RIGHTS AND ISSUES INVESTMENT TRUST P.L.C.

FINAL REPORT AND ACCOUNTS 2005

COMPANY NUMBER 00736898

PLEASE NOTE THAT PAGE 3 (NOTICE OF MEETING) HAS NOT BEEN FILED AND PAGE 8 (5 YEAR CUMULATIVE PERFORMANCE GRAPH) HAVE BEEN REPLACED BY PAGE 8A AS THESE ITEMS WERE UNACCEPTED FOR FILING BY COMPANIES HOUSE.

CAPITAL STRUCTURE

CAPITAL

ISSUE
1,640,000 shares of 25p each.

INCOME ENTITLEMENT
A supplementary dividend payment of 2.75% net on the capital reserves in complete units of £160,000 in excess of £382,536 and 1/31st of the distribution of all profits after the payment of preference and supplementary capital dividends by way of dividend.

CAPITAL ENTITLEMENT
42.2278p per share and 75% of the surplus assets on liquidation.

VOTING
One and a half votes per share on ordinary business and ten votes on a motion to liquidate.

PRICE
(at 31st December, 2005):
2675p.

GROSS YIELD
2.4%.

DISCOUNT
8.6%.

DESCRIPTION
Capital shares are of interest to capital orientated investors wishing some income.

INCOME

ISSUE
2,460,000 shares of 25p each.

INCOME ENTITLEMENT
30/31st of the distribution of all profits after the payment of preference and supplementary capital dividends by way of dividend.

CAPITAL ENTITLEMENT
29.0650p per share and 25% of the surplus assets on liquidation.

VOTING
One vote per share.

PRICE
(at 31st December, 2005):
785p.

GROSS YIELD
5.7%.

PREMIUM
4.4%.

DESCRIPTION
Income shares are of interest to income orientated investors wishing some participation in capital growth.

PREFERENCE

ISSUE
200,000 shares of £1 each.

INCOME ENTITLEMENT
A dividend payment of 5.5p net per share on 2nd January.

CAPITAL ENTITLEMENT
Repayment at par on liquidation.

VOTING
No vote normally for ordinary business and one vote per share on a motion to liquidate.

DESCRIPTION
Preference shares provide an element of gearing to the other classes.

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

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

RECENT RECORD

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

† = 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	HOPE 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

An investment Company under Section 266 of the Companies Act 1985

CHAIRMAN'S STATEMENT

These 2005 accounts have been prepared under International Accounting Standards for the first time. Shareholders will therefore find considerable change in format and content. The single most important difference is that the value of the portfolio is now calculated on a bid basis rather than the previous mid-market basis. The effect of this is to reduce shareholders' funds and thereby net asset values by approximately 1%. The implementation has involved considerable time and effort without conferring any tangible benefits. Indeed the reader may now find himself more confused by these accounts.

Market performance in 2005 was good and the FTSE All-Share Index rose by 18.1%. This was matched by smaller companies with the FTSE Small Cap index increasing by 19.8% and FTSE Fledgling index by 19.0%. The net asset value of the capital shares rose from 2542.8p to a new record of 2928.1p and that of the income shares from 651.5p to 751.8p. These increases of 15.2% and 15.4% were modestly below the performance of the FTSE All-Share Index.

Your Directors have decided to raise the dividend to 40.5p per income share and 2.025p per capital share for 2005. This 11% rise again exceeds the rate of inflation. Additionally, the supplementary capital dividend of 56.0732p per capital share was paid on 2nd January 2006 and, barring unforeseen circumstances, the supplementary capital dividend for the current year will be 66p per capital share payable on 2nd January 2007. This 18% increase is a direct consequence of the recent capital performance.

Discretionary Unit Fund Managers produced record results with pre-tax profits in excess of £400,000 and funds under management at 31st December were £56m. Its performance now accounts for 20% of Group profits before tax.

Every five years your Directors consider the future of the Trust in order to satisfy themselves that the Trust is meeting its objectives. Over the last five years the Trust's shareholders' funds have increased from £42.8m in 2000 to £66.7m in 2005. This is an increase of 56% and compares favourably with the fall of 5% by the FTSE All-Share Index over the period. At the same time, the dividend per income share has risen from 25.5p in 2000 to 40.5p in 2005. This is an annualised increase of 9.7% and substantially exceeds the 2.4% rate of inflation over the five years. In the light of these results, your Directors believe that the objectives have been achieved and propose extending the life of the Trust to 25th July 2011.

The corporate outlook is currently very mixed. Significant energy price increases and competitive global market conditions are squeezing margins. The recent change in pension regulation together with the ever creeping rise in future pension liabilities means that pension costs are now a heavy burden for many UK companies. These factors when combined with the current relatively high valuation of equities suggest an unexciting outlook. Still there are always new opportunities which the Trust will seek out.

S. H. J. A. KNOTT

Chairman

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their forty-third Annual Report, together with audited accounts in respect of the year ended 31st December, 2005.

PRINCIPAL ACTIVITIES AND INVESTMENT TRUST STATUS

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

The Company has been approved by the Inland Revenue as an investment trust for all accounting periods up to 31st December, 2004. Since that date, the Company has directed its affairs so as to be able to continue to qualify for approval as an investment trust.

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

REVIEW OF THE BUSINESS

Group assets have increased to £66,716,728 from £57,928,281 and at 31st December, 2005, the net assets values of the income and capital shares were 751.8p (2004: 651.5p) and 2928.1p (2004: 2542.8p) respectively.

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

The Capital Shareholders' supplementary dividend, subject to unforeseen circumstances, for the current year payable on 2nd January, 2007, will be 66.000p net per Capital Share.

RESULTS AND DIVIDENDS

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

FINANCIAL INSTRUMENTS

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

DIRECTORS

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

	Capital		Income	
	31st December, 2005	31st December, 2004	**31st December, 2005**	31st December, 2004
S. H. J. A. Knott	**225,670**	225,670	**203,505**	203,505
P. M. Allen	**2,500**	2,500	**–**	–
B. A. Beverley	**17,500**	17,500	**32,500**	32,500
D. M. Bramwell	**–**	–	**20,000**	20,000
S. J. B. Knott	**25,000**	25,000	**5,000**	5,000

No changes in the Directors' interests shown above have occurred since 31st December, 2005.

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.

REPORT OF THE DIRECTORS continued

SUBSTANTIAL SHAREHOLDINGS

The Company has been notified of the undermentioned shareholdings which are in excess of 3% of the respective classes of the issued share capital of the Company at 10th February, 2006.

	Capital Shares	Income Shares	Preference Shares
J. Barr Esq	**72,540**	**96,829**	–
Discretionary Unit Fund	**150,000**	–	–
Giltspur Nominees	–	**86,441**	–
Greig Middleton Nominees	**53,900**	–	–
HSBC Global Custody Nominees (UK)	**132,500**	–	–
L.W. & B.I. Potter	–	**140,000**	–
Rulegale Nominees	–	–	**67,934**

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

GENERAL

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

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

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

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

By Order of the Board.
DISCRETIONARY UNIT FUND MANAGERS LIMITED
13th February, 2006 — *Secretaries*

(For Disc Unit Fund Mgrs Ltd)

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 2003 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. This has been reviewed by the Board and is in accordance with the guidelines issued. The system of risk analysis adopted by the

CORPORATE GOVERNANCE AND DIRECTORS' REMUNERATION continued

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 2006 and its medium-term plans, the Directors have reasonable expectation that the Trust has adequate resources to continue its operations for the foreseeable future. Therefore, they adopt the going concern basis in preparing the accounts.

RELATIONSHIP WITH SHAREHOLDERS

The Investment Director maintains a regular dialogue with major shareholders.

THE CODE OF BEST PRACTICE

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

A.1.2

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

A.4.6

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

A.6.1 & A.7.2

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

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

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

C.3.1 to C.3.7

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

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

DIRECTORS' DETAILS

	Fees and Salaries	
	2005	2004
	£	£
S. H. J. A. KNOTT *Chairman*, aged 74 years		
He was a Director of a number of PLCs	**10,000**	10,000
P. M. ALLEN *Non-executive*, aged 65 years		
He was a Director of HG Capital Trust PLC	**4,000**	4,000
B. A. BEVERLEY *Non-executive*, aged 70 years		
He was a Director of Greig Middleton & Co. Limited	**4,000**	4,000
D. M. BRAMWELL *Deputy Chairman and Senior Independent*, aged 58 years		
He was Chief Executive of Peterhouse Group PLC	**9,400**	9,400
S. J. B. KNOTT *Executive*, aged 47 years		
He is investment manager	**110,000**	102,500

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.

5 Year Cumulative performance Graph is on Page 8A

DIRECTORS' EMOLUMENTS (AUDITED)

	S. H. J. A. Knott	P. M. Allen	B. A. Beverley	D. M. Bramwell	S. J. B. Knott
Emoluments and Compensation					
Salary and fees	10,000	4,000	4,000	9,400	100,000
Bonus	–	–	–	–	10,000
Ex gratia	–	–	–	–	–
Non-cash benefits	–	–	–	–	–
Total 2005	**10,000**	**4,000**	**4,000**	**9,400**	**110,000**
Total 2004	10,000	4,000	4,000	9,400	102,500
Share Options	–	–	–	–	–
Long term incentive schemes	–	–	–	–	–
Excess retirement benefits of past and current Directors	–	–	–	–	–
Compensation of past Directors	–	–	–	–	–
Sums paid to third parties in respect of Directors' services	–	–	–	–	–

S. H. J. A Knott, Director

S. J. B. Knott, Director S. J. B. Knott S. H. J. A. Knott

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare Accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of 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;
- state whether applicable accounting 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 maintaining 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. They are also responsible for safeguarding the assets of the Company and the Group 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 [illegible] statement and balance sheet, the directors [illegible] to the substance [illegible] transaction or arrangement, in accordance with generally accepted accounting [illegible]

THE DIRECTORS' REMUNERATION REPORT

The Trust does not have a remuneration committee.

THE TRUST'S POLICY ON DIRECTORS' REMUNERATION

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5 Year Cumulative performance Graph is on Page 8A

DIRECTORS' EMOLUMENTS (AUDITED)

	S. H. J. A. Knott	P. M. Allen	B. A. Beverley	D. M. Bramwell	S. J. B. Knott
Emoluments and Compensation					
Salary and fees	10,000	4,000	4,000	9,400	100,000
Bonus	–	–	–	–	10,000
Ex gratia	–	–	–	–	–
Non-cash benefits	–	–	–	–	–
Total 2005	**10,000**	**4,000**	**4,000**	**9,400**	**110,000**
Total 2004	10,000	4,000	4,000	9,400	102,500
Share Options	–	–	–	–	–
Long term incentive schemes	–	–	–	–	–
Excess retirement benefits of past and current Directors	–	–	–	–	–
Compensation of past Directors	–	–	–	–	–
Sums paid to third parties in respect of Directors' services	–	–	–	–	–

S. H. J. A Knott, Director S. H. J. A. Knott

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

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- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent:
- state whether applicable accounting 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.

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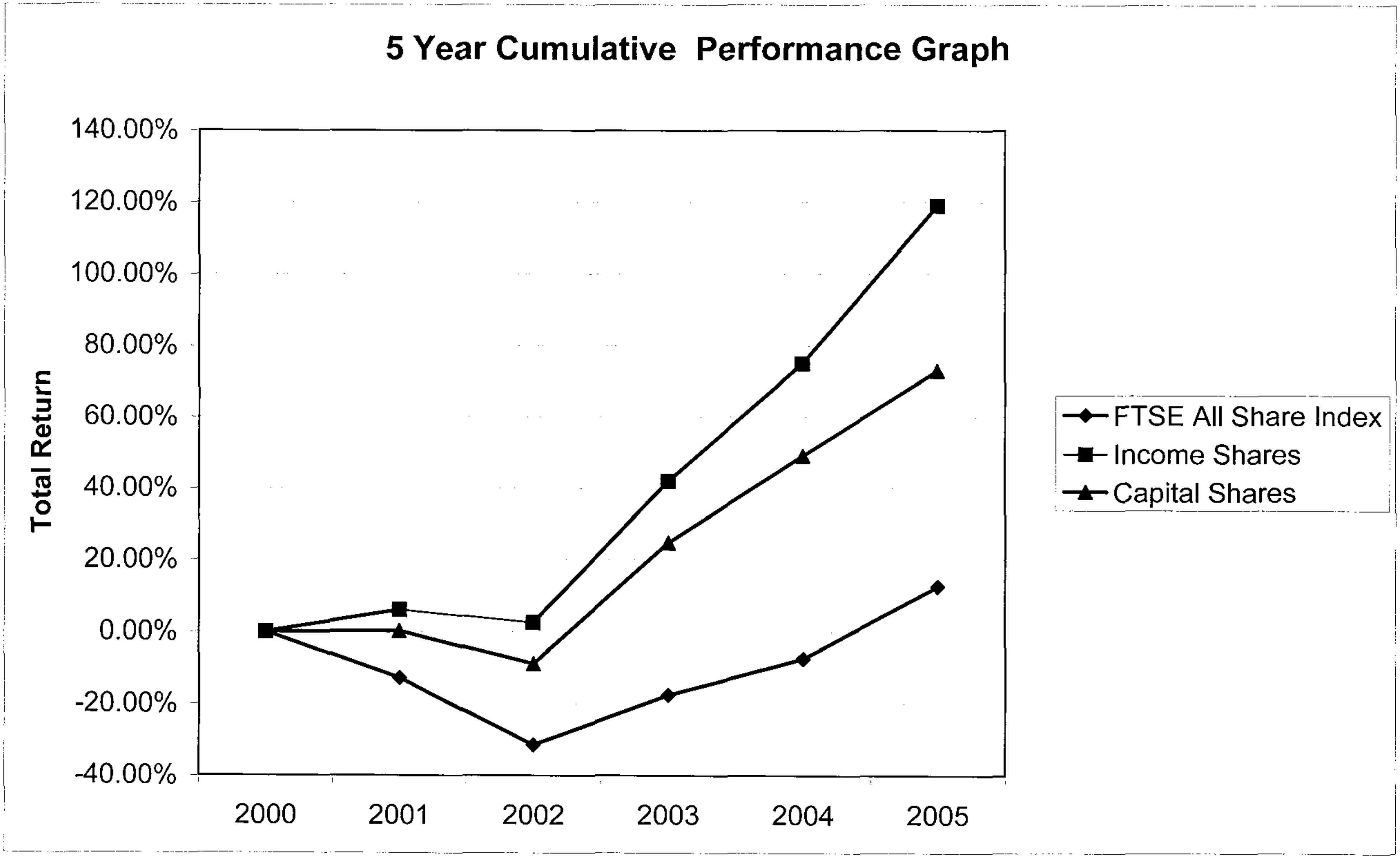
In determining how amounts are presented within items in the income statement and balance sheet, the directors must have regard to the substance of the reported transaction or arrangement, in accordance with generally accepted accounting principles or practice.


5 Year Cumulative Performance Graph
Total Return
140.00%
120.00%
100.00%
80.00%
60.00%
40.00%
20.00%
0.00%
-20.00%
-40.00%
2000
2001
2002
2003
2004
2005
FTSE All Share Index
Income Shares
Capital Shares

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, 2005 which comprise Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statement of Changes in Shareholders' Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 2003 FRC 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, 2005 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, 2005; and
- 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.

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

In our opinion the group financial statements give a true and fair view, in accordance with IFRSs, of the state of the group's affairs as at 31st December, 2005 and of its profit for the year then ended.

HOPE AGAR Hope Agar
Registered auditors
13th February, 2006

25 City Road
London
EC1Y 1AR

CONSOLIDATED INCOME STATEMENT

for the year ended 31st December, 2005

		Year ended 31st December, 2005			Year ended 31st December, 2004 (as restated)		
	Notes	**Revenue £**	**Capital £**	**Total £**	Revenue £	Capital £	Total £
Investment income	2	**1,891,490**	**–**	**1,891,490**	1,710,150	–	1,710,150
Other operating income	2	**859,838**	**–**	**859,838**	611,944	–	611,944
Total income		**2,751,328**	**–**	**2,751,328**	2,322,094	–	2,322,094
Gains/(Losses) on fair value through profit or loss assets	10	**125,070**	**8,408,773**	**8,533,843**	121,359	8,174,631	8,295,990
		2,876,398	**8,408,773**	**11,285,171**	2,443,453	8,174,631	10,618,084
Expenses							
Investment management fee		**–**	**–**	**–**		–	–
Other expenses	3	**473,730**	**–**	**473,730**	456,082	–	456,082
Profit before tax		**2,402,668**	**8,408,773**	**10,811,441**	1,987,371	8,174,631	10,162,002
Tax	5	**139,964**	**–**	**139,964**	73,740	–	73,740
Profit for the period		**2,262,704**	**8,408,773**	**10,671,477**	1,913,631	8,174,631	10,088,262
Earnings per share							
Return per income share (p)	7	**52.4p**	**85.5p**	**137.9p**	43.2p	83.1p	126.3p
Return per capital share (p)	7	**58.7p**	**384.6p**	**443.3p**	51.3p	373.8p	425.1p

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 Trust 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, 2005

	Notes	Company		Group	
		2005	2004 (as restated)	**2005**	2004 (as restated)
		£	£	**£**	£
Non-current assets					
Goodwill	8	**–**	–	**65,191**	65,191
Investments – Fair value through profit or loss	10	**60,367,907**	49,877,937	**59,936,435**	49,446,465
		60,367,907	49,877,937	**60,001,626**	49,511,656
Current assets					
Trading investments		**–**	–	**514,272**	212,284
Trade and other receivables	14	**128,377**	138,442	**572,544**	356,282
Current tax receivable		**–**	31,765	**–**	–
Amounts due from group undertakings		**555,759**	143,987	**–**	–
Cash and cash equivalents		**5,809,768**	7,596,905	**6,647,686**	8,141,900
		6,493,904	7,911,099	**7,734,502**	8,710,466
Total assets		**66,861,811**	57,789,036	**67,736,128**	58,222,122
Current liabilities					
Trade and other payables	15	**23,987**	16,418	**878,416**	222,261
Current tax payable		**–**	–	**140,984**	71,580
		23,987	16,418	**1,019,400**	293,841
Total assets less current liabilities		**66,837,824**	57,772,618	**66,716,728**	57,928,281
Net assets		**66,837,824**	57,772,618	**66,716,728**	57,928,281
Equity					
Called up share capital	16	**1,225,000**	1,225,000	**1,225,000**	1,225,000
Share premium account	17	**225,326**	225,326	**225,326**	225,326
Retained reserves:					
Capital reserve	17	**39,534,068**	33,665,251	**39,534,068**	33,665,251
Revaluation reserve	17	**23,624,240**	21,084,284	**23,624,240**	21,084,284
Dividend equalisation reserve	17	**2,229,190**	1,572,757	**2,108,094**	1,728,420
Total equity		**66,837,824**	57,772,618	**66,716,728**	57,928,281
Net asset value per share					
Income shares				**751.8p**	651.5p
Capital shares				**2,928.1p**	2,542.8p

The financial statements were approved by the board and authorised for issue on 13th February 2006. They were signed on its behalf by:

S. H. J. A Knott, Director S. H J. A. Knott

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December, 2005

	Share capital £	Share premium account £	Capital reserve £	Revaluation reserve £	Dividend equalisation reserve £	Total £
Balance at 31st December, 2003						
– as originally stated	1,225,000	225,326	29,501,228	17,678,956	913,890	49,544,400
– changes in accounting policies relating to first time applications of IFRS	–	–	–	(605,280)	612,540	7,260
– as restated	1,225,000	225,326	29,501,228	17,073,676	1,526,430	49,551,660
Changes in equity for 2004						
Profit for the period	–	–	4,164,023	4,010,608	1,913,631	10,088,262
Total recognised income and expenses	–	–	4,164,023	4,010,608	1,913,631	10,088,262
Dividends	–	–	–	–	(1,711,641)	(1,711,641)
Balance at 31st December, 2004	1,225,000	225,326	33,665,251	21,084,284	1,728,420	57,928,281
Profit for the period	–	–	5,868,817	2,539,956	2,262,704	10,671,477
Total recognised income and expenses	–	–	5,868,817	2,539,956	2,262,704	10,671,477
Dividends	–	–	–	–	(1,883,030)	(1,883,030)
Balance at 31st December, 2005	1,225,000	225,326	39,534,068	23,624,240	2,108,094	66,716,728

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December, 2005

	Share capital £	Share premium account £	Capital reserve £	Revaluation reserve £	Dividend equalisation reserve £	Total £
Balance at 31st December, 2003						
– as originally stated	1,225,000	225,326	29,501,228	17,678,956	1,034,986	49,665,496
– changes in accounting policies relating to first time applications of IFRS	–	–	–	(605,280)	394,284	(210,996)
– as restated	1,225,000	225,326	29,501,228	17,073,676	1,429,270	49,454,500
Changes in equity for 2004						
Profit for the period	–	–	4,164,023	4,010,608	1,855,128	10,029,759
Total recognised income and expenses	–	–	4,164,023	4,010,608	1,855,128	10,029,759
Dividends	–	–	–	–	(1,711,641)	(1,711,641)
Balance at 31st December, 2004	1,225,000	225,326	33,665,251	21,084,284	1,572,757	57,772,618
Changes in equity for 2005						
Profit for the period	–	–	5,868,817	2,539,956	2,539,463	10,948,236
Total recognised income and expenses	–	–	5,868,817	2,539,956	2,539,463	10,948,236
Dividends	–	–	–	–	(1,883,030)	(1,883,030)
Balance at 31st December, 2005	1,225,000	225,326	39,534,068	23,624,240	2,229,190	66,837,824

CASH FLOW STATEMENT

for the year ended 31st December, 2005

	Company		Group	
	2005	2004	**2005**	2004
	£	£	**£**	£
		(as restated)		(as restated)
Cashflows from operating activities				
Profit before tax	**10,947,216**	10,001,174	**10,811,441**	10,162,002
Adjustments for:				
Gains/(losses) on investments	**(10,489,970)**	(2,541,280)	**(10,791,958)**	(2,300,692)
Operating cash flows before movements in working capital	**457,246**	7,459,894	**19,483**	7,861,310
Decrease/(increase) in receivables	**(368,922)**	278,625	**(216,262)**	(72,297)
Increase/(decrease) in payables	**7,569**	(2,730)	**656,155**	74,578
Net cash from operating activities before income taxes	**95,893**	7,735,789	**459,376**	7,863,591
Income taxes paid	**–**	–	**(70,560)**	(3,180)
Net cash from operating activities	**95,893**	7,735,789	**388,816**	7,860,411
Cash flows from financing activities				
Dividends paid	**(1,883,030)**	(1,711,641)	**(1,883,030)**	(1,711,641)
Net cash (used in)/from financing activities	**(1,883,030)**	(1,711,641)	**(1,883,030)**	(1,711,641)
Net increase/(decrease) in cash and cash equivalents	**(1,787,137)**	6,024,148	**(1,494,214)**	6,148,770
Cash and cash equivalents at beginning of year	**7,596,905**	1,572,757	**8,141,900**	1,993,130
Cash and cash equivalents at end of year	**5,809,768**	7,596,905	**6,647,686**	8,141,900

NOTES TO THE ACCOUNTS

for the year ended 31st December, 2005

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 disclosures required by IFRS 1 *First-time Adoption of International Financial Reporting Standards* (IFRS 1) concerning the transition from UK GAAP to IFRSs are given in note 22.

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 seperable net assets of business acquired. Goodwill is not amortised but an annual impairment review is carried out.

2. INCOME

	Group 2005	2004
	£	£
Income from investments		
Franked investment income	**1,891,490**	1,710,150
UK unfranked investment income	**-**	–
Scrip dividends	**-**	–
Other	**-**	–
	1,891,490	1,710,150
Other operating income		
Deposit interest	**336,246**	210,190
Underwriting commission		–
Stock lending fees		–
Other	**523,592**	401,754
	859,838	611,944
Total income	**2,751,328**	2,322,094
Total income comprises:		
Dividends	**1,891,490**	1,710,150
Interest	**336,246**	210,190
Other income	**523,592**	401,754
	2,751,328	2,322,094
Income from investments		
Listed UK	**1,815,022**	1,621,015
Unlisted	**76,468**	89,135
	1,891,490	1,710,150

3. OTHER EXPENSES

	2005	2004
	£	£
Staff costs (note 4)	**288,826**	283,547
Auditors remuneration		
– Audit	**14,200**	11,950
– Other services to the company and its subsidiaries	**5,850**	2,850
Other	**164,854**	157,735
	473,730	456,082

4. STAFF COSTS

	2005	2004
	£	£
Wages and salaries	**254,663**	250,666
Social security costs	**25,463**	25,381
Pensions	**8,700**	7,500
	288,826	283,547

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

Directors' emoluments (see page 8):	£	£
Fees and salaries	**137,400**	132,150
Ex Gratia payments	**-**	7,000
	137,400	139,150

NOTES TO THE ACCOUNTS continued

for the year ended 31st December, 2005

5. TAX ON ORDINARY ACTIVITIES

	2005 £	2004 £
UK Corporation Tax at 30% (2004: 30%)	**140,984**	70,560
Adjustments to prior years	**(1,020)**	3,180
	139,964	73,740
Profit before tax	**2,402,668**	1,987,371
Tax on profit at standard rate	**720,800**	596,211
Factors affecting the recovery/charge for the year:		
Expenses not taxed	**–**	–
Income not taxable	**(567,447)**	(513,045)
Adjustment to prior year	**(1,020)**	3,180
Unutilised losses carried forward	**–**	–
Marginal relief	**(7,054)**	(12,606)
Losses utilised in period	**(5,315)**	–
	139,964	73,740

6. DIVIDENDS AND OTHER APPROPRIATIONS

Amounts recognised as distributions to equity holders in the period:

	2005 p	2004 p	2005 £	2004 £
Income				
Final dividend for the year ended 31st December, 2004	**25.00**	23.75	**615,000**	584,250
Interim dividend for the year ended 31st December, 2005	**12.50**	11.50	**307,500**	282,900
Capital				
Final dividend for the year ended 31st December, 2004	**1.8250**	1.7250	**29,930**	28,290
Supp cap dividend for the year ended 31st December, 2005	**56.0732**	49.0976	**919,600**	805,201
			1,872,030	1,700,641
Dividends on non-equity shares:				
Cumulative preference	**5.5%**	5.5%	**11,000**	11,000

The Articles provide for a Supplementary Dividend to Capital Shareholders to be paid not only in respect of future potential Preference Share issues which are not made, but also the 19,680,000 Preference Shares which could have been issued following the increases in the Capital Reserve revealed by the accounts since 1981.

	2005 p	2004 p	2005 £	2004 £
Income				
Proposed final dividend for the year ended 31st December, 2005	**28.00**	25.00	**688,800**	615,000
Capital				
Proposed dividend for the year ended 31st December, 2005	**2.025**	1.8250	**33,210**	29,930

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.

	2005	2004	2005	2004
	p	p	£	£
Income				
Interim dividend for the year ended 31st December, 2005	**12.50**	11.50	**307,500**	282,900
Proposed final dividend for the year ended 31st December, 2005	**28.00**	25.00	**688,800**	615,000
	40.50	36.50		
Capital				
Supp cap dividend for the year ended 31st December, 2005	**56.0732**	49.0976	**919,600**	805,201
Proposed final dividend for the year ended 31st December, 2005	**2.025**	1.8250	**33,210**	29,930
	58.0982	50.9226	**1,949,110**	1,733,031
Dividends on non-equity shares:				
Cumulative preference	**5.5%**	5.5%	**11,000**	11,000

7. **RETURN PER SHARE**

	2005			2004		
	Income	**Capital**	**Total**	Income	Capital	Total
	£	£	£	£	£	£
Return attributable to equity shareholders:						
Revenue return	**1,289,132**	**962,572**	**2,251,704**	1,062,029	840,602	1,902,631
Capital return	**2,102,193**	**6,306,580**	**8,408,773**	2,043,658	6,130,973	8,174,631
	3,391,325	**7,269,152**	**10,660,477**	3,105,687	6,971,575	10,077,262
	p	**p**		p	p	
Revenue return	**52.4**	**58.7**		43.2	51.3	
Capital return	**85.5**	**384.6**		83.1	373.8	
	137.9	**443.3**		126.3	425.1	

8. **GOODWILL**

	2005	2004
Cost	**£**	£
At beginning and end of the year	**65,191**	65,191
Impairment losses		
At beginning end of year	**-**	–
Net Book Value		
At 31st December, 2005	**65,191**	65,191
At 31st December, 2004	**65,191**	65,191

NOTES TO THE ACCOUNTS continued

for the year ended 31st December, 2005

9. INVESTMENTS

Analysis of the investments

The number of companies or institutions in which equities, convertibles or fixed interest securities were held was 48 (2004: 41).

	2005	
EQUITY GROUPS	**£**	**%**
Basic Materials		
Chemicals	**4,379,875**	**7.31**
Industries		
Construction & Materials	**4,516,750**	**7.54**
General Industrials	**1,696,500**	**2.83**
Electronic & Elec Equip	**588,095**	**0.98**
Industrial Engineering	**6,063,525**	**10.12**
Industrial Transportation	**420,555**	**0.70**
Support Services	**22,131,382**	**36.92**
Consumer Goods		
Household Goods	**1,575,000**	**2.63**
Health Care		
Health Care Equipment & Servs	**1,562,808**	**2.61**
CONSUMER SERVICES		
Technology		
Software & Computer Services	**2,124,000**	**3.54**
Technology Hardware & Equipment	**1,147,500**	**1.91**
Financials		
Banks	**8,355,159**	**13.94**
Real Estate	**1,040,874**	**1.74**
FIXED INTEREST		
Preference	**620,000**	**1.03**
Other		
AIM	**3,189,412**	**5.32**
UNQUOTED	**525,000**	**0.88**
Total UK	**59,936,435**	**100**

10. INVESTMENTS – FAIR VALUE THROUGH PROFIT OR LOSS

	Company		Group	
	2005	2004	**2005**	2004
	£	£	**£**	£
Investments listed on a recognised investment exchange				
Total listed investments	**56,222,023**	46,405,979	**56,222,023**	46,405,979
Unlisted investments	**3,714,412**	3,040,486	**3,714,412**	3,040,486
Subsidiary undertakings (note 12)	**431,472**	431,472	**–**	–
Other investments	**–**	–	**–**	–
	60,367,907	49,877,937	**59,936,435**	49,446,465

	Listed	Unlisted	Total
Group:			
Opening book cost	24,541,764	**4,140,419**	28,682,183
Opening unrealised appreciation	21,864,215	**(779,931)**	21,084,284
Opening provision against impairments in value	–	**320,002**	320,002
Opening valuation	46,405,979	**3,040,486**	49,446,465
Movements in the year			
From Listed to Unlisted	–	**–**	–
Purchases at cost	11,451,675	**482,500**	11,934,175
Sales – proceeds	9,852,978	**–**	9,852,978
– realised gains on sales	6,351,315	**–**	6,351,315
Permanent impairment in value of investments	–	**(482,498)**	(482,498)
Increase in unrealised appreciation	1,866,032	**673,924**	2,539,956
Closing valuation	56,222,023	**3,714,412**	59,936,435
Closing book cost	32,491,776	**4,622,919**	37,114,695
Closing unrealised appreciation	23,730,247	**(106,007)**	23,624,240
Closing provision against impairments in value	–	**802,500**	802,500
	56,222,023	**3,714,412**	59,936,435
Realised gains/(losses) on sales	6,351,315	**(482,498)**	5,868,817
Increase/(decrease) in unrealised appreciation	1,866,032	**673,924**	2,539,956
Gains/(losses) on investments	8,217,347	**191,426**	8,408,773

11. UNQUOTED INVESTMENTS

During the year, transactions in unquoted investments were:

	Cost	Carrying value at 31/12/05	Disposal Proceeds	Gain
	£	£	£	£
Investment				
Yorkshire Colours	482,500	–	–	–

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

	Cost	Carrying value at 31/12/05	Carrying value at 31/12/04	Amount of revaluation
	£	£	£	£
Investment				
Safe Computing plc	60,600	**525,000**	60,600	464,400
Yorkshire Colours	482,500	**–**	–	(482,500)

NOTES TO THE ACCOUNTS continued

for the year ended 31st December, 2005

12. SUBSIDIARY UNDERTAKINGS

The Company had investments in the following subsidiary undertakings:

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

13. SIGNIFICANT INTERESTS

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

Name	
Celsis International	4.3%
Chamberlin & Hill	13.6%
Colefax Group	12.3%
Eleco Holdings	6.3%
Honeycombe	5.7%
Howle Holdings	4.7%
Intelek	9.9%
Litho Supplies	18.0%
LPA Industries	3.9%
Thorpe F.W.	4.2%
Titon Holdings	12.0%
Treatt	3.5%
UCM Group	10.4%

14. TRADE AND OTHER RECEIVABLES

	Company		Group	
	2005	2004	**2005**	2004
	£	£	**£**	£
Amounts due from brokers	**-**	–	**-**	–
Trade receivables	**-**	–	**-**	–
Prepayments and accrued income	**128,377**	138,442	**146,343**	356,282
Other debtors	**-**	–	**426,201**	–
	128,377	138,442	**572,544**	356,282

15. TRADE AND OTHER PAYABLES

	Company		Group	
	2005	2004	2005	2004
	£	£	£	£
Bank overdraft	–	–	–	–
Amounts due to brokers	–	–	–	–
Trade payables	–	–	787,077	–
Accruals	23,987	16,418	91,339	222,261
	23,987	16,418	878,416	222,261

16. SHARE CAPITAL

	2005	2004
	£	£
Authorised		
200,000 5.5% (Net) Cumulative Preference Shares of £1 each	200,000	200,000
2,400,000 Capital Shares of 25p each	600,000	600,000
3,600,000 Income Shares of 25p each	900,000	900,000
	1,700,000	1,700,000
Allotted, Called Up and Fully Paid		
200,000 5.5% (Net) Cumulative Preference Shares of £1 each	200,000	200,000
1,640,000 Capital Shares of 25p each	410,000	410,000
2,460,000 Income Shares of 25p each	615,000	615,000
	1,225,000	1,225,000

17. RESERVES

	Share premium account	Capital reserve-realised	Revaluation reserve-unrealised	Dividend equalisation reserve
	£	£	£	£
Group				
Beginning of year	225,326	33,665,251	21,084,284	1,728,420
Net gain/(loss) on realisation of investments	–	6,351,315	–	–
Permanent impairments in value of investments	–	(482,498)	–	–
Increase/(decrease) in unrealised appreciation	–	–	2,539,956	–
Retained net revenue for the year	–	–	–	379,674
End of year	225,326	39,534,068	23,624,240	2,108,094
Company				
Beginning of year	225,326	33,665,251	21,084,284	1,572,757
Net gain/(loss) on realisation of investments	–	6,351,315	–	–
Permanent impairments in value of investments	–	(482,498)	–	–
Increase/(decrease) in unrealised appreciation	–	–	2,539,956	–
Retained net revenue for the year	–	–		656,433
End of year	225,326	39,534,068	23,624,240	2,229,190

The net profit for the period includes £10,948,236 (2004: £10,029,759) which has been dealt with in the Accounts of the Company.

NOTES TO THE ACCOUNTS continued

for the year ended 31st December, 2005

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	
	2005	2004	**2005**	2004
	p	p	**£**	£
Preference shares	**100**	100	**200,000**	200,000
Income shares	**751.8**	651.5	**18,495,445**	16,026,620
Capital shares	**2,928.1**	2,542.8	**48,021,283**	41,701,661
			66,716,728	57,928,281

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	16,026,620	41,701,661	57,928,281
Total recognised gains/(losses) for the year	–	2,102,193	6,306,580	8,408,773
Transfer to reserves	–	366,632	13,042	379,674
Total new assets attributable at end of year	200,000	18,495,445	48,021,283	66,716,728
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	
	2005	2004	**2005**	2004
	£	£	**£**	£
Proceeds on disposal of fair value through profit or loss investments	**9,852,978**	6,970,155	**9,852,978**	6,970,155
Purchases of fair value through profit or loss investments	**11,934,175**	1,336,804	**11,934,175**	1,336,804

20. RELATED PARTY TRANSACTIONS

Group

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

Company

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

	2005	2004
	£	£
Rent recharged	23,970	23,970
Dividends received	633,942	218,256
	657,912	242,226
Amounts owed by subsidiary undertaking	**575,759**	167,191

21. FINANCIAL INSTRUMENTS

The financial instruments of the Company and Group comprise:

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

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

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

Market price risk

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

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

Interest rate risk profile of financial assets and financial liabilities

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

Liabilities

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

Fair value of financial instruments

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

NOTES TO THE ACCOUNTS continued

for the year ended 31st December, 2005

22. EXPLANATION OF TRANSITION TO IFRS

This is the first year that the Group has presented its financial statements under IFRS. The following disclosures are required in the of transition. The last financial statements under UK GAAP were for the year ended 31st December, 2004 and the date of the transition to IFRS was therefore 1st January, 2004:

Group
Reconciliation of equity at 1st January, 2004

	Notes	UK GAAP	Effect of transition to IRFSs	IFRSs
Non current assets				
Goodwill	a	65,191		65,191
Investments	b	47,510,465	(605,280)	46,905,185
		47,575,656	(605,280)	46,970,376
Current assets				
Trading investments		283,985	–	283,985
Trade and other receivables		452,872	–	452,872
Cash and cash equivalents		1,993,130	–	1,993,130
		2,729,987	–	2,729,987
Total assets		50,305,643	(605,280)	49,700,363
Current liabilities				
Trade and other payables	c	760,223	(612,540)	147,683
Current tax payable		*1,020*	–	*1,020*
		761,243	(612,540)	148,703
Total assets less current liabilities		49,544,400	7,260	49,551,660
Net assets		49,544,400	7,260	49,551,660

	Notes	UK GAAP	Effect of transition to IRFSs	IFRSs
Equity attributable to equity holders				
Called up share capital		1,225,000		1,225,000
Share premium account		225,326		225,326
Retained reserves:				
Capital reserve		29,501,228		29,501,228
Revaluation reserve		17,678,956	(605,280)	17,073,676
Dividend equalisation reserve	d	913,890	612,540	1,526,430
		49,544,400	7,260	49,551,660

Reconciliation of equity at 31st December, 2004

	Notes	UK GAAP	Effect of transition to IRFSs	IFRSs
Non current assets				
Goodwill	a	55,876	9,315	65,191
Investments	b	50,150,266	(703,801)	46,446,465
		50,206,142	(694,486)	49,511,656
Current assets				
Trading investments		212,284	–	212,284
Trade and other receivables		356,282	–	356,282
Cash and cash equivalents		8,141,900	–	8,141,900
		8,710,466	–	8,710,466
Total assets		58,916,608	(694,486)	58,222,122
Current liabilities				
Trade and other payables	c	867,191	(644,930)	222,261
Current tax payable		71,580	–	71,580
		938,771	(644,930)	293,841
Total assets less current liabilities		57,977,837	(49,556)	57,928,281
Net assets		57,977,837	(49,556)	57,928,281
Equity attributable to equity holders				
Called up share capital		1,225,000	–	1,225,000
Share premium account		225,326	–	225,326
Retained reserves:				
Capital reserve		33,665,251	–	33,665,251
Revaluation reserve	b	21,788,085	(703,801)	21,084,284
Dividend equalisation reserve	d	1,074,175	654,245	1,728,420
		57,977,837	(49,556)	57,928,281

22. EXPLANATION OF TRANSITION TO IFRS *(continued)*

Notes to the reconciliation of equity

(a) Goodwill

Previously, goodwill was amortised over twenty years. Under IFRSs purchase goodwill is not amortised but an annual impairment review is carried out. Accordingly goodwill has been restated to its carrying values as at 1st January, 2004. This has resulted in an increase to the dividend equalisation reserve of £9,315 on an annual basis.

(b) Investments

Listed investments were previously stated at middle market value. In accordance with IAS 39 these investments are now stated at bid price. The effect of this has been to reduce the revaluation reserve by £703,801 at 31st December, 2004.

(c) Trade and other payables

The fall in trade and other payables is due to the fact that under IFRSs proposed dividends should only be accrued for to the extent that there is a contractual obligation to pay them at the balance sheet date. This has led to the final proposed dividend to both income and capital shareholders not to be recognised in the December 2004 Accounts but in the following year's interim accounts.

(d) Dividend equalisation reserve

The effect on the above on the dividend equalisation reserve is as follows:

	1st Jan 2004	*31st Dec 2004*
Dividends payable	612,540	644,930
Goodwill amortisation	–	9,315
	612,540	654,245

Reconciliation of profit for 31st December, 2004

	Notes	**UK GAAP**	**Effect of transition to IFRSs**	**IFRSs**
Investment income		1,710,150	–	1,710,150
Other operating income		611,944	–	611,944
Total income		2,322,094	–	2,322,094
Gains/(Losses) on fair value through profit or loss assets	b	8,394,511	(98,521)	8,295,990
		10,716,605	(98,521)	10,618,084
Expenses	a	465,397	(9,315)	456,082
Profit before tax		10,251,208	(89,206)	10,162,002
Tax		73,740	–	73,740
Profit for the period		10,177,468	(89,206)	10,088,262

NOTES TO THE ACCOUNTS continued

for the year ended 31st December, 2005

22. EXPLANATION OF TRANSITION TO IFRS *(continued)*

Company

Reconciliation of equity at 1st January, 2004

	Notes	UK GAAP	Effect of transition to IFRSs	IFRSs
Non current assets				
Goodwill		–	–	–
Investments	a	47,941,937	(605,280)	47,336,657
		47,941,937	(605,280)	47,336,657
Current assets				
Trading investments		–	–	–
Trade and other receivables	b	412,204	(218,256)	193,948
Amounts due from group undertakings		370,286	–	370,286
Cash and cash equivalents		1,572,757	–	1,572,757
		2,355,247	(218,256)	2,136,991
Total assets		50,297,184	(823,536)	49,473,648
Current liabilities				
Trade and other payables	c	631,688	(612,540)	19,148
Current tax payable		–	–	–
		631,688	(612,540)	19,148
Total assets less current liabilities		49,665,496	(210,996)	49,454,500
Net assets		49,665,496	(210,996)	49,454,500

Equity attributable to equity holders

	Notes	UK GAAP	Effect of transition to IFRSs	IFRSs
Called up share capital		1,225,000	–	1,225,000
Share premium account		225,326	–	225,326
Retained reserves:				
Capital reserve		29,501,228	–	29,501,228
Revaluation reserve		17,678,956	(605,280)	17,073,676
Dividend equalisation reserve	d	1,034,986	394,284	1,429,270
		49,665,496	(210,996)	49,454,500

Reconciliation of equity at 31st December, 2004

	Notes	UK GAAP	Effect of transition to IFRSs	IFRSs
Non current assets				
Goodwill		–	–	–
Investments	a	50,581,738	(703,801)	49,877,937
		50,581,738	(703,801)	49,877,937
Current assets				
Trading investments		–	–	–
Trade and other receivables	b	446,966	(276,59)	170,207
Amounts due from group undertakings		143,987	–	143,987
Cash and cash equivalents		7,596,905	–	7,596,905
		8,187,858	(276,59)	7,911,099
Total assets		58,769,596	(980,560)	57,789,036
Current liabilities				
Trade and other payables	c	661,348	(644,930)	16,418
Current tax payable		–	–	–
		661,348	(644,930)	16,418
Total assets less current liabilities		58,108,248	(335,630)	57,772,618
Net assets		58,108,248	(335,630)	57,772,618
Equity attributable to equity holders				
Called up share capital		1,225,000	–	1,225,000
Share premium account		225,326	–	225,326
Retained reserves:			–	–
Capital reserve		33,665,251	–	33,665,251
Revaluation reserve	b	21,788,085	(703,801)	21,084,284
Dividend equalisation reserve	d	1,204,586	368,171	1,572,757
		58,108,248	(335,630)	57,772,618

Notes to the reconciliation of equity

(a) Investments

Listed investments were previously stated at middle market value. In accordance with IAS 39 these investments are now stated at bid price. The effect of this has been to reduce the revaluation reserve by £703,801 at 31st December, 2004.

(b) Trade and other receivables

The fall in trade and other receivables is due to the year end proposed dividend receivable from a subsidiary undertaking not being allowed under IFRSs. IFRSs states that proposed dividends should only be accrued for to the extent that there is a contractual obligation to pay them at the balance sheet date.

(c) Trade and other payables

The fall in trade and other payables is due to the fact that under IFRSs proposed dividends should only be accrued for to the extent that there is a contractual obligation to pay them at the balance sheet date. This has led to the final proposed dividend to both income and capital shareholders not to be recognised in the December 2004 Accounts but in the following year's interim accounts.

(d) Dividend equalisation reserve

The effect on the above on the dividend equalisation reserve is as follows:

	1st Jan 2004	31st Dec 2004
Dividends payable	612,540	644,930
Dividends receivable	(218,256)	(276,759)
Attributable to equity holder of the parent	394,284	368,171

Reconciliation of profit for 31 December, 2004

	Notes	UK GAAP	Effect of transition to IFRSs	IFRSs
Investment income		1,705,280	–	1,705,280
Other operating income	b	460,699	(58,503)	402,196
Total income		2,165,979	(58,503)	2,107,476
Gains/(Losses) on fair value through profit or loss assets	a	8,273,152	(98,521)	8,174,631
		10,439,131	(157,024)	10,282,107
Expenses		280,932	–	280,932
Profit before tax		10,158,199	(157,024)	10,001,175
Tax		(28,584)	–	(28,584)
Profit for the period		10,186,783	(157,024)	10,029,759

APPENDIX

Details of the principal investments are given below by market value

	Holdings		Market Value	
	2005	2004	**2005**	2004
			£	£
UK Investments				
HBOS	**525,000**	525,000	**5,205,375**	4,449,375
White Young Green	**1,283,333**	1,283,333	**4,555,832**	3,728,082
RPS Group	**2,700,000**	2,700,000	**4,191,750**	4,110,750
Hill & Smith Holdings	**1,525,000**	1,525,000	**3,278,750**	1,830,000
VP	**1,000,000**	1,000,000	**2,450,000**	1,875,000
Litho Supplies	**3,860,000**	3,860,000	**2,238,800**	1,852,800
Colefax Group	**2,100,000**	2,100,000	**2,195,550**	1,785,000
Chamberlin & Hill	**1,000,000**	1,000,000	**2,180,000**	2,045,000
Dyson	**925,000**	925,000	**2,173,750**	3,135,750
LogicaCMG	**1,200,000**	400,000	**2,124,000**	768,000
Northern Rock	**200,000**	–	**1,885,000**	–
RPC Group	**600,000**	–	**1,696,500**	–
Eleco Holdings	**3,075,000**	3,075,000	**1,691,250**	937,875
Thorpe F.W.	**500,000**	500,000	**1,575,000**	1,787,500
Celsis Int'l	**958,778**	150,000	**1,562,000**	251,250
Titon Holdings	**1,265,000**	1,265,000	**1,518,000**	1,090,000
Spirax Sarco Eng	**150,000**	150,000	**1,320,000**	971,250
Domino Printing Sciences	**500,000**	500,000	**1,285,000**	1,282,500
Lloyds TSB Group	**259,177**	259,177	**1,264,784**	1,225,259
BSS Group	**400,000**	400,000	**1,260,000**	957,500

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.

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