdown with extreme pain only being experienced in a few sectors such as private house building. Since then there has been a collapse in confidence and the economy is now in a vicious recession.

Your Trust has suffered the full force of the current economic hurricane. The net asset value of the capital shares declined from 3342.1p to 1643.3p and that of the income shares from 851.4p to 459.0p. The falls of 50.8% and 46.1% go beyond disappointment.

Discretionary Unit Fund Managers has also been severely impacted by the declines in UK small company prices and only achieved a marginal profit. The decline in funds under management means that it is unlikely to match the recent level of profitability in the next five years. This has a significant effect on the Trust's ability to pay dividends. In recent years Discretionary Unit Fund Managers' profitability accounted for up to a fifth of Group profit before tax. Your Board has reviewed its medium term forecasts and decided that it would be prudent to rebase the level of the ordinary dividends for the income and capital classes.

Your Directors have therefore reduced the level of the dividend to 33.0p per income share and 1.65p per capital share. This new level should be sustainable but given the current level of uncertainty this cannot be guaranteed. Additionally, the supplementary capital dividend of 68.6829p per capital share was paid on 2nd January 2009 and, barring unforeseen circumstances, will be maintained at 68.6829p per capital payable on 2nd January 2010.

The outlook is far from good. The UK economy is likely to fall by over 3% in 2009 with only Japan registering a worse economic performance. The capital goods cycle is now in a profound downswing. Cross border banking relationships are not functioning starving the UK banking sector of funds to lend on. Still even in these most difficult of times some companies will produce reasonable profitability.

S. H. J. A. KNOTT

Chairman

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their forty-sixth Annual Report, together with audited accounts in respect of the year ended 31st December, 2008.

BUSINESS REVIEW

INTRODUCTION

This business review forms part of the Directors' Report. Its purpose is to provide a balanced and comprehensive review of the Company's development and performance during the year and its position at the year end. The review also details the principal risks and uncertainties faced by the Company and its key performance indicators.

BUSINESS OF THE COMPANY

The Company is an investment trust and was approved by HM Revenues & Customs as an investment trust in accordance with Section 842 of the Incomes & Corporations Taxes Act 1988 ("S842 ICTA") for the year ended 31st December 2007. Since that date, the Company has conducted its affairs so that it should continue to qualify.

The Company's principal business activity is the management of an investment trust. The Company has one active subsidiary whose principal activity is unit trust management and one dormant subsidiary.

A review of the business is included in the Chairman's statement. The results are shown on page 13 and the dividends are disclosed in note 6 on page 19.

INVESTMENT POLICY

The Trust invests in equities with an emphasis on smaller companies. UK smaller companies will normally constitute at least 80% of the investment portfolio. UK smaller companies include both listed securities and those quoted on the Alternative Investment Market ("AIM").

The investment portfolio will normally lie in the range of 80% to 120% of shareholders funds and therefore gearing will normally be between -20% and +20%.

There is a rigorous process of risk analysis at the level of the individual investment based on the characteristics of the investee company. This controls the overall risk profile of the investment portfolio allowing a higher level of concentration in the investment portfolio.

The investment portfolio is then managed on a medium-term basis with a low level of turnover of investments. This minimises transaction costs and ensures a medium-term consistency of the investment approach.

PERFORMANCE

Group assets have decreased from £75,954,942 to £38,442,095 and at 31st December 2008, the net assets values of the income and capital shares were 459.0p and 1643.3p respectively. Further commentary on the Groups performance is given in the Chairman's statement.

KEY PERFORMANCE INDICATORS

The key performance indicators ("KPIs") used by the Company are:

Shareholders funds capital return compared to the FTSE All-Share Index

Dividends per income share

Total Expense Ratio

Shareholders funds capital return

In reviewing the performance of the Company, the Board monitors shareholders funds in relation to the FTSE All-Share Index. During the year shareholders funds declined by 49.4% compared with 32.8% by the FTSE All-Share Index. Over the five years shareholders funds fell by 22.4% compared with a rise of 0.1% by the FTSE All-Share Index.

Dividends per income share

The total dividend per income share was rebased to 33.0p.

Total Expense Ratio ("TER")

The TER shows the efficiency of control of management costs. The TER for the year ended 31st December 2008 was 0.96%.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks facing the Company are financial and regulatory.

REPORT OF THE DIRECTORS continued*Financial risks*

An investment trust manages a portfolio of financial assets and so is exposed to a range of financial risks. The prime risk is that of market price. There are subsidiary risks concerning concentration and gearing. The Board considers the adoption of these risks to be central to the successful performance of an investment trust in the long term.

Regulatory and other risks

It is necessary to abide by S842 ICTA to maintain investment trust status. This is achieved by the consistent investment policy and is monitored by the Board.

The Company's assets are protected by the use of an independent custodian, HSBC.

FUTURE DEVELOPMENTS

This is considered further in the Chairman's Statement.

ENVIRONMENTAL, SOCIAL AND COMMUNITY ISSUES

As an investment trust, the Company has a limited impact on either environment or social and community issues. All printed material, wherever possible, is on recycled material. The investment manager attempts to minimise his carbon footprint.

Of more importance is the conduct of the companies in the investment portfolio. The Company does not invest in companies which have significant adverse effect on the global environment and encourages those companies in which it has an investment to pursue responsible environmental policies.

EMPLOYEES

With only three employees it is not necessary to have detailed employee policies.

DIRECTORS

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

	Capital		Income	
	31st December, 2008	31st December, 2007	31st December, 2008	31st December, 2007
S. H. J. A. Knott	225,670	225,670	203,505	203,505
P. M. Allen (Deceased 27.06.08)	–	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, 2008.

B. A. Beverley, D. Bramwell, 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.

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 26th February, 2009.

	Capital Shares	Income Shares	Preference Shares
V. M. Barr	72,540	96,829	–
N. W. Brown Nominees	86,698	–	–
Dartmoor Investment Trust	–	75,500	–
Discretionary Unit Fund	150,000	–	–
Giltspur Nominees	–	86,441	–
Barclays Plc	53,900	123,602	–
HSBC Global Custody Nominees (UK)	100,000	–	–
L.W. & B.I. Potter	–	145,000	–
Rulegale Nominees	–	–	67,934
Taylor Young Investment Management (Ltd)	105,106	239,961	–

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 385 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.

26th February, 2009

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

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 three 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.

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 2009 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

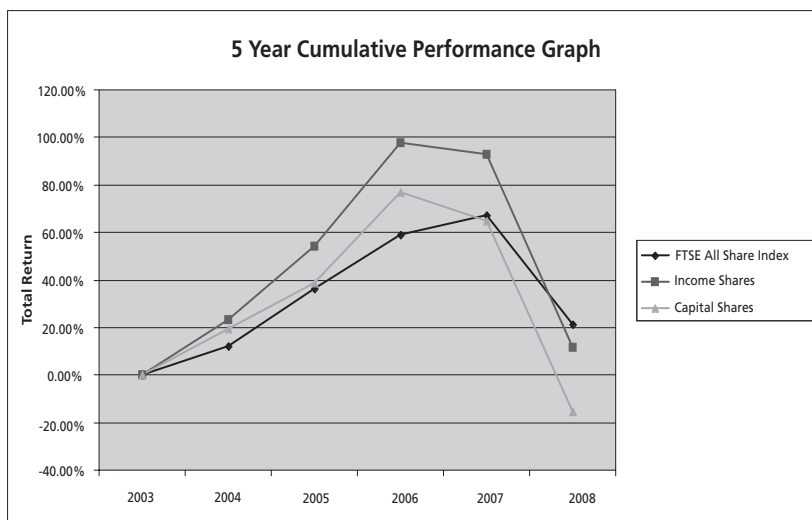
	Fees and Salaries	
	2008	2007
	£	£
S. H. J. A. KNOTT <i>Chairman</i> , aged 77 years He was a Director of a number of PLCs	14,000	14,000
P. M. ALLEN <i>Non-executive</i> , aged 67 years (Dec'd 27.06.08) He was a Director of HG Capital Trust PLC	–	8,000
B. A. BEVERLEY <i>Non-executive</i> , aged 73 years He was a Director of Greig Middleton & Co. Limited	8,000	8,000
D. M. BRAMWELL <i>Deputy Chairman and Senior Independent</i> , aged 61 years He is Chairman of Intelek PLC	14,100	14,100
S. J. B. KNOTT <i>Executive</i> , aged 50 years He is investment manager	140,000	140,000

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 (Dec'd)	B. A. Beverley	D. M. Bramwell	S. J. B. Knott
Emoluments and Compensation					
Salary and fees	14,000	–	8,000	14,100	140,000
Bonus	–	–	–	–	–
Ex gratia	–	8,000	–	–	–
Non-cash benefits	–	–	–	–	–
Total 2008	14,000	8,000	8,000	14,100	140,000
Total 2007	14,000	8,000	8,000	14,100	140,000
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 annual report and accounts in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Directors are required to prepare the accounts for each financial year which present fairly the financial position of the Group and the financial performance and cashflows of the Company and the Group for that period. In preparing those Accounts the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group's financial position and financial performance;
- state that the Company has complied with IFRS subject to any material departures disclosed and explained in the accounts; and
- 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 and Article 4 of the IAS regulation. 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and the Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Visitors to the website need to be aware that legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors confirm that to the best of their knowledge that:

- the accounts, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the group; and
- the annual report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that they face.

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, 2008 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.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' 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, 2008 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, 2008;
- 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.

BEGBIES CHETTLE AGAR
Registered auditors
26th February, 2009

25 City Road
London
EC1Y 1AR

CONSOLIDATED INCOME STATEMENT

for the year ended 31st December, 2008

	Notes	Year ended 31st December, 2008			Year ended 31st December, 2007		
		Revenue £	Capital £	Total £	Revenue £	Capital £	Total £
Investment income	2	2,190,628	-	2,190,628	2,148,467	-	2,148,467
Other operating income	2	601,994	-	601,994	902,022	-	902,022
Total income		2,792,622	-	2,792,622	3,050,489	-	3,050,489
Gains/(Losses) on fair value through profit or loss assets	10	(316,824)	(37,130,786)	(37,447,610)	(48,570)	(7,171,726)	(7,220,296)
		2,475,798	(37,130,786)	(34,654,988)	3,001,919	(7,171,726)	(4,169,807)
Expenses							
Investment management fee		-	-	-	-	-	-
Other expenses	3	540,400	-	540,400	533,232	-	533,232
		540,400	-	540,400	533,232	-	533,232
Profit before tax		1,935,398	(37,130,786)	(35,195,388)	2,468,687	(7,171,726)	(4,703,039)
Tax	5	1,561	-	1,561	86,213	-	86,213
Profit for the period		1,936,959	(37,130,786)	(35,193,827)	2,382,474	(7,171,726)	(4,789,252)
Earnings per share							
Return per income share (p)	7	31.5p	(377.4)p	(345.9)p	48.9p	(72.9)p	(24.0)p
Return per capital share (p)	7	70.3p	(1698.1)p	(1627.8)p	71.1p	(328.0)p	(256.9)p

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, 2008

	Notes	Company		Group	
		2008 £	2007 £	2008 £	2007 £
Non-current assets					
Goodwill	8	-	-	65,191	65,191
Investments – Fair value through profit or loss	10	35,413,748	72,359,805	34,982,276	71,928,333
		35,413,748	72,359,805	35,047,467	71,993,524
Current assets					
Trading investments		-	-	419,606	619,797
Trade and other receivables	14	189,784	232,114	211,553	313,080
Amounts due from group undertakings		800,849	692,166	-	-
Cash and cash equivalents		2,202,487	2,835,625	3,031,234	3,692,284
		3,193,120	3,759,905	3,662,393	4,625,161
Total assets		38,606,868	76,119,710	38,709,860	76,618,685
Current liabilities					
Trade and other payables	15	43,677	43,672	267,765	576,930
Current tax payable		-	-	-	86,813
		43,677	43,672	267,765	663,743
Total assets less current liabilities		38,563,191	76,076,038	38,442,095	75,954,942
Net assets		38,563,191	76,076,038	38,442,095	75,954,942
Equity					
Called up share capital	16	1,225,000	1,225,000	1,225,000	1,225,000
Share premium account	17	225,326	225,326	225,326	225,326
Retained reserves:					
Capital reserve	17	40,751,585	40,668,355	40,751,585	40,668,355
Revaluation reserve	17	(5,683,938)	31,530,078	(5,683,938)	31,530,078
Dividend equalisation reserve	17	2,045,218	2,427,279	1,924,122	2,306,183
Total equity		38,563,191	76,076,038	38,442,095	75,954,942
Net asset value per share					
Income shares				459.0p	851.4p
Capital shares				1643.3p	3,342.1p

The financial statements were approved by the board and authorised for issue on 26th February 2009. 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, 2008

	Share capital £	Share premium account £	Capital reserve £	Revaluation reserve £	Dividend equalisation reserve £	Total £
Balance at 31st December, 2006	1,225,000	225,326	41,235,990	38,134,169	2,203,779	83,024,264
Changes in equity for 2007						
(Loss)/Profit for the period	–	–	(567,635)	(6,604,091)	2,382,474	(4,789,252)
Total recognised income and expenses	–	–	(567,635)	(6,604,091)	2,382,474	(4,789,252)
Dividends	–	–	–	–	(2,280,070)	(2,280,070)
Balance at 31st December, 2007	1,225,000	225,326	40,668,355	31,530,078	2,306,183	75,954,942
Changes in equity for 2008						
(Loss)/Profit for the period	–	–	83,230	(37,214,016)	1,936,959	(35,193,827)
Total recognised income and expenses	–	–	83,230	(37,214,016)	1,936,959	(35,193,827)
Dividends	–	–	–	–	(2,319,020)	(2,319,020)
Balance at 31st December, 2008	1,225,000	225,326	40,751,585	(5,683,938)	1,924,122	38,442,095

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December, 2008

	Share capital £	Share premium account £	Capital reserve £	Revaluation reserve £	Dividend equalisation reserve £	Total £
Balance at 31st December, 2006	1,225,000	225,326	41,235,990	38,134,169	2,324,875	83,145,360
Changes in equity for 2007						
(Loss)/Profit for the period	–	–	(567,635)	(6,604,091)	2,382,474	(4,789,252)
Total recognised income and expenses	–	–	(567,635)	(6,604,091)	2,382,474	(4,789,252)
Dividends	–	–	–	–	(2,280,070)	(2,280,070)
Balance at 31st December, 2007	1,225,000	225,326	40,668,355	31,530,078	2,427,279	76,076,038
Changes in equity for 2008						
(Loss)/Profit for the period	–	–	83,230	(37,214,016)	1,936,959	(35,193,827)
Total recognised income and expenses	–	–	83,230	(37,214,016)	1,936,959	(35,193,827)
Dividends	–	–	–	–	(2,319,020)	(2,319,020)
Balance at 31st December, 2008	1,225,000	225,326	40,751,585	(5,683,938)	2,045,218	38,563,191

CASH FLOW STATEMENT

for the year ended 31st December, 2008

	Company		Group	
	2008	2007	2008	2007
Notes	£	£	£	£
Cashflows from operating activities				
(Loss)/Profit before tax	(35,195,475)	(4,859,252)	(35,195,388)	(4,703,039)
Adjustments for:				
Losses/(Gains) on investments	37,130,786	7,171,726	37,130,786	7,171,726
Purchases of investments	19 (953,318)	(2,255,669)	(953,318)	(2,255,669)
Proceeds on disposal of investments	19 768,589	3,455,921	768,589	3,455,921
Movement in trading investments	-	-	200,191	(210,071)
Operating cash flows before movements in working capital	1,750,582	3,512,726	1,950,860	3,458,868
Decrease/(increase) in receivables	(134,705)	(91,594)	101,527	71,361
Increase/(decrease) in payables	5	26,056	(309,165)	(23,633)
Net cash from operating activities before income taxes	1,615,882	3,447,188	1,743,222	3,506,596
Income taxes paid	70,000	67,000	(85,252)	(90,837)
Net cash from operating activities	1,685,882	3,514,188	1,657,970	3,415,759
Cash flows from financing activities				
Dividends paid	(2,319,020)	(2,280,070)	(2,319,020)	(2,280,070)
Net cash (used in)/from financing activities	(2,319,020)	(2,280,070)	(2,319,020)	(2,280,070)
Net increase/(decrease) in cash and cash equivalents	(633,138)	1,234,118	(661,050)	1,135,689
Cash and cash equivalents at beginning of year	2,835,625	1,601,507	3,692,284	2,556,595
Cash and cash equivalents at end of year	2,202,487	2,835,625	3,031,234	3,692,284

NOTES TO THE ACCOUNTS

for the year ended 31st December, 2008

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.

NOTES TO THE ACCOUNTS continued

for the year ended 31st December, 2008

2. INCOME

	Group	
	2008	2007
	£	£
Income from investments		
Franked investment income	2,190,628	2,148,467
UK unfranked investment income	-	-
Foreign income dividends	-	-
Scrip dividends	-	-
Income from group undertakings	-	-
Other	-	-
	2,190,628	2,148,467
Other operating income		
Deposit interest	148,463	186,605
Underwriting commission	-	-
Stock lending fees	-	-
Other	453,531	715,417
	601,994	902,022
Total income	2,792,622	3,050,489
Total income comprises:		
Dividends	2,190,628	2,148,467
Interest	148,463	186,605
Other income	453,531	715,417
	2,792,622	3,050,489
Income from investments		
Listed UK	1,684,076	1,746,285
Unlisted	506,552	402,182
	2,190,628	2,148,467

3. OTHER EXPENSES

	2008	2007
	£	£
Staff costs (note 4)	334,559	328,149
Auditors remuneration		
– Audit	14,450	13,300
– Other services to the company and its subsidiaries	3,350	3,000
Goodwill amortisation	-	-
Operating Leases – other	-	-
Other	188,041	188,783
	540,400	533,232

4. STAFF COSTS

	2008	2007
	£	£
Wages and salaries	293,187	285,774
Social security costs	28,972	29,975
Pensions	12,400	12,400
	334,559	328,149

	Number	Number
The average number of staff employed by the group was	3	3

	£	£
Directors' emoluments (see page 9):		
Fees and salaries	176,100	184,100
Ex Gratia payments	8,000	-
	184,100	184,100

5. TAX ON ORDINARY ACTIVITIES

	2008	2007
	£	£
UK Corporation Tax at 20.75% (2007: 30%)	–	86,213
Adjustments to prior years	(1,561)	–
	(1,561)	86,213
Profit before tax	1,935,398	2,468,687
Tax on profit at standard rate	401,595	740,606
Factors affecting the recovery/charge for the year:		
Expenses not taxed	2,075	–
Income not taxable	(454,567)	(644,540)
Adjustment to prior year	(1,561)	–
Unutilised losses carried forward	50,897	–
Marginal relief	–	(9,853)
Losses utilised in period	–	–
	(1,561)	86,213

6. DIVIDENDS AND OTHER APPROPRIATIONS

Amounts recognised as distributions to equity holders in the period:

	2008	2007	2008	2007
	p	p	£	£
Income				
Final dividend for the year ended 31st December, 2007	30.50	29.50	750,300	725,700
Interim dividend for the year ended 31st December, 2008	16.00	15.50	393,600	381,300
Capital				
Final dividend for the year ended 31st December, 2007	2.3000	2.1750	37,720	35,670
Supp cap dividend for the year ended 31st December, 2008	68.6829	68.6829	1,126,400	1,126,400
			2,308,020	2,269,070
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.

	2008	2007	2008	2007
	p	p	£	£
Income				
Proposed final dividend for the year ended 31st December, 2008	17.00	30.50	418,200	750,300
Capital				
Proposed final dividend for the year ended 31st December, 2008	1.6500	2.3000	27,060	37,300

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.

NOTES TO THE ACCOUNTS *continued*

for the year ended 31st December, 2008

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.

	2008 p	2007 p	2008 £	2007 £
Dividends on equity shares				
Income				
Interim dividend for the year ended 31st December, 2008	16.00	15.50	393,600	381,300
Proposed final dividend for the year ended 31st December, 2008	17.00	30.50	418,200	750,300
	<u>33.00</u>	<u>46.00</u>		
Capital				
Supp cap dividend for the year ended 31st December, 2008	68.6829	68.6829	1,126,400	1,126,400
Proposed final dividend for the year ended 31st December, 2008	1.6500	2.3000	27,060	37,720
	<u>70.3329</u>	<u>70.9829</u>	<u>1,965,260</u>	<u>2,295,720</u>

7. RETURN PER SHARE

	2008			2007		
	Income £	Capital £	Total £	Income £	Capital £	Total £
Return attributable to equity shareholders:						
Revenue return	773,767	1,152,192	1,925,959	1,204,911	1,166,563	2,371,474
Capital return	(9,282,697)	(27,848,089)	(37,130,786)	(1,792,932)	(5,378,794)	(7,171,726)
	<u>(8,508,930)</u>	<u>(26,695,897)</u>	<u>(35,204,827)</u>	<u>(588,021)</u>	<u>(4,212,231)</u>	<u>(4,800,252)</u>
	p	p		p	p	
Revenue return	31.5	70.3		48.9	71.1	
Capital return	(377.4)	(1,698.1)		(72.9)	(328.0)	
	<u>(345.9)</u>	<u>(1,627.8)</u>		<u>(24.0)</u>	<u>(256.9)</u>	

8. GOODWILL

	2008 £	2007 £
Cost		
At beginning and end of the year	65,191	65,191
Impairment losses		
At beginning and end of year	-	-
Net Book Value		
At 31st December, 2008	<u>65,191</u>	<u>65,191</u>
At 31st December, 2007	<u>65,191</u>	<u>65,191</u>

9. INVESTMENTS**Analysis of the investments**

The number of companies or institutions in which equities, convertibles or fixed interest securities were held was 37 (2007: 36).

	2008		2007	
	£	%	£	%
EQUITY GROUPS				
Basic Materials				
Chemicals	1,178,350	3.37	2,908,500	4.05
Industrials				
Construction & Materials	1,238,300	3.54	4,341,650	6.04
General Industrials	1,011,000	2.89	1,266,000	1.76
Electronic & Elec Equip	1,276,905	3.65	1,774,345	2.47
Industrial Engineering	5,248,976	15.00	8,513,025	11.84
Support Services	10,784,083	30.83	26,140,566	36.34
Health Care				
Health Care Equipment & Servs	2,175,000	6.22	2,595,000	3.61
CONSUMER SERVICES				
Technology				
Software & Computer Services	816,000	2.34	1,410,000	1.96
Financials				
Banks	371,726	1.06	4,131,750	5.74
Non life Insurance	–	–	539,997	0.75
Real Estate	385,686	1.10	952,875	1.32
FIXED INTEREST				
Preference	432,000	1.23	528,000	0.73
AIM	10,064,250	28.77	16,826,625	23.39
UNQUOTED	–	–	–	–
Total UK	34,982,276	100.00	71,928,333	100.00

NOTES TO THE ACCOUNTS continued

for the year ended 31st December, 2008

10. INVESTMENTS

	Company		Group		
	2008 £	2007 £	2008 £	2007 £	
Investments listed on a recognised investment exchange					
Total listed investments	24,918,024	56,222,023	24,918,024	56,222,023	
Unlisted investments	10,064,252	3,714,412	10,064,252	3,714,412	
Subsidiary undertakings (note 12)	431,472	431,472	–	–	
	35,413,748	60,367,907	34,982,276	59,936,435	
			Listed	Unlisted	Total
Group:					
Opening book cost		31,253,434	9,947,321	41,200,755	
Opening unrealised appreciation		23,848,272	7,681,806	31,530,078	
Opening provision against impairments in value		–	802,500	802,500	
Opening valuation		55,101,706	16,826,627	71,928,333	
Movements in the year					
From Listed to Unlisted					–
Purchases at cost		953,318	–	953,318	
Sales – proceeds		768,589	–	768,589	
– realised gains on sales		83,230	(802,500)	(719,270)	
Permanent impairment in value of investments		–	802,500	802,500	
Increase in unrealised appreciation		(30,451,641)	(6,762,375)	(37,214,016)	
Closing valuation		24,918,024	10,064,252	34,982,276	
Closing book cost		31,521,393	9,144,821	40,666,214	
Closing unrealised appreciation		(6,603,369)	919,431	(5,683,938)	
Closing provision against impairments in value		–	–	–	
		24,918,024	10,064,252	34,982,276	
Realised gains/losses on sales		83,230	–	83,230	
Increase/(decrease) in unrealised appreciation		(30,451,641)	(6,762,375)	(37,214,016)	
Gains/(losses) on investments		(30,368,411)	(6,762,375)	(37,130,786)	

11. UNQUOTED INVESTMENTS

During the year there were no holdings in unquoted investments.

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	6.9%
Chamberlin	13.4%
Colefax Group	14.2%
Dyson	3.0%
Eleco Holdings	5.1%
Intelek	14.3%
Litho Supplies	17.4%
LPA Industries	3.7%
Scapa Group	7.2%
Thorpe F.W.	4.2%
Titon Holdings	12.0%
Treatt	5.5%

14. TRADE AND OTHER RECEIVABLES

	Company		Group	
	2008	2007	2008	2007
	£	£	£	£
Amounts due from brokers	-	-	-	-
Trade debtors	-	-	-	-
Corporation tax	1,648	70,000	-	-
Prepayments and accrued income	188,136	162,114	207,424	162,114
Other debtors	-	-	4,129	150,966
	189,784	232,114	211,553	313,080

NOTES TO THE ACCOUNTS continued

for the year ended 31st December, 2008

15. TRADE AND OTHER PAYABLES

	Company		Group	
	2008	2007	2008	2007
	£	£	£	£
Bank overdraft	-	-	-	-
Amounts due to brokers	-	-	-	-
Trade payables	-	-	173,457	499,520
Accruals	43,677	43,672	94,308	77,410
	43,677	43,672	267,765	576,930

16. SHARE CAPITAL

	2008	2007
	£	£
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	Revaluation reserve	Dividend equalisation reserve
	£	£	£	£
Group				
Beginning of year	225,326	40,668,355	31,530,078	2,306,183
Net gain/(loss) on realisation of investments	-	83,230	-	-
Permanent impairments in value of investments	-	-	-	-
Increase/(decrease) in unrealised appreciation	-	-	(37,214,016)	-
Retained net revenue for the year	-	-	-	(382,061)
End of year	225,326	40,751,585	(5,683,938)	1,924,122
Company				
Beginning of year	225,326	40,668,355	31,530,078	2,427,279
Net gain/(loss) on realisation of investments	-	83,230	-	-
Permanent impairments in value of investments	-	-	-	-
Increase/(decrease) in unrealised appreciation	-	-	(37,214,016)	-
Retained net revenue for the year	-	-	-	(382,061)
End of year	225,326	40,751,585	(5,683,938)	2,045,218

The capital reserve represents those realised profits and losses arising on the disposal of investments. The revaluation reserve represents those realised and unrealised profits and losses arising on the revaluation of investments held.

According to guidance issued by the Institute of Chartered Accountants in England and Wales (TECH 01/08) both gains and losses on the realisation of investments and changes in the fair value of investments held that are readily convertible into cash should be treated as realised.

At the year end all of the Company's portfolio was considered to be sufficiently liquid to be regarded as readily convertible into cash. Consequently the capital and revaluation reserves may be treated as realised and therefore distributable. However the Company is precluded by its Articles of Association from distributing such sums as dividends.

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	
	2008 p	2007 p	2008 £	2007 £
Preference shares	100	100	200,000	200,000
Income shares	459.0	851.4	11,291,965	20,944,795
Capital shares	1643.3	3342.1	26,950,130	54,810,147
			38,442,095	75,954,942

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	20,944,795	54,810,147	75,954,942
Total recognised gains/(losses) for the year	-	(9,282,697)	(27,848,089)	(37,130,786)
Transfer to reserves	-	(370,133)	(11,928)	(382,061)
Total new assets attributable at end of year	200,000	11,291,965	26,950,130	38,442,095
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	
	2008 £	2007 £	2008 £	2007 £
Proceeds on disposal of fair value through profit or loss investments	768,589	3,455,921	768,589	3,455,921
Purchases of fair value through profit or loss investments	953,318	2,255,669	953,318	2,255,669

20. RELATED PARTY TRANSACTIONS**Group**

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

Company

The Group's subsidiary company Discretionary Unit Fund Managers Limited manages the Discretionary Unit Fund and acts as principal in respect of all transactions of units in the Fund.

The management fee for the year amounted to £453,531 (2007: £715,417) and the amount owed to the company at the year end was £2,698 (2007: £30,847).

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

	2008 £	2007 £
Rent recharged	26,809	25,408
Dividends received	11,874	386,720
	38,683	412,128
Amounts owed by subsidiary undertaking	800,849	692,166

NOTES TO THE ACCOUNTS continued

for the year ended 31st December, 2008

21. FINANCIAL ASSETS AND LIABILITIES

The investment policy and objectives of the Company is stated on page 5.

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.

Liquidity

All investments are made in quoted securities, which are normally listed on the London Stock Exchange or AIM. Transactions in these securities may be subject to some short term liquidity constraint, in common with other smaller and medium sized listed securities, but subject to that they are considered to be reasonably realisable.

Financial assets and liabilities

All assets and liabilities are included at fair value.

The Group's financial assets and liabilities comprise:

	2008			2007		
	Interest bearing	Non-interest bearing	Total	Interest bearing	Non-interest bearing	Total
	£	£	£	£	£	£
Equity investments	-	34,982,276	34,982,276	-	71,928,332	71,928,332
Cash at bank	3,031,234	-	3,031,234	3,692,284	-	3,692,284
Trading investments	-	419,606	419,606	-	619,797	619,797
Short term debtors	-	211,553	211,553	-	313,080	313,080
Short term creditors	-	(267,765)	(267,765)	-	(663,743)	(663,743)
	3,031,234	35,345,670	38,376,904	3,692,284	72,197,466	75,889,750

APPENDIX

Details of the principal investments are given below by market value

	Holdings		Market Value	
	2008	2007	2008 £	2007 £
UK Investments				
RPS Group	2,700,000	2,700,000	3,780,000	8,640,000
Hill & Smith Holdings	1,673,038	1,673,038	3,346,076	5,521,025
Thorpe F.W.	500,000	500,000	2,350,000	2,825,000
Celsis Int'l	1,500,000	1,500,000	2,175,000	2,595,000
Intelek	12,500,000	12,500,000	2,031,250	2,250,000
Colefax Group	2,100,000	2,100,000	1,932,000	3,738,000
Scapa Group	10,425,000	10,425,000	1,668,000	3,075,375
Aggreko	300,000	300,000	1,337,250	1,599,000
Eleco Holdings	3,075,000	3,075,000	1,230,000	2,859,750
VP	1,000,000	1,000,000	1,230,000	3,295,000
Spirax Sarco Eng	130,000	150,000	1,180,400	1,317,000
Treatt	555,000	555,000	1,093,350	1,498,500
Brammer	1,000,000	550,000	1,030,000	1,182,500
Domino Printing Sciences	500,000	500,000	1,015,000	1,473,750
RPC Group	600,000	600,000	1,011,000	1,266,000
BSS Group	400,000	400,000	1,000,000	1,551,000
Low & Bonar	3,000,000	3,000,000	960,000	3,570,000
LogicaCMG	1,200,000	1,200,000	816,000	1,410,000
Dawson Holdings	1,000,000	1,000,000	790,000	1,140,000
White Young Green	1,283,333	1,283,333	744,333	4,491,666

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.



