

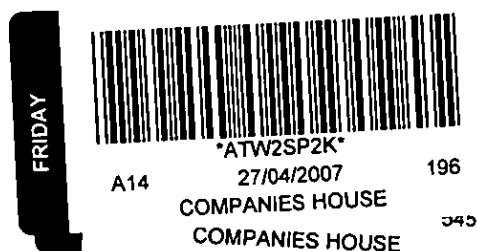
RIGHTS AND ISSUES INVESTMENT TRUST P.L.C.

FINAL REPORT AND ACCOUNTS 2006

COMPANY NUMBER 00736898

A SELF MANAGED INVESTMENT TRUST

**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HAVE BEEN REPLACED BY PAGE 8A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 | INCOME | PREFERENCE |
|---|--|---|
| ISSUE 1,640,000 shares of 25p each | ISSUE 2,460,000 shares of 25p each | ISSUE 200,000 shares of £1 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 | INCOME ENTITLEMENT 30/31st of the distribution of all profits after the payment of preference and supplementary capital dividends by way of dividend | INCOME ENTITLEMENT A dividend payment of 5.5p net per share on 2nd January |
| CAPITAL ENTITLEMENT 42.2278p per share and 75% of the surplus assets on liquidation | CAPITAL ENTITLEMENT 29.0650p per share and 25% of the surplus assets on liquidation | CAPITAL ENTITLEMENT Repayment at par on liquidation |
| VOTING One and a half votes per share on ordinary business and ten votes on a motion to liquidate | VOTING One vote per share | VOTING No vote normally for ordinary business and one vote per share on a motion to liquidate |
| PRICE (at 31st December, 2006) 3358p | PRICE (at 31st December, 2006) 1013p | |
| GROSS YIELD 2.3% | GROSS YIELD 4.8% | |
| DISCOUNT 8.5% | PREMIUM 10.0% | |
| DESCRIPTION Capital shares are of interest to capital orientated investors wishing some income | DESCRIPTION Income shares are of interest to income orientated investors wishing some participation in capital growth | 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 |
| 2006 | 3669 8p | 3158 | 68 1750p | 920.3p | 43.5p | 3221.4 | 543 |

† = includes special dividend

DIRECTORS AND ADVISERS

DIRECTORS

S H J A KNOTT *Chairman*
P M ALLEN FCA
B A BEVERLEY
D M BRAMWELL
S J B KNOTT

REGISTERED OFFICE

No 1 Poultry
London EC2R 8JR

Company registration number 736898
Registered in England

MANAGERS AND SECRETARIES

DISCRETIONARY UNIT FUND MANAGERS LTD
No 1 Poultry
London EC2R 8JR

SOLICITORS

EVERSHEDS
Senator House
85 Queen Victoria Street
London EC4V 4JL

AUDITORS

BEGBIES CHETTLE AGAR
Epworth House
25 City Road
London EC1Y 1AR

REGISTRARS

CAPITA REGISTRARS LTD
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA

BROKERS

ARBUTHNOT SECURITIES LTD
20 Ropemaker Street
London EC2Y 9HR

BANKERS

HSBC BANK PLC
Poultry and Princes Street
London EC2P 2BX

CHAIRMAN'S STATEMENT

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

The Trust experienced a good finish to the year and shareholders funds rose by 24.4% to another new record of £83.0m with both long standing and more recent investments contributing. The net asset value of the capital shares increased from 292.8p to 366.9p and that of the income shares from 75.1p to 92.0p. These rises of 25.3% and 22.4% both substantially exceeded the performance of the FTSE All-Share Index.

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

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

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

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

S. H. J. A. KNOTT

Chairman

REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITIES AND INVESTMENT TRUST STATUS

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

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

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

REVIEW OF THE BUSINESS

Group assets have increased to £83,024,264 from £66,716,728 and at 31st December, 2006, the net assets values of the income and capital shares were 920 3p (2005 751 8p) and 3669 8p (2005 2928 1p) respectively

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

The Capital Shareholders' supplementary dividend, subject to unforeseen circumstances, for the current year payable on 2nd January, 2008, will be 68 6829p net per Capital Share

RESULTS AND DIVIDENDS

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

FINANCIAL INSTRUMENTS

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

DIRECTORS

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

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

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

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

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

DISCLOSURE OF INFORMATION TO AUDITORS

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

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

REPORT OF THE DIRECTORS continued**SUBSTANTIAL SHAREHOLDINGS**

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

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

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

GENERAL

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


No charitable or political contributions have been made during the year

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

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

13th February, 2007

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

 (For Discretionary Unit Fund Managers 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 2006 are noted below

THE BOARD OF DIRECTORS

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

PRINCIPLES OF GOOD GOVERNANCE

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

SCHEME OF DELEGATION

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

REPORTING AND CONTROLS

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

CORPORATE GOVERNANCE AND DIRECTORS' REMUNERATION continued

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

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

RELATIONSHIP WITH SHAREHOLDERS

The Investment Director maintains a regular dialogue with major shareholders.

THE CODE OF BEST PRACTICE

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

A 1 2

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

A 4 6

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

A 6 1 & A 7 2

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

B 1 1 to B 2 4 (DIRECTORS' REMUNERATION)

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

C 3 1 to C.3 7

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

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

DIRECTORS' DETAILS

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

THE DIRECTORS' REMUNERATION REPORT

The Trust does not have a remuneration committee

THE TRUST'S POLICY ON DIRECTORS' REMUNERATION

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

SEE PAGE 8A FOR THE GRAPH

DIRECTORS' EMOLUMENTS (AUDITED)

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

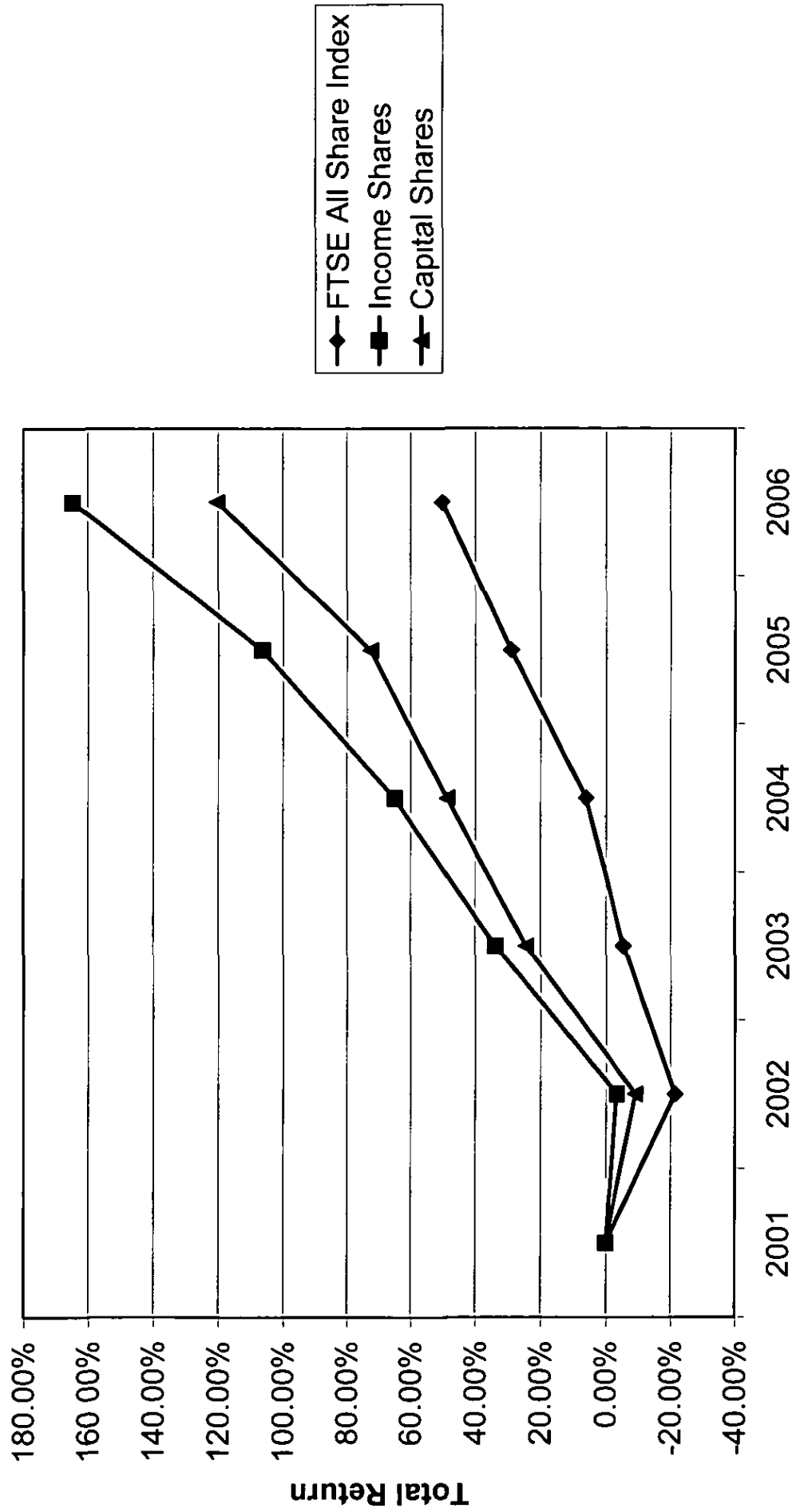
STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the report and accounts in accordance with applicable law and regulations. They are also responsible for ensuring that the Annual Report includes information required by the Listing Rules of the Financial Services Authority. Company law requires the Directors to prepare Accounts for each financial year. Under that law the Directors have elected to prepare the accounts in accordance with International Financial Reporting Standards (IFRSs) as adopted for use in the European Union. The accounts are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those Accounts the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the Accounts,
- prepare the Accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

5 Year Cumulative Performance Graph



INDEPENDENT AUDITORS' REPORT

To the Shareholders of Rights and Issues Investment Trust PLC

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

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

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

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

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

OPINION

In our opinion:

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

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

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

BEGBIES CHETTLE AGAR
Registered auditors
13th February, 2007

Begbies Chettle Agar

25 City Road
London
EC1Y 1AR

CONSOLIDATED INCOME STATEMENT

for the year ended 31st December, 2006

| | Notes | Year ended 31st December, 2006 | | | Year ended 31st December 2005 | | |
|--|-------|--------------------------------|-------------------|-------------------|-------------------------------|--------------|------------|
| | | Revenue £ | Capital £ | Total £ | Revenue £ | Capital £ | Total £ |
| Investment income | 2 | 2,008,203 | - | 2,008,203 | 1,891,490 | - | 1,891,490 |
| Other operating income | 2 | 750,360 | - | 750,360 | 859,838 | - | 859,838 |
| Total income | | 2,758,563 | - | 2,758,563 | 2,751,328 | - | 2,751,328 |
| Gains/(Losses) on fair value through profit or loss assets | 10 | 102,765 | 16,211,851 | 16,314,616 | 125,070 | 8,408,773 | 8,533,843 |
| | | 2,861,328 | 16,211,851 | 19,073,179 | 2,876,398 | 8,408,773 | 11,285,171 |
| Expenses | | | | | | | |
| Investment management fee | | - | - | - | - | - | - |
| Other expenses | 3 | 514,179 | - | 514,179 | 473,730 | - | 473,730 |
| | | 514,179 | - | 514,179 | 473,730 | - | 473,730 |
| Profit before tax | | 2,347,149 | 16,211,851 | 18,559,000 | 2,402,668 | 8,408,773 | 10,811,441 |
| Tax | 5 | 91,654 | - | 91,654 | 139,964 | - | 139,964 |
| Profit for the period | | 2,255,495 | 16,211,851 | 18,467,346 | 2,262,704 | 8,408,773 | 10,671,477 |
| Earnings per share | | | | | | | |
| Return per income share (p) | 7 | 45 7p | 164 8p | 210 5p | 52 4p | 85 5p | 137 9p |
| Return per capital share (p) | 7 | 68 3p | 741 4p | 809 7p | 58 7p | 384 6p | 443 3p |

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

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

CONSOLIDATED BALANCE SHEET

as at 31st December 2006

| | Notes | Company | | Group | |
|---|-------|-------------------|-------------------|-------------------|-------------------|
| | | 2006 £ | 2005 £ | 2006 £ | 2005 £ |
| Non-current assets | | | | | |
| Goodwill | 8 | - | - | 65,191 | 65,191 |
| Investments – Fair value through profit or loss | 10 | 80,731,783 | 60,367,907 | 80,300,311 | 59,936,435 |
| | | 80,731,783 | 60,367,907 | 80,365,502 | 60,001,626 |
| Current assets | | | | | |
| Trading investments | | - | - | 409,726 | 514,272 |
| Trade and other receivables | 14 | 216,648 | 128,377 | 384,441 | 572,544 |
| Current tax receivable | | - | - | - | - |
| Amounts due from group undertakings | | 613,038 | 555,759 | - | - |
| Cash and cash equivalents | | 1,601,507 | 5,809,768 | 2,556,595 | 6,647,686 |
| | | 2,431,193 | 6,493,904 | 3,350,762 | 7,734,502 |
| Total assets | | 83,162,976 | 66,861,811 | 83,716,264 | 67,736,128 |
| Current liabilities | | | | | |
| Trade and other payables | 15 | 17,616 | 23,987 | 600,563 | 878,416 |
| Current tax payable | | - | - | 91,437 | 140,984 |
| | | 17,616 | 23,987 | 692,000 | 1,019,400 |
| Total assets less current liabilities | | 83,145,360 | 66,837,824 | 83,024,264 | 66,716,728 |
| Net assets | | 83,145,360 | 66,837,824 | 83,024,264 | 66,716,728 |
| 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 | 41,235,990 | 39,534,068 | 41,235,990 | 39,534,068 |
| Revaluation reserve | 17 | 38,134,169 | 23,624,240 | 38,134,169 | 23,624,240 |
| Dividend equalisation reserve | 17 | 2,324,875 | 2,229,190 | 2,203,779 | 2,108,094 |
| Total equity | | 83,145,360 | 66,837,824 | 83,024,264 | 66,716,728 |
| Net asset value per share | | | | | |
| Income shares | | | | 920 3p | 751 8p |
| Capital shares | | | | 3,669.8p | 2,928 1p |

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

S H J A Knott, Director

S J B Knott, Director

S. H. J. A. Knott
S J B Knott

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December, 2006

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

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December 2006

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

CASH FLOW STATEMENT

for the year ended 31st December, 2006

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

NOTES TO THE ACCOUNTS

for the year ended 31st December 2006

1 ACCOUNTING POLICIES

Basis of Accounting

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

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

Basis of Consolidation

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

Presentation of income statement

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

Income

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

Expenses

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

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

Taxation

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

Investments

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

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

Trading investments are valued at fair value.

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

Goodwill

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

2 INCOME

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

3 OTHER EXPENSES

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

4 STAFF COSTS

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

The average number of staff employed by the group was

| | Number | Number |
|------------------------------------|----------------|----------------|
| | 3 | 3 |
| Directors' emoluments (see page 8) | | |
| Fees and salaries | £ 170,750 | £ 137,400 |
| Ex Gratia payments | - | - |
| | <u>170,750</u> | <u>137,400</u> |

NOTES TO THE ACCOUNTS continued

for the year ended 31st December 2006

5 TAX ON ORDINARY ACTIVITIES

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

6. DIVIDENDS AND OTHER APPROPRIATIONS

Amounts recognised as distributions to equity holders in the period

| | 2006 p | 2005 p | 2006 £ | 2005 £ |
|--|-----------|-----------|------------------|------------------|
| Income | | | | |
| Final dividend for the year ended 31st December, 2005 | 28 00 | 25 00 | 688,800 | 615,000 |
| Interim dividend for the year ended 31st December, 2006 | 14 00 | 12 50 | 344,400 | 307,500 |
| Capital | | | | |
| Final dividend for the year ended 31st December, 2005 | 2 0250 | 1 8250 | 33,210 | 29,930 |
| Supp cap dividend for the year ended 31st December, 2006 | 66 0000 | 56 0732 | 1,082,400 | 919,600 |
| | | | <u>2,148,810</u> | <u>1,872,030</u> |
| Dividends on non-equity shares | | | | |
| Cumulative preference | 5.5% | 5.5% | 11,000 | 11,000 |

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

| | 2006 p | 2005 p | 2006 £ | 2005 £ |
|--|-----------|-----------|-----------|-----------|
| Income | | | | |
| Proposed final dividend for the year ended 31st December, 2006 | 29 50 | 28 00 | 725,700 | 688,800 |
| Capital | | | | |
| Proposed dividend for the year ended 31st December, 2006 | 2 1750 | 2 025 | 35,670 | 33,210 |

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

6 DIVIDENDS AND OTHER APPROPRIATIONS (continued)

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

| | 2006 p | 2005 p | 2006 £ | 2005 £ |
|--|----------------|----------------|------------------|------------------|
| Income | | | | |
| Interim dividend for the year ended 31st December, 2006 | 14 00 | 12 50 | 344,400 | 307,500 |
| Proposed final dividend for the year ended 31st December, 2006 | 29 50 | 28 00 | 725,700 | 688,800 |
| | <u>43 50</u> | <u>40 50</u> | | |
| Capital | | | | |
| Supp cap dividend for the year ended 31st December, 2006 | 66.0000 | 56 0732 | 1,082,400 | 919,600 |
| Proposed final dividend for the year ended 31st December, 2006 | 2.1750 | 2 025 | 35,670 | 33,210 |
| | <u>68 1750</u> | <u>58 0982</u> | <u>2,188,170</u> | <u>1,949,110</u> |
| Dividends on non-equity shares | | | | |
| Cumulative preference | 5 5% | 5 5% | <u>11,000</u> | <u>11,000</u> |

7 RETURN PER SHARE

| | 2006 | | | 2005 | | |
|--|------------------|-------------------|-------------------|------------------|------------------|-------------------|
| | Income £ | Capital £ | Total £ | Income £ | Capital £ | Total £ |
| Return attributable to equity shareholders | | | | | | |
| Revenue return | 1,124,608 | 1,119,887 | 2,244,495 | 1,289,132 | 962,572 | 2,251,704 |
| Capital return | 4,052,963 | 12,158,888 | 16,211,851 | 2,102,193 | 6,306,580 | 8,408,773 |
| | <u>5,177,571</u> | <u>13,278,775</u> | <u>18,456,346</u> | <u>3,391,325</u> | <u>7,269,152</u> | <u>10,660,477</u> |
| | p | p | | p | p | |
| Revenue return | 45 7 | 68 3 | | 52 4 | 58 7 | |
| Capital return | 164 8 | 741 4 | | 85 5 | 384 6 | |
| | <u>210 5</u> | <u>809 7</u> | | <u>137 9</u> | <u>443 3</u> | |

8 GOODWILL

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

NOTES TO THE ACCOUNTS continued

for the year ended 31st December 2006

9 INVESTMENTS**Analysis of the investments**

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

| | 2006 | | 2005 | |
|---------------------------------|-------------------|---------------|-------------------|---------------|
| | £ | % | £ | % |
| EQUITY GROUPS | | | | |
| Basic Materials | | | | |
| Chemicals | 5,496,000 | 6 84 | 4,379,875 | 7 31 |
| Industrials | | | | |
| Construction & Materials | 5,239,000 | 6 52 | 4,516,750 | 7 54 |
| General Industrials | 1,512,000 | 1 88 | 1,696,500 | 2 83 |
| Electronic & Elec Equip | 594,642 | 0 74 | 588,095 | 0 98 |
| Industrial Engineering | 7,742,520 | 9 64 | 6,063,525 | 10 12 |
| Industrial Transportation | - | - | 420,555 | 0 70 |
| Support Services | 27,047,590 | 33 68 | 22,131,382 | 36 92 |
| Consumer Goods | | | | |
| Household Goods | - | - | 1,575,000 | 2 63 |
| Health Care | | | | |
| Health Care Equipment & Servs | 3,225,000 | 4 02 | 1,562,808 | 2 61 |
| CONSUMER SERVICES | | | | |
| Technology | | | | |
| Software & Computer Services | 2,232,000 | 2 78 | 2,124,000 | 3 54 |
| Technology Hardware & Equipment | - | - | 1,147,500 | 1 91 |
| Financials | | | | |
| Banks | 9,758,500 | 12 15 | 8,355,159 | 13 94 |
| Non life Insurance | 585,000 | 0 73 | - | - |
| Real Estate | 1,490,500 | 1 86 | 1,040,874 | 1 74 |
| FIXED INTEREST | | | | |
| Preference | 614,000 | 0 76 | 620,000 | 1 03 |
| Other | | | | |
| AIM | 14,763,559 | 18 40 | 3,189,412 | 5 32 |
| UNQUOTED | - | - | 525,000 | 0 88 |
| Total UK | 80,300,311 | 100 00 | 59,936,435 | 100 00 |

10 INVESTMENTS – FAIR VALUE THROUGH PROFIT OR LOSS

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

11 UNQUOTED INVESTMENTS

During the year transactions in unquoted investments were

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

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

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

NOTES TO THE ACCOUNTS continued

for the year ended 31st December 2006

12 SUBSIDIARY UNDERTAKINGS

The Company had investments in the following subsidiary undertakings

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

13 SIGNIFICANT INTERESTS

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

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

14 TRADE AND OTHER RECEIVABLES

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

15. TRADE AND OTHER PAYABLES

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

16. SHARE CAPITAL

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

17. RESERVES

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

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

NOTES TO THE ACCOUNTS continued

for the year ended 31st December 2006

18 NET ASSET VALUE PER SHARE

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

| | Net asset value Per share attributable | | Net asset value attributable | |
|-------------------|---|-----------|---------------------------------|-------------------|
| | 2006 p | 2005 p | 2006 £ | 2005 £ |
| Preference shares | 100 | 100 | 200,000 | 200,000 |
| Income shares | 920 3 | 751 8 | 22,639,816 | 18,495,445 |
| Capital shares | 3,669 8 | 2 928 1 | 60,184,448 | 48 021,283 |
| | | | 83,024,264 | 66,716,728 |

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

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

19 NOTES TO THE CASHFLOW STATEMENT

Cash and cash equivalent comprises of cash at bank

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

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

20 RELATED PARTY TRANSACTIONS**Group**

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

Company

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

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

21 FINANCIAL INSTRUMENTS

The financial instruments of the Company and Group comprise

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

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

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

Market price risk

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

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

Interest rate risk profile of financial assets and financial liabilities

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

Liabilities

There were no long-term liabilities at the year end

Fair value of financial instruments

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

APPENDIX

Details of the principal investments are given below by market value

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

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

