

**RIGHTS
AND
ISSUES
INVESTMENT
TRUST
PLC**

ANNUAL
REPORT
AND
FINANCIAL
STATEMENTS
2017

THURSDAY



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COMPANIES HOUSE

A SELF MANAGED INVESTMENT TRUST

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INVESTMENT OBJECTIVE & POLICY

The Board's objective is to exceed the benchmark index over the long term whilst managing risk.

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

The investment portfolio will normally lie in the range of 80% to 100% of shareholders' funds and therefore gearing will normally be between -20% and 0%. As a result of the Alternative Investment Fund Managers Regulations 2013 it has been decided that the Company will not use gearing.

CAPITAL STRUCTURE

ISSUED SHARE CAPITAL

(at 31st December 2017)

8,375,258 Income shares of 25p each.

INCOME ENTITLEMENT

Equal entitlement to dividends and other distributions.

CAPITAL ENTITLEMENT

Equal entitlement to the surplus assets.

VOTING

One vote per share.

PRICE

(at 31st December 2017)

2155.00p.

DIVIDEND YIELD

1.43%.

DISCOUNT MANAGEMENT POLICY

On 7th December 2016, the Company implemented share buy-back arrangements to encourage the level of discount to be not more than 10%.

SHARE BUY BACKS

During the year, the Company has bought back for cancellation a total of 590,097 Income shares for a total consideration of £11,835,000, representing 6.6% of the share capital of the Company at 31st December 2016.

DISCOUNT

9.16%.

RIGHTS AND ISSUES INVESTMENT TRUST PLC ("THE TRUST" or "THE COMPANY") MAY BE LIQUIDATED AT ANY TIME, BUT THE BOARD OF DIRECTORS HAS INDICATED THAT IT IS NOT ITS PRESENT INTENTION TO DO SO PRIOR TO 25TH JULY 2021.

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

HISTORIC RECORD

Year to 31st December	Net asset value per share	Net asset value per share (Index 1984 = 100)	Net dividend per Income share	FTSE All Share Index	FTSE All Share Index (Rebased 1984 = 100)
1984	29.0p	100	3.80p	592.94	100
1990	75.4p	260	7.50p	1032.60	174
1995	175.0p	602	10.50p	1802.56	304
2000	473.9p	1631	25.50p	2983.81	503
2005	732.0p	2520	40.50p	2847.00	480
2010	776.4p	2673	25.50p	3094.41	522
2011	751.2p	2586	25.50p	2857.88	482
2012	962.0p	3312	26.75p	3093.41	522
2013	1382.5p	4759	40.00p*	3609.63	609
2014	1297.1p	4465	36.00p	3532.74	596
2015†	1595.6p	5492	36.00p	3444.26	581
2016	2002.2p	6892	52.50p*	3873.22	653
2017	2372.3p	8166	30.75p	4221.82	712

* Includes Special Dividend

† From 2015 onwards the historic record is for the Company only and not the Group.

Note: Until 2016 net asset value per share is based on the Capital shares adjusted for the reconstruction (four Income shares for each Capital share). Thereafter, performance is based on the Income shares (the only remaining share class).

DIRECTORS AND ADVISERS

DIRECTORS

Dr D. M. BRAMWELL (Chairman)
D. M. BEST
Dr A. J. HOSTY
S. J. B. KNOTT
J. B. ROPER

REGISTERED OFFICE

Springfield Lodge
Colchester Road
Chelmsford CM2 5PW

WEBSITE

www.rightsandissues.co.uk

ADMINISTRATOR/SECRETARY

MAITLAND ADMINISTRATION SERVICES LTD
Springfield Lodge
Colchester Road
Chelmsford CM2 5PW

SOLICITORS

EVERSHEDS SUTHERLAND
One Wood Street
London EC2V 7WS

AUDITOR

BEGBIES
9 Bonhill Street
London EC2A 4DJ

REGISTRARS

LINK MARKET SERVICES LTD
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

BROKERS

STOCKDALE SECURITIES LTD
100 Wood Street
London EC2V 7AN

BANKERS/CUSTODIAN

HSBC BANK PLC
London EC2P 2BX

REGISTRATION DETAILS

Company Registration Number:	00736898 (Registered in England)
SEDOL number:	0739207
ISIN number:	GB0007392078
London Stock Exchange (EPIC) Code:	RIII
Global Intermediary Identification Number (GIIN):	I2ZVNY.99999.SL.826
Legal Entity Identifier (LEI):	2138002AWAM93Z6BP574

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the fifty-fifth Annual General Meeting of the members of Rights and Issues Investment Trust Public Limited Company will be held in **The Gridiron Building, 8th Floor, 1 Pancras Square, Pancras Road, King's Cross, London N1C 4AG**, on 26th March 2018, at 12 noon, for the following purposes:

ORDINARY BUSINESS

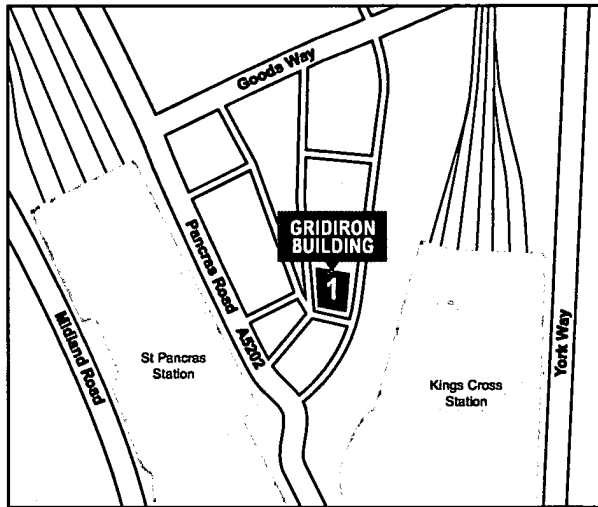
1. To receive the audited financial statements and Reports of the Directors and Auditor for the year ended 31st December 2017.
2. To approve the Annual Report on Directors' Remuneration, set out on pages 21 to 26 (excluding the restated Remuneration Policy on pages 24 and 25), for the financial year ended 31st December 2017.
3. To approve the payment of a final dividend of 20.50 pence per Income share for the financial year ended 31st December 2017.
4. To re-elect Dr D. Bramwell as a Director.
5. To re-elect D. M. Best as a Director.
6. To elect Dr A. J. Hosty as a Director.
7. To re-elect S. J. B. Knott as a Director.
8. To re-elect J. B. Roper as a Director.
9. To reappoint Begbies as Auditor and authorise the Directors to determine the Auditor's remuneration.

SPECIAL BUSINESS

To consider and, if thought fit, pass resolution 10 as a Special Resolution:

10. THAT the Company be and is hereby generally and unconditionally authorised in accordance with section 701 of the Companies Act 2006 to make market purchases (within the meaning of section 693 of the Companies Act 2006) of Income shares, provided that:
 - 10.1 the maximum aggregate number of Income shares hereby authorised to be purchased shall be 1,240,844 (representing approximately 14.99 per cent of the Income shares in issue on 22nd February 2018);
 - 10.2 the minimum price (exclusive of expenses) which may be paid for an Income share is 25 pence;
 - 10.3 the maximum price (exclusive of expenses) which may be paid for an Income share is not more than the higher of (i) an amount equal to 105 per cent of the average market value of the Income shares for the five business days immediately preceding the day on which the Income share is purchased; and (ii) the higher of the last independent bid and the highest current independent bid on the London Stock Exchange when the purchase is carried out, or such other amount as may be specified by the FCA from time to time;
 - 10.4 the authority hereby conferred will expire at the conclusion of the Annual General Meeting of the Company in 2019 unless such authority is renewed prior to such time; and
 - 10.5 the Company may make a contract to purchase Income shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Income shares pursuant to any such contract; provided that all Income shares purchased pursuant to this authority shall be cancelled or transferred into treasury immediately upon completion of the purchases.

By Order of the Board,
MAITLAND ADMINISTRATION SERVICES LTD
Secretary, 26th February 2018

NOTICE OF ANNUAL GENERAL MEETING continued**MEETING LOCATION MAP****Notes:**

1. Any shareholder entitled to attend and vote at the above meeting is entitled to appoint one or more proxies (who need not be a shareholder of the Company) to attend and to vote instead of the shareholder. To appoint more than one proxy, additional proxy forms may be obtained by contacting the Company's registrars. Please also indicate by ticking the box provided if the proxy instructions are one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope. Completion and return of a form of proxy will not preclude a shareholder from attending and voting at the meeting in person, should he subsequently decide to do so.
2. The right to appoint a proxy does not apply to persons whose Income shares in the Company (the "Shares") are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with section 146 of the Companies Act 2006 ("nominated persons"). Nominated persons may have a right under an agreement with the registered shareholder who holds the Shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the Shares as to the exercise of voting rights.
3. In order to be valid, a form of proxy, which is provided with this notice, and a power of attorney or other authority under which it is signed, or certified by a notary or office copy of such power or authority, must reach the Company's registrars, Link Asset Services, PXS, 34 Beckenham Road, Beckenham BR3 4TU not less than 48 hours (excluding any part of a day which is a non-working day) before the time of the meeting or of any adjournment of the meeting. A form of proxy is enclosed with this notice.
4. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
5. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message must be transmitted so as to be received by the Company's agent, Link Market Services (whose CREST ID is RA10) by the specified latest time(s) for receipt of proxy appointments. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST applications host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed.
6. The Company may treat as invalid a CREST proxy instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. A register showing the interests of each Director and their connected persons, so far as they are aware, in the Income shares will be available for inspection at the offices of the Company Secretary, Maitland Administration Services Limited, Springfield Lodge, Colchester Road, Chelmsford, Essex CM2 5PW, during normal business hours every weekday except Saturdays, from the above date to the day preceding that of the general meeting. It will also be available for inspection at the place of the meeting for 15 minutes prior to the general meeting and during the meeting. Apart from the Investment Director, there are no contracts of service existing between the Company and any of the Directors.

NOTICE OF ANNUAL GENERAL MEETING **continued**

7. Any shareholder attending the general meeting is entitled, pursuant to section 319A of the Companies Act 2006 to ask any question relating to the business being dealt with at the meeting. The Company will answer any such questions unless:

- i. to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
- ii. the answer has already been given on a website in the form of an answer to a question; or
- iii. it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

From the date of this notice and for the following two years the following information will be available on the Company's website and can be accessed at www.rightsandissues.co.uk:

- i. the matters set out in this notice of general meeting;
 - ii. the total numbers of Shares in respect of which shareholders are entitled to exercise voting rights at the meeting; and
 - iii. the totals of the voting rights that shareholders are entitled to exercise at the meeting in respect of the Shares.
8. Any shareholders' statements, shareholders' resolutions and shareholders' matters of business received by the Company after the date of this notice will be added to the information already available on the website as soon as reasonably practicable and will also be made available for the following two years.
9. Where a poll is taken at the general meeting, from the date of this notice and for the following two years the following information will be available on the Company's website and can be accessed at www.rightsandissues.co.uk:
- i. the date of the general meeting;
 - ii. the text of the resolution or, as the case may be, a description of the subject matter of the poll;
 - iii. the number of votes validly cast;
 - iv. the proportion of the Company's issued share capital represented by those votes;
 - v. the number of votes cast in favour;
 - vi. the number of votes cast against; and
 - vii. the number of abstentions (if counted).
10. In order to attend and vote at this meeting you must comply with the procedures set out in notes 1 to 3 by the time specified in note 3.
11. The right of shareholders to vote at the meeting is determined by reference to the register of shareholders. As permitted by section 360B(3) of the Companies Act 2006 and Regulation 41 of the Uncertificated Securities Regulations 2001, shareholders (including those who hold Shares in uncertificated form) must be entered on the Company's share register at close of business on 22nd March 2018 in order to be entitled to attend and vote at the meeting. Such shareholders may only cast votes in respect of Shares held at such time. Changes to entries on the relevant register after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
12. The total number of Income shares of 25p in issue as at 22nd February 2018, the last practicable day before printing this document, was 8,272,300 Shares and the total level of voting rights was 8,272,300.

CHAIRMAN'S STATEMENT

Developments late in the year around cuts to US rates of corporation tax resulted in a strong finish to 2017 and the FTSE All-Share Index rose by 9.0%.

The UK smaller company market performed well with FTSE Small Cap Index increasing by 14.9%.

Your Company's portfolio fully participated in this strong market with the net asset value of the Income shares rising by 18.5% to 2372.3p. Total equity again achieved a new record of £198m and would have exceeded £200m but for the expense of share buy-backs.

The final income dividend proposed is 20.50p making 30.75p for the year, a 2.5% increase.

The share buy-back programme has utilised £11.8m during the year and a total of £13.9m worth of shares have been repurchased in its first fourteen months to January 2018. The programme is being extended for a further twelve months to February 2019.

Progress on Brexit has been slow in coming. The proposed transition period is to be welcomed as it will allow time to adapt but the final trading relationship with EU remains frustratingly obscure. Irrespective of the eventual outcome, quality companies will continue to make progress.

Dr D. M. BRAMWELL

Chairman

26th February 2018



STRATEGIC REPORT

The Strategic Report is designed to provide information primarily about the Company's business and results for the year ended 31st December 2017 and should be read in conjunction with the Chairman's Statement on page 7.

STATUS

The Company is a self-managed investment trust. The Company is registered as an investment company as defined in section 833 of the Companies Act 2006 and operates as such. The Company is not a close company within the meaning of the provisions of the Corporation Tax Act 2010.

The Board has been approved by the Financial Conduct Authority to be a Small Registered Alternative Investment Fund Manager ("AIFM").

In the opinion of the Directors, the Company has conducted its affairs during the year under review, so as to qualify as an investment trust for the purposes of Chapter 4 of Part 24 of the Corporation Tax Act 2010 and continues to meet the eligibility conditions set out in section 1158 of the Corporation Tax Act 2010.

The Financial Conduct Authority rules in relation to non-mainstream pooled investments do not apply to the Company.

STRATEGY FOR MEETING THE OBJECTIVES

The Board's objective is to exceed the benchmark index over the long term whilst managing risk.

To achieve this objective, the Board continues with its long-term strategy of seeking out undervalued investments that have characteristics consistent with a matrix of criteria developed by the Investment Director. This is supported by the five-yearly review that addresses the above objective. The latest review was conducted in November 2015, which concluded that the continuation of the Company for the period until July 2021 was in the best interests of shareholders.

In pursuing its strategy, close attention is paid to the control of costs. Further information on this is contained in the Key Performance Indicators on page 9.

BUSINESS MODEL

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

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

The Company's investment activities are subject to the following limitations and restrictions:

The policy does not envisage hedging either against price or currency fluctuations. Whilst performance is compared against major UK indices, the composition of indices has no influence on investment decisions or the construction of the portfolio. As a result, it is expected that the Company's investment portfolio and performance will deviate from the comparator indices.

REVIEW OF THE BUSINESS

A review of the year and commentary on the future outlook is provided in the Chairman's Statement on page 7.

During the year under review, the assets of the Company were invested in accordance with the Company's investment policy.

Company assets have increased from £179,503,000 to £198,690,000 and at 31st December 2017 the net asset value was 2,372.3p per Income share.

KEY PERFORMANCE INDICATORS

The Board is provided with detailed information on the Company's performance at every Board meeting.

Key Performance Indicators are:

- Shareholders' funds equity return compared to the FTSE All-Share Index (the Company's benchmark index).
- Dividends per Income share.
- Ongoing Charge (formerly titled the Total Expense Ratio).

Shareholders' funds equity return

In reviewing the performance of the Company, the Board monitors shareholders' funds in relation to the FTSE All-Share Index. During the year shareholders' funds increased by 10.7% compared to an increase of 9.0% by the FTSE All-Share Index. Over the five years ended 31st December 2017 shareholders' funds increased by 130.2% compared with a rise of 36.5% by the FTSE All-Share Index.

Dividends per Income share

The total dividend per Income share paid and proposed is 30.75p (2016: 52.50p). During 2016 the share capital reorganisation took place and consequently the total dividend paid during 2016 is not directly comparable to the current year on a like for like basis.

Ongoing Charge

The Ongoing Charge shows the efficiency of control of management costs. The Ongoing Charge for the year ended 31st December 2017 was 0.41% (2016: 0.45%).

PRINCIPAL RISKS

The Board of Directors has a process for identifying, evaluating and managing the key risks of the Company. This process operated during the year and has continued to the date of this report. The Directors confirm that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The Directors describe below those risks and how they are being managed or mitigated.

Investment in an individual smaller company inherently carries a higher risk than investment in an individual large company. In a diversified portfolio, the portfolio risk of a smaller company portfolio is only slightly greater than the portfolio risk of a large company portfolio. The Company manages a diversified portfolio. Additionally, the Company invests overwhelmingly in smaller UK listed and AIM traded companies and has no exposure to derivatives. The principal risks are therefore market price risk and liquidity risk. Further details on these risks and how they are managed may be found in Note 18 to the financial statements on page 45.

Additional key risks identified by the Company, together with the Board's approach in dealing with them are as follows:

Investment performance – The performance of the investment portfolio will deviate from the performance of the benchmark index. The Board's objective is to exceed the benchmark index over the long term whilst managing risk. The Board ensures that the Investment Director is managing the portfolio within the scope of the investment policy; the Board monitors the Company's performance against the benchmark; and the Board also receives detailed portfolio attribution analysis. The Board has a clearly defined investment philosophy and operates a diversified portfolio.

Share price discount – Investment trust shares often trade at discounts to their underlying net asset values. The Board monitors the level of the discount of the Income shares. On 7th December 2016, the Company implemented share buy-back arrangements to mitigate the risk of the discount increasing.

Loss of key personnel – The Investment Director is crucial to performance and the loss of the Investment Director could adversely affect performance in the medium term. The Board reviews its strategy for this risk annually.

STRATEGIC REPORT **continued**

PRINCIPAL RISKS **continued**

Regulatory risk – The Company must abide by section 1158 of the Corporation Tax Act 2010 to maintain its investment trust status. This is achieved by the consistent investment policy and is monitored by the Board. The Board seeks assurance from the Administrator that the investment trust status is being maintained. The Board also reviews a schedule of regulatory risk items at its Board meetings in order to monitor and take action to address any regulatory changes.

Protection of assets – The Company's assets are protected by the use of an independent custodian, HSBC Bank plc, and the Board monitors the custodian to ensure assets remain protected. In addition, the Company operates clear internal controls to safeguard all assets.

Brexit – The risk associated with the decision of a majority of the UK electorate to leave EU membership ("Brexit") could be considerable for the UK and also for continental European countries. The links between the UK and the EU are wide-ranging and the future relationship remains unclear, creating conditions that could mean that markets react unpredictably to the uncertainty created. This risk is challenging to mitigate but the Investment Director is considering the Brexit risk for each investment in the portfolio based on its individual circumstances.

These and other risks facing the Company are reviewed regularly by the Audit and Compliance Committee and the Board.

VIABILITY

The Board reviews the performance and progress of the Company over five-year periods and uses these assessments, regular investment performance updates from the Investment Director and a continuing programme of monitoring risk to assess the future viability of the Company. The Directors consider that a period of five years is a reasonable time horizon to consider the viability of the Company. The Company also uses this period for its strategic planning. The following facts support the Directors' view of the viability of the Company:

- The Company has a liquid investment portfolio invested predominantly in readily realisable smaller UK-listed and AIM traded securities and has some short-term cash on deposit.
- The Company does not use gearing.
- Expenses of the Company are covered almost four times by investment income.

In order to maintain viability, the Company has a robust risk control framework for the identification and mitigation of risk which is reviewed regularly by Board. The Directors also seek reassurance from suppliers that their operations are well managed and that they are taking appropriate action to monitor and mitigate risk.

CORPORATE AND SOCIAL RESPONSIBILITY

When investments are made, the primary objective is to achieve the best investment return while allowing for an acceptable degree of risk. In pursuing this objective, various factors that may impact on the performance are considered and these may include socially responsible investment issues.

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

The Company has no greenhouse gas emissions to report from its operations for the year to 31st December 2017 (2016: same). The Company does not purchase electricity, heat, steam or cooling for its own use nor does it have responsibility for any other emissions producing sources.

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

As an investment vehicle the Company does not provide goods or services in the normal course of business, and does not have customers. Accordingly, the Directors consider that the Company is not within the scope of the Modern Slavery Act 2015.

COMPANY'S DIRECTORS AND EMPLOYEES

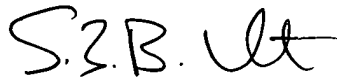
The number of directors and employees during the year was 5 (2016: 4).

	2017		2016	
	Male	Female	Male	Female
Directors (non-executive)	4	0	3	0
Directors (Executive)	1	0	1	0
Employees	0	0	0	0

The Directors have considered the Strategic Report and believe that taken as a whole it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance and strategy.

The Strategic Report was approved by the Board and signed on its behalf by:

S. J. B. Knott, Director
26th February 2018



REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their fifty-fifth Annual Report, together with audited financial statements in respect of the year ended 31st December 2017.

DIRECTORS

The Directors who served during the year were as follows:

Dr D. M. Bramwell	Chairman	70 Years	He was Chairman of Intelek PLC.
D. M. Best	Chairman of Audit Committee	59 Years	He is a former Managing Director of YFM Group and former Group Financial Director of Peterhouse Group PLC.
Dr A. J. Hosty*	Director	53 Years	He is a Chief Executive of the Sir Henry Royce Institute and a Director of Consort Medical PLC and RHI Magnesita N.V.
S. J. B. Knott	Investment Director	59 Years	He has been investment manager for more than 30 years.
J. B. Roper	Chairman of Nominations and Remuneration Committee	67 years	He is a solicitor and former partner of Eversheds LLP specialising in corporate transactions.

* Dr A. J. Hosty was appointed on 1st July 2017.

The Company purchases liability insurance covering the Directors and Officers of the Company.

DIVIDENDS

The Board is recommending a final dividend of 20.50p per Income share (2016: 20.00p). If approved, taken together with the interim dividend of 10.25p per Income share (2016: 10.00p) this will result in a total dividend to the holders of Income shares for the year of 30.75p per Income share (2016: 52.50p). In 2016 a special dividend payment relating to the capital reorganisation of 22.50p per Income share was paid.

SUBSTANTIAL SHAREHOLDINGS

The Company has received notification to 22nd February 2018, in accordance with Chapter 5 of the Disclosure and Transparency Rules, of the following voting rights:

	Income shares	% of voting rights*
Dartmoor Investment Trust	742,892	8.24%
Henderson Global Investors	702,000	7.78%
Rathbone Brothers PLC	553,433	6.13%
J. Knott	482,185	5.35%
S. J. B. Knott	477,000	5.29%
P & J Allen	447,958	4.97%
CG Asset Management Ltd	441,200	4.89%
H. J. D. Knott	428,589	4.75%

* The percentage of voting rights is as at the time of the notification.

DISCLOSURE OF SECTION 414C (11) SCHEDULE 7 INFORMATION

The Company has chosen to set out in the Strategic Report all information relating to the above.

SECTION 992 COMPANIES ACT 2006 DISCLOSURES

Details of the Company's capital structure and voting rights are given on page 1 of this document and in Note 14 on page 43 of the financial statements.

CORPORATE GOVERNANCE

Full details are given in the Corporate Governance Statement on pages 14 to 17. The Corporate Governance Statement forms part of this Directors' Report.

SPECIAL BUSINESS AT THE ANNUAL GENERAL MEETING

The Notice of the Annual General Meeting to be held on 26th March 2018 is set out on pages 4 to 6.

Share Buy Back Facility (resolution 10): The Board is seeking to renew the authority granted at the Annual General Meeting held on 30th March 2017 that authorises the Company to make market purchases of Income shares for cancellation. At the forthcoming Annual General Meeting the Directors will seek to renew this authority to buy back for cancellation up to 14.99% of Income shares in issue, representing 1,240,844 Income shares as at 22nd February 2018. The authority will expire at the conclusion of the next Annual General Meeting of the Company in 2019 unless the authority is renewed. The Board considers this authority an important part of the Company's discount management policy. Stockdale, the Company's brokers, will be asked to continue the facilitation of these buy backs on the Company's behalf and in accordance with the relevant provisions of the Companies Act 2006 and Listing Rules.

Recommendation: The Directors recommend that shareholders vote in favour of the resolutions to be proposed at the Annual General Meeting, as they intend to do in respect of their own beneficial holdings; all resolutions are considered to be in the best interests of the Company and its members.

DIRECTORS' REMUNERATION REPORT

The Annual Report on Directors' Remuneration on pages 21 to 26 provides information on the Directors' remuneration and their interests in the share capital of the Company, together with details of their letters of appointment and memoranda of service. All Directors served throughout the year, with the exception of Dr A. J. Hosty.

ADMINISTRATION & SECRETARIAL AGREEMENT

The accounting, company secretarial and administrative services are provided by Maitland Administration Services Limited ("Maitland") under an agreement terminable by either party on not less than six months' notice. The services provided by Maitland are reviewed regularly by the Board.

DISCLOSURE OF INFORMATION TO AUDITOR

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 Auditor is 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 Auditor is aware of that information.

GOING CONCERN

The Company's assets comprise mainly readily realisable equity securities and cash and the value of its assets is greater than its liabilities. Additionally, after reviewing the Company's budget including the current financial resources and projected expenses for the next 12 months and its medium-term plans, the Directors believe that the Company's resources are adequate for continuing in business for the foreseeable future. Accordingly, it is appropriate to continue to prepare the financial statements on a going concern basis.

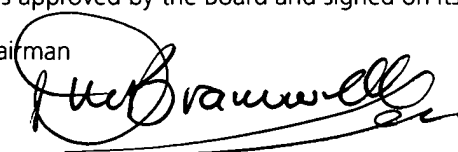
GENERAL

No political contributions have been made during the year.

In accordance with section 489 of the Companies Act 2006, a resolution proposing the reappointment of Begbies as Auditor of the Company will be put to the Annual General Meeting.

The Directors' Report was approved by the Board and signed on its behalf by:

Dr D. M. Bramwell, Chairman
26th February 2018



CORPORATE GOVERNANCE STATEMENT

AIC CODE & AIC GUIDE

The Board has considered the principles and recommendations of the AIC Code of Corporate Governance ("AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("AIC Guide"). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Board considers that reporting against the principles and recommendations of the AIC Code and by reference to the AIC Guide will provide better information to shareholders. However, as a self-managed investment trust company, not all of the provisions of the AIC Code are directly applicable to the Company. Full consideration has been given by the Board to the principles of good governance. In so far as they are applicable to a smaller self-managed investment trust, the Directors believe that they comply with the principles other than the following matter:

- The Board had elected not to designate a senior independent non-executive Director, as it considers that each Director has different strengths and qualities on which they may provide leadership.

OPERATION OF THE BOARD OF DIRECTORS

The Directors of the Company, as shown on page 12, are Dr D. M. Bramwell, Mr D. M. Best, Dr A. J. Hosty, Mr S. J. B. Knott and Mr J. B. Roper. With exception of Dr A. J. Hosty, who was appointed on 1st July 2017, all served throughout the year under review. Their biographical details, also set out on that page, demonstrate a breadth of investment, commercial and professional experience.

The Board is collectively responsible for promoting the success of the Company. It deals with the important aspects of the Company's affairs, including the setting of parameters for, and the monitoring of investment strategy and the review of, investment performance. It reviews the share price and the discount or premium to net asset value. The Board sets limits on the size and concentration of new investments. The application of these and other restrictions, including those which govern the Company's tax status as an investment trust, are reviewed regularly at meetings of the Board.

The Board delegates all investment matters to the Investment Director but reserves to itself all decisions concerning unquoted investments. The Investment Director takes decisions as to the purchase and sale of individual investments and is responsible for effecting those decisions on the best available terms in accordance with the investment policy as stated on page 1.

The Chairman leads the Board and ensures that it deals effectively with all the aspects of its role. In particular, he ensures that the Administrator provides the Directors, in a timely manner, with management, regulatory and financial information that is clear, accurate and relevant. Representatives of the Administrator attend each Board meeting, enabling the Directors to seek clarification on specific issues or to probe further on matters of concern. Matters specifically reserved for decision by the full Board have been defined and there is an agreed procedure for Directors, in the furtherance of their duties, to take independent professional advice, if necessary, at the Company's expense.

The Directors, their roles and attendance records are as follows:

Directors	Role	Audit Committee	Nominations and Remuneration Committee	Board meetings attended	Committee meetings attended
Dr D. M. Bramwell	Chairman, non-executive	Yes	Yes	8	7
S. J. B. Knott	Chief Executive and Investment Director	No	No	8	0
D. M. Best	Non-executive	Chairman	Yes	8	7
Dr A. J. Hosty*	Non-executive	No	No	4	0
J. B. Roper	Non-executive	Yes	Chairman	8	7

* Dr A. J. Hosty was appointed on 1st July 2017.

INDEPENDENCE OF THE DIRECTORS

The Board of Directors, which includes four non-executive Directors, all of whom are considered to be independent, meets at least seven times a year to review the affairs of the Company. The Directors have reviewed their independence by reference to the AIC Code. The Directors have had no material connection other than as Directors of the Company. The Board is of the opinion that each of the non-executive Directors is independent in character and judgment and that there are no relationships or circumstances that are likely to affect their judgment. Dr D. M. Bramwell has now served on the Board for more than nine years and (along with the other Directors) will stand for election by the shareholders each year. The Board is firmly of the view, however, that length of service does not of itself impair a director's ability to act independently. As such, the Board considers Dr D. M. Bramwell to be independent but, in accordance with the Code, his role and contribution will be subject to particularly rigorous review.

CONFLICTS OF INTEREST

The Articles of Association reflect the codification of certain directors' duties arising from the Companies Act 2006 and in particular the duty for Directors to avoid conflicts of interest. The Board has put in place a framework in order for Directors to report conflicts of interest or potential conflicts of interest.

All Directors are required to notify the Company Secretary of any situations, or potential situations, where they consider that they have or may have a direct or indirect interest or duty that conflicts or may possibly conflict with the interests of the Company. The Board has considered that the framework worked effectively throughout the period since its adoption. Directors were also made aware that there remains a continuing obligation to notify the Company Secretary of any new situation that may arise, or any change to a situation previously notified. It is the Board's intention to continue to review all notified situations on a regular basis.

NOMINATIONS AND REMUNERATION COMMITTEE

The Committee oversees a formal review procedure and evaluates the overall composition of the Board from time to time, taking into account the existing balance of skills and knowledge. Its chairman is an independent non-executive Director. The Committee managed, with assistance from Trust Associates, the selection and appointment of Dr A. J. Hosty during the year. There are procedures for a new Director to receive relevant information on the Company together with appropriate induction. The Committee is satisfied that the Board and its Committees function effectively, both collectively and individually, and contain the appropriate balance of skills and experience to provide effective management.

Further details of the work of the Committee are given on page 21.

BOARD AND DIRECTOR EVALUATION

The Board reviews its performance on an annual basis. The review covers an assessment of how cohesively the Board, Audit Committee and Nominations and Remuneration Committee work as a whole, as well as the performance of the individuals within them.

The Chairman is responsible for performing this review. Mr D. M. Best and Mr J. B. Roper perform a similar role in respect of the performance of the Chairman. The evaluation confirmed that all Directors continue to be effective on behalf of the Company and committed to the role.

The Nominations and Remuneration Committee conducts an annual review of the Investment Director's performance. The review of the Investment Director's performance in 2017 was output-based, but had regard to all other relevant factors.

CORPORATE GOVERNANCE STATEMENT continued

TENURE OF DIRECTORS

As in previous years, all Directors retire at each Annual General Meeting and, if appropriate, seek re-election. Being eligible, all Directors offer themselves for re-election. The Board considers that the Directors should be re-elected because they bring wide, current and relevant business experience that allows them to contribute effectively to the leadership of the Company. Following performance evaluation their performance continues to be effective and committed to the role.

Each non-executive Director has signed a letter of appointment to formalise the terms of his engagement as a non-executive Director (or there is a memorandum of such terms), copies of which are available on request and at the Company's Annual General Meeting. No Director is or was materially interested in any contract subsisting during or at the end of the year that was significant in relation to the Company's business.

No Director, apart from the Investment Director, has, or during the financial year had, a contract of service with the Company. The terms of the Investment Director's current basis of remuneration are detailed in the Directors' Remuneration Report on pages 21 to 26.

The Company is committed to ensuring that vacancies arising are filled by the best qualified candidates and recognises the value of diversity in the composition of the Board.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is fully aware of its duty to present a balanced and understandable assessment of the Company's position. It acknowledges its responsibility for the Company's system of internal financial controls and their effectiveness. The 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 Administrator and reports are submitted 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 Company, which has been in place during the year under review and up to the date of approval of the financial statements. This has been reviewed by the Board, is in accordance with the guidelines in the AIC Code and is considered by the Board to be effective and fit for purpose. 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 Company. 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 loss.

AUDIT COMMITTEE

The Audit Committee is a formally constituted committee of the Board with defined terms of reference, which include its role and the authority delegated to it by the Board, and which are available at the Company's registered office and on the Company's website. Its specific responsibilities include reviewing the Company's annual and half yearly results, together with the supporting documentation.

Further details are given in the Report of the Audit Committee on pages 18 to 20.

REMUNERATION

The remuneration of the Investment Director is decided by the Nominations and Remuneration Committee. The Board considers that the interests of the Investment Director, who is himself a shareholder (see page 21), are aligned with those of other shareholders.

RELATIONS WITH SHAREHOLDERS

It is the Chairman's role to ensure effective communication with the Company's shareholders and it is the responsibility of the Board to ensure that satisfactory dialogue takes place, based on the mutual understanding of objectives.

The Investment Director maintains a regular dialogue with major shareholders and reports to the Board.

The Board considers that the Annual General Meeting should provide an effective forum for individual investors to communicate with the Directors. The Annual General Meeting is chaired by the Chairman of the Board. All the other Directors, including the Chairman of the Audit Committee, expect to be present at the meeting and the Investment Director will present a review of the significant investment positions.

RESPONSIBILITIES AS AN INSTITUTIONAL SHAREHOLDER

The Board has delegated authority to the Investment Director for monitoring the corporate governance of investee companies. The Board has delegated to the Investment Director responsibility for selecting the portfolio of investments within investment guidelines established by the Board and for monitoring the performance and activities of investee companies. On behalf of the Company the Investment Director carries out detailed research on investee companies and possible future investee companies through internally generated research. The research includes an evaluation of fundamental details such as financial strength, quality of management, market position and product differentiation. Other aspects of research include an appraisal of social, ethical and environmentally responsible investment policies.

The Board has delegated authority to the Investment Director to vote on behalf of the Company in accordance with the Company's best interests. The primary aim of the use of voting rights is to address any issues which might impinge on the creation of a satisfactory return from investments. The Company's policy is, where appropriate, to enter into engagement with an investee company in order to communicate its views and allow the investee company an opportunity to respond.

In such circumstances the Company would not normally vote against investee company management but would seek, through engagement, to achieve its aim. The Company would vote, however, against resolutions it considers would damage its shareholder rights or economic interests.

The Company has a procedure in place that where the Investment Director, on behalf of the Company, has voted against an investee company resolution, it is reported to the Board.

The Board considers that it is not appropriate for the Company, as a small self-managed investment trust, formally to adopt the UK Stewardship Code. However, many of the UK Stewardship Code's principles on good practice on engagement with investee companies are used by the Company, as described above.

STATEMENT OF COMPLIANCE

The Directors consider that during the year ended 31st December 2017 the Company has complied with all the relevant provisions set out in the AIC Code.

This Corporate Governance Statement was approved by the Board and signed on its behalf:

Dr D. M. Bramwell, Chairman
26th February 2018



REPORT OF THE AUDIT COMMITTEE

ROLE OF THE AUDIT COMMITTEE

The Audit Committee's main functions are as follows:

- To monitor the internal financial control and risk management systems on which the Company is reliant.
- To monitor the integrity of the half-year and annual financial statements of the Company by reviewing and challenging, where necessary, the actions and judgements of the Investment Director.
- To meet the Auditor to review its proposed audit programme and the subsequent Audit Report, to review the effectiveness of the audit process and the levels of fees paid in respect of both audit and non-audit work.
- To make recommendations to the Board in relation to the appointment, reappointment or removal of the Auditor and to negotiate its remuneration and terms of engagement on audit and non-audit work.
- To monitor and review annually the Auditor's independence, objectivity, effectiveness, resources and qualification.

The Audit Committee meets at least twice each year and operates within defined terms of reference which are available at the Company's registered office and on the Company's website.

COMPOSITION OF THE AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, at least one of whom has recent and relevant financial experience.

SIGNIFICANT ISSUES AND RISKS

In planning its own work and reviewing the audit plan of the Auditor, the Audit Committee takes account of the most significant issues and risks, both operational and financial, likely to impact upon the Company's Financial Statements.

The valuation of the investment portfolio is a significant risk factor; however, all investments can be verified against daily market prices.

A further significant risk control issue is to ensure that the investment portfolio accounted for in the financial statements reflects physical ownership of the relevant securities. The Company uses the services of an independent custodian, HSBC Bank PLC, to hold the assets of the Company. The investment portfolio is regularly reconciled to the custodian's records and that reconciliation is also reviewed by the Auditor.

The incomplete or inaccurate recognition of income in the financial statements are risks. Internal control systems, including frequent reconciliations, are in place to ensure income is fully accounted for. The Board is provided with information on the Company's income account at each meeting.

Financial statements issued by the Company need to be fair, balanced and understandable. The Audit Committee reviews the Annual Report as a whole and makes suitable recommendations to the Board.

The Company's half-yearly report is approved by the Audit Committee prior to publication and is also reviewed by the Auditor.

The Audit Committee assesses whether it is appropriate to prepare the Company's financial statements on a going concern basis and makes recommendations to the Board. The Board's conclusions are set out in the Report of the Directors.

INTERNAL CONTROLS

The Audit Committee is responsible for ensuring that suitable internal control systems to prevent and detect fraud and error are designed and implemented and is also responsible for reviewing the effectiveness of such controls. The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place for the year under review and up to the date of approval of this Report and is regularly reviewed. In particular it has reviewed and updated the process for identifying and evaluating the significant risks affecting the Company and the policies by which these are managed. The risks of failure of any such controls are identified in a risk assessment which identifies the likelihood and severity of the impact of such risks and the controls in place to minimise the probability of such risks occurring; the risk management process and systems of internal control are designed to manage rather than eliminate the risk of failure to achieve the Company's objectives. It should be recognised that such systems can only provide reasonable, but not absolute, assurance against material misstatement or loss. Equally, 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.

The following are the key components which the Company has in place to provide effective internal control:

- The Board has agreed clearly defined investment criteria; reports on compliance therewith are regularly reviewed by the Board.
- The Board has a procedure to ensure that the Company can continue to be approved as an investment company by complying with section 1158 of the Corporation Tax Act 2010.
- The Administrator prepares forecasts and management accounts which allow the Board to assess the Company's activities and review its performance.
- The performance of the Investment Director and any contractual agreements with other third party service providers, and adherence to them, are regularly reviewed.
- The Company does not itself have a whistleblowing policy in place. The Company delegates its administration to third party providers who have such policies in place.

The Audit Committee has reviewed the need for an internal audit function, but has concluded that, given the size of the organisation and the clear segregation of investment management and control of the assets, there is no need for such a function at the current time. The Audit Committee has also agreed to keep such a requirement under review.

EXTERNAL AUDIT PROCESS

The Audit Committee meets at least twice a year with the Auditor. The Auditor provides a planning report in advance of the annual audit, a report on the annual audit, and a report of its review of the half-year financial statements. The Committee has an opportunity to question and challenge the Auditor in respect of each of these reports; it also agrees the level and scope of materiality to be adopted in respect of the annual audit.

In addition, at least once a year, the Audit Committee has an opportunity to discuss any aspect of the Auditor's work with the Auditor in the absence of the Investment Director.

After each audit, the Audit Committee will review the audit process and consider its effectiveness.

REPORT OF THE AUDIT COMMITTEE continued

AUDITOR ASSESSMENT AND INDEPENDENCE

The Company's Auditor is Begbies, which has been the Company's Auditor since 2006. Rotation of the Audit Partner takes place in accordance with Ethical Standard 3; "Long Association with the Audit Engagement" of the Auditing Practices Board ("APB").

The fees for audit purposes were £15,000 (2016: £15,000).

The Audit Committee has approved and implemented a policy on the engagement of the Auditor to supply non-audit services, taking into account the recommendations of the APB, and does not believe there is any impediment to the Auditor's objectivity and independence. All non-audit work to be carried out by the Auditor must be approved by the Audit Committee in advance.

The cost of non-audit services provided by the Auditor for the financial year ended 31st December 2017 was £5,400 (2016: £5,400). These non-audit services are related to the review of the interim accounts and tax compliance. The Committee believes Begbies is best placed to provide them on a cost-effective basis. The fees for non-audit services are not considered material in the context of the financial statements as a whole.

INDEPENDENCE

During the year the Committee reviewed the independence policies and procedures of Begbies, including quality assurance procedures. It was considered that those policies and procedures remained fit for purpose.

DISCLOSURE OF INFORMATION TO THE AUDITOR

It is the Company's policy to allow the Auditor unlimited access to its records. The Directors confirm that, so far as each of them is aware, there is no relevant audit information of which the Company's Auditor is unaware and they have taken all the steps which they should have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

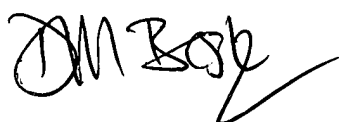
CONCLUSION

The Audit Committee has reviewed the matters within its terms of reference and reports as follows:

- it has approved the financial statements for the year ended 31st December 2017;
- it has reviewed the effectiveness of the Company's internal controls and risk management;
- it has reviewed the need for a separate internal audit function;
- it has recommended to the Board that a resolution be proposed at the Annual General Meeting for the reappointment of the Auditor and it has considered the proposed terms of its engagement;
- it has satisfied itself as to the independence of the Auditor; and
- it has satisfied itself that the contents of the Annual Report are consistent with the financial statements.

D. M. Best, Director
Chairman, Audit Committee

26th February 2018



DIRECTORS' ANNUAL REMUNERATION REPORT

INTRODUCTION

This Report is submitted in accordance with the requirements of sections 420 to 422 of the Companies Act 2006 in respect of the year ended 31st December 2017. An ordinary resolution to approve this Report will be put to members at the forthcoming Annual General Meeting, but the Directors' remuneration is not conditional upon the resolution being passed.

The Company has a Nominations and Remuneration Committee, the terms of reference of which include annually reviewing and recommending to the Board the level of Directors' fees and remuneration. The full terms of reference are available at the Company's registered office and on the Company's website. The Committee is chaired by J. B. Roper and the other members are Dr D. M. Bramwell and D. M. Best.

DIRECTORS' REMUNERATION AS A SINGLE FIGURE (AUDITED)

Director	Salary and fees 2017 £	Annual bonuses 2017 £	Total for 2017 £	Salary and fees 2016 £	Annual bonuses 2016 £	Total for 2016 £
D. M. Best	20,000	–	20,000	18,500	–	18,500
Dr D. M. Bramwell (Chairman)	26,000	–	26,000	24,000	–	24,000
Dr A. J. Hosty	10,000	–	10,000	–	–	–
S. J. B. Knott (Executive)	268,500	45,000	313,500	213,000	40,000	253,000
J. B. Roper	20,000	–	20,000	18,500	–	18,500
Total	344,500	45,000	389,500	274,000	40,000	314,000

Note: Dr A. J. Hosty was appointed on 1st July 2017.

No payments of other types prescribed in the relevant regulations such as Long-term Incentive Plans ("LTIPs") or pensions and pension-related benefits were made.

No other remuneration or compensation was paid or payable by the Company during the year to any current or former Directors.

With effect from 1st January 2018 the fees payable to the Directors are as follows (previous rates are shown in brackets): Chairman £27,000 (£26,000), other non-executive Directors £21,000 (£20,000) and Investment Director/CEO (base salary excluding discretionary bonus) £297,000 (£268,500).

STATEMENT OF DIRECTORS' SHAREHOLDINGS AND SHARE INTERESTS (AUDITED)

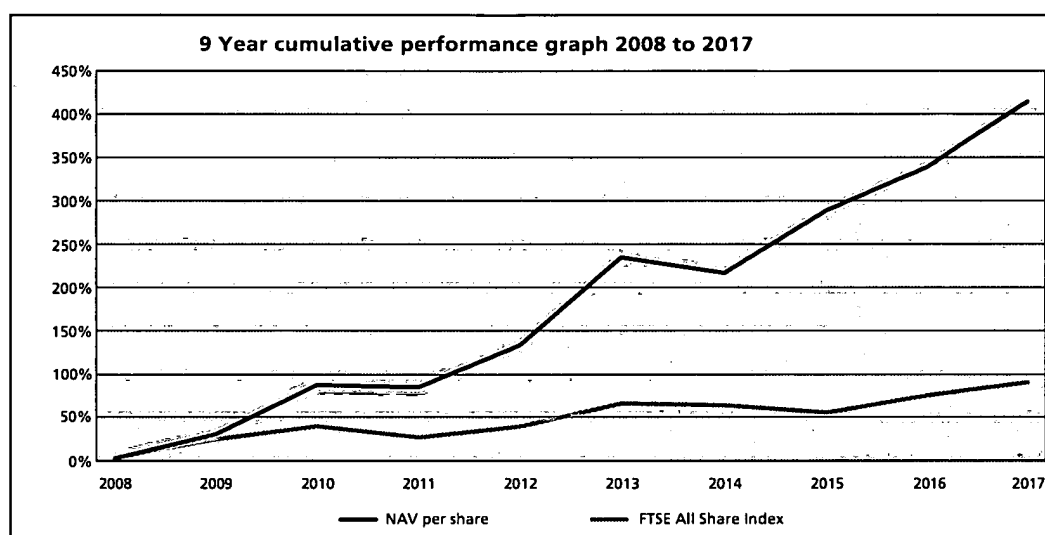
The Company has not set any requirements or guidelines for the Directors to own Income shares in the Company. The beneficial interests of the Directors and their connected persons in the Income shares of the Company are shown in the table below.

	Income shares	
	31st December 2017	31st December 2016
D. M. Best	–	–
Dr D. M. Bramwell (Chairman)	22,625	22,625
Dr A. J. Hosty	–	–
S. J. B. Knott (Executive)	477,000	477,000
J. B. Roper	–	–

No changes in the Directors' interests shown above have occurred since 31st December 2017.

DIRECTORS' ANNUAL REMUNERATION REPORT continued**PERFORMANCE GRAPH AND CEO REMUNERATION TABLE**

The graph below illustrates the total shareholder return for the Income Shares relative to the FTSE All-Share Index. This has been used as the appropriate index as it is the Company's benchmark index.

**CEO REMUNERATION TABLE**

	CEO Single Figure of Total Remuneration £	Annual Bonus Paid Out £
2013	140,000	25,000
2014	184,000	—
2015	184,000	30,000
2016	213,000	40,000
2017	268,500	45,000
Total	989,500	140,000

The above bonuses were of a discretionary nature and so no percentage against a maximum payable has been shown.

The table below shows the percentage change in the remuneration of the Director undertaking the role of CEO (the Investment Director) between the years 2016 and 2017. During the same period the Company had no employees.

	Percentage change in salary	Percentage change in annual bonus
CEO		
Workforce	N/A	N/A

SIGNIFICANCE OF SPEND ON PAY

	Directors' remuneration £	Shareholder distribution £
2017	389,500	2,645,030
2016	314,000	2,481,320
Difference	75,500	163,710
% Change	24%	7%

SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Except as set out below, there are no written service contracts or contract for services in respect of any Director. There are no share options, LTIPs, pension or profit-related pay arrangements with any of the Directors.

There are letters of appointment for four non-executive Directors:

<i>Director</i>	<i>Date</i>
Dr D. M. Bramwell (Chairman)	5th April 2017
D. M. Best	5th April 2017
Dr A. J. Hosty	1st July 2017
J. B. Roper	5th April 2017

There is a written memorandum setting out the terms of the contract of service for S. J. B. Knott; there are also subsequent memoranda varying the letters of appointment and this memorandum.

No terms or notice periods are set out in any terms of appointment of any of the Directors; all Directors are subject to annual re-election at the Company's Annual General Meeting.

There are no provisions for the payment of compensation for loss of office, early termination or wrongful termination by the Company. Any payment on termination of their appointments would be calculated in accordance with their strict legal entitlements.

THE COMPANY'S POLICY ON DIRECTORS' REMUNERATION

The following is the Company's policy for Directors' remuneration which was approved by shareholders at the Annual General Meeting held on 30th March 2017.

INTRODUCTION

The Company's policy as regards non-executive Directors is that fees payable to them should reflect their expertise, responsibilities and time spent on Company matters. In determining the level of non-executive remuneration, market equivalents should be considered with regard being had to the overall activities and size of the Company.

The maximum aggregate level of fees payable to the Directors is fixed by the Company's Articles of Association, amendment of which is by way of an ordinary resolution. The level aggregate fees should not exceed is £150,000 per annum. The Investment Director is not paid a fee for acting as a Director of the Company but is remunerated separately in respect of his executive roles.

The Company's policy as regards S. J. B. Knott, the Investment Director and only executive director of the Company, is to align his remuneration to the principal investment benchmark of the Company. However, it also has regard to his executive duties as effective chief executive officer of the Company and the time required of him for the effective fulfilment of his duties, but with provision for discretionary bonuses to recognise significant outperformance of the Company's investment portfolio. As noted on page 21, he is a significant shareholder in the Company.

The Company does not confer any share options, long-term incentives or retirement benefits on any Director, nor does it make a contribution to any pension scheme on behalf of the Directors. The Company has not included any performance-related elements in the remuneration package of the Executive Director except as noted above. The Company also provides Directors' liability insurance.

FUTURE POLICY TABLE

The tables below summarise the various elements of the remuneration packages of the Directors.

Investment Director

<i>Element</i>	<i>Purpose and link to strategy</i>
Base salary	The Investment Director is paid an annual salary linked to the net assets of the Company at the end of the previous year to reflect the aim of long-term growth which is the principal benchmark measurement criterion of the Company and, in addition, to have regard to his other executive duties.

Discretionary bonus To motivate the Investment Director to achieve measured outperformance.

Chairman and non-executive Directors' fees

<i>Element</i>	<i>Purpose and link to strategy</i>
Chairman and non-executive Directors' fees	The fees paid to the Chairman and the other non-executive Directors aim to be competitive with other investment trusts of equivalent size and complexity. Fees are fixed annual sums and reviewed periodically by the Board (for non-executive Directors) and the Committee (for the Chairman). Neither the Chairman nor the other non-executive Directors receive any incentive payment.

Notes:

No Director is entitled to receive any pension provision.

There is no maximum or minimum applicable to either element of the Investment Director's remuneration package.

The policy on remuneration for employees generally is to incentivise them to perform effectively and to recognise market comparators, but remuneration packages are structurally different from that of the only executive director, the Investment Director. The Company currently has no other employees.

APPROACH TO RECRUITMENT REMUNERATION

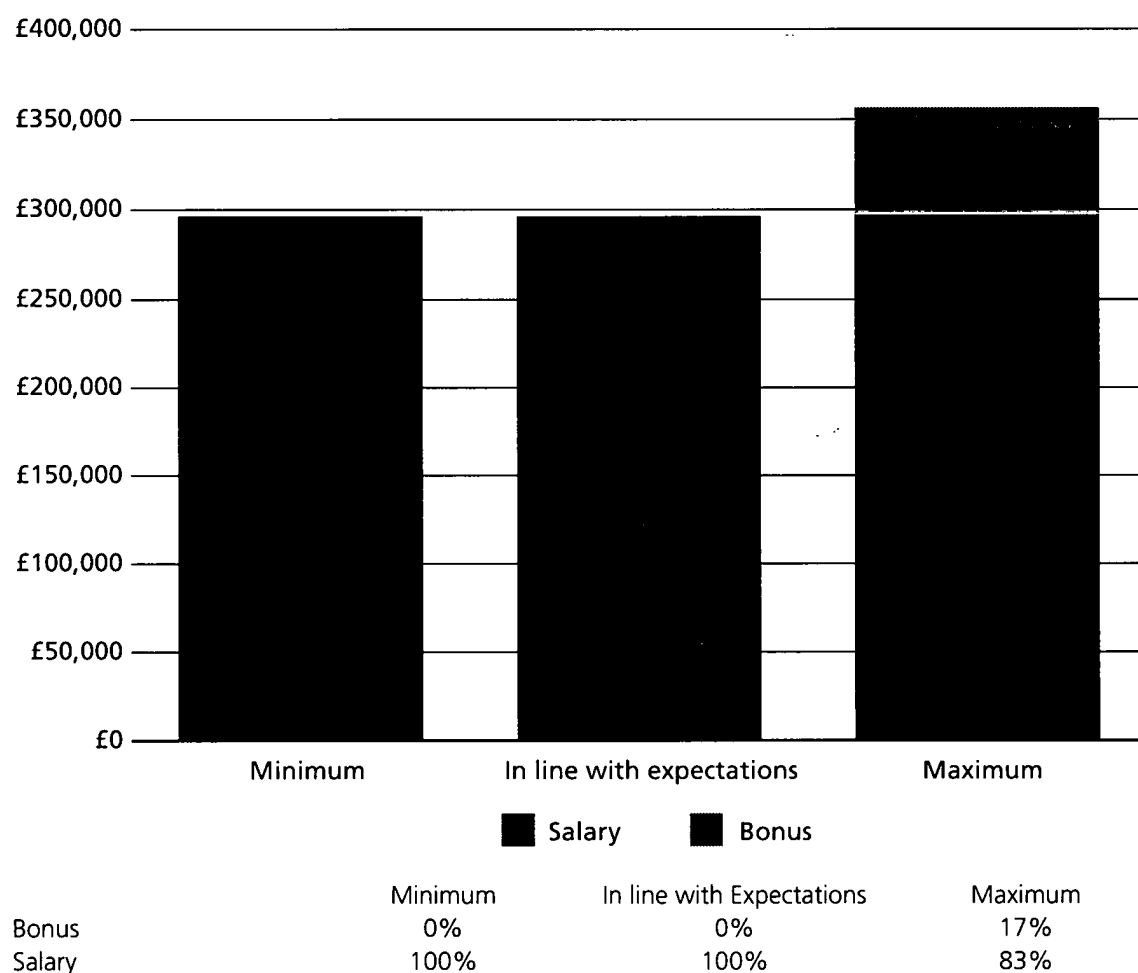
The principles the Company would apply in setting remuneration for new Board members would be in line with the Remuneration Policy. Fees and salary for new appointees would therefore be commensurate with existing Board members and their relevant peer group.

STATEMENT OF CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE COMPANY

As the Company has no employees, other than the Investment Director, there was no consultation when setting the Directors' Remuneration Policy and no remuneration comparison measurement with employees was used.

It is intended that the Directors' Remuneration Policy will continue until the Annual General Meeting of the Company to be held in 2020.

ILLUSTRATION OF APPLICATION OF REMUNERATION POLICY



It is expected that no bonus will be payable for performance in line with expectations and a maximum bonus of 20% of salary would be payable.

THE COMPANY'S POLICY ON DIRECTORS' REMUNERATION continued**VOTING AT ANNUAL GENERAL MEETING**

A binding Ordinary Resolution approving the Directors' Remuneration Policy was approved on 30th March 2017. The votes cast were as follows:

Remuneration Policy

For – % of votes cast	99.65%
Against – % of votes cast	0.15%
At Chairman's discretion – % of votes cast	0.20%
Total votes cast	2,435,109
Number of votes withheld	3,180

A non-binding Ordinary Resolution adopting the Annual Report on Directors' Remuneration for the year ended 31st December 2016 was approved by shareholders at the Annual General Meeting held on 30th March 2017. The votes cast by proxy were as follows:

Annual Report on Directors' Remuneration

For – % of votes cast	99.78%
Against – % of votes cast	0.14%
At Chairman's discretion – % of votes cast	0.08%
Total votes cast	2,436,209
Number of votes withheld	2,080

ANNUAL STATEMENT

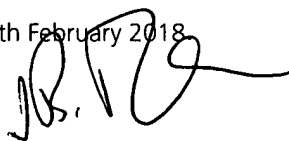
On behalf of the Board and in accordance with Part 2 of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, I confirm that the above Report (which has been agreed by the Board) summarises, as applicable, for the year ended 31st December 2017:

- the major decisions on Directors' remuneration;
- any substantial changes relating to Directors' remuneration made during the year; and
- the context in which the changes occurred and decisions that have been taken.

J. B. Roper, Director

Chairman, Nominations and Remuneration Committee

26th February 2018



STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards ("IFRS") as adopted by the European Union.

The Directors are required to prepare the financial statements for each financial year which present fairly the financial position, the financial performance and cash flows of the Company for that period. In preparing those financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- state that the Company has complied with IFRS subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements 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 financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

The Directors consider that the Annual Report and financial statements taken as a whole are fair, balanced and understandable and provide shareholders with the information necessary to assess the Company's performance, business model and strategy.

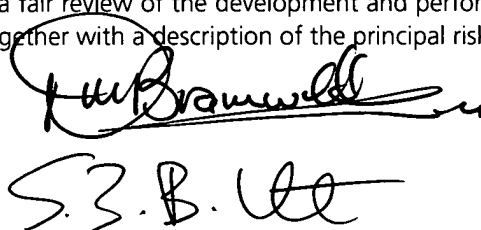
The Directors confirm that to the best of their knowledge that:

- the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties.

Dr D. M. Bramwell, Director

S. J. B. Knott, Director

26th February 2018



INDEPENDENT AUDITOR'S REPORT

To the Members of Rights and Issues Investment Trust PLC

OPINION

We have audited the financial statements of Rights and Issues Investment Trust PLC for the year ended 31st December 2017 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31st December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's ("FRC") Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

CONCLUSIONS RELATING TO PRINCIPAL RISKS, GOING CONCERN AND VIABILITY STATEMENT

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on pages 9 and 10 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 9 in the Annual Report that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 13 in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 10 in the Annual Report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The purpose of the Company is to invest in equities with a view to achieving capital appreciation and a dividend income stream. Consequently we have identified the following risks of material misstatements that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

- the incorrect valuation of the investment portfolio held by the Company;
- the ownership of the investments and the risk of the misappropriation of those assets;
- the incomplete or inaccurate recognition of the Company's investment income.

The risks we have identified are consistent with those risks that were identified in the prior year.

Therefore particular emphasis was placed in examining and testing the processes of measuring and recognising investments including ownership of those investments together with the testing of its income. We obtained confirmation of investments held at the year end from the custodian, testing this to the records maintained by the Company. We tested a selection of investment additions and disposals shown in the Company's records to supporting documentation and agreed the valuation of quoted investments. We also tested dividends receivable and confirmed that the income was recorded in accordance with the Company's accounting policy.

Based on the work we performed, we had no matters to report to the Audit Committee.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our assessment of audit risk and our evaluation of materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment, when assessing the level of work to be performed.

OUR APPLICATION OF MATERIALITY

We determined our planning materiality to be £1.98 million which is 1% of net assets. Given the importance of the distinction between revenue and capital for the company, we also decided on a separate testing materiality of £250,000 for the revenue column of the Income Statement which is 10% of the net return.

The Audit Committee requested our materiality to be set at the lower level of £1 million for the financial statements as a whole. Due to the significance of the Company's net assets compared with the amounts in the revenue column of the Income Statement, they asked us to set a separate materiality level for the revenue column of £200,000.

We have also agreed with the Audit Committee that we would report to them all audit differences in excess of £50,000 as well as any other differences below that threshold which in our view should be reported to them because of their nature, relevance and prominence in the Financial Statements.

INDEPENDENT AUDITOR'S REPORT continued

To the Members of Rights and Issues Investment Trust PLC

OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included in the annual report (including the Strategic Report and the Directors' Report), other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 27 – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 14 – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Statement of Directors' Responsibilities set out on page 27, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In respect of fraud the objectives of our audit were to identify and assess the risks of material misstatement of the financial statements due to fraud and to obtain appropriate and sufficient audit evidence regarding those assessed risks of material misstatement due to fraud. However, the primary responsibility for the prevention and detection of fraud rests with those charged with the governance and management of the entity.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

USE OF THIS REPORT

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

OTHER MATTERS WHICH WE ARE REQUIRED TO ADDRESS

We were appointed by the Board of Directors in 2005 to audit the financial statements for the year ended 31st December 2006. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 12 years.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting our audit.

Colin Wain (Senior Statutory Auditor)
For and on behalf of Begbies
Chartered Accountants and Statutory Auditor

9 Bonhill Street
London
26th February 2018

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31st December 2017

	Notes	Year ended 31st December 2017			Year ended 31st December 2016		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment income	2	3,329	–	3,329	3,311	–	3,311
Other operating income	2	3	–	3	4	–	4
Total income		3,332	–	3,332	3,315	–	3,315
Gains on fair value through profit or loss assets	9	–	31,083	31,083	–	37,774	37,774
Gains/(losses) on subsidiary holding	9	–	151	151	–	(68)	(68)
		3,332	31,234	34,566	3,315	37,706	41,021
Expenses							
Investment management fee		–	–	–	–	–	–
Other expenses	3	810	89	899	688	7	695
		810	89	899	688	7	695
Profit before tax		2,522	31,145	33,667	2,627	37,699	40,326
Tax	5	–	–	–	–	–	–
Profit for the period		2,522	31,145	33,667	2,627	37,699	40,326
Earnings per share							
Return per Income share	7	29.1p	359.5p	388.6p	29.1p	418.1p	447.2p

The total column of this statement represents the Statement of Comprehensive Income prepared in accordance with International Financial Reporting Standards as adopted by the EU. The supplementary revenue return and capital return columns are both prepared under guidance published by the Association of Investment Companies.

The profit for the year disclosed above represents the Company's total Comprehensive Income. The Company does not have any other Comprehensive Income.

All items in the above statement are those of the single entity and derive from continuing operations. No operations were acquired or discontinued during the year.

The notes on pages 36 to 46 form part of these financial statements.

BALANCE SHEET

as at 31st December 2017

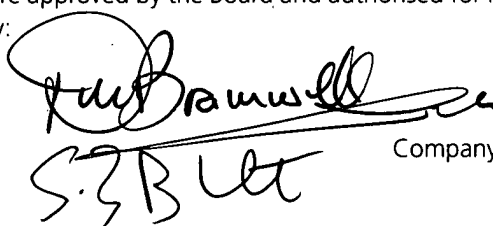
	Notes	2017 £'000	2016 £'000
Non-current assets			
Investments – fair value through profit or loss	9	179,144	159,821
		179,144	159,821
Current assets			
Trade and other receivables	12	579	517
Amounts due from Group undertakings		78	294
Cash and cash equivalents		19,069	19,071
		19,726	19,882
Total assets		198,870	179,703
Current liabilities			
Trade and other payables	13	180	200
		180	200
Total assets less current liabilities		198,690	179,503
Net assets		198,690	179,503
Equity			
Called up share capital	14	2,094	2,241
Capital redemption reserve	15	161	14
Retained reserves:			
Capital reserve	15	65,434	62,695
Revaluation reserve	15	128,151	111,580
Revenue reserve	15	2,850	2,973
Total equity		198,690	179,503
Net asset value per share			
Income shares	16	2372.3p	2002.2p

The notes on pages 36 to 46 form part of these financial statements.

The financial statements were approved by the Board and authorised for issue on 26th February 2018. They were signed on its behalf by:

Dr D. M. Bramwell, Director

S. J. B. Knott, Director



Company Registration Number: 00736898

STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December 2017

	Share capital £'000	Share premium account £'000	Capital Redemption reserve £'000	Capital reserve £'000	Revaluation reserve £'000	Revenue reserve £'000	Total £'000
Balance at							
31st December 2015	1,025	225	–	63,709	74,883	2,827	142,669
Changes in equity for 2016							
Profit for the year	–	–	–	1,002	36,697	2,627	40,326
Total recognised income and expense	1,025	225	–	64,711	111,580	5,454	182,995
Bonus issue of Income shares	1,230	(225)	–	(1,005)	–	–	–
Cost of bonus issue	–	–	–	(73)	–	–	(73)
Income shares bought back and cancelled	(14)	–	14	(938)	–	–	(938)
Dividends	6	–	–	–	–	(2,481)	(2,481)
As at 31st December 2016	2,241	–	14	62,695	111,580	2,973	179,503
	Share capital £'000	Share premium account £'000	Capital Redemption reserve £'000	Capital reserve £'000	Revaluation reserve £'000	Revenue reserve £'000	Total £'000
Balance at							
31st December 2016	2,241	–	14	62,695	111,580	2,973	179,503
Changes in equity for 2017							
Profit for the year	–	–	–	14,574	16,571	2,522	33,667
Total recognised income and expense	2,241	–	14	77,269	128,151	5,495	213,170
Income shares bought back and cancelled	(147)	–	147	(11,835)	–	–	(11,835)
Dividends	6	–	–	–	–	(2,645)	(2,645)
As at 31st December 2017	2,094	–	161	65,434	128,151	2,850	198,690

The notes on pages 36 to 46 form part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 31st December 2017

	Notes	2017 £'000	2016 £'000
Cashflows from operating activities			
Profit before tax		33,667	40,326
Adjustments for:			
Gains on investments		(31,083)	(37,774)
(Gains)/losses on revaluation of subsidiary		(151)	68
Purchases of investments	9	(8,338)	(2,721)
Proceeds on disposal of investments	9	20,249	3,862
Operating cash flows before movements in working capital		14,344	3,761
Decrease/(increase) in receivables		154	(230)
Decrease in payables		7	123
Net cash from operating activities before income taxes		14,505	3,654
Net cash from operating activities		14,505	3,654
Cash flows from financing activities			
Expenses from bonus issue		-	(73)
Income shares bought back and cancelled		(11,862)	(938)
Dividends paid		(2,645)	(2,481)
Net cash used in financing activities		(14,507)	(3,492)
Net (decrease)/increase in cash and cash equivalents		(2)	162
Cash and cash equivalents at beginning of year		19,071	18,909
Cash and cash equivalents at end of year		19,069	19,071

The notes on pages 36 to 46 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December 2017

1. ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Company 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 ("IAS") 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 ("EU").

The financial statements have been prepared on a going concern basis under the historical cost convention to include the revaluation of investments. The principal accounting policies are set out below. Where presentational guidance set out in the Statement of Recommended Practice ("SORP") for "financial statements of Investment Trust Companies and Venture Capital Trusts" issued by the Association of Investment Companies ("AIC") in January 2017 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.

In accordance with IFRS 10 (Investment Entities Amendments), the Company measures its subsidiary at fair value through profit and loss and does not consolidate it.

The following amendments to standards effective this year, being relevant and applicable to the Company, have been adopted, although they have no impact on the financial statements.

Amendments to IAS 7 – Disclosure initiative - Statement of Cash Flows.

Amendments to IAS 12 – Recognition of deferred tax assets for unrealised losses.

The following standards are effective for annual periods beginning on or after 1st January 2018 and have not been adopted early by the Company.

IFRS 15 – Revenue from Contracts with Customers (effective 1st January 2018) specifies how and when an entity should recognise revenue and enhances the nature of revenue disclosures. Given the nature of the Company's revenue streams from financial instruments, the provisions of this standard are not expected to have a material impact.

IFRS 9 – Financial Instruments (effective 1st January 2018) replaces IAS 39 and simplifies accounting for financial assets, replacing the current multiple measurement categories with a single principle-based approach to classification. The standard requires that all financial assets are to be measured at either amortised cost or fair value. The Directors do not anticipate that the adoption of this standard will have a material impact in the period of initial application.

Income

Dividend income is included in the financial statements 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 1158 of the Corporation Tax Act 2010 are not liable for taxation on capital gains.

1. ACCOUNTING POLICIES continued*Dividends*

Dividends payable to shareholders are recognised when they are paid.

Cash and cash equivalents

Cash comprises cash in hand and deposits payable on demand. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash.

Investments

Investments are classified as fair value through profit or loss as the Company's business is investing in financial assets with a view to profiting from their total return in the form of interest, dividends or capital growth.

Changes in the value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the Income Statement as "Gains or losses of investments held at fair value through profit or loss". Also included within this heading are transaction costs in relation to the purchase or sale of investments.

All investments, classified as fair value through profit or loss, are further categorised into the following fair value hierarchy:

Level 1 – Unadjusted prices quoted in active markets for identical assets and liabilities.

Level 2 – Having inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).

Level 3 – Having inputs for the asset or liability that are not based on observable data.

Investments traded in organised markets are valued at their fair value, which is determined by the quoted market bid price at the close of business at the Balance Sheet date. Where trading in a security is suspended, the investment is valued at the Board's estimate of its fair value.

Unquoted investments are valued by the Board at fair value using the International Private Equity and Venture Capital Valuation Guidelines.

2. INCOME

	2017 £'000	2016 £'000
Income from investments		
Franked investment income	3,329	3,311
Other operating income		
Deposit interest	3	4
Total income	3,332	3,315
Income from investments		
UK equity listed	3,006	2,912
AIM traded	294	274
Delisted stock	29	–
Dividend from subsidiary	–	125
	3,329	3,311

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31st December 2017

3. OTHER EXPENSES

	2017 £'000	2016 £'000
Staff costs (note 4)	359	288
Non-executive Directors' fees	76	61
Administration fees	139	109
Auditor's remuneration		
– Audit	15	15
– Review of the half yearly report	4	4
– Other services to the Company and its subsidiaries	1	1
Secretarial services	42	42
Other	174	168
	810	688
Capital expenses	89	7
	899	695

Auditor's other services are comprised of tax compliance services and the Directors do not consider that the provision of this non-audit work affects the independence of the Auditor.

4. STAFF COSTS

	2017 £'000	2016 £'000
Wages and salaries	314	253
Social security costs	45	35
	359	288
	Number	Number
The average number of staff employed by the Company was	1	1
	£'000	£'000
Directors' emoluments	390	314
	390	314

The highest paid Director received total emoluments of £314,000 (2016: £253,000).

5. TAX ON ORDINARY ACTIVITIES

	2017 £'000	2016 £'000
UK Corporation Tax at 19.25% (2016: 20%)	–	–
Tax receivable	–	–
	–	–
Profit before tax	2,522	2,627
Tax on profit at standard rate	485	525
Factors affecting the recovery/charge for the year:		
Income not taxable	(640)	(662)
Unutilised losses carried forward	155	137
	–	–

No provision for deferred taxation has been made in the current year or in the prior year. The Company has not provided for deferred tax on capital gains or losses arising on the revaluation or disposal of investments as it is exempt from tax on these items because of its status as an investment trust company.

Factors that may affect future tax charges

The Company has not recognised any deferred tax asset arising as a result of having unutilised management expenses. These expenses will only be utilised if the tax treatment of the Company's income and capital gains changes or if the Company's investment profile changes.

6. DIVIDENDS

Amounts recognised as distributions to equity holders in the year:

	2017 £'000	2016 £'000
Income (Paid)		
Final dividend for the year ended 31st December 2016 of 20.00p per share (year ended 31st December 2015: 25.50p)	1,766	627
Interim dividend for the year ended 31st December 2017 of 10.25p per share (year ended 31st December 2016: 10.00p)	879	902
Special dividend for the year ended 31st December 2017 of nil p per share (year ended 31st December 2016: 22.50p)	-	553
Capital (Paid)		
Final dividend for the year ended 31st December 2016 of nil p per share (year ended 31st December 2015: 1.80p)	-	30
Special dividend for the year ended 31st December 2017 of nil p per share (year ended 31st December 2016: 22.50p)	-	369
	2,645	2,481
	2017 £'000	2016 £'000

Income

Proposed Final dividend payable for the year ended 31st December 2017 of 20.50p per share (year ended 31st December 2016: 20.00p)	1,696	1,774
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The final dividends payable are subject to approval by shareholders at the Annual General Meeting and have not been included as a liability in these financial statements.

Set out below is the total dividend paid and payable in respect of the financial year, which is the basis on which the requirements of section 1158 of the Corporation Tax Act 2010 are considered.

	2017 £'000	2016 £'000
Revenue available for distribution by way of dividend for the year	2,522	2,627
Income		
Interim dividend for the year ended 31st December 2017 of 10.25p per share (year ended 31st December 2016: 10.00p)	(879)	(902)
Special dividend for the year ended 31st December 2017 of nil p per share (year ended 31st December 2016: 22.50p)	-	(553)
Proposed Final dividend for the year ended 31st December 2017 of 20.50p per share (year ended 31st December 2016: 20.00p)	(1,696)	(1,774)
Capital		
Special dividend for the year ended 31st December 2017 of nil p per share (year ended 31st December 2016: 22.50p)	-	(369)
Net reduction to Revenue reserve	(53)	(971)

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31st December 2017

7. RETURN PER SHARE

	2017	2016
	Income	Income
	£'000	£'000
Return attributable to equity shareholders:		
Revenue return	2,522	2,627
Capital return	31,145	37,699
	33,667	40,326
	p	p
Revenue return	29.1	29.1
Capital return	359.5	418.1
	388.6	447.2

Return per share is calculated using the weighted average number of Income shares in issue during the year of 8,662,424.

8. INVESTMENTS**Analysis of the investments**

The number of companies or institutions in which equities, convertibles or fixed interest securities were held was 27 (2016: 26).

	2017		2016	
	£'000	%	£'000	%
EQUITY GROUPS				
Basic Materials				
Chemicals	21,577	12.04	14,438	9.03
Industrials				
Construction & Materials	1,923	1.07	4,233	2.65
General Industrials	37,654	21.02	34,088	21.33
Electronic & Electrical Equipment	1,310	0.73	1,881	1.18
Industrial Engineering	39,389	21.99	31,397	19.64
Support Services	29,643	16.55	29,265	18.31
Healthcare				
Pharmaceuticals & Biotechnology	923	0.52	1,092	0.68
Utilities				
Gas, Water & Multiutilities	1,202	0.67	1,425	0.89
AIM Traded Stocks	44,050	24.59	40,814	25.54
Subsidiary	706	0.39	555	0.35
Fixed Interest				
Preference	767	0.43	633	0.40
Total UK	179,144	100.00	159,821	100.00

9. INVESTMENTS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017		2016	
	£'000		£'000	
Investments listed on a recognised investment exchange				
UK equity listed investments at fair value	134,367		118,452	
AIM traded stocks	44,050		40,814	
Delisted stock	21		–	
Subsidiary undertakings (note 10)	706		555	
	179,144		159,821	

	Listed	Unlisted	Subsidiary undertakings	Total
	2017	2017	2017	2017
	£'000	£'000	£'000	£'000
Opening book cost	41,347	6,483	411	48,241
Opening unrealised appreciation	77,105	34,331	144	111,580
Opening valuation	118,452	40,814	555	159,821
Movements in the year				
Purchases at cost	6,688	1,650	–	8,338
Sales – proceeds	(13,202)	(7,047)	–	(20,249)
Sales – realised gains on sales	8,120	6,543	–	14,663
Increase in unrealised appreciation	14,309	2,111	151	16,571
Closing valuation	134,367	44,071	706	179,144
Closing book cost	42,953	7,629	411	50,993
Closing unrealised appreciation	91,414	36,442	295	128,151
	134,367	44,071	706	179,144
Realised gains on sales	8,120	6,543	–	14,663
Increase in unrealised appreciation	14,309	2,111	151	16,571
Gains on investments	22,429	8,654	151	31,234

With the exception of the subsidiary and the delisted stocks, the Company's investments are Level 1 assets under the definition of IFRS 7 and comprise equity listed and AIM traded investments classified as held at fair value through profit or loss.

During the year transaction costs of £27,671 were incurred on the acquisition of investments (2016: £2,489). Costs relating to disposals of investments during the year amounted to £51,106 (2016: £nil). All transaction costs have been included within the capital column of the Income Statement.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31st December 2017

10. SUBSIDIARY UNDERTAKINGS

The Company has one wholly owned subsidiary undertaking:

Name	Principal activity	Country of incorporation and operation	Description of shares held	Proportion of nominal value of issued shares and voting rights held
Discretionary Unit Fund Managers Limited	Fund management	England	Ordinary	100%

Discretionary Unit Fund Managers Limited had capital and reserves of £732,909 and profits of £126,573 for the year ended 31st December 2017.

11. SIGNIFICANT INTERESTS

The Company has a holding of 3% or more that is material in the context of the financial statements in the following investments as at 31st December 2017:

Name	
Colefax Group	23.90%
Titon Holdings	11.60%
Macfarlane Group	11.00%
Treant	8.30%
Elecosoft	5.80%
Renold	5.50%
LPA Group	5.30%
Scapa Group	4.10%

12. TRADE AND OTHER RECEIVABLES

	2017 £'000	2016 £'000
Prepayments and accrued income	579	517
	579	517

13. TRADE AND OTHER PAYABLES

	2017 £'000	2016 £'000
Accruals	98	91
Outstanding share buybacks	82	109
	180	200

14. SHARE CAPITAL

		2017 £'000	2016 £'000
Allotted, Called Up and Fully Paid	%		
8,375,258 Income shares of 25p each (2016: 8,965,355)	100.0	2,094	2,241
			Number of Income shares 2017
Balance at beginning of year			8,965,355
Income shares bought back and cancelled			(590,097)
Balance at end of year			8,375,258

15. RESERVES

	Capital redemption reserve £'000	Capital reserve £'000	Revaluation reserve £'000	Revenue reserve £'000
Beginning of year	14	62,695	111,580	2,973
Income shares bought back and cancelled	147	(11,835)	-	-
Increase in unrealised appreciation	-	-	16,571	-
Net gains on realisation of investments	-	14,663	-	-
Capital expenses	-	(89)	-	-
Profit for year	-	-	-	2,522
Dividends	-	-	-	(2,645)
End of year	161	65,434	128,151	2,850

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

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31st December 2017

16. NET ASSET VALUE PER SHARE

The net asset value per Income share calculated in accordance with the Articles of Association was as follows:

	Net asset value per Income share attributable		Net asset value attributable	
	2017 p	2016 p	2017 £'000	2016 £'000
Income shares	2372.3	2002.2	198,690	179,503
			198,690	179,503

The movements during the year were as follows:

	Income shares £'000
Total net assets attributable at beginning of year	179,503
Income shares bought back and cancelled	(11,835)
Total recognised gains for the year	31,145
Transfer to reserves	(123)
Total net assets attributable at end of year	198,690
Number of Income shares in issue	8,375,258

17. RELATED PARTY TRANSACTIONS

During the year the Company had the following transactions with Discretionary Unit Fund Managers Limited, its subsidiary undertaking:

	2017 £'000	2016 £'000
Dividends received	-	125
	-	125
Amounts owed by subsidiary undertaking	78	294

18. FINANCIAL ASSETS AND LIABILITIES

The Company's financial instruments comprise securities, cash balances and debtors and creditors that arise from its operations, for example, in respect of sales and purchases awaiting settlement and debtors for accrued income.

The investment policy and objectives of the Company is stated on page 1.

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 are market price risk, liquidity risk and credit 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 Investment Director 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.

The Company's exposure to changes in market prices at 31st December 2017 on its quoted equity investments was £178,417,000 (2016: £159,266,000).

Liquidity risk

Liquidity risk is the possibility of the Company having difficulties in realising sufficient assets to meet its financial obligations. All investments are made in quoted securities, which are normally listed on the London Stock Exchange or AIM. Transactions in these securities may be subject to some short-term liquidity constraint, in common with other smaller and medium sized listed securities, but subject to that they are considered to be reasonably realisable.

Credit risk

Credit risk is the failure of the counterparty to a transaction to discharge its obligations which could result in the Company suffering a loss. At the year end the Company's maximum exposure to credit risk was as follows:

	2017 £'000	2016 £'000
Trade and other receivables	579	517
Cash and cash equivalents	19,069	19,071
	19,648	19,588

The risk is managed by dealing only with brokers and banks who have satisfactory credit ratings and are approved by the Audit Committee.

Financial assets and liabilities

All assets and liabilities are included at fair value.

Valuation of financial instruments

IFRS 13 requires the Company to classify fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The valuation techniques used by the Company are explained in the accounting policies note 1 Investments, as set out in the Company's Annual Report and Financial Statements for the year ended 31st December 2017.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31st December 2017

18. FINANCIAL ASSETS AND LIABILITIES continued

The fair value hierarchy has the following levels:

Level 1 – Unadjusted prices quoted in active markets for identical assets and liabilities.

Level 2 – Having inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).

Level 3 – Having inputs for the asset or liability that are not based on observable data.

31st December 2017	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets at fair value through profit or loss				
UK Equity Listed	134,367	–	–	134,367
AIM traded stocks	44,050	–	–	44,050
Delisted stock	–	21	–	21
Investment in subsidiary	–	–	706	706
Net fair value	178,417	21	706	179,144

31st December 2016	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets at fair value through profit or loss				
UK Equity Listed	118,452	–	–	118,452
AIM traded stocks	40,814	–	–	40,814
Investment in subsidiary	–	–	555	555
Net fair value	159,266	–	555	159,821

There were no transfers between Level 1 and Level 2 during the period.

A reconciliation of fair value measurements in Level 3 is set out in the following table.

	2017	2016
	£'000	£'000
Opening Balance	555	623
Purchases	–	–
Sales	–	–
Total gains or losses included in gains on investments in the income statement:		
– on assets sold	–	–
– on assets held at year end	151	(68)
Closing Balance	706	555

The Level 3 investment relates to the Company's subsidiary, Discretionary Unit Fund Managers Limited, which has been valued based of the most recent estimated NAV.

19. POST BALANCE SHEET EVENTS

Between the year end and 22nd February 2018, the latest practicable date before the publication of these financial statements, the Company has bought back and cancelled 102,958 Income shares for a cost of £2,110,000.

APPENDIX - PORTFOLIO STATEMENT

Details of the 20 largest investments as at 31st December 2017 are given below by market value:

	Holdings		Market Value	
	2017	2016	2017 £'000	2016 £'000
UK Investments				
Scapa Group	6,350,000	8,000,000	27,765	26,800
Treant	4,750,000	5,775,000	21,577	14,437
RPC Group	2,400,000	2,259,672	21,156	24,043
Hill & Smith Holdings	1,434,230	1,434,230	19,204	17,182
Vp	1,800,000	1,800,000	15,570	13,410
Macfarlane Group	17,250,000	16,741,368	13,283	10,045
Colefax Group	2,436,979	2,050,000	12,429	10,455
Electrocomponents	1,300,000	1,300,000	8,132	6,196
Spirax-Sarco Engineering	120,714	120,714	6,784	5,051
Menzies (John)	882,142	882,142	5,941	5,205
Renold	12,300,000	9,425,207	5,719	4,124
Vitec Group	400,000	400,000	4,520	2,572
Low & Bonar	6,000,000	4,440,000	3,195	2,842
Titon Holdings	1,265,000	1,265,000	1,923	1,391
Elecosoft	4,520,781	4,520,781	1,854	1,311
Castings	400,000	400,000	1,763	1,644
Fenner	350,000	350,000	1,398	825
Dialight	238,095	238,095	1,310	1,881
National Grid	137,500	150,000	1,202	1,425
LPA	650,000	650,000	1,007	1,137
			175,732	151,976
Balance held in other investments			3,412	7,845
			179,144	159,821

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.