

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

FINAL  
REPORT  
AND  
ACCOUNTS  
2007

A SELF MANAGED INVESTMENT TRUST

45

## CAPITAL STRUCTURE

CAPITAL	INCOME	PREFERENCE
<p><b>ISSUE</b> 1,640,000 shares of 25p each.</p>	<p><b>ISSUE</b> 2,460,000 shares of 25p each.</p>	<p><b>ISSUE</b> 200,000 shares of £1 each.</p>
<p><b>INCOME ENTITLEMENT</b> 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><b>INCOME ENTITLEMENT</b> 30/31st of the distribution of all profits after the payment of preference and supplementary capital dividends by way of dividend.</p>	<p><b>INCOME ENTITLEMENT</b> A dividend payment of 5.5p net per share on 2nd January.</p>
<p><b>CAPITAL ENTITLEMENT</b> 42.2278p per share and 75% of the surplus assets on liquidation.</p>	<p><b>CAPITAL ENTITLEMENT</b> 29.0650p per share and 25% of the surplus assets on liquidation.</p>	<p><b>CAPITAL ENTITLEMENT</b> Repayment at par on liquidation.</p>
<p><b>VOTING</b> One and a half votes per share on ordinary business and ten votes on a motion to liquidate.</p>	<p><b>VOTING</b> One vote per share.</p>	<p><b>VOTING</b> No vote normally for ordinary business and one vote per share on a motion to liquidate.</p>
<p><b>PRICE</b> <b>(at 31st December, 2007):</b> 3685p.</p>	<p><b>PRICE</b> <b>(at 31st December, 2007):</b> 910p.</p>	
<p><b>GROSS YIELD</b> 2.1%.</p>	<p><b>GROSS YIELD</b> 5.6%.</p>	
<p><b>PREMIUM</b> 10.3%.</p>	<p><b>PREMIUM</b> 6.9%.</p>	
<p><b>DESCRIPTION</b> Capital shares are of interest to capital orientated investors wishing some income.</p>	<p><b>DESCRIPTION</b> Income shares are of interest to income orientated investors wishing some participation in capital growth.</p>	<p><b>DESCRIPTION</b> 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**

<b>Year to 31st December</b>	<b>Net asset value per Capital Share</b>	<b>Net asset value per Capital Share (Index 1984 = 100)</b>	<b>Net dividend per Capital Share</b>	<b>Net asset value per Income share</b>	<b>Net dividend per Income Share</b>	<b>FT All Share Index</b>	<b>FT All Share Index (Rebased 1984 = 100)</b>
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
<b>2007</b>	<b>3342.1p</b>	<b>2876</b>	<b>70.9829p</b>	<b>851.4p</b>	<b>46.0p</b>	<b>3286.7</b>	<b>554</b>

† = 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

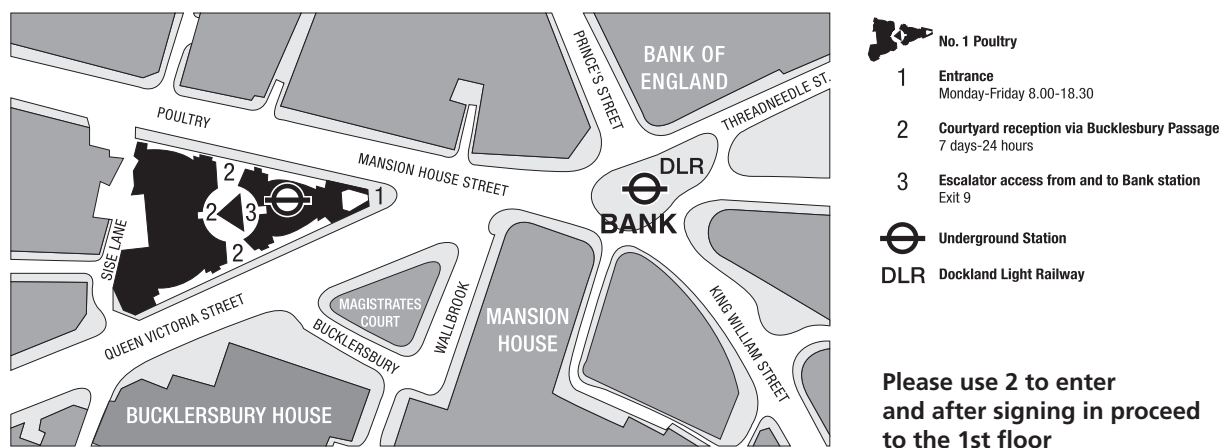
## NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the FORTY FIFTH 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 27th March, 2008, at 12 noon, for the following purposes:

1. To adopt the Directors' report, Directors' remuneration report and accounts for the year ended 31st December, 2007 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*

18th February, 2008



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

There was a profound change in investor sentiment during 2007. The banking crisis that developed in the summer has increasingly impacted on the domestic and international economies. After the benign conditions of the first eight months, UK smaller companies suffered disproportionately underperforming the FTSE All-Share index by over 10% in the months of September through to December. The overall effect for the year was that while the FTSE All-Share recorded a 2.0% rise, the FTSE Small Cap index fell by 12.4% and the FTSE Fledgling index also fell by 8.4%.

The market fall has not distinguished between good and bad investments and all have fallen. This has impacted on the Trust's performance for the year and the net asset value of the capital shares decreased from 3669.8p to 3342.1p and that of the income shares from 920.3p to 851.4p. These falls of 8.9% and 7.5% are consistent with the poor performance of UK smaller company indices and represent a very disappointing year.

Your Directors have decided to raise the dividend to 46p per income share and 2.3p per capital share. The 6% rise again exceeds the rate of inflation. Additionally, the supplementary capital dividend of 68.6829p per capital share was paid on 2nd January, 2008 and, barring unforeseen circumstances, will be maintained at 68.6829p per capital share payable on 2nd January, 2009.

Discretionary Unit Fund Managers sustained pre-tax profits at over £500,000. However as a result of the deterioration in the UK smaller company arena, profits will be substantially reduced in 2008.

The transition from easy credit to tight credit conditions is a very painful process with inevitable casualties. It is still too early to judge the significance of the current economic slowdown. So far in 2008 the equity market has suffered a further decline followed by severe volatility. The silver lining amongst all this economic gloom is that for the first time in some years there is now reasonable value in equity valuations.

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

*Chairman*

## REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their forty-fifth Annual Report, together with audited accounts in respect of the year ended 31st December, 2007.

### 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 2006. 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 11 and the dividends are disclosed in note 6 on page 17.

#### 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 £83,024,264 to £75,924,942 and at 31st December 2007, the net assets values of the income and capital shares were 851.4p and 3342.1p respectively.

#### 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 8.5% compared with a rise of 2.0% by the FTSE All-Share Index. Over the five years shareholders funds rose by 103.3% compared with a rise of 73.6% by the FTSE All-Share Index.

#### DIVIDENDS PER INCOME SHARE

The total dividend of 46.0p per income share represents an increase of 5.7% exceeding the rate of inflation.

#### TOTAL EXPENSE RATIO ("TER")

The TER shows the efficiency of control of management costs. The TER for the year ended 31st December 2007 was 0.45%. This compares favourably with other investment trusts.

#### PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks facing the Company are financial and regulatory.

#### 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.

**REPORT OF THE DIRECTORS** continued**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.

**DIRECTORS**

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

	Capital		Income	
	31st December, 2007	31st December, 2006	31st December, 2007	31st December, 2006
S. H. J. A. Knott	<b>225,670</b>	225,670	<b>203,505</b>	203,505
P. M. Allen	<b>2,500</b>	2,500	–	–
B. A. Beverley	<b>17,500</b>	17,500	<b>32,500</b>	32,500
D. M. Bramwell	–	–	<b>20,000</b>	20,000
S. J. B. Knott	<b>25,000</b>	25,000	<b>5,000</b>	5,000

No changes in the Directors' interests shown above have occurred since 31st December, 2007.

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.

**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 18th February, 2008.

	Capital Shares	Income Shares	Preference Shares
V. M. Barr	<b>72,540</b>	<b>96,829</b>	–
Dartmoor Investment Trust	–	<b>75,500</b>	–
Discretionary Unit Fund	<b>150,000</b>	–	–
Giltspur Nominees	–	<b>86,441</b>	–
Barclays Plc	<b>53,900</b>	<b>146,794</b>	–
HSBC Global Custody Nominees (UK)	<b>100,000</b>	–	–
L.W. & B.I. Potter	–	<b>145,000</b>	–
Rulegale Nominees	–	–	<b>67,934</b>
Taylor Young Investment Management (Ltd)	<b>104,911</b>	–	–

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

18th February, 2008

## 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.

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 2008 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.

**CORPORATE GOVERNANCE AND DIRECTORS' REMUNERATION** continued**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**

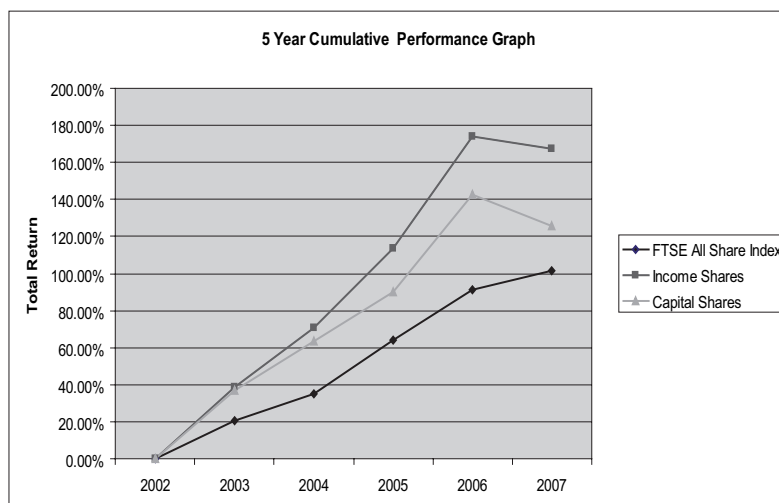
	<b>Fees and Salaries</b>	
	<b>2007</b>	2006
	<b>£</b>	£
S. H. J. A. KNOTT <i>Chairman</i> , aged 76 years He was a Director of a number of PLCs	<b>14,000</b>	12,000
P. M. ALLEN <i>Non-executive</i> , aged 67 years He was a Director of HG Capital Trust PLC	<b>8,000</b>	6,000
B. A. BEVERLEY <i>Non-executive</i> , aged 72 years He was a Director of Greig Middleton & Co. Limited	<b>8,000</b>	6,000
D. M. BRAMWELL <i>Deputy Chairman and Senior Independent</i> , aged 60 years He is Chairman of Intelek PLC	<b>14,100</b>	11,750
S. J. B. KNOTT <i>Executive</i> , aged 49 years He is investment manager	<b>140,000</b>	135,000

## 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
<b>Emoluments and Compensation</b>					
Salary and fees	14,000	8,000	8,000	14,100	140,000
Bonus	–	–	–	–	–
Ex gratia	–	–	–	–	–
Non-cash benefits	–	–	–	–	–
<b>Total 2007</b>	<b>14,000</b>	<b>8,000</b>	<b>8,000</b>	<b>14,100</b>	<b>140,000</b>
Total 2006	12,000	6,000	6,000	11,750	135,000
<b>Share Options</b>	–	–	–	–	–
<b>Long term incentive schemes</b>	–	–	–	–	–
<b>Excess retirement benefits of past and current Directors</b>	–	–	–	–	–
<b>Compensation of past Directors</b>	–	–	–	–	–
<b>Sums paid to third parties in respect of Directors' services</b>	–	–	–	–	–
<b>S. H. J. A Knott, Director</b>					
<b>S. J. B. Knott, Director</b>					

### 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.

In determining how amounts are presented within items in the income statement and balance sheet, the directors must have regard to the substance of the reported transaction or arrangement, in accordance with generally accepted accounting principles or practice.

## 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, 2007 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, 2007 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, 2007;
- 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  
18th February, 2008

25 City Road  
London  
EC1Y 1AR

**CONSOLIDATED INCOME STATEMENT**

for the year ended 31st December, 2007

Notes	Year ended 31st December, 2007			Year ended 31st December, 2006			
	Revenue £	Capital £	Total £	Revenue £	Capital £	Total £	
<b>Investment income</b>	2	<b>2,148,467</b>	–	<b>2,148,467</b>	2,008,203	–	2,008,203
Other operating income	2	<b>902,022</b>	–	<b>902,022</b>	750,360	–	750,360
Total income		<b>3,050,489</b>	–	<b>3,050,489</b>	2,758,563	–	2,758,563
(Losses)/Gains on fair value through profit or loss assets	10	<b>(48,570)</b>	<b>(7,171,726)</b>	<b>(7,220,296)</b>	102,765	16,211,851	16,314,616
		<b>3,001,919</b>	<b>(7,171,726)</b>	<b>(4,169,807)</b>	2,861,328	16,211,851	19,073,179
<b>Expenses</b>							
Investment management fee		–	–	–	–	–	–
Other expenses	3	<b>533,232</b>	–	<b>533,232</b>	514,179	–	514,179
		<b>533,232</b>	–	<b>533,232</b>	514,179	–	514,179
<b>Profit before tax</b>		<b>2,468,687</b>	<b>(7,171,726)</b>	<b>(4,703,039)</b>	2,347,149	16,211,851	18,559,000
Tax	5	<b>86,213</b>	–	<b>86,213</b>	91,654	–	91,654
<b>Profit for the period</b>		<b>2,382,474</b>	<b>(7,171,726)</b>	<b>(4,789,252)</b>	2,255,495	16,211,851	18,467,346
<b>Earnings per share</b>							
<b>Return per income share (p)</b>	7	<b>48.9p</b>	<b>(72.9)p</b>	<b>(24.0)p</b>	45.7p	164.8p	210.5p
<b>Return per capital share (p)</b>	7	<b>71.1p</b>	<b>(328.0)p</b>	<b>(256.9)p</b>	68.3p	741.4p	809.7p

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, 2007

	Notes	Company		Group	
		2007 £	2006 £	2007 £	2006 £
<b>Non-current assets</b>					
Goodwill	8	-	-	<b>65,191</b>	65,191
Investments – Fair value through profit or loss	10	<b>72,359,805</b>	80,731,783	<b>71,928,333</b>	80,300,311
		<b>72,359,805</b>	80,731,783	<b>71,993,524</b>	80,365,502
<b>Current assets</b>					
Trading investments		-	-	<b>619,797</b>	409,726
Trade and other receivables	14	<b>232,114</b>	216,648	<b>313,080</b>	384,441
Current tax receivable		-	-	-	-
Amounts due from group undertakings		<b>692,166</b>	613,038	-	-
Cash and cash equivalents		<b>2,835,625</b>	1,601,507	<b>3,692,284</b>	2,556,595
		<b>3,759,905</b>	2,431,193	<b>4,625,161</b>	3,350,762
<b>Total assets</b>		<b>76,119,710</b>	83,162,976	<b>76,618,685</b>	83,716,264
<b>Current liabilities</b>					
Trade and other payables	15	<b>43,672</b>	17,616	<b>576,930</b>	600,563
Current tax payable		-	-	<b>86,813</b>	91,437
		<b>43,672</b>	17,616	<b>663,743</b>	692,000
<b>Total assets less current liabilities</b>		<b>76,076,038</b>	83,145,360	<b>75,954,942</b>	83,024,264
<b>Net assets</b>		<b>76,076,038</b>	83,145,360	<b>75,954,942</b>	83,024,264
<b>Equity</b>					
Called up share capital	16	<b>1,225,000</b>	1,225,000	<b>1,225,000</b>	1,225,000
Share premium account	17	<b>225,326</b>	225,326	<b>225,326</b>	225,326
Retained reserves:					
Capital reserve	17	<b>40,668,355</b>	41,235,990	<b>40,668,355</b>	41,235,990
Revaluation reserve	17	<b>31,530,078</b>	38,134,169	<b>31,530,078</b>	38,134,169
Dividend equalisation reserve	17	<b>2,427,279</b>	2,324,875	<b>2,306,183</b>	2,203,779
<b>Total equity</b>		<b>76,076,038</b>	83,145,360	<b>75,954,942</b>	83,024,264
<b>Net asset value per share</b>					
Income shares				<b>851.4p</b>	920.3p
Capital shares				<b>3,342.1p</b>	3,669.8p

The financial statements were approved by the board and authorised for issue on 18th February 2008. 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, 2007

	Share capital £	Share premium account £	Capital reserve £	Revaluation reserve £	Dividend equalisation reserve £	Total £
<b>Balance at 31st December, 2005</b>	1,225,000	225,326	39,534,068	23,624,240	2,108,094	66,716,728
<b>Changes in equity for 2006</b>						
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)
<b>Balance at 31st December, 2006</b>	1,225,000	225,326	41,235,990	38,134,169	2,203,779	83,024,264
<b>Changes in equity for 2007</b>						
(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)
<b>Balance at 31st December, 2007</b>	1,225,000	225,326	40,668,355	31,530,078	2,306,183	75,954,942

**COMPANY STATEMENT OF CHANGES IN EQUITY**

for the year ended 31st December, 2007

	Share capital £	Share premium account £	Capital reserve £	Revaluation reserve £	Dividend equalisation reserve £	Total £
<b>Balance at 31st December, 2005</b>	1,225,000	225,326	39,534,068	23,624,240	2,229,190	66,837,824
<b>Changes in equity for 2006</b>						
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)
<b>Balance at 31st December, 2006</b>	1,225,000	225,326	41,235,990	38,134,169	2,324,875	83,145,360
<b>Changes in equity for 2007</b>						
(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)
<b>Balance at 31st December, 2007</b>	1,225,000	225,326	40,668,355	31,530,078	2,427,279	76,076,038

**CASH FLOW STATEMENT**

for the year ended 31st December, 2007

	Company		Group	
	2007	2006	2007	2006
Notes	£	£	£	£
<b>Cashflows from operating activities</b>				
(Loss)/Profit before tax	<b>(4,859,252)</b>	18,400,346	<b>(4,703,039)</b>	18,559,000
Adjustments for:				
Losses/(Gains) on investments	<b>7,171,726</b>	(16,211,851)	<b>7,171,726</b>	(16,211,851)
Purchases of investments	19 <b>(2,255,669)</b>	(7,563,887)	<b>(2,255,669)</b>	(7,563,887)
Proceeds on disposal of investments	19 <b>3,455,921</b>	3,411,862	<b>3,455,921</b>	3,411,862
Movement in trading investments	-	-	<b>(210,071)</b>	104,546
Operating cash flows before movements in working capital	<b>3,512,726</b>	(1,963,530)	<b>3,458,868</b>	(1,700,330)
Decrease/(increase) in receivables	<b>(91,594)</b>	(78,550)	<b>71,361</b>	188,103
Increase/(decrease) in payables	<b>26,056</b>	(6,371)	<b>(23,633)</b>	(277,853)
Net cash from operating activities before income taxes	<b>3,447,188</b>	(2,048,451)	<b>3,506,596</b>	(1,790,080)
Income taxes paid	<b>67,000</b>	-	<b>(90,837)</b>	(141,201)
<b>Net cash from operating activities</b>	<b>3,514,188</b>	(2,048,451)	<b>3,415,759</b>	(1,931,281)
Cash flows from financing activities				
Dividends paid	<b>(2,280,070)</b>	(2,159,810)	<b>(2,280,070)</b>	(2,159,810)
<b>Net cash (used in)/from financing activities</b>	<b>(2,280,070)</b>	(2,159,810)	<b>(2,280,070)</b>	(2,159,810)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,234,118</b>	(4,208,261)	<b>1,135,689</b>	(4,091,091)
<b>Cash and cash equivalents at beginning of year</b>	<b>1,601,507</b>	5,809,768	<b>2,556,595</b>	6,647,686
<b>Cash and cash equivalents at end of year</b>	<b>2,835,625</b>	1,601,507	<b>3,692,284</b>	2,556,595

## NOTES TO THE ACCOUNTS

for the year ended 31st December, 2007

### 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**

	<b>Group</b>	
	<b>2007</b>	2006
	<b>£</b>	£
<b>Income from investments</b>		
Franked investment income	<b>2,148,467</b>	2,008,203
UK unfranked investment income	-	-
Foreign income dividends	-	-
Scrip dividends	-	-
Income from group undertakings	-	-
Other	-	-
	<b>2,148,467</b>	2,008,203
<b>Other operating income</b>		
Deposit interest	<b>186,605</b>	172,730
Underwriting commission	-	-
Stock lending fees	-	-
Other	<b>715,417</b>	577,630
	<b>902,022</b>	750,360
<b>Total income</b>	<b>3,050,489</b>	2,758,563
<b>Total income comprises:</b>		
Dividends	<b>2,148,467</b>	2,008,203
Interest	<b>186,605</b>	172,730
Other income	<b>715,417</b>	577,630
	<b>3,050,489</b>	2,758,563
<b>Income from investments</b>		
Listed UK	<b>1,746,285</b>	1,576,971
Unlisted	<b>402,182</b>	431,232
	<b>2,148,467</b>	2,008,203

**3. OTHER EXPENSES**

	<b>2007</b>	2006
	<b>£</b>	£
Staff costs (note 4)	<b>328,149</b>	317,020
Auditors remuneration		
– Audit	<b>13,300</b>	14,650
– Other services to the company and its subsidiaries	<b>3,000</b>	3,000
Goodwill amortisation	-	-
Operating Leases–other	-	-
Other	<b>188,783</b>	179,509
	<b>533,232</b>	514,179

**4. STAFF COSTS**

	<b>2007</b>	2006
	<b>£</b>	£
Wages and salaries	<b>285,774</b>	279,900
Social security costs	<b>29,975</b>	27,120
Pensions	<b>12,400</b>	10,000
	<b>328,149</b>	317,020

	<b>Number</b>	Number
The average number of staff employed by the group was	<b>3</b>	3

	<b>£</b>	£
Directors' emoluments (see page 9):		
Fees and salaries	<b>184,100</b>	170,750
Ex Gratia payments	-	-
	<b>184,100</b>	170,750

**NOTES TO THE ACCOUNTS continued**

for the year ended 31st December, 2007

**5. TAX ON ORDINARY ACTIVITIES**

	2007 £	2006 £
UK Corporation Tax at 30% (2006: 30%)	<b>86,213</b>	91,437
Adjustments to prior years	-	217
	<b>86,213</b>	91,654
Profit before tax	<b>2,468,687</b>	2,347,149
Tax on profit at standard rate	<b>740,606</b>	704,145
Factors affecting the recovery/charge for the year:		
Expenses not taxed	-	-
Income not taxable	<b>(644,540)</b>	(602,461)
Adjustment to prior year	-	217
Unutilised losses carried forward	-	-
Marginal relief	<b>(9,853)</b>	(10,247)
Losses utilised in period	-	-
	<b>86,213</b>	91,654

**6. DIVIDENDS AND OTHER APPROPRIATIONS**

Amounts recognised as distributions to equity holders in the period:

	2007 p	2006 p	2007 £	2006 £
<b>Income</b>				
Final dividend for the year ended 31st December, 2006	<b>29.50</b>	28.00	<b>725,700</b>	688,800
Interim dividend for the year ended 31st December, 2007	<b>15.50</b>	14.00	<b>381,300</b>	344,400
<b>Capital</b>				
Final dividend for the year ended 31st December, 2006	<b>2.1750</b>	2.0250	<b>35,670</b>	33,210
Supp cap dividend for the year ended 31st December, 2007	<b>68.6829</b>	66.0000	<b>1,126,400</b>	1,082,400
			<b>2,269,070</b>	2,148,810
Dividends on non-equity shares:				
Cumulative preference	<b>5.5%</b>	5.5%	<b>11,000</b>	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.

	2007 p	2006 p	2007 £	2006 £
<b>Income</b>				
Proposed final dividend for the year ended 31st December, 2007	<b>30.50</b>	29.50	<b>750,300</b>	725,700
<b>Capital</b>				
Proposed final dividend for the year ended 31st December, 2007	<b>2.3000</b>	2.1750	<b>37,300</b>	35,670

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.

	2007 p	2006 p	2007 £	2006 £
<b>Dividends on equity shares</b>				
<b>Income</b>				
Interim dividend for the year ended 31st December, 2007	15.50	14.00	381,300	344,400
Proposed final dividend for the year ended 31st December, 2007	30.50	29.50	750,300	725,700
	<u>46.00</u>	<u>43.50</u>		
<b>Capital</b>				
Supp cap dividend for the year ended 31st December, 2007	68.6829	66.0000	1,126,400	1,082,400
Proposed final dividend for the year ended 31st December, 2007	2.3000	2.1750	37,720	35,670
	<u>70.9829</u>	<u>68.1750</u>	<u>2,295,720</u>	<u>2,188,170</u>

**7. RETURN PER SHARE**

	2007			2006		
	Income £	Capital £	Total £	Income £	Capital £	Total £
Return attributable to equity shareholders:						
Revenue return	1,204,911	1,166,563	2,371,474	1,124,608	1,119,887	2,244,495
Capital return	(1,792,932)	(5,378,794)	(7,171,726)	4,052,963	12,158,888	16,211,851
	<u>(588,021)</u>	<u>(4,212,231)</u>	<u>(4,800,252)</u>	<u>5,177,571</u>	<u>13,278,775</u>	<u>18,456,346</u>
	p	p		p	p	
Revenue return	48.9	71.1		45.7	68.3	
Capital return	(72.9)	(328.0)		164.8	741.4	
	<u>(24.0)</u>	<u>(256.9)</u>		<u>210.5</u>	<u>809.7</u>	

**8. GOODWILL**

	2007 £	2006 £
<b>Cost</b>		
At beginning and end of the year	65,191	65,191
<b>Impairment losses</b>		
At beginning and end of year	-	-
<b>Net Book Value</b>		
At 31st December, 2007	<u>65,191</u>	<u>65,191</u>
At 31st December, 2006	<u>65,191</u>	<u>65,191</u>

**NOTES TO THE ACCOUNTS continued**

for the year ended 31st December, 2007

**9. INVESTMENTS****Analysis of the investments**

The number of companies or institutions in which equities, convertibles or fixed interest securities were held was 36 (2006: 42).

	2007		2006	
	£	%	£	%
<b>EQUITY GROUPS</b>				
<b>Basic Materials</b>				
Chemicals	<b>2,908,500</b>	<b>4.05</b>	5,496,000	6.84
<b>Industrials</b>				
Construction & Materials	<b>4,341,650</b>	<b>6.04</b>	5,239,000	6.52
General Industrials	<b>1,266,000</b>	<b>1.76</b>	1,512,000	1.88
Electronic & Elec Equip	<b>1,774,345</b>	<b>2.47</b>	594,642	0.74
Industrial Engineering	<b>8,513,025</b>	<b>11.84</b>	7,742,520	9.64
Industrial Transportation	-	-	-	-
Support Services	<b>26,140,566</b>	<b>36.34</b>	27,047,590	33.68
<b>Consumer Goods</b>				
Household Goods	-	-	-	-
<b>Health Care</b>				
Health Care Equipment & Servs	<b>2,595,000</b>	<b>3.61</b>	3,225,000	4.02
<b>CONSUMER SERVICES</b>				
<b>Technology</b>				
Software & Computer Services	<b>1,410,000</b>	<b>1.96</b>	2,232,000	2.78
Technology Hardware & Equipment	-	-	-	-
<b>Financials</b>				
Banks	<b>4,131,750</b>	<b>5.74</b>	9,758,500	12.15
Non life Insurance	<b>539,997</b>	<b>0.75</b>	585,000	0.73
Real Estate	<b>952,875</b>	<b>1.32</b>	1,490,500	1.86
<b>FIXED INTEREST</b>				
Preference	<b>528,000</b>	<b>0.73</b>	614,000	0.76
AIM	<b>16,826,625</b>	<b>23.39</b>	14,763,559	18.40
UNQUOTED	-	-	-	-
<b>Total UK</b>	<b>71,928,333</b>	<b>100.00</b>	80,300,311	100.00

**10. INVESTMENTS – FAIR VALUE THROUGH PROFIT OR LOSS**

	Company		Group		
	2007 £	2006 £	2007 £	2006 £	
Investments listed on a recognised investment exchange					
Total listed investments	<b>55,101,706</b>	65,536,752	<b>55,101,706</b>	65,536,752	
Unlisted investments	<b>16,826,627</b>	14,763,559	<b>16,826,627</b>	14,763,559	
Subsidiary undertakings (note 12)	<b>431,472</b>	431,472	–	–	
	<b>72,359,805</b>	80,731,783	<b>71,928,333</b>	80,300,311	
			<b>Listed</b>	<b>Unlisted</b>	<b>Total</b>
<b>Group:</b>					
Opening book cost		32,969,704	9,998,938	42,968,642	
Opening unrealised appreciation		32,567,045	5,567,124	38,134,169	
Opening provision against impairments in value		–	802,500	802,500	
Opening valuation		65,536,749	14,763,562	80,300,311	
Movements in the year					
From Listed to Unlisted		–	–	–	
Purchases at cost		1,067,488	1,188,181	2,255,669	
Sales – proceeds		(2,882,978)	(572,943)	(3,455,921)	
– realised gains on sales		99,220	(666,855)	(567,635)	
Permanent impairment in value of investments		–	–	–	
Increase in unrealised appreciation		(8,718,773)	2,114,682	(6,604,091)	
Closing valuation		55,101,706	16,826,627	71,928,333	
Closing book cost		31,253,434	9,947,321	41,200,755	
Closing unrealised appreciation		23,848,272	7,681,806	31,530,078	
Closing provision against impairments in value		–	802,500	802,500	
		55,101,706	16,826,627	71,928,333	
Realised gains/losses on sales		99,220	(666,855)	(567,635)	
Increase/(decrease) in unrealised appreciation		(8,718,773)	2,114,682	(6,604,091)	
Gains/(losses) on investments		(8,619,553)	1,447,827	(7,171,726)	

**11. UNQUOTED INVESTMENTS**

During the year, transactions in unquoted investments were:

	Cost £	Carrying value at 31/12/07 £	Disposal Proceeds £	Gain £
<b>Investment</b>	–	–	–	–

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

	Cost £	Carrying value at 31/12/07 £	Carrying value at 31/12/06 £	Amount of revaluation £
<b>Investment</b>	–	–	–	–

**NOTES TO THE ACCOUNTS continued**

for the year ended 31st December, 2007

**12. SUBSIDIARY UNDERTAKINGS**

The Company had investments in the following subsidiary undertakings:

<b>Name</b>	<b>Principal activity</b>	<b>Country of incorporation and operation</b>	<b>Description of shares held</b>	<b>Proportion of nominal value of issued shares and voting rights held</b>
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:

<b>Name</b>	
Celsis International	6.8%
Chamberlin	13.5%
Colefax Group	13.6%
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**

	<b>Company</b>		<b>Group</b>	
	<b>2007</b>	2006	<b>2007</b>	2006
	<b>£</b>	£	<b>£</b>	£
Amounts due from brokers	-	-	-	-
Trade debtors	-	-	-	-
Corporation tax	<b>70,000</b>	67,000	-	-
Prepayments and accrued income	<b>162,114</b>	149,648	<b>162,114</b>	149,648
Other debtors	-	-	<b>150,966</b>	234,793
	<b>232,114</b>	216,648	<b>313,080</b>	384,441

**15. TRADE AND OTHER PAYABLES**

	Company		Group	
	2007 £	2006 £	2007 £	2006 £
Bank overdraft	-	-	-	-
Amounts due to brokers	-	-	-	-
Trade payables	-	-	<b>499,520</b>	582,947
Accruals	<b>43,672</b>	17,616	<b>77,410</b>	17,616
	<b>43,672</b>	17,616	<b>576,930</b>	600,563

**16. SHARE CAPITAL**

	2007 £	2006 £
Authorised		
200,000 5.5% (Net) Cumulative Preference Shares of £1 each	<b>200,000</b>	200,000
2,400,000 Capital Shares of 25p each	<b>600,000</b>	600,000
3,600,000 Income Shares of 25p each	<b>900,000</b>	900,000
	<b>1,700,000</b>	1,700,000
Allotted, Called Up and Fully Paid		
200,000 5.5% (Net) Cumulative Preference Shares of £1 each	<b>200,000</b>	200,000
1,640,000 Capital Shares of 25p each	<b>410,000</b>	410,000
2,460,000 Income Shares of 25p each	<b>615,000</b>	615,000
	<b>1,225,000</b>	1,225,000

**17. RESERVES**

	Share premium account £	Capital reserve- realised £	Revaluation reserve- unrealised £	Dividend equalisation reserve £
<b>Group</b>				
Beginning of year	<b>225,326</b>	<b>41,235,990</b>	<b>38,134,169</b>	<b>2,203,779</b>
Net gain/(loss) on realisation of investments	-	<b>(567,635)</b>	-	-
Permanent impairments in value of investments	-	-	-	-
Increase/(decrease) in unrealised appreciation	-	-	<b>(6,604,091)</b>	-
Retained net revenue for the year	-	-	-	<b>102,404</b>
End of year	<b>225,326</b>	<b>40,668,355</b>	<b>31,530,078</b>	<b>2,306,183</b>
<b>Company</b>				
Beginning of year	<b>225,326</b>	<b>41,235,990</b>	<b>38,134,169</b>	<b>2,324,875</b>
Net gain/(loss) on realisation of investments	-	<b>(567,635)</b>	-	-
Permanent impairments in value of investments	-	-	-	-
Increase/(decrease) in unrealised appreciation	-	-	<b>(6,604,091)</b>	-
Retained net revenue for the year	-	-	-	<b>102,404</b>
End of year	<b>225,326</b>	<b>40,668,355</b>	<b>31,530,078</b>	<b>2,427,279</b>

**NOTES TO THE ACCOUNTS continued**

for the year ended 31st December, 2007

**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	
	2007 p	2006 p	2007 £	2006 £
Preference shares	100	100	200,000	200,000
Income shares	851.4	920.3	20,944,795	22,639,816
Capital shares	3,342.1	3,669.8	54,810,147	60,184,448
			<b>75,954,942</b>	<b>83,024,264</b>

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	22,639,816	60,184,448	83,024,264
Total recognised gains/(losses) for the year	-	(1,792,932)	(5,378,794)	(7,171,726)
Transfer to reserves	-	97,911	4,493	102,404
Total new assets attributable at end of year	200,000	20,944,795	54,810,147	75,954,942
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	
	2007 £	2006 £	2007 £	2006 £
Proceeds on disposal of fair value through profit or loss investments	3,455,921	3,411,862	3,455,921	3,411,862
Purchases of fair value through profit or loss investments	2,255,669	7,563,887	2,255,669	7,563,887

**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 £715,417 (2006: £577,631) and the amount owed to the company at the year end was £30,847 (2006: £5,307).

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

	2007 £	2006 £
Rent recharged	25,408	24,450
Dividends received	386,720	395,012
	<b>412,128</b>	<b>419,462</b>
Amounts owed by subsidiary undertaking	<b>692,166</b>	<b>613,038</b>

**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. Transactions in these securities may be subject to a modest degree of 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:

	2007			2006		
	Interest bearing	Non-interest bearing	Total	Interest bearing	Non-interest bearing	Total
	£	£	£	£	£	£
Equity investments	-	<b>71,928,332</b>	<b>71,928,332</b>	-	80,300,311	80,300,311
Cash at bank	<b>3,692,284</b>	-	<b>3,692,284</b>	2,556,595	-	2,556,595
Trading investments	-	<b>619,797</b>	<b>619,797</b>	-	409,726	409,726
Short term debtors	-	<b>383,080</b>	<b>383,080</b>	-	384,441	384,441
Short term creditors	-	<b>(733,743)</b>	<b>(733,743)</b>	-	(692,000)	(692,000)
	<b>3,692,284</b>	<b>72,197,466</b>	<b>75,889,750</b>	2,556,595	80,402,478	82,959,073

## APPENDIX

Details of the principal investments are given below by market value

	Holdings		Market Value	
	2007	2006	2007 £	2006 £
<b>UK Investments</b>				
RPS Group	<b>2,700,000</b>	2,700,000	<b>8,640,000</b>	7,290,000
Hill & Smith Holdings	<b>1,673,038</b>	1,673,038	<b>5,521,025</b>	4,513,020
White Young Green	<b>1,283,333</b>	1,283,333	<b>4,491,666</b>	5,839,165
HBOS	<b>525,000</b>	525,000	<b>3,858,750</b>	5,943,000
Colefax Group	<b>2,100,000</b>	2,100,000	<b>3,738,000</b>	4,242,000
Low & Bonar	<b>3,000,000</b>	3,000,000	<b>3,570,000</b>	3,847,500
VP	<b>1,000,000</b>	1,000,000	<b>3,295,000</b>	3,130,000
Scapa Group	<b>10,425,000</b>	5,300,000	<b>3,075,375</b>	1,245,500
Eleco Holdings	<b>3,075,000</b>	3,075,000	<b>2,859,750</b>	2,736,750
Thorpe F.W.	<b>500,000</b>	500,000	<b>2,825,000</b>	2,750,000
Celsis Int'l	<b>1,500,000</b>	1,500,000	<b>2,595,000</b>	3,225,000
Intelek	<b>12,500,000</b>	12,500,000	<b>2,250,000</b>	1,562,500
Chamberlin	<b>1,000,000</b>	1,000,000	<b>1,900,000</b>	1,830,000
Litho Supplies	<b>3,860,000</b>	3,860,000	<b>1,891,400</b>	2,238,800
Aggreko	<b>300,000</b>	300,000	<b>1,559,000</b>	1,306,500
BSS Group	<b>400,000</b>	400,000	<b>1,551,000</b>	1,730,000
Treatt	<b>555,000</b>	555,000	<b>1,498,500</b>	1,776,000
Domino Printing Sciences	<b>500,000</b>	500,000	<b>1,473,750</b>	1,601,250
Dyson	<b>1,000,000</b>	1,000,000	<b>1,410,000</b>	2,170,000
LogicaCMG	<b>1,200,000</b>	1,200,000	<b>1,410,000</b>	2,232,000

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.

