

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

FINAL  
REPORT  
AND  
ACCOUNTS  
2010

A SELF MANAGED INVESTMENT TRUST

48

## 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, 2010):</b> 2075.0p.</p>	<p><b>PRICE</b> <b>(at 31st December, 2010):</b> 605.0p.</p>	
<p><b>GROSS YIELD</b> 3.7%.</p>	<p><b>GROSS YIELD</b> 4.7%.</p>	
<p><b>DISCOUNT</b> 33.2%.</p>	<p><b>DISCOUNT</b> 19.6%.</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, 2016.**

*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>
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	1893.70	319
2003	2194.5p	1889	50.8226p	542.9p	34.5p	2207.40	372
2004	2573.1p	2214	50.9226p	633.3p	36.5p	2410.80	407
2005	2928.1p	2520	58.0982p	751.8p	40.5p	2847.00	480
2006	3669.8p	3158	68.1750p	920.3p	43.5p	3221.40	543
2007	3342.1p	2876	70.9829p	851.4p	46.0p	3286.70	554
2008	1643.3p	1414	70.3329p	459.0p	33.0p	2209.29	373
2009	2158.5p	1858	69.9579p	549.3p	25.5p	2760.80	466
<b>2010</b>	<b>3105.7p</b>	<b>2673</b>	<b>69.9579p</b>	<b>752.9p</b>	<b>25.5p</b>	<b>3094.41</b>	<b>522</b>

† = includes special dividend

## DIRECTORS AND ADVISERS

### DIRECTORS

D. M. BRAMWELL *Chairman*  
B. A. BEVERLEY  
S. H. J. A. KNOTT  
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  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

### BROKERS

ARBUTHNOT SECURITIES LTD  
20 Ropemaker Street  
London EC2Y 9HR

### BANKERS

HSBC BANK PLC  
Poultry and Princes Street  
London EC2P 2BX

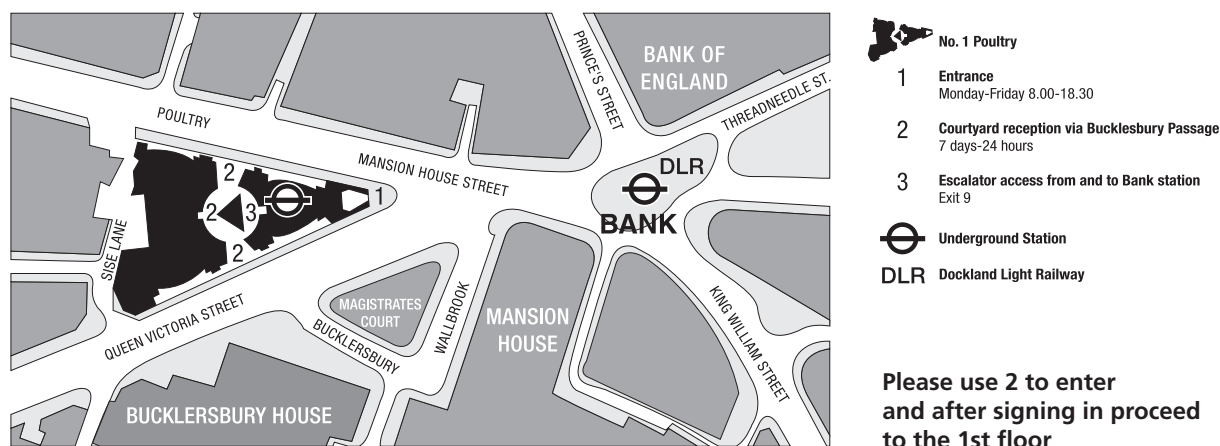
## NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the FORTY EIGHTH 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 24th March, 2011, at 12 noon, for the following purposes:

1. To adopt the Directors' report, Directors' remuneration report and accounts for the year ended 31st December, 2010 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*

22nd February, 2011



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

After the rapid contraction of 2008-9, the UK economy managed to pull out of recession in 2010. More importantly, strong growth in the world economy has led to a resurgence in international trade benefiting export-orientated companies.

The stock market had a quieter year with a rise of 12.1% in the FTSE All-share Index with a slightly better performance by smaller cap indices.

Your Trust experienced a strong finish to the year. The net asset value of capital shares rose from 2158.5p to 3105.7p and that of the income shares from 549.3p to 752.9p. These are increases of 43.9% and 37.1% respectively.

Discretionary Unit Fund Managers achieved modest progress with pre-tax profits of over £200,000. Again there was a major contribution from stock profits which will not necessarily be repeated.

After the difficult circumstances of the last two years, your Directors have been able to maintain dividends at 25.5p per income share and 1.275p per capital share. Additionally, the supplementary capital dividend of 68.6829p per capital share was paid on 2nd January, 2011 and barring unforeseen circumstances, will be maintained at 68.6829p per capital share payable on 2nd January, 2012.

In accordance with the established practice, your Directors have reviewed the performance of the Trust over the last five years: The performance of shareholders funds shows a rise of 4.4% compared with a rise of 8.7% by the FTSE All-share index. In addition, the dividend of the income shares has not matched inflation. For the first time the Trust has not met its criteria during a five year period but the circumstances of the world banking crisis fully explains why this happened. Taking this into account as well as the long-term performance of the Trust, your Directors therefore recommend that the life of the Trust should be extended by a further five years. It is also intended to modify the income criterion to maintain the income dividend over the period. This change reflects recent experience and the unique income demands of the respective class rights of the Trust.

Lastly, this is my first statement as Chairman and I would like to thank my predecessor, Simon Knott, for his contribution over the last three decades. During his time as chairman, shareholders funds rose from £3m to £70m and the Trust is in a strong position to meet the challenges of the future.

**D. M. BRAMWELL**

*Chairman*

## REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their forty-eighth Annual Report, together with audited accounts in respect of the year ended 31st December, 2010.

### 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 1158 of the Corporation Tax Act 2010 ("S1158 CTA") for the year ended 31st December, 2009. 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 12 and the dividends are disclosed in note 6 on page 18.

#### 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 increased from £49,111,143 to £69,654,369 and at 31st December, 2010, the net assets values of the income and capital shares were 752.9p and 3105.7p 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 increased by 41.8% compared with 12.1% by the FTSE All-Share Index. Over the five years shareholders funds rose by 4.4% compared with a rise of 8.7% by the FTSE All-Share Index.

##### *Dividends per income share*

The total dividend per income share was 25.5p.

##### *Total Expense Ratio ("TER")*

The TER shows the efficiency of control of management costs. The TER for the year ended 31st December, 2010 was 0.49%.

#### 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 S1158 CTA 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:

	<b>Capital</b>		<b>Income</b>	
	<b>31st December, 2010</b>	31st December, 2009	<b>31st December, 2010</b>	31st December, 2009
S. H. J. A. Knott	<b>255,670</b>	225,670	<b>203,505</b>	203,505
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, 2010.

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 22nd February, 2011.

	<b>Capital Shares</b>	<b>Income Shares</b>	<b>Preference Shares</b>
N. W. Brown Nominees	<b>86,698</b>	–	–
Discretionary Unit Fund	<b>120,000</b>	–	–
HSBC Global Custody Nominees (UK)	<b>100,000</b>	–	–
Harewood Nominees	<b>188,500</b>	–	–
Dartmoor Investment Trust	–	<b>150,500</b>	–
Giltspur Nominees	–	<b>86,441</b>	–
L.W. & B.I. Potter	–	<b>145,000</b>	–
Rulegale Nominees	–	–	<b>67,934</b>
V. M. Barr	<b>72,540</b>	<b>96,829</b>	–
Barclays Plc	<b>53,900</b>	<b>123,602</b>	–
Additionally Taylor Young Investment Management (Ltd) hold:	<b>130,820</b>	<b>259,875</b>	–

This may include holdings listed above

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.

**SECTION 992 COMPANIES ACT 2006 DISCLOSURES**

Details of the Company's capital structure and voting rights in the shares are given on the inside cover of this report.

**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 489 of the Companies Act 2006, a resolution proposing the reappointment of Begbies Chettle Agar as auditors of the Company will be put to the Annual General Meeting.

**CORPORATE GOVERNANCE**

Significant matters relating to the governance of the Trust, including those in relation to the recommendations of the Combined Code 2008 are noted below.

*The Board of Directors*

The Board of Directors, which includes two 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 2011 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.

## REPORT OF THE DIRECTORS *continued*

### *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. 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*

D. M. BRAMWELL *Chairman and Senior Independent*, aged 63 years

He is Chairman of Hi Wave Technologies PLC

S. H. J. A. KNOTT *Non-executive*, aged 79 years

He was a Director of a number of PLCs

B. A. BEVERLEY *Non-executive*, aged 75 years

He was a Director of Greig Middleton & Co. Limited

S. J. B. KNOTT *Executive*, aged 52 years

He is investment manager

22nd February, 2011

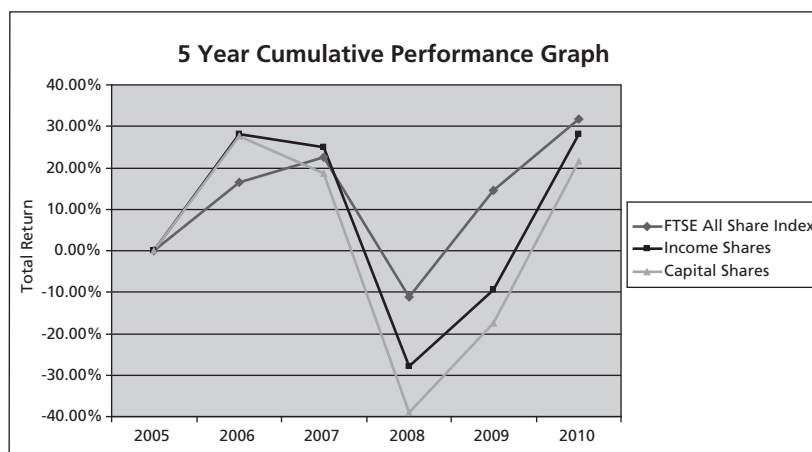
By Order of the Board  
DISCRETIONARY UNIT FUND MANAGERS LIMITED  
Secretaries

## 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	B. A. Beverley	D. M. Bramwell	S. J. B. Knott
<b>Emoluments and Compensation</b>				
Salary and fees	14,000	8,000	14,025	100,000
Bonus	–	–	–	10,000
Ex gratia	–	–	–	–
Non-cash benefits	–	–	–	–
<b>Total 2010</b>	<b>14,000</b>	<b>8,000</b>	<b>14,025</b>	<b>110,000</b>
Total 2009	14,000	8,000	13,800	100,000
<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>	–	–	–	–

D. M. Bramwell, Director

S. J. B. Knott, Director

22nd February, 2011

## 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;
- make judgements and estimates that are reasonable and prudent;
- 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 2006 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.

**D. M. Bramwell**, Director

**S. J. B. Knott**, Director

22nd February, 2011

## INDEPENDENT AUDITORS' REPORT

To the Members of Rights and Issues Investment Trust PLC

We have audited the financial statements of Rights and Issues Investment Trust PLC for the year ended 31st December, 2010 which comprise the Group Income Statement, the Group and Parent Balance Sheets, the Group and Parent Statements of Changes in Equity, the Group and Parent Cash Flow Statements and the related notes. The reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards to the parent company's financial statements, as applied in accordance with provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Sections 495 and 496 of the Companies Act 2006. 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

As explained more fully in the Directors' Responsibilities Statement set out on page 10, the Directors are responsible for preparing the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board (APB's) Ethical Standards for Auditors.

### SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group and parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the group and parent Company's affairs as at 31st December, 2010 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the Companies Act 2006 and as regards the group financial statements, Article 4 of IAS Regulation.

### OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion

- adequate accounting records have not been kept; or
- the parent Company's financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records or returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 7, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Jeremy Staines (Senior Statutory Auditor)  
For and on behalf of Begbies Chettle Agar  
Chartered Accountants and Statutory Auditors

25 City Road  
London  
22nd February, 2011

**CONSOLIDATED INCOME STATEMENT**

for the year ended 31st December, 2010

Notes	Year ended 31st December, 2010			Year ended 31st December, 2009		
	Revenue £	Capital £	Total £	Revenue £	Capital £	Total £
<b>Investment income</b>	<b>1,724,112</b>	<b>-</b>	<b>1,724,112</b>	1,337,008	-	1,337,008
Other operating income	<b>256,115</b>	<b>-</b>	<b>256,115</b>	238,092	-	238,092
Total income	<b>1,980,227</b>	<b>-</b>	<b>1,980,227</b>	1,575,100	-	1,575,100
Gains/(Losses) on fair value through profit or loss assets	<b>159,456</b>	<b>20,721,113</b>	<b>20,880,569</b>	88,079	11,299,776	11,387,855
	<b>2,139,683</b>	<b>20,721,113</b>	<b>22,860,796</b>	1,663,179	11,299,776	12,962,955
<b>Expenses</b>						
Investment management fee	-	-	-	-	-	-
Other expenses	<b>531,960</b>	<b>-</b>	<b>531,960</b>	502,147	-	502,147
	<b>531,960</b>	<b>-</b>	<b>531,960</b>	502,147	-	502,147
<b>Profit before tax</b>	<b>1,607,723</b>	<b>20,721,113</b>	<b>22,328,836</b>	1,161,032	11,299,776	12,460,808
Tax	-	-	-	-	-	-
<b>Profit for the period</b>	<b>1,607,723</b>	<b>20,721,113</b>	<b>22,328,836</b>	1,161,032	11,299,776	12,460,808
<b>Earnings per share</b>						
<b>Return per income share (p)</b>	<b>18.5p</b>	<b>210.6p</b>	<b>229.1p</b>	0.9p	114.8p	115.7p
<b>Return per capital share (p)</b>	<b>69.6p</b>	<b>947.6p</b>	<b>1017.2p</b>	68.7p	516.8p	585.5p

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, 2010

	Notes	Company		Group	
		2010 £	2009 £	2010 £	2009 £
<b>Non-current assets</b>					
Goodwill	8	-	-	<b>65,191</b>	65,191
Investments – Fair value through profit or loss	10	<b>62,861,280</b>	44,425,529	<b>62,429,808</b>	43,994,057
		<b>62,861,280</b>	44,425,529	<b>62,494,999</b>	44,059,248
<b>Current assets</b>					
Trading investments		-	-	<b>650,233</b>	498,578
Trade and other receivables	14	<b>310,904</b>	238,011	<b>400,967</b>	244,640
Current tax receivable		<b>49,610</b>	29,291	-	-
Amounts due from group undertakings		<b>1,191,706</b>	949,329	-	-
Cash and cash equivalents		<b>5,433,124</b>	3,630,674	<b>6,386,189</b>	4,470,403
		<b>6,985,344</b>	4,847,305	<b>7,437,389</b>	5,213,621
<b>Total assets</b>		<b>69,846,624</b>	49,272,834	<b>69,932,388</b>	49,272,869
<b>Current liabilities</b>					
Trade and other payables	15	<b>71,159</b>	40,595	<b>278,019</b>	161,726
Current tax payable		-	-	-	-
		<b>71,159</b>	40,595	<b>278,019</b>	161,726
<b>Total assets less current liabilities</b>		<b>69,775,465</b>	49,232,239	<b>69,654,369</b>	49,111,143
<b>Net assets</b>		<b>69,775,465</b>	49,232,239	<b>69,654,369</b>	49,111,143
<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>39,952,082</b>	37,150,280	<b>39,952,082</b>	37,150,280
Revaluation reserve	17	<b>27,136,454</b>	9,217,143	<b>27,136,454</b>	9,217,143
Dividend equalisation reserve	17	<b>1,236,603</b>	1,414,490	<b>1,115,507</b>	1,293,394
<b>Total equity</b>		<b>69,775,465</b>	49,232,239	<b>69,654,369</b>	49,111,143
<b>Net asset value per share</b>					
Income shares				<b>752.9p</b>	549.3p
Capital shares				<b>3105.7p</b>	2158.5p

The financial statements were approved by the board and authorised for issue on 22nd February, 2011. They were signed on its behalf by:

**D. M. Bramwell**, Director

**S. J. B. Knott**, Director

Company Registration Number: 736898

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

for the year ended 31st December, 2010

	Share capital £	Share premium account £	Capital reserve £	Revaluation reserve £	Dividend equalisation reserve £	Total £
<b>Balance at 31st December, 2008</b>	1,225,000	225,326	40,751,585	(5,683,938)	1,924,122	38,442,095
<b>Changes in equity for 2009</b>						
Profit/(Loss) for the period	–	–	(3,601,305)	14,901,081	1,161,032	12,460,808
Total recognised income and expense	1,225,000	225,326	37,150,280	9,217,143	3,085,154	50,902,903
Dividends	–	–	–	–	(1,791,760)	(1,791,760)
<b>Balance at 31st December, 2009</b>	1,225,000	225,326	37,150,280	9,217,143	1,293,394	49,111,143
<b>Changes in equity for 2010</b>						
Profit/(Loss) for the period	–	–	2,801,802	17,919,311	1,607,723	22,328,836
Total recognised income and expense	1,225,000	225,326	39,952,082	27,136,454	2,901,117	71,439,979
Dividends	–	–	–	–	(1,785,610)	(1,785,610)
<b>Balance at 31st December, 2010</b>	<b>1,225,000</b>	<b>225,326</b>	<b>39,952,082</b>	<b>27,136,454</b>	<b>1,115,507</b>	<b>69,654,369</b>

**COMPANY STATEMENT OF CHANGES IN EQUITY**

for the year ended 31st December, 2010

	Share capital £	Share premium account £	Capital reserve £	Revaluation reserve £	Dividend equalisation reserve £	Total £
<b>Balance at 31st December, 2008</b>	1,225,000	225,326	40,751,585	(5,683,938)	2,045,218	38,563,191
<b>Changes in equity for 2009</b>						
Profit for the period	–	–	(3,601,305)	14,901,081	1,161,032	12,460,808
Total recognised income and expense	1,225,000	225,326	37,150,280	9,217,143	3,206,250	51,023,999
Dividends	–	–	–	–	(1,791,760)	(1,791,760)
<b>Balance at 31st December, 2009</b>	1,225,000	225,326	37,150,280	9,217,143	1,414,490	49,232,239
<b>Changes in equity for 2010</b>						
Profit for the period	–	–	2,801,802	17,919,311	1,607,723	22,328,836
Total recognised income and expense	1,225,000	225,326	39,952,082	27,136,454	3,022,213	71,561,075
Dividends	–	–	–	–	(1,785,610)	(1,785,610)
<b>Balance at 31st December, 2010</b>	<b>1,225,000</b>	<b>225,326</b>	<b>39,952,082</b>	<b>27,136,454</b>	<b>1,236,603</b>	<b>69,775,465</b>

**CASH FLOW STATEMENT**

for the year ended 31st December, 2010

	Company		Group	
	2010	2009	2010	2009
Notes	£	£	£	£
<b>Cashflows from operating activities</b>				
(Loss)/Profit before tax	<b>22,279,226</b>	12,431,517	<b>22,328,836</b>	12,460,808
Adjustments for:				
Losses/(Gains) on investments	<b>(20,721,113)</b>	(11,299,776)	<b>(20,721,113)</b>	(11,299,776)
Purchases of investments	<b>(5,426,717)</b>	(5,202,296)	<b>(5,426,717)</b>	(5,202,296)
Proceeds on disposal of investments	19 <b>7,712,079</b>	7,490,291	<b>7,712,079</b>	7,490,291
Movement in trading investments	19 <b>-</b>	-	<b>(151,655)</b>	(78,972)
Operating cash flows before movements in working capital	<b>3,843,475</b>	3,419,736	<b>3,741,430</b>	3,370,055
Decrease/(increase) in receivables	<b>(315,270)</b>	(198,355)	<b>(156,327)</b>	(33,087)
Increase/(decrease) in payables	<b>30,564</b>	(3,082)	<b>116,293</b>	(106,039)
Net cash from operating activities before income taxes	<b>3,558,769</b>	3,218,299	<b>3,701,396</b>	3,230,929
Income taxes received/(paid)	<b>29,291</b>	1,648	<b>-</b>	-
<b>Net cash from operating activities</b>	<b>3,588,060</b>	3,219,947	<b>3,701,396</b>	3,230,929
Cash flows from financing activities				
Dividends paid	<b>(1,785,610)</b>	(1,791,760)	<b>(1,785,610)</b>	(1,791,760)
<b>Net cash (used in)/from financing activities</b>	<b>( 1,785,610)</b>	(1,791,760)	<b>(1,785,610)</b>	(1,791,760)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,802,450</b>	1,428,187	<b>1,915,786</b>	1,439,169
<b>Cash and cash equivalents at beginning of year</b>	<b>3,630,674</b>	2,202,487	<b>4,470,403</b>	3,031,234
<b>Cash and cash equivalents at end of year</b>	<b>5,433,124</b>	3,630,674	<b>6,386,189</b>	4,470,403

## NOTES TO THE ACCOUNTS

for the year ended 31st December, 2010

### 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) issued in January 2009 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 S408 of the Companies Act 2006.

#### *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 833 of the Companies Act 2006, 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 S1158 CTA.

#### *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 S1158 CTA 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 quoted bid price for investments traded in active markets. 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>2010</b>	2009
	<b>£</b>	£
<b>Income from investments</b>		
Franked investment income	<b>1,724,112</b>	1,337,008
UK unfranked investment income	-	-
Foreign income dividends	-	-
Scrip dividends	-	-
Income from group undertakings	-	-
Other	-	-
	<b>1,724,112</b>	1,337,008
<b>Other operating income</b>		
Deposit interest	<b>1,556</b>	4,497
Underwriting commission	-	-
Stock lending fees	-	-
Other	<b>254,559</b>	233,595
	<b>256,115</b>	238,092
<b>Total income</b>	<b>1,980,227</b>	1,575,100
<b>Total income comprises:</b>		
Dividends	<b>1,724,112</b>	1,337,008
Interest	<b>1,556</b>	4,497
Other income	<b>254,559</b>	233,595
	<b>1,980,227</b>	1,575,100
<b>Income from investments</b>		
Listed UK	<b>1,632,717</b>	1,035,003
Unlisted	<b>91,395</b>	302,005
	<b>1,724,112</b>	1,337,008

**3. OTHER EXPENSES**

	<b>2010</b>	2009
	<b>£</b>	£
Staff costs (note 4)	<b>321,483</b>	307,116
Auditors remuneration		
– Audit	<b>13,500</b>	14,450
– Other services to the company and its subsidiaries	<b>2,800</b>	3,350
Goodwill amortisation	-	-
Operating Leases – other	-	-
Other	<b>194,177</b>	177,231
	<b>531,960</b>	502,147

**4. STAFF COSTS**

	<b>2010</b>	2009
	<b>£</b>	£
Wages and salaries	<b>279,434</b>	267,954
Social security costs	<b>29,649</b>	26,762
Pensions	<b>12,400</b>	12,400
	<b>321,483</b>	307,116
	<b>Number</b>	Number
The average number of staff employed by the group was	<b>3</b>	3
Directors' emoluments	<b>146,025</b>	135,800
Ex Gratia payments	-	-
	<b>146,025</b>	135,800

**NOTES TO THE ACCOUNTS continued**

for the year ended 31st December, 2010

**5. TAX ON ORDINARY ACTIVITIES**

	2010 £	2009 £
UK Corporation Tax at 28% (2009: 28%)	-	-
Adjustments to prior years	-	-
	<u>-</u>	<u>-</u>
Profit before tax	<b>1,607,723</b>	1,161,032
Tax on profit at standard rate	<b>450,162</b>	325,089
Factors affecting the recovery/charge for the year:		
Expenses not taxed	<b>(4,200)</b>	1,401
Income not taxable	<b>(482,751)</b>	(374,362)
Adjustment to prior year	-	-
Unutilised losses carried forward	<b>45,633</b>	57,254
Marginal relief	<b>(8,844)</b>	(9,382)
Losses utilised in period	-	-
	<u>-</u>	<u>-</u>

**6. DIVIDENDS AND OTHER APPROPRIATIONS**

Amounts recognised as distributions to equity holders in the period:

	2010 p	2009 p	2010 £	2009 £
<b>Income</b>				
Final dividend for the year ended 31st December, 2009	<b>17.00</b>	17.00	<b>418,200</b>	418,200
Interim dividend for the year ended 31st December, 2010	<b>8.50</b>	8.50	<b>209,100</b>	209,100
<b>Capital</b>				
Final dividend for the year ended 31st December, 2009	<b>1.2750</b>	1.6500	<b>20,910</b>	27,060
Supp cap dividend for the year ended 31st December, 2010	<b>68.6829</b>	68.6829	<b>1,126,400</b>	1,126,400
			<u><b>1,774,610</b></u>	<u>1,780,760</u>
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.

	2010 p	2009 p	2010 £	2009 £
<b>Income</b>				
Proposed final dividend for the year ended 31st December, 2010	<b>17.00</b>	17.00	<b>418,200</b>	418,200
<b>Capital</b>				
Proposed final dividend for the year ended 31st December, 2010	<b>1.2750</b>	1.2750	<b>20,910</b>	20,910

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 S1158 CTA are considered.

	2010 p	2009 p	2010 £	2009 £
<b>Dividends on equity shares</b>				
<b>Income</b>				
Interim dividend for the year ended 31st December, 2010	8.50	8.50	209,100	209,100
Proposed final dividend for the year ended 31st December, 2010	17.00	17.00	418,200	418,200
	<u>25.50</u>	<u>25.50</u>		
<b>Capital</b>				
Supp cap dividend for the year ended 31st December, 2010	68.6829	68.6829	1,126,400	1,126,400
Proposed final dividend for the year ended 31st December, 2010	1.2750	1.2750	20,910	20,910
	<u>69.9579</u>	<u>69.9579</u>	<u>1,774,610</u>	<u>1,774,610</u>

**7. RETURN PER SHARE**

	2010			2009		
	Income £	Capital £	Total £	Income £	Capital £	Total £
Return attributable to equity shareholders:						
Revenue return	455,152	1,141,571	1,596,723	22,870	1,127,162	1,150,032
Capital return	5,180,278	15,540,835	20,721,113	2,824,944	8,474,832	11,299,776
	<u>5,635,430</u>	<u>16,682,406</u>	<u>22,317,836</u>	<u>2,847,814</u>	<u>9,601,994</u>	<u>12,449,808</u>
	p	p		p	p	
Revenue return	18.5	69.6		0.9	68.7	
Capital return	210.6	947.6		114.8	516.8	
	<u>229.1</u>	<u>1017.2</u>		<u>115.7</u>	<u>585.5</u>	

**8. GOODWILL**

	2010 £	2009 £
<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, 2010	65,191	65,191
At 31st December, 2009	<u>65,191</u>	<u>65,191</u>

**NOTES TO THE ACCOUNTS continued**

for the year ended 31st December, 2010

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

The number of companies or institutions in which equities, convertibles or fixed interest securities were held was 29 (2009: 36).

	2010		2009	
	£	%	£	%
<b>EQUITY GROUPS</b>				
<b>Basic Materials</b>				
Chemicals	<b>1,998,000</b>	<b>3.20</b>	3,391,650	7.71
<b>Industrials</b>				
Construction & Materials	<b>2,223,400</b>	<b>3.56</b>	1,440,700	3.28
General Industrials	<b>7,847,755</b>	<b>12.57</b>	2,671,145	6.07
Electronic & Elec Equip	<b>4,459,522</b>	<b>7.14</b>	1,646,500	3.74
Industrial Engineering	<b>8,897,020</b>	<b>14.25</b>	8,344,729	18.97
Support Services	<b>25,067,199</b>	<b>40.15</b>	15,491,700	35.21
<b>Health Care</b>				
Health Care Equipment & Servs	-	-	-	-
<b>CONSUMER SERVICES</b>				
<b>Technology</b>				
Software & Computer Services	<b>1,048,000</b>	<b>1.68</b>	907,200	2.06
<b>Financials</b>				
Banks	<b>355,861</b>	<b>0.57</b>	271,636	0.62
Non Life Insurance	-	-	-	-
Real Estate	<b>97,050</b>	<b>0.16</b>	149,750	0.34
<b>FIXED INTEREST</b>				
Preference	<b>390,000</b>	<b>0.63</b>	492,000	1.12
AIM	<b>10,046,001</b>	<b>16.09</b>	9,187,047	20.88
Unquoted	-	-	-	-
<b>Total UK</b>	<b>62,429,808</b>	<b>100.00</b>	43,994,057	100.00



**NOTES TO THE ACCOUNTS continued**

for the year ended 31st December, 2010

**12. SUBSIDIARY UNDERTAKINGS**

The Company had investments in the following subsidiary undertakings all of which are included in the consolidated financial statements:

<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>	
Chamberlin	13.4%
Colefax Group	14.3%
Eleco Holdings	5.1%
LPA Industries	3.7%
Macfarlane Group	13.6%
Scapa	7.2%
Titon Holdings Plc	12.0%
Treatt Plc	5.4%
VP Group	4.0%

**14. TRADE AND OTHER RECEIVABLES**

	<b>Company</b>		<b>Group</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Amounts due from brokers	-	-	-	-
Trade debtors	-	-	-	-
Prepayments and accrued income	<b>310,904</b>	238,011	<b>400,967</b>	244,640
Other debtors	-	-	-	-
	<b>310,904</b>	238,011	<b>400,967</b>	244,640

**15. TRADE AND OTHER PAYABLES**

	Company		Group	
	2010 £	2009 £	2010 £	2009 £
Bank overdraft	-	-	-	-
Amounts due to brokers	-	-	-	-
Trade payables	-	-	-	-
Accruals	<b>71,159</b>	40,595	<b>278,019</b>	161,726
	<b>71,159</b>	40,595	<b>278,019</b>	161,726

**16. SHARE CAPITAL**

	2010 £	2009 £
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 £	Revaluation reserve £	Dividend equalisation reserve £
<b>Group</b>				
Beginning of year	<b>225,326</b>	<b>37,150,280</b>	<b>9,217,143</b>	<b>1,293,394</b>
Net gain/(loss) on realisation of investments	-	<b>2,801,802</b>	-	-
Permanent impairments in value of investments	-	-	-	-
Increase/(decrease) in unrealised appreciation	-	-	<b>17,919,311</b>	-
Retained net revenue for the year	-	-	-	<b>(177,887)</b>
End of year	<b>225,326</b>	<b>39,952,082</b>	<b>27,136,454</b>	<b>1,115,507</b>
<b>Company</b>				
Beginning of year	<b>225,326</b>	<b>37,150,280</b>	<b>9,217,143</b>	<b>1,414,490</b>
Net gain/(loss) on realisation of investments	-	<b>2,801,802</b>	-	-
Permanent impairments in value of investments	-	-	-	-
Increase/(decrease) in unrealised appreciation	-	-	<b>17,919,311</b>	-
Retained net revenue for the year	-	-	-	<b>(177,887)</b>
End of year	<b>225,326</b>	<b>39,952,082</b>	<b>27,136,454</b>	<b>1,236,603</b>

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.

**NOTES TO THE ACCOUNTS continued**

for the year ended 31st December, 2010

**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	
	2010 p	2009 p	2010 £	2009 £
Preference shares	100	100	200,000	200,000
Income shares	752.9	549.3	18,520,609	13,512,479
Capital shares	3105.7	2158.5	50,933,760	35,398,664
			<b>69,654,369</b>	49,111,143

The movements during the year attributable to each class of share were as follows:

	Preference shares	Income shares	Capital shares	Total
Total net assets attributable at beginning of year	200,000	13,512,479	35,398,664	49,111,143
Total recognised gains/(losses) for the year	-	5,180,278	15,540,835	20,721,113
Transfer to reserves	-	(172,148)	(5,739)	(177,887)
Total new assets attributable at end of year	200,000	18,520,609	50,933,760	69,654,369
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	
	2010 £	2009 £	2010 £	2009 £
Proceeds on disposal of fair value through profit or loss investments	7,712,079	7,490,291	7,712,079	7,490,291
Purchases of fair value through profit or loss investments	5,426,717	5,202,296	5,426,717	5,202,296

**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 £254,599 (2009: £233,595) and the amount owed to the company at the year end was £0 (2009: £0).

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

	2010 £	2009 £
Rent recharged	29,505	29,032
Dividends received	183,581	117,800
	<b>213,086</b>	146,832
Amounts owed by subsidiary undertaking	<b>1,211,706</b>	949,329

**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:

	2010			2009		
	Interest bearing	Non-interest bearing	Total	Interest bearing	Non-interest bearing	Total
	£	£	£	£	£	£
Equity investments	-	<b>62,429,808</b>	<b>62,429,808</b>	-	43,994,057	43,994,057
Cash at bank	<b>6,386,189</b>	-	<b>6,386,189</b>	4,470,403	-	4,470,403
Trading investments	-	<b>650,233</b>	<b>650,233</b>	-	498,578	498,578
Short term debtors	-	<b>400,967</b>	<b>400,967</b>	-	244,640	244,640
Short term creditors	-	<b>(278,019)</b>	<b>(278,019)</b>	-	(161,726)	(161,726)
	<b>6,386,189</b>	<b>63,202,989</b>	<b>69,589,178</b>	4,470,403	44,575,549	49,045,952

**APPENDIX**

Details of the principal investments are given below by market value

	<b>Holdings</b>		<b>Market Value</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
			<b>£</b>	<b>£</b>
<b>UK Investments</b>				
Brammer	<b>2,700,000</b>	2,700,000	<b>6,750,000</b>	3,240,000
RPS Group	<b>2,700,000</b>	2,700,000	<b>6,220,800</b>	5,848,200
Macfarlane Group	<b>15,659,184</b>	6,669,184	<b>4,697,755</b>	1,267,145
Hill & Smith Holdings	<b>1,673,038</b>	1,673,038	<b>4,609,220</b>	5,688,329
Colefax Group	<b>2,100,000</b>	2,100,000	<b>4,410,000</b>	2,247,000
VP	<b>1,800,000</b>	1,000,000	<b>4,140,000</b>	1,730,000
Scapa Group	<b>10,425,000</b>	10,425,000	<b>3,857,250</b>	1,876,500
Diploma	<b>1,250,000</b>	1,250,000	<b>3,428,125</b>	2,200,000
Domino Printing Sciences	<b>500,000</b>	500,000	<b>3,250,000</b>	1,646,500
RPC Group	<b>1,000,000</b>	600,000	<b>3,150,000</b>	1,404,000
Spirax Sarco Eng	<b>130,000</b>	130,000	<b>2,514,200</b>	1,609,400
Treatt	<b>550,000</b>	555,000	<b>1,998,000</b>	1,515,150
Low & Bonar	<b>3,000,000</b>	3,000,000	<b>1,515,000</b>	960,000
Electrocomponents	<b>500,000</b>	–	<b>1,329,000</b>	–
Dialight	<b>238,095</b>	238,095	<b>1,209,523</b>	519,047
Vitec Group	<b>200,000</b>	200,000	<b>1,170,000</b>	772,000
Chamberlin	<b>1,000,000</b>	1,000,000	<b>1,120,000</b>	520,000
Travis Perkins	<b>104,320</b>	–	<b>1,093,274</b>	–
Castings	<b>400,000</b>	400,000	<b>1,060,000</b>	712,000
LogicaCMG	<b>800,000</b>	800,000	<b>1,048,000</b>	907,200

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.







