

ACORN INCOME 2009

Acorn Income Fund Limited

annual financial report
for the year ended
31 December 2009



PREMIER
ASSET MANAGEMENT

Investment Objectives and Policy

for the year ended 31 December 2009

The objectives of Acorn Income Fund Limited (the “Company”) are to provide shareholders with a high income and also the opportunity for capital growth.

The Company’s portfolio is invested in equities and interest-bearing securities in order to achieve its investment objectives. It is the aim of the Company to provide both income and capital growth predominantly through investment of approximately 70% of the portfolio in smaller capitalised United Kingdom companies admitted to the Official List of the United Kingdom Listing Authority and traded on the London Stock Exchange or traded on AIM. The Company also aims to enhance income for shareholders by investing approximately 30% of its assets in high yielding instruments which will be predominantly fixed interest securities (including corporate bonds, preference and permanent interest bearing shares, convertible and reverse convertible bonds and debentures) but may include up to 15% of the portfolio (measured at the time of acquisition) in high yielding investment company shares.

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Performance Summary

for the year ended 31 December 2009

Total Return Performance

	% Change	31/12/2009	31/12/2008
Total Return on Gross Assets *#	+33.92%		
Total Return on Net Assets (assets attributable to shareholders) *	+54.11%		
Hoare Govett Smaller Companies Index (ex Investment Companies)	+60.70%	7,614	4,737
FTSE All Share Index	+30.20%	3,591	2,759
FTSE SmallCap (ex Investment Companies)	+57.70%	2,827	1,793

Capital Return Performance

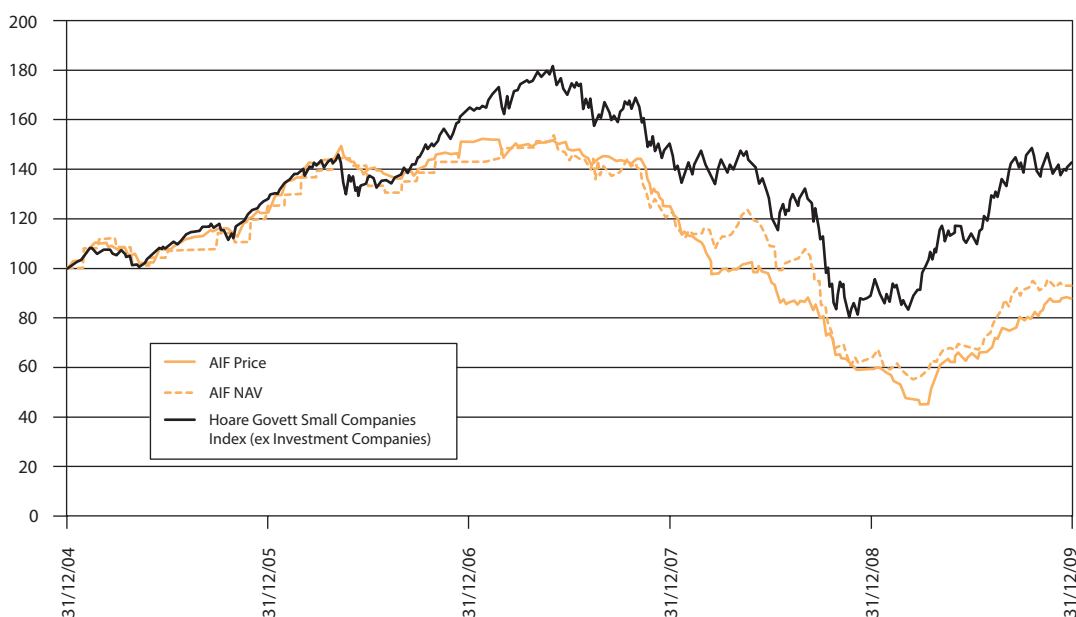
	% Change		
Total Return on Gross Assets #	+29.86%		
Hoare Govett Smaller Companies Index (ex Investment Companies)	+56.17%	3,556	2,277
FTSE All Share Index	+35.00%	2,761	2,209
FTSE SmallCap (ex Investment Companies)	+52.70%	2,328	1,083

Share Price and NAV Returns

	% Change		
Ordinary Share – share price	+47.73%	113.75	77.00
NAV	+45.98%	131.22	89.89
Net Dividends Declared per Ordinary Share	-26.8%	6.0	8.2

* assumes dividends reinvested

adjusted for debt repayment



Data as at 31 December 2009, all performance figures for the period ending 31 December 2009. Past performance and dividends paid are not a guide to future returns.

Up-to-date information can be found on www.premierassetmanagement.co.uk

Company Summary

Launch date	11 February 1999	
Domiciled	Guernsey	
Year end	31 December	
Shareholder funds	£11.73m at 31 December 2009	
Market Capitalisation	£10.17m at 31 December 2009	
Bank Loan	£6m Revolving Credit Facility arranged with the Bank of Scotland. £6m was drawn down as at 31 December 2009.	
Ordinary Income Shares	8,939,790	
Dividend History	In respect of year end 31 December	Total dividends declared Pence
	2009	6.0
	2008	8.2
	2007	8.0
	2006	9.0*
	2005	9.0*
	2004	9.0*
	2003	9.0*
	2002	12.0
	2001	12.0
	2000	11.0
	1999	8.5
*includes four interim dividends and one special dividend		
Manager	Premier Asset Management (Guernsey) Limited	
Investment Advisers	Unicorn Asset Management Limited – Smaller Companies Portfolio	
	Premier Fund Managers Limited – Income Portfolio	
Management fee	0.7% per annum, charged 75% to Capital and 25% to Revenue, plus performance fee.	

Chairman's Statement

Dear Shareholder,

Following the unprecedented turmoil in financial markets during 2008, the UK market continued to decline during the first two months of 2009 with investors gripped by the fear of further failures in the banking sector and the prospect of a severe recession. The FTSE small cap index fell a further 10% from its year-end level before the market turned in early March. The change of heart was occasioned by a reassessment of the government's economic policy and tentative signs that the worst of the global upheaval was coming to an end. From that low point to the year end the UK equity market staged a robust recovery supported by increasing confidence and appetite for risk as it became clear that monetary easing was working and the recession would not be as deep as had been feared. The FTSE small cap index rallied over 70% from its low point in March to the year end. By and large it was those stocks that had suffered the most severe declines that recovered most strongly, whereas better quality, less speculative small cap stocks lagged the rally, at least initially.

At the year end 62.7% of gross assets were allocated to the small company portfolio and 30.5% to the income portfolio. Across the whole fund there was 6.8% cash weighting.

Investment performance

The Company's total assets increased 39.7% over the year and the NAV per share rose 45.98% from 89.89p to 131.22p.

Despite a strong absolute return, the small company portfolio underperformed the Hoare Govett Smaller Companies index over the year. This was due principally to the indiscriminate recovery, that occurred in the second quarter, in the more distressed highly leveraged companies to which we had little exposure,

The income portfolio rallied strongly from March onwards as credit spreads tightened dramatically when confidence returned. The portfolio also benefited from numerous positive corporate actions, such as bond tenders, as well as macro factors such as quantitative easing. More than two-thirds of the portfolio remains investment grade with a heavy exposure to financials. The bond portfolio returns are partially immune to gilt returns as potential gilt weakness is hedged.

Dividends

Earnings per share for the year were 47.33p (-73.79p) and dividends totalling 6p (8.2p) were paid during the year. Whilst the small cap share portfolio experienced some dividend cuts the majority of our stocks maintained their pay-out. The future outlook for UK corporate earnings is much improved as many companies cut costs aggressively during the recession. The bond portfolio continued to provide a high income although with both gilt and corporate bond yields lower towards the end of the year the running yield has been reduced. Whilst not severe there was some reduction in earnings per share and for this reason in the very uncertain conditions that prevailed early in the year the Board decided to cut the 2p quarterly dividend to 1.5p with effect from 1 January 2009. The directors felt that dividends should be substantially covered by earnings and that the yield target should not be set at a level that would damage growth and total return prospects in the longer term.

Chairman's Statement

Gearing and Bank Facility

During 2008 the amount drawn on the company's loan facility had been reduced to ensure that at all times the company maintained a safe margin over all loan covenants. As the net asset values recovered, markets stabilised and fresh investment opportunities opened up, the board authorised the Manager to increase the amount drawn down on the loan facility particularly as the Company enjoys a relatively favourable margin of 1% over LIBOR. With one and three month LIBOR declining for much of the year and finishing at 0.6%, the cost of borrowing was exceptionally low and our investment advisers considered that there were good prospects of using this gearing productively to enhance returns. At the year end the £6m loan facility was fully drawn and the banking covenants were (and remain) well covered.

Outlook

Equity markets have continued their recovery during the first quarter of 2010 although with economic recovery in the UK lagging other Western countries, UK investors have remained cautious particularly with regard to smaller companies that are considered to have more exposure to the domestic economy than larger companies. Nevertheless our managers are encouraged by the increased prospects for merger and acquisition activity within the sector and our NAV per share has risen over 15% since the start of the year. With regard to fixed interest markets investors are preoccupied with the equal and opposite dangers of a relapse into recession (caused by a tightening of credit policy) and a resurgence of inflation (caused by leaving interest-rates too low for too long). The latter scenario is probably the more credible of the two and bond spreads could tighten further over the year, although a large amount of the anticipated economic recovery has now been priced into the market. Our managers consider that bonds are exposed to disappointing economic news and developments and will look to reduce credit exposures following recent gains.

Management Fee

The Board are recommending that Shareholders vote in favour of the proposal to increase the minimum management fee as set out on page 11 of this Report.

John Boothman

Chairman

Investment Advisers' Report

SMALLER COMPANIES PORTFOLIO

The Smaller Companies Portfolio returned a capital gain of 36.1% over the year compared to a return of 49.7% by the Hoare Govett Smaller Companies Index. The year under review was highly volatile with the UK equity market falling sharply until early March, before embarking on a sustained recovery during the remainder of 2009. The Company underperformed during the rebound as market performance was predominantly driven by the successful refinancing of many the UK's most highly geared companies. The Company has deliberately had minimal exposure to such financially distressed companies on the basis that they have probably been rather poorly managed in the past and are unlikely to be able to maintain dividend payments in the future.

Over the twelve month period, the strongest contributions to performance came from cyclical stocks with Lupus up 253%, Weir Group up 131%, BPI up 123%, IMI up 90% and Devro up 67.3%. Only two stocks in the portfolio fell during the year. Laird Group was down by 9.4% whilst Nationwide Accident Repair Services fell by 6.4%.

Brewin Dolphin the UK's largest stockbroker was added to the portfolio during the year. Brewin is likely to benefit from rising stock markets and increased regulation. Lookers was introduced to the portfolio following an equity issue. New holdings in Cineworld, Castings and Harvey Nash were also added to the portfolio. A number of stocks were reduced including RPC and Rotork, both of which had performed very strongly, whilst total disposals of Halma, Pendragon and Abbey Protection were also made.

A number of holdings were added to during the period including IMI, Fenner, Stobart, VP Group and Mucklow.

We continue to focus on stocks with significant overseas earnings potential and on exporters who have benefited from currency weakness. Our focus on companies with sound balance sheets, which generate cash and which are likely to generate consistent dividend payments will continue. We believe that dividends will continue to be an important component of total return over the long term. Corporate activity is also likely to increase as overseas buyers recognise the considerable relative value offered by UK quoted companies. The Company remains focused on the key investment fundamentals which have served it well over the long term and are likely to feature more prominently in the years ahead.

John McClure

Unicorn Asset Management Limited

Investment Advisers' Report

INCOME PORTFOLIO

The portfolio produced significant returns over the year despite a weak first quarter. Amongst the many positive factors the bond markets experienced were; a surge in demand, increased bond issuance, tighter market quotes, and increased liquidity. Given the portfolio's small and nimble size we were able to position and benefit from this credit rally.

The Monetary Policy Committee ("MPC") cut interest rates from 2% at the start of the year down to 0.5% in March 2009 and this is where they remained for the rest of the year. March also witnessed the introduction of the Asset Purchase Programme (the "APP"); this unorthodox monetary policy tool was tasked with increasing money supply in the economy and improving liquidity in the credit markets to stimulate economic growth. The APP has most recently been extended to a target total of £200 billion and will continue to be reviewed on a monthly basis at MPC meetings. We believe quantitative easing will soon stop and the bond markets will have to stand on their own feet again. Although liquidity and credit markets have improved greatly since the introduction of the APP it is still not clear how effective the scheme has been.

Short term interest rates remained extremely low throughout the year until October when inflation concerns returned, partly due to the size of the APP, and a few economic releases began to depict the potential for an economic recovery. Short term interest rates finished the year at a significantly higher level than seen in late September and we see this as a strong indication that we have already seen the bottom of the money market curve.

With concerns over rate rises, inflation, the end of quantitative easing, the UK's budget deficit and even doubt surrounding the security of the UK's AAA credit rating we started to hedge the portfolio's exposure to Gilt returns through selling Gilt Futures. The hedge was introduced in August and, as a result, the portfolio has since become less responsive to the returns from Gilts.

Credit spreads tightened rapidly during the year leading to some of the greatest bond returns ever seen. The best performing sectors were those most penalised during the previous two years, namely the financial and cyclical sectors. In addition, bonds issued by companies with the greatest leverage which had been priced as if moments away from default experienced huge capital gains as they were able to refinance. Those companies quick enough to buy back their bonds at the discounted prices seen in the first half of the year, not only banked a significant accounting profit but also facilitated cheaper financing as their credit spreads tightened dramatically. Credit spreads still remain considerably higher than prior to the credit crisis and although we do not expect spreads to tighten back to those levels there still remains further upside in the bond market. We believe that credit spreads will be able to tighten further given that the current bond default rate is likely to decrease sharply.

Portfolio activity at the beginning of the year was concentrated on increasing the upside potential in anticipation of a credit rally. We were partially restricted to investment grade bonds due to bank covenants becoming a factor following the declines in the Company's overall size. However, at the time the majority of financials were still rated investment grade and so almost two-thirds of the Income portfolio was allocated to this sector; investing in companies such as ICAP and HSBC. We also invested in longer duration bonds issued by companies that we already held and had become increasingly confident in surviving the next few years such as 3i Group Plc and Casino Guichard. The high exposure to financials has been retained throughout the year however a reasonable degree of switching from subordinated to more senior bonds occurred in the latter months.

Investment Advisers' Report

OUTLOOK

The economic recovery is likely to be a long drawn-out process. Notwithstanding the difficult economic environment during the next few years, we still predict that credit spreads have further to tighten. By historic standards the bond market remains attractive.

Paul Smith

Premier Fund Managers Limited

Schedule of Principal Investments

as at 31 December 2009

Top 10 holdings	Nominal holdings	Valuation GBP	Total assets %
Smaller Companies portfolio			
James Halstead plc	122,750	699,675	3.93
Devro plc	525,000	698,250	3.92
Diploma plc	378,135	665,518	3.74
Fenner plc	395,788	662,945	3.72
RPC Group plc	275,000	643,500	3.61
VP plc	352,914	610,541	3.43
IMI plc	113,800	590,053	3.31
Primary Health Properties	193,969	560,570	3.15
Stobart Group Limited	426,000	523,980	2.94
Mucklow (A&J) Group plc	156,000	473,070	2.66
		<u>6,128,102</u>	<u>34.41</u>
Income portfolio			
Tsy 2.5% 2024I/L Stock	150,000	391,068	2.20
LBG Capital No 1 plc	350,000	281,750	1.58
Enterprise Inns plc	280,000	226,750	1.27
ICAP Group Holdings plc	250,000	226,313	1.27
HSBC Holdings plc	200,000	195,600	1.10
Aviva plc	250,000	193,296	1.09
Invesco Leveraged High Yield	350,000	184,625	1.04
Bear Stearns Co Inc	200,000	173,997	0.98
Bellway plc	150,000	162,750	0.91
Greenwich Loan Income Fund Limited	625,000	162,500	0.91
		<u>2,198,649</u>	<u>12.35</u>
TOTAL		<u>8,326,751</u>	<u>46.76</u>

Schedule of Principal Investments

as at 31 December 2008

Top 10 holdings	Nominal holdings	Valuation GBP	Total assets %
Smaller Companies portfolio			
RPC Group plc	375,000	631,875	4.96
Primary Health Properties plc	172,230	494,300	3.88
Rotork plc	58,990	466,906	3.66
Diploma plc	378,135	461,325	3.62
James Halstead plc	112,750	411,538	3.23
Devro plc	525,000	409,500	3.21
Renishaw plc	80,703	398,673	3.13
Consort Medical plc	95,671	364,507	2.86
Nationwide Accident Repair plc	345,000	293,250	2.30
Abbey Protection plc	474,423	275,165	2.16
		<u>4,207,039</u>	<u>33.01</u>
Income portfolio			
Royal Bank of Scotland 10.5% 01/03/2013	200,000	220,740	1.73
HBOS 6.3673% Perpetual	350,000	177,808	1.40
Punch Taverns 5% 14/12/2010	200,000	169,000	1.33
Bear Stearns 26/09/2013	200,000	165,129	1.30
Bellway plc	150,000	151,500	1.19
Firstgroup 6.875% 15/04/2013	150,000	144,402	1.13
Marks & Spencer 5.875% 29/05/2012	150,000	137,283	1.08
Barclays 10.9% 16/08/2010	200,000	127,400	1.00
Aviva 5.9021% Perpetual	250,000	126,059	0.99
Merrill Lynch 4.875% 30/05/2014	150,000	121,180	0.95
		<u>1,540,501</u>	<u>12.10</u>
TOTAL		<u>5,747,540</u>	<u>45.11</u>

Company Details

History

The Company was incorporated on 5 January 1999 and commenced its activities on 11 February 1999. 29,600,002 Ordinary shares were issued.

The special resolution proposed at the Company's Annual General Meeting in 2006, that the Company ceased as an investment company, was not carried by the necessary 75% majority of votes cast. Nevertheless, to provide an exit opportunity for the shareholders the Company made a Tender Offer to repurchase up to all of its Ordinary shares at net asset value, calculated after taking account of all costs. Applications under the Tender Offer were received for 20,660,212 Ordinary shares, leaving 8,939,790 Ordinary shares in issue after the Extraordinary General Meeting on 5 January 2007.

At the 5 January 2007 Extraordinary General Meeting, it was resolved that the issued share capital of the Company be reduced from £7,400,000.50 to £296,000.02, effected by the cancellation of 24p per issued Ordinary share, thus reducing the nominal amount of such shares from 25p to 1p per Ordinary share. It was also resolved that £17,000,000 standing to the credit of the Company's share premium account be cancelled. The £7,104,000.48, resulting from the cancellation of share capital, and the £17,000,000, resulting from the cancellation of the share premium account, were credited to a distributable reserve.

As part of the Tender Offer the Manager changed from Collins Stewart Fund Management Limited to Premier Asset Management (Guernsey) Limited.

Investment Objectives

The Company's investment objectives are to provide Shareholders with a high income and also the opportunity for capital growth.

Investment Policy

The Company's investment policy is to allocate approximately 70% of the Company's assets to the Smaller Companies portfolio with the balance to the Income portfolio. (Prior to the Tender Offer, this was approximately 75% to the Smaller Companies portfolio with the balance allocated to the Income portfolio.)

The Smaller Companies portfolio is principally invested in UK equities with a market capitalisation of under £1 billion. Unicorn as the Investment Adviser of the Smaller Companies portfolio, focuses on companies with experienced and well motivated management products or services supplying growth markets, sound operational and management controls, good cash generation and a progressive dividend.

Premier Fund Managers Limited manages the Income portfolio and aim to maximise income with the objective of capital protection. The Income portfolio includes sterling denominated fixed interest securities including corporate bonds, preference and permanent interest bearing shares, convertibles, reverse convertibles, debentures and other similar securities. The Income portfolio may also contain higher yielding shares of other investment companies, including property investment companies, however these will not exceed 15% of the overall portfolio (at the time of acquisition).

Company Details

Bank Loan

On 13 February 2007, a new £6 million revolving credit loan facility was arranged with the Bank of Scotland. The interest payable on this facility is 1% over LIBOR with a non-utilisation charge of 0.5% on any undrawn part of the facility.

The capital covenant on the facility requires a ratio of specified investment to debt of 2:1. Specified investments includes UK listed securities with a market capitalisation of over £50 million, investment grade bonds and reverse convertible bonds meeting certain criteria relating to the issuer and the reference equity.

Management Fees

The management fee is 0.7% per annum of total assets together with a performance fee of 15% over a total return of 10% per annum. No performance fee was payable in 2009. The total expenses ratio ("TER") of the Company is capped at 1.5% of total assets, excluding performance fees and non-routine administration and professional fees and with adjustments made to allow for repayment of debt or the buy back of shares. The application of these calculations for 2009 indicates that a refund of £47,238 is due from the Manager. This amount has been reflected in the financial statements together with the refund for 2008 (£43,175), which was only noted in the 2008 financial statements. The net management fee charged in 2009 was £99,544. The Board have considered the level of fees charged on comparable investment trusts and recognised the importance of setting a level that enables the management contract to be commercially viable for the Manager.

There is a proposal that the minimum fee, payable to the Manager with effect from 1 January 2010, included in the TER calculation will be raised to £100,000 from its current level of £50,000. The proposal will be put forward to Shareholders as a Special Resolution at the General Meeting to be held 24 August 2010.

Directors

for the year ended 31 December 2009

John Campbell Boothman (Chairman)

John is aged 58 and is a resident of Jersey. He is currently non-executive chairman of Aztec Financial Services Limited and a non-executive chairman of Jersey Telecom Group Limited. He was managing director of Deutsche Bank International Limited from 1994 to 2002. He is a director of a number of other investment funds and on the board of the Jersey International Business School.

John Michael McKean

Michael is aged 78 and is a resident of Guernsey. He is an English solicitor and consultant to a firm of advocates. He is a non executive director of several other Guernsey registered funds and of a company providing banking and related advice. He also holds several academic appointments.

Helen Foster Green

Helen is aged 47 and is a chartered accountant. She has been employed by Saffery Champness since 1984. Since 2000 she has been based in the Guernsey office where she is client liaison director responsible for trust and company administration. She is on the board of two AIM quoted companies and three Official List companies. She is also a director of two non-listed property funds and a non-executive director of a number of Cayman Islands and Irish registered funds.

Management Report

for the year ended 31 December 2009

A description of important events which have occurred during the financial period, their impact on the performance of the Company as shown in the financial statements and a description of the principal risks and uncertainties facing the Company is given in the Chairman's Statement, Investment Advisers' Reports, the schedule of Risk Factors and the notes to the financial statements and is incorporated here by reference.

There were no material related party transactions which took place in the financial period.

Going Concern

The Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements. A more detailed statement regarding Going Concern can be found in the Directors' Report on page 20.

Responsibility Statement

The Directors confirm to the best of their knowledge and belief:

- (a) This annual report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that the Company faces; and
- (b) The financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profits of the Company.

Helen Green

Director

26 April 2010

Directors' Report

for the year ended 31 December 2009

The Directors present their report and financial statements of the Company for the year ended 31 December 2009.

Principal Activities and Business Review

The principal activity of the Company is to carry on business as an investment company. The Directors do not envisage any change in these activities for the foreseeable future. A description of the activities of the Company in the period under review is given in the Chairman's Statement on pages 3 to 4.

Status

The Company is a closed-ended investment company and was incorporated with limited liability in Guernsey on 5 January 1999 with registered number 34778. The Company operates under The Companies (Guernsey) Law, 2008 (as amended) and the Protection of Investors (Bailiwick of Guernsey) Law, 1987 as amended.

The Company's Ordinary shares are traded on the London Stock Exchange.

The Company's management and administration takes place in Guernsey and the Company has been granted exemption from income tax within Guernsey by the Administrator of Income Tax. It is the intention of the Directors to continue to operate the Company so that each year this tax-exempt status is maintained.

Results and Dividends

The results attributable to Shareholders for the period are shown on page 26. The Company made a revenue return for the period of 6.73 pence (2008: 11.23 pence) per Ordinary share and a capital return of 40.60 pence (2008: 85.02 pence capital loss) per Ordinary share.

The Company paid dividends during the year as follows:

	Payment date	Dividend per share (pence)
First interim	31 March 2009	1.5
Second interim	16 June 2009	1.5
Third interim	30 September 2009	1.5
Fourth interim	23 December 2009	1.5

The Directors do not propose a final dividend for the year.

Directors

The Directors in office are shown on page 12. Further details of the Directors' responsibilities are given on pages 17 to 20.

The interests of the Directors and their families in the Ordinary shares of the Company as at the date of this report are as follows:

	Number of Ordinary shares
John Boothman	25,000
Michael McKean	20,000
Mark Boothman	10,000

Directors' Report

for the year ended 31 December 2009

Other than the above share transactions, none of the Directors nor any persons connected with them had a material interest in any of the Company's transactions, arrangements or agreements during the period and none of the Directors has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company, and which was effected by the Company during the reporting period.

At the date of this report, there are no outstanding loans or guarantees between the Company and any director.

Substantial Shareholdings

The Directors were aware of the following substantial interests in the Company's Ordinary share capital as 31 March 2010:

	Voting rights	% of total voting rights
Charles Stanley Group plc	1,889,868	21.14%
Nortrust Nominees Limited	866,000	9.69%
Cheviot Asset Management	649,716	7.27%
Rathbone Brothers	468,100	5.24%
JP Morgan Asset Management (UK) Limited	425,000	4.75%
J D McClure	268,980	3.01%

J D McClure is an employee of Unicorn Asset Management Limited, one of the Company's Investment Advisers.

Net Asset Value

The net asset value of the Company's Ordinary shares, including revenue reserve, as at 31 December 2009 was 131.22 pence (2008: 89.89 pence) per share.

Management Agreement

The Board is responsible for the determination of the Company's investment policy and has overall responsibility for the Company's day-to-day activities. The Company has, however, entered into a Management Agreement with Premier Asset Management (Guernsey) Limited (the "Manager"), a wholly-owned, Guernsey incorporated subsidiary of Premier Asset Management Limited. The Manager receives a management fee of 0.7% per annum of total assets, calculated monthly and payable quarterly in arrears. The Manager is also paid a shareholder communication and support fee, currently £3,100 for the twelve months from 1 April 2009 to 31 March 2010. The Manager is also potentially entitled to a performance fee, of 15% of any excess of the Net Asset Value per share (together with any dividends paid by reference to the relevant period) over the benchmark NAV per share multiplied by the time weighted number of shares in issue during the relevant financial period, for each financial period of the Company which shall accrue monthly and be payable after the end of each financial period. No performance fee was paid or is payable for the year under review. The Management Agreement may be terminated by either party on 12 months' written notice.

Under separate Investment Adviser Agreements, the Manager has delegated certain of its duties and responsibilities to Premier Fund Managers Limited ("Premier") and Unicorn Asset Management Limited ("Unicorn"), in relation to the Income portfolio and Smaller Companies portfolio respectively, as

Directors' Report

for the year ended 31 December 2009

Investment Advisers who are responsible on behalf of the Manager for the identification and analysis of investments meeting the investment objectives and strategy of the Company. Premier and Unicorn are authorised and regulated by the FSA.

The Board keeps under review the performance of the Manager and the Investment Advisers. In the opinion of the Directors the continuing appointment of the Manager on the terms agreed is in the interest of shareholders as a whole. The reasons for this view are that the investment performance of the Company is satisfactory relative to the markets in which the Company invests and because the fund management teams have experience and a proven track record in the chosen markets.

Administration Agreement

Under the terms of the Management Agreement, the Manager is responsible for, amongst other things, providing administration and secretarial services to the Company. With the consent of the Company, the Manager has delegated the provision of certain administrative and secretarial services to Anson Fund Managers Limited (the "Administrator") pursuant to an Administration Agreement. The Administrator carries out the general secretarial functions required by The Companies (Guernsey) Law, 2008 (as amended) and ensures that the Company complies with its continuing obligations as a company listed on the Official List of the London Stock Exchange. The Administrator also carries out the Company's general administrative functions such as the calculation of net asset value, calculating the performance of the Company's investments and the maintenance of accounting records. The Administration Agreement is terminable by either party on giving not less than three months' written notice.

Payment of Suppliers

It is the Company's payment policy to obtain the best possible terms for all business and, therefore, there is no consistent policy as to the terms used. The Company agrees with its suppliers the terms on which business will be transacted, and it is the Company's policy to abide by those terms. At 31 December 2009 all suppliers' invoices which had been received by that date had been settled.

Corporate Governance

Statement of Compliance with the Combined Code

As a Guernsey incorporated company, the Company was not for the year under review required to comply with the Combined Code on Corporate Governance (the "Combined Code") appended to the Listing Rules of the UK's Financial Services Authority. However, the Directors place a high degree of importance on ensuring that high standards of corporate governance are maintained and have therefore chosen voluntarily to comply with the provisions of the Combined Code to the extent that they are considered relevant to the Company.

The Company has complied with the main principles set out in Section 1 of the Combined Code, except as set out below.

The Combined Code includes provisions relating to:

- the role of the chief executive;
- executive directors' remuneration; and
- the need for an internal audit function.

Directors' Report

for the year ended 31 December 2009

For the reasons set out in the preamble to the Combined Code, the Board considers these provisions are not relevant to the Company's position, being an externally managed investment company. The Company has therefore not reported further in respect of these provisions. Other areas of non-compliance with the Combined Code by the Company, and the reasons therefore, are as follows:

- The Chairman is the senior independent Director. This is not in accordance with provision A.3.3 of the Combined Code but is felt to be appropriate for the size and nature of the Company.
- There is no separate nomination committee, which is not in accordance with provision A.4.1 of the Combined Code. Given the small size of the Board, and the fact that all directors are independent and non-executive, it is felt that this function can be performed by the Board.
- The terms and conditions of appointment of the Directors are not available for inspection as required by provision A.4.4 of the Combined Code as the Board did not deem it necessary to formalise the terms and conditions of appointment or to sign letters of appointment. The Directors therefore do not have fixed time commitments but are expected to commit sufficient time to meet the needs of the Company on an ongoing basis.
- The Board did not undertake a formal performance evaluation of the Board, its committees or the individual Directors during the year as required by provision A.6.1 of the Combined Code. The Board decided that this was not appropriate given the nature of the Company but will keep this requirement under review.
- The Directors are not subject to re-election by the Shareholders at intervals of no more than three years as required by provision A.7.1 of the Combined Code, nor are they appointed for specific terms as required by provision A.7.2, as this is not felt to be appropriate for the size and nature of the Company.
- The Board has not established a remuneration committee as required by provision B.2.1 of the Combined Code as it does not have any executive directors and does not consider it to be appropriate for the size and composition of the Board.

The Combined Code is available on the following website: www.frc.org.uk.

Board Responsibilities

The Board comprises three Directors, who meet quarterly to consider the affairs of the Company in a prescribed and structured manner. All the Directors are independent of the Manager. Biographies of the Directors appear on page 12 demonstrating the wide range of skills and experience they bring to the Board. The Chairman is the senior independent Director.

The Directors, in the furtherance of their duties, may take independent professional advice at the Company's expense. The Directors also have access to the advice and services of the Company Secretary through its appointed representatives who are responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. To enable the Board to function effectively and allow Directors to discharge their responsibilities, full and timely access is given to all relevant information.

None of the Directors has a contract of service with the Company.

Directors' Report

for the year ended 31 December 2009

During the year ended 31 December 2009 the number of full scheduled Board meetings attended were as follows:

	Scheduled Board meetings
John Boothman	5 (5)
Helen Green	5 (5)
Michael McKean	4 (5)

The figures in brackets indicate the number of meetings held in the period in respect of which the individual was a Board member.

Board Committees

The audit committee is chaired by Mrs Green and each of the other Board members are members. The committee meets at least twice a year and reviews, *inter alia*, the financial reporting process and the system of internal control and management of financial risks including understanding the current areas of greatest financial risk and how these are managed by the Manager, reviewing annual financial statements, assessing the fairness of preliminary and interim statements and disclosures and reviewing the external audit process. The committee is responsible for overseeing the Company's relationship with the external auditors, including making recommendations to the Board on the appointment of the external auditors and their remuneration. The committee considers the nature, scope and results of the auditor's work and reviews, and develops and implements policy on the supply of any non-audit services that are to be provided by the external auditors. It receives and reviews reports from the Manager and the Company's external auditors relating to the Company's annual report and financial statements. The committee focuses particularly on compliance with legal requirements, accounting standards and the Listing Rules and ensures that an effective system of internal financial and non-financial controls is maintained. The ultimate responsibility for reviewing and approving the annual report and financial statements remains with the Board.

The terms of reference of the audit committee are available from the Administrator on request.

The audit committee met twice in the year to consider the annual financial report to 31 December 2008 and the half-yearly financial report to 30 June 2009 and these meetings were attended by all committee members.

Internal Control and Financial Reporting

The Board is responsible for establishing and maintaining the Company's system of internal control. Internal controls are designed to meet the particular needs of the Company and the risks to which it is exposed, and by their very nature provide reasonable, but not absolute, assurance against material misstatement or loss. The key procedures which have been established to provide effective internal control are as follows:

- Investment management is provided by Premier and Unicorn under the Investment Adviser Agreements. The Board is responsible for setting the overall investment policy and monitors the actions of the Investment Advisers at regular Board meetings.
- Administration and company secretarial duties for the Company are performed by Anson Fund Managers Limited.

Directors' Report

for the year ended 31 December 2009

- Custody of assets is undertaken by BNP Paribas Trust Company (Guernsey) Limited.
- The duties of investment management, accounting and the custody of assets are segregated. The procedures of the individual parties are designed to complement one another.
- The Directors of the Company clearly define the duties and responsibilities of their agents and advisers. The appointment of agents and advisers is conducted by the Board after consideration of the quality of the parties involved; the Board monitors their ongoing performance and contractual arrangements.
- Mandates for authorisation of investment transactions and expense payments are set out by the Board.
- The Board reviews detailed financial information produced by the Investment Advisers and the Administrator on a regular basis.

The Company does not have an internal audit department. All the Company's management and administration functions are delegated to independent third parties and it is therefore felt there is no need for the Company to have an internal audit facility.

Dialogue with Shareholders

All holders of shares in the Company have the right to receive notice of, and attend, the general meetings of the Company, during which the Board and the Investment Advisers are available to discuss issues affecting the Company.

The primary responsibility for shareholder relations lies with the Manager. However, the Directors are always available to enter into dialogue with shareholders and the Chairman is always willing to meet major shareholders as the Company believes such communication to be important.

General Meeting

The notice of the Company's forthcoming general meeting (the "GM") is set out on pages 49 to 50. Resolutions relating to the following items of Special Business will be proposed at such forthcoming GM:

Authority to make market purchases of the Company's Ordinary shares

As stated in the Company's prospectus, the Board will seek to renew the Company's authority to make purchases of its own Ordinary shares at each GM and therefore the necessary resolution has been included. The conditions attaching to any such purchases are set out in the notice of meeting.

Alteration to Management Agreement

The Board will seek to amend Clause 12.7 of the Management Agreement so that the Manager is entitled to a minimum Management Fee of £100,000 per annum with effect from 1 January 2010, therefore the necessary resolution has been included.

Recommendation

The Board consider that the resolutions relating to the above items of Special Business are in the best interests of shareholders as a whole. Accordingly, the Board unanimously recommend to the shareholders that they vote in favour of the above resolutions to be proposed at the forthcoming GM.

Directors' Report

for the year ended 31 December 2009

Going Concern

The Company's principal activities are set out on page 14. The financial position of the Company is described on page 27. In addition, Note 15 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives and its exposures to credit risk and liquidity risk.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements and that they have been prepared in accordance with Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009, published by the Financial Reporting Council.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these 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;
- state whether applicable accounting standards have been followed, 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 (Guernsey) Law, 2008 (as amended). They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditors are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

Directors' Report

for the year ended 31 December 2009

Auditor

KPMG Channel Islands Limited have expressed their willingness to continue in office as Auditor. A resolution proposing their reappointment will be submitted at the forthcoming general meeting to be held pursuant to section 199 of The Companies (Guernsey) Law, 2008 (as amended).

Signed on behalf of the Board by:

Helen Green
Director

John Boothman
Director

Risk Factors

for the year ended 31 December 2009

Structure of the Company and gearing

The Company employs gearing in the form of a bank loan. This gearing means that for any movement, up or down, in the Company's total assets there will, in most circumstances, be a greater movement in the net asset value of the Ordinary shares. This in turn may be reflected in greater volatility in the share price of the Ordinary shares and adds to the risk associated with this investment. The Company is required to adhere to a number of covenants in respect of its gearing arrangements. Failure to meet these requirements could jeopardise the Company's future as these borrowings are secured by a prior charge on the Company's assets. The Board monitors the compliance with any covenants on a regular basis.

Risks associated with investments held in the Smaller Companies portfolio

Investing in smaller companies, including AIM companies and unlisted companies, can carry greater risks than those usually associated with larger capitalised companies. Liquidity, in particular, can be lower in such shares.

Risks associated with investments held in the Income portfolio

The Income portfolio will primarily contain fixed interest securities. Bond prices and interest rates are inversely correlated. Thus, when interest rates increase, the price of a bond with a fixed coupon will decline. Alternatively, when interest rates decline, the price of a bond with a fixed coupon will increase. Therefore, interest rate movements are carefully monitored by the Investment Adviser.

Reverse convertible bonds ("RCBs") will be redeemed in the form of an underlying equity security (or cash equivalent in the case of an index) in the event that the value of that equity security (or index) on the RCBs redemption date is lower than the RCBs strike price. This may result in such RCBs being redeemed at a capital loss. Also, the equity security that may be acquired in this manner might have a considerably lower dividend yield than that provided by the associated RCB.

The Income portfolio may contain higher yielding investment company shares (including shares of split capital investment trusts) and bonds (including RCBs). As a result of the underlying gearing in some investment company shares, any increase or decrease in the value of such shares might magnify movements in their net asset values and consequently affect the value of the Income portfolio accordingly. In accordance with the Listing Rules, the Company will make monthly stock exchange announcements detailing its holdings in other UK listed investment companies which themselves do not have a stated investment policy to invest no more than 15% of their gross assets in other UK listed investment companies (including investment trusts).

Dividend levels

Dividends paid on the Company's Ordinary shares rely on receipt of interest payments and dividends from the securities in which the Company invests. The Company's revenue levels are monitored on a regular basis by the Board and the Investment Advisers.

Currency risk

The majority of the Company's assets and all of its liabilities are denominated in sterling. To the extent that the Company has fixed interest investments denominated in foreign currency, this exposure is likely to be hedged back to sterling. Therefore, there is unlikely to be any significant risk.

Risk Factors

for the year ended 31 December 2009

Market price risk

Since the Company invests in financial instruments, market price risk is inherent in these investments. In order to minimise this risk, a detailed analysis of the risk/reward relationship of each investee company is undertaken by the Investment Advisers prior to making investments.

Interest rate risk

The Company's investment portfolio consists of investments bearing interest at floating rates or non-interest bearing investments.

Liquidity risk

Liquidity risk is the risk that the Company will encounter in realising assets or otherwise raising funds to meet financial commitments.

Discount volatility

Being a closed-end fund, the Company's shares may trade at a discount to their net asset value. The magnitude of this discount fluctuates daily and can vary significantly. Thus, for a given period of time, it is possible that the market price could decrease despite an increase in the Company's net asset value. The Directors review the discount levels regularly. The Investment Advisers actively communicate with the Company's major shareholders and potential new investors, with the aim of managing discount levels.

Independent Auditor's Report to the Members of Acorn Income Fund Limited

We have audited the financial statements (the "financial statements") of Acorn Income Fund Limited (the "Company") for the year ended 31 December 2009 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 262 of The Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements which give a true and fair view and are in accordance with International Financial Reporting Standards and are in compliance with applicable Guernsey law are set out in the Statement of Directors' Responsibilities on page 20.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, are in accordance with International Financial Reporting Standards and comply with The Companies (Guernsey) Law, 2008. We also report to you if, in our opinion, the company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

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

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

Independent Auditor's Report to the Members of Acorn Income Fund Limited

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its profit for the year then ended;
- are in accordance with International Financial Reporting Standards; and
- comply with The Companies (Guernsey) Law, 2008.

Ewan McGill
for and on behalf of KPMG Channel Islands Limited
Chartered Accountants

26 April 2010

Statement of Comprehensive Income

for the year ended 31 December 2009

	Note	Revenue GBP	Year ended 31 Dec 2009 Capital GBP	Total GBP	Year ended 31 Dec 2008 Total GBP
Net gains/(losses) on financial assets designated as at fair value through profit or loss	8	–	3,700,285	3,700,285	(6,930,545)
Gains/(losses) on foreign currency contracts	3	–	99,340	99,340	(303,763)
Investment income	2	841,983	–	841,983	1,322,352
Total income and gains		841,983	3,799,625	4,641,608	(5,911,956)
Expenses	4	(217,513)	(102,703)	(320,216)	(351,057)
Return on ordinary activities before finance costs and taxation		624,470	3,696,922	4,321,392	(6,263,013)
Interest payable and similar charges		(22,463)	(67,390)	(89,853)	(333,739)
Return on ordinary activities before taxation		602,007	3,629,532	4,231,539	(6,596,752)
Taxation on ordinary activities		–	–	–	–
Total comprehensive income for the year attributable to shareholders		602,007	3,629,532	4,231,539	(6,596,752)
		Pence	Pence	Pence	Pence
Return per Ordinary share	7	6.73	40.60	47.33	(73.79)
Dividend per Ordinary share	6	6.00	0.00	6.00	8.20

The Total column of this statement is the Statement of Comprehensive Income of the Company. The Company had no other comprehensive income during the year other than that reflected in the above Statement of Comprehensive Income. The supplementary revenue return and capital return columns have been prepared in accordance with the Statement of Recommended Practice (“SORP”) issued by the Association of Investment Companies (“AIC”).

In arriving at the results for the financial year, all amounts above relate to continuing operations.

No operations were acquired or discontinued in the year.

The notes on pages 31 to 46 form an integral part of the financial statements.

Statement of Financial Position

as at 31 December 2009

	Notes	31 Dec 2009 GBP	31 Dec 2008 GBP
NON-CURRENT ASSETS			
Financial assets designated as at fair value through profit or loss	8	16,347,910	11,277,410
CURRENT ASSETS			
Receivables	9	388,018	812,949
Cash and cash equivalents		958,929	653,898
Derivative financial assets		108,563	–
		1,421,510	1,466,847
TOTAL ASSETS		<u>17,803,420</u>	<u>12,744,257</u>
CURRENT LIABILITIES			
Derivative financial liabilities	15	–	237,350
Payables – due within one year	10	72,414	71,053
NON-CURRENT LIABILITIES			
Payables – due after one year	11	6,000,000	4,400,000
TOTAL LIABILITIES		<u>6,072,414</u>	<u>4,708,403</u>
NET ASSETS		<u>11,731,006</u>	<u>8,035,854</u>
EQUITY			
Share capital	12	89,398	89,398
Share premium		79,173	79,173
Revenue reserve		1,348,416	1,282,796
Special reserve		10,000,000	10,000,000
Capital reserve		214,019	(3,415,513)
TOTAL EQUITY		<u>11,731,006</u>	<u>8,035,854</u>
		Pence	Pence
Net asset value per Ordinary Share		<u>131.22</u>	<u>89.89</u>

The financial statements on pages 26 to 30 were approved by the Board of Directors on 26 April 2010 and signed on its behalf by:

Helen Green
Director

John Boothman
Director

The notes on pages 31 to 46 form an integral part of these financial statements.

Statement of Cash Flows

for the year ended 31 December 2009

	Notes	Year ended 31 Dec 2009 GBP	Year ended 31 Dec 2008 GBP
Operating activities			
Return on ordinary activities before taxation		4,231,539	(6,596,752)
Less: Net (gains)/losses on financial assets designated as at fair value through profit or loss	8	(3,700,285)	6,930,545
Less: Investment income	2	(841,983)	(1,322,352)
Add: Interest expense		89,853	333,739
Less: (Decrease)/Increase in derivative financial liabilities	15	(311,913)	205,147
Add: Increase/(Decrease) in payables and appropriations	10	1,361	(40,280)
Add: Decrease/(Increase) in receivables excluding accrued investment income and investing activities	9	8,825	(114,999)
Net cash outflow from operating activities before investment income		(522,603)	(604,952)
Investment income received		907,043	1,297,132
Net cash inflow from operating activities before taxation		384,440	692,180
Tax paid		–	–
Net cash inflow from operating activities before taxation		384,440	692,180
Investing activities			
Purchase of financial assets	8	(7,783,012)	(7,408,639)
Sale of financial assets		6,729,843	9,059,948
Net cash (outflow)/inflow from investing activities		(1,053,169)	1,651,309
Financing activities			
Equity dividends paid	6	(536,387)	(733,063)
Drawdown/(Repayment) of bank loan	11	1,600,000	(1,100,000)
Bank loan interest paid		(89,853)	(333,739)
Net cash inflow/(outflow) from financing activities		973,760	(2,166,802)
Increase in cash and cash equivalents		305,031	176,687
Cash and cash equivalents at beginning of year		653,898	477,211
Cash and cash equivalents at end of year		958,929	653,898

The notes on pages 31 to 46 form an integral part of these financial statements.

Statement of Changes in Equity

as at 31 December 2009

	Share Capital 31 Dec 2009 GBP	Share Premium 31 Dec 2009 GBP	Capital Redemption Reserve 31 Dec 2009 GBP	Revenue Reserve 31 Dec 2009 GBP	Special Reserve 31 Dec 2009 GBP	Capital Reserve 31 Dec 2009 GBP	Total 31 Dec 2009 GBP
Balances as at							
1 January 2009	89,398	79,173	–	1,282,796	10,000,000	(3,415,513)	8,035,854
Total comprehensive income for the year attributable to shareholders	–	–	–	602,007	–	3,629,532	4,231,539
Dividends	–	–	–	(536,387)	–	–	(536,387)
Transfer between reserves	–	–	–	–	–	–	–
Balance as at 31 December 2009	89,398	79,173	–	1,348,416	10,000,000	214,019	11,731,006

Statement of Changes in Equity

as at 31 December 2008

	Share Capital 31 Dec 2008 GBP	Share Premium 31 Dec 2008 GBP	Capital Redemption Reserve 31 Dec 2008 GBP	Revenue Reserve 31 Dec 2008 GBP	Special Reserve 31 Dec 2008 GBP	Capital Reserve 31 Dec 2008 GBP	Total 31 Dec 2008 GBP
Balances as at							
1 January 2008	89,398	79,173	206,602	805,250	10,000,000	4,185,246	15,365,669
Total comprehensive income for the year attributable to shareholders	-	-	-	1,004,007	-	(7,600,759)	(6,596,752)
Dividends	-	-	-	(733,063)	-	-	(733,063)
Transfer between reserves	-	-	(206,602)	206,602	-	-	-
Balance as at 31 December 2008	89,398	79,173	-	1,282,796	10,000,000	(3,415,513)	8,035,854

Following implementation of The Companies (Guernsey) Law, 2008 (as amended), the Company is no longer required to maintain a Capital Redemption Reserve. Accordingly the balance brought forward on this account has been transferred to the Revenue Reserve.

Notes to the Financial Statements

for the year ended 31 December 2009

1 ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements, which give a true and fair view, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”), the AIC’s SORP (as revised in January 2009) where this is consistent with the requirements of IFRS and all in compliance with The Companies (Guernsey) Law, 2008 (as amended). All accounting policies adopted for the period are consistent with IFRS issued by the IASB and as adopted by the European Union. The financial statements have been prepared on an historical cost basis except for the measurement at fair value of certain financial instruments.

Amendments to IFRS 7 were issued by the International Accounting Standards Board in March 2009, effective for annual periods beginning on or after 1 January 2009. The amendment to IFRS 7 requires fair value to be disclosed by the source of inputs, using a three-level hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following Standards or Interpretations have been issued by the IASB but not yet adopted by the Company:

IFRS 2 (revised June 2009) *Share-based Payment* effective for annual periods beginning on or after 1 January 2010.

IFRS 9 (revised April 2009) *Financial Instruments – Classification and Measurement* effective for annual periods beginning on or after 1 January 2013.

IAS 24 (revised November 2009) *Related Party Disclosures* effective for annual periods beginning on or after 1 January 2011.

IAS 32 (revised 2009) *Financial Instruments – Presentation* effective for annual periods beginning on or after 1 February 2010.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* effective for annual periods beginning on or after 1 July 2010.

Some of these Standards and Interpretations may require additional disclosure in future financial statements. None are expected to affect the financial position of the Company.

(b) Use of estimates and judgements

Management use estimates and judgements in allocating expenses between Revenue and Capital.

(c) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

Notes to the Financial Statements

for the year ended 31 December 2009

1 ACCOUNTING POLICIES (CONTINUED)

(d) Taxation

The Company has been granted exemption under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 from Guernsey Income Tax, and has elected to remain exempt following changes in the Guernsey tax regime. The Company pays an annual fee of £600.

(e) Capital reserve

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- expenses charged to this account in accordance with the policy below;
- increases and decreases in the valuation of the investments held at the year end; and
- unrealised exchange differences of a capital nature.

(f) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged to the capital reserve where a connection with the maintenance or enhancement of the value of the investments can be demonstrated.

75% of the Company's management fee and financing costs are charged to the capital reserve in line with the Board's expected long-term split of returns between income and capital gains from the investment portfolio.

100% of any performance fee is charged to the capital account.

All other expenses are charged through the revenue account.

(g) Investment income

Interest income and distributions receivable are accounted for on an accruals basis. Interest income relates only to interest on bank balances. Bond income is accounted for on the effective interest rate ("EIR") basis.

(h) Foreign currency translation

The currency of the primary economic environment in which the Company operates (the functional currency) is Great British Pounds (GBP) which is also the presentational currency.

Transactions denominated in foreign currencies are translated into GBP at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities, other than investments, denominated in foreign currencies at the statement of financial position date are translated to the functional currency at the foreign exchange ruling at that date. Foreign exchange differences arising on translation are recognised in the Statement of Comprehensive Income. Foreign exchange differences relating to investments are taken to the capital reserve. Realised and unrealised foreign exchange differences on non-capital assets or liabilities are taken to the Statement of Comprehensive Income in the period in which they arise.

Notes to the Financial Statements

for the year ended 31 December 2009

1 ACCOUNTING POLICIES (CONTINUED)

(i) Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short term, highly liquid investments readily convertible to known amounts of cash and subject to an insignificant risk of changes in value. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash, deposits at bank and money market deposits.

(j) Investments

All investments have been designated as financial assets at “fair value through profit or loss”. Investments are initially recognised on the date of purchase at cost, being fair value of the consideration given. Subsequently, investments are measured at fair value, with unrealised gains and losses on investments recognised in the Statement of Comprehensive Income. Investments are derecognised on the date of sale. Gains and losses on the sale of investments will be taken to the Statement of Comprehensive Income in the period in which they arise. For investments actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices as at the close of business on the date of the statement of financial position.

(k) Derivatives

Derivatives consist of forward exchange contracts which are stated at market value, with the resulting net realised and unrealised gains and losses being reflected in the Statement of Comprehensive Income.

(l) Trade date accounting

All “regular way” purchases and sales of financial assets are recognised on the “trade date”, i.e. the date that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of the asset within the timeframe generally established by regulation or convention in the market place.

(m) Segment reporting

The Board has considered the requirements of IFRS 8, ‘Operating Segments’. The Board is of the view that the Company is engaged in a single segment of business, being investment in diversified portfolio of equity and bond instruments. The Board, as a whole, has been determined as constituting the chief operating decision maker of the Company.

The Board is charged with setting the Company’s investment strategy in accordance with the Prospectus. They have delegated the day to day implementation of this strategy to its Investment Adviser but retain responsibility to ensure that adequate resources of the Company are directed in accordance with their decisions. The investment decisions of the Investment Adviser are reviewed on a regular basis to ensure compliance with the policies and legal responsibilities of the Board. The Investment Adviser has been given full authority to act on behalf of the Company, including the authority to purchase and sell securities and other investments on behalf of the Company and to carry out other actions as appropriate to give effect thereto. Whilst the Investment Adviser may make the investment decisions on a day to day basis re the allocation of funds to different investments, any changes to the investment strategy or major allocation decisions have to be approved by the Board, even though they may be proposed by the Investment Adviser. The Board therefore retains full responsibility as to the major allocation decisions made on an ongoing basis. The Investment Adviser will always act under the terms of the Prospectus which cannot be radically changed without the approval of the Board and the Shareholders.

Notes to the Financial Statements

for the year ended 31 December 2009

1 ACCOUNTING POLICIES (CONTINUED)

(m) Segment reporting (continued)

The key measure of performance used by the Board to assess the company's performance and to allocate resources is the total return on the Company's net asset value, as calculated under IFRS, and therefore no reconciliation is required between the measure of profit or loss used by the Board and that contained in the financial statements.

The schedule of principal investments held as of the period end are presented in the Investment Adviser's Report.

(n) Going concern

The Company has adequate financial resources and as a consequence, the directors believe the Company is well placed to manage its business risks successfully despite the current economic climate. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors have adopted the going concern basis in preparing the financial information.

2 INVESTMENT INCOME

	Year ended 31 Dec 2009 GBP	Year ended 31 Dec 2008 GBP
Bank interest	817	18,775
Dividend income	406,781	844,171
Bond income	343,972	438,525
Sundry income	90,413	20,881
	<u>841,983</u>	<u>1,322,352</u>

3 FOREIGN CURRENCY CONTRACTS

	Year ended 31 Dec 2009 GBP	Year ended 31 Dec 2008 GBP
Unrealised gain/(loss) on forward foreign currency contracts	210,518	(221,727)
Realised loss on forward foreign currency contracts	(111,178)	(82,036)
	<u>99,340</u>	<u>(303,763)</u>

Notes to the Financial Statements

for the year ended 31 December 2009

4 EXPENSES

	Revenue GBP	Year ended 31 Dec 2009 Capital GBP	Total GBP
Manager's fee	26,574	79,722	106,296
Administrator's fee	55,000	–	55,000
Registrar's fee	3,040	–	3,040
Directors' fees	50,000	–	50,000
Custody fees	14,251	–	14,251
Audit fees	19,929	–	19,929
Directors' and Officers' insurance	11,247	–	11,247
Annual fees	17,230	–	17,230
Bank charges	7,612	–	7,612
Commission paid	–	22,981	22,981
Sundry costs	5,489	–	5,489
Legal and professional fees	8,761	–	8,761
Loss on foreign exchange	(1,620)	–	(1,620)
	<u>217,513</u>	<u>102,703</u>	<u>320,216</u>

	Revenue GBP	Year ended 31 Dec 2008 Capital GBP	Total GBP
Manager's fee	30,705	92,114	122,819
Administrator's fee	53,985	–	53,985
Registrar's fee	2,681	–	2,681
Directors' fees	49,999	–	49,999
Custody fees	3,978	–	3,978
Audit fees	36,298	–	36,298
Directors' and Officers' insurance	10,297	–	10,297
Annual fees	13,544	–	13,544
Bank charges	9,915	–	9,915
Commission paid	–	24,033	24,033
Sundry costs	(4,503)	–	(4,503)
Legal and professional fees	2,242	–	2,242
Loss on foreign exchange	25,769	–	25,769
	<u>234,910</u>	<u>116,147</u>	<u>351,057</u>

5 DIRECTORS' REMUNERATION

Under the terms of appointment, each Director is paid a fee of £15,000 per annum by the Company, except for the Chairman, who receives £20,000 per annum.

Notes to the Financial Statements

for the year ended 31 December 2009

6 DIVIDENDS IN RESPECT OF EQUITY SHARES

	Year ended 31 Dec 2009	
	GBP	Pence per share
First interim payment	134,097	1.5
Second interim payment	134,097	1.5
Third interim payment	134,097	1.5
Fourth interim payment	134,096	1.5
	<hr/>	<hr/>
	536,387	6.0

	Year ended 31 Dec 2008	
	GBP	Pence per share
First interim payment	178,796	2.0
Second interim payment	178,796	2.0
Third interim payment	187,736	2.1
Fourth interim payment	187,735	2.1
	<hr/>	<hr/>
	733,063	8.2

7 EARNINGS PER SHARE

Ordinary shares

The total return per Ordinary share is based on the total return on ordinary activities for the year attributable to Ordinary shareholders of £4,231,539 (2008: -£6,596,752) and on 8,939,790 (2008: 8,939,790) shares, being the weighted average number of shares in issue during the year. There are no dilutive instruments and therefore basic and diluted gain per share are identical.

The revenue return per Ordinary share is based on the revenue return on ordinary activities for the year attributable to Ordinary shareholders of £602,007 (2008: £1,004,007) and on 8,939,790 (2008: 8,939,790) shares, being the weighted average number of shares in issue during the year. There are no dilutive instruments and therefore basic and diluted gain per share are identical.

The capital return per Ordinary share is based on the capital return on ordinary activities for the year attributable to Ordinary shareholders of £3,629,532 (2008: -£7,600,759) and on 8,939,790 (2008: 8,939,790) shares, being the weighted average number of shares in issue during the year. There are no dilutive instruments and therefore basic and diluted gain per share are identical.

Notes to the Financial Statements

for the year ended 31 December 2009

8 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS INVESTMENTS

	31 Dec 2009 GBP	31 Dec 2008 GBP
Financial assets designated as at fair value through profit or loss		
Opening portfolio cost	14,230,035	18,019,037
Unrealised (depreciation)/appreciation on valuation brought forward	(2,952,625)	2,292,000
Opening valuation	11,277,410	20,311,037
Movements in the year		
Purchases at cost	7,783,012	7,408,639
Sales		
– proceeds	(6,378,797)	(9,511,721)
– realised losses on sales	(453,805)	(1,685,920)
Unrealised appreciation/(depreciation) on valuation for the year	4,120,090	(5,244,625)
Fair value of investments at 31 December 200	<u>16,347,910</u>	<u>11,277,410</u>
Closing book cost	15,180,445	14,230,035
Closing unrealised appreciation/(depreciation)	1,167,465	(2,952,625)
	<u>16,347,910</u>	<u>11,277,410</u>
Realised losses on sales	(453,805)	(1,685,920)
Decrease in unrealised appreciation/(depreciation)	4,120,090	(5,244,625)
Appreciation on fair value of derivative financial assets	34,000	–
Net gains/(losses) on financial assets designated as at fair value through profit or loss	<u>3,700,285</u>	<u>(6,930,545)</u>

As at 31 December 2009, the closing fair value of investments comprises £11,418,223 (2008: £7,051,998) of equity shares and £4,929,687 (2008: £4,225,412) of fixed income securities.

The Investments held by the Company have been classified as Level 1. This is in accordance with the fair value hierarchy.

Details of the value of each classification are listed in the table below. Values are based on the market value of the investment as at the statement of financial position date:

Financial assets designated as at fair value through profit or loss

	Market Value %	Market Value GBP
Level 1	100	16,347,910
Total	<u>100</u>	<u>16,347,910</u>

There have been no transfers between levels of the fair value hierarchy during the year under review.

Notes to the Financial Statements

for the year ended 31 December 2009

8 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS INVESTMENTS (CONTINUED)

Derivative Financial Assets

The derivative financial assets held by the Company have been classified as Level 1. This is in accordance with the fair value hierarchy.

Details of the value of each classification are listed in the table below. Values are based on the market value of the derivative financial asset as at the statement of financial position date:

Derivative financial assets designated as at fair value through profit or loss

	Market Value %	Market Value GBP
Level 1	100	108,563
Total	100	108,563

There have been no transfers between levels of the fair value hierarchy during the year under review.

9 RECEIVABLES

	31 Dec 2009 GBP	31 Dec 2008 GBP
Prepayments	2,426	1,910
Accrued income	179,567	244,627
Investment transactions not settled	100,727	451,773
Sundry receivables	105,298	114,639
	<u>388,018</u>	<u>812,949</u>

10 PAYABLES

(amounts falling due within one year)	31 Dec 2009 GBP	31 Dec 2008 GBP
Accrued expenses	<u>72,414</u>	<u>71,053</u>

11 PAYABLES

(amounts falling due after one year)	31 Dec 2009 GBP	31 Dec 2008 GBP
Long term bank loan	<u>6,000,000</u>	<u>4,400,000</u>

Under a loan agreement dated 13 February 2007 between the Company and the Bank of Scotland a £6,000,000 Revolving Credit Facility was arranged for a period of 5 years. The interest rate payable on this facility is 1% over Libor with a non-utilisation charge of 0.5% on any undrawn part of the facility.

The capital covenant on the facility requires a ratio of specified investment to debt of 2:1. Specified investments include UK listed securities with a market capitalisation of over £75 million, investment grade bonds and reverse convertible bonds meeting certain criteria relating to the issuer and the reference equity, gifts or US treasury stock and cash. During the year, the Company has complied with all loan covenants.

Notes to the Financial Statements

for the year ended 31 December 2009

12 SHARE CAPITAL

	GBP
Authorised	
Ordinary shares of 1p each	<u>10,000,000</u>
	SHARES
Issued	
Number of shares in issue at 31 December 2009 and 31 December 2008	<u>8,939,790</u>
	GBP
Issued capital as at 31 December 2009	<u>89,398</u>
	Number of shares
The issue of shares took place as follows:	
Ordinary shares 11 February 1999	29,600,002
Tender offer 17 January 2007	<u>(20,660,212)</u>
	<u>8,939,790</u>

13 RELATED PARTIES

Premier Asset Management (Guernsey) Limited is the Company's Manager and operates under the terms of the management agreement in force which gives it complete control over the Company's investment portfolio. For further details regarding the terms of the management agreement see the section in Directors' Report on pages 15 to 16.

£106,296 (2008: £122,819) of costs were incurred by the Company with this related party in the year, of which £30,389 (2008: £22,353) was due to this related party as at 31 December 2009.

Directors' remuneration is disclosed in Note 5.

14 FINANCIAL INSTRUMENTS

The Company's main financial instruments comprise:

- (a) Cash and cash equivalents that arise directly from the Company's operations;
- (b) Investments in listed entities and derivative financial assets; and
- (c) Long term bank loan.

Notes to the Financial Statements

for the year ended 31 December 2009

15 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The following table details the categories of financial assets and liabilities held by the Company at the reporting date:

	31 Dec 2009 GBP	31 Dec 2008 GBP
Financial assets		
Financial assets at fair value through profit or loss	16,347,910	11,277,410
Derivative financial assets	108,563	–
Total financial assets at fair value through profit or loss	<u>16,456,473</u>	<u>11,277,410</u>
Loans and receivables	1,346,947	1,466,847
Total assets	<u>17,803,420</u>	<u>12,744,257</u>
Financial liabilities		
Financial liabilities at fair value through profit or loss		
Accrued expenses	72,414	71,053
Derivative financial liabilities	–	237,350
Total financial liabilities at fair value through profit or loss	<u>72,414</u>	<u>308,403</u>
Financial liabilities measured at amortised cost	<u>6,000,000</u>	<u>4,400,000</u>
Total liabilities excluding net assets attributable to holders of Ordinary shares	<u>6,072,414</u>	<u>4,708,403</u>

Loans and receivables presented above represent cash and cash equivalents, balances due from brokers and other receivables as detailed in the Statement of Financial Position.

Financial liabilities measured at amortised cost presented above represent accrued expenses and loans payable as detailed in the Statement of financial position.

The main risks arising from the Company's financial instruments are market price risk, liquidity risk, interest rate risk and foreign exchange risk. The Board regularly review and agrees policies for managing each of these risks and these are summarised below:

(a) Market Price Risk

Market price risk arises mainly 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 Investment Adviser actively monitors market prices and reports to the Board as to the appropriateness of the prices used for valuation purposes. The Investment Adviser also attempts to minimise market price risk by undertaking a detailed analysis of the risk/reward relationship of each investee company prior to any investment being made.

Details of the Company's Investment Objective and Policy are given inside the front cover of this Report.

Price sensitivity

The following details the Company's sensitivity to a 15% increase and decrease on the market prices, with 15% being the sensitivity rate used when reporting price risk internally to key management personnel and representing management's assessment of the possible change in market prices.

Notes to the Financial Statements

for the year ended 31 December 2009

15 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Market Price Risk (continued)

At 31 December 2009, if market prices had been 15% higher with all the other variables held constant, the return attributable to shareholders for the year would have been £2,452,187 (2008: £1,691,612) greater, due to the increase in the fair value of financial assets at fair value through profit or loss. This would represent an increase in Net Assets of 20.90% (2008: 21.05%).

If market prices had been 15% lower with all the other variables held constant, the net return attributable to shareholders for the year would have been £2,452,187 (2008: £1,691,612) lower, due to the decrease in the fair value of financial assets at fair value through profit or loss. This would represent a decrease in Net Assets of 20.90% (2008: 21.05%).

(b) Credit Risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Company. The Directors receive financial information on a regular basis which is used to identify and monitor risk. It is Company policy not to invest more than 20% of the gross assets of the Company in the securities of any one company or group at the time the investment is made.

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties. At 31 December 2009 the Company's largest exposure to a single investment was £699,675 (2008: £631,875), 3.93% (2008: 4.96%) of total assets.

Investors should be aware that the prospective returns to Shareholders mirror the returns under the Quoted Securities held or entered into by the Company and that any default by an issuer of any such Quoted Security held by the Company would have a consequential adverse effect on the ability of the Company to pay some or all of the entitlement to Shareholders. Such a default might, for example, arise on the insolvency of an issuer of a Quoted Security.

The Company's financial assets exposed to credit risk are as follows:

	31 Dec 2009 GBP	31 Dec 2008 GBP
Financial assets designated as at fair value through profit or loss	16,347,910	11,277,410
Derivative financial assets	108,563	–
Cash and cash equivalents	958,929	653,898
Balances due from brokers	100,727	451,773
Interest, dividends and other receivables	287,291	361,176
	<u>17,803,420</u>	<u>12,744,257</u>

Notes to the Financial Statements

for the year ended 31 December 2009

15 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in realising assets or otherwise raising funds to meet financial commitments. The Company's main financial commitment is its ongoing operating expenses.

The Investment Adviser ensures that the Company has sufficient liquid resources available to fulfil its operational plans and to meet its financial obligations as they fall due. This is monitored by carrying out a solvency calculation on a quarterly basis by reference to management accounts and revenue projections. The Board will approve, if appropriate, a Solvency Certificate resolution prior to declaring any interim dividend distributions.

The table below details the residual contractual maturities of financial liabilities:

As at 31 December 2009:

	1-3 months GBP	Over 1 year GBP
<i>Financial liabilities including derivatives</i>		
Accrued expenses	72,414	–
Derivative financial instruments	–	–
Loans payable	–	6,000,000
	<u>72,414</u>	<u>6,000,000</u>

As at 31 December 2008:

	1-3 months GBP	Over 1 year GBP
<i>Financial liabilities including derivatives</i>		
Accrued expenses	71,053	–
Derivative financial instruments	237,350	–
Loans payable	–	4,400,000
	<u>308,403</u>	<u>4,400,000</u>

(d) Interest Rate Risk

In order to mitigate the potential risks to the Company should there be significant changes in interest rates, the Company could repay loans if the borrowing rate became no longer attractive. On the investment side, the Company could hedge interest rate risk using various different methods. The following table details the Company's exposure to interest rate risks. It includes the Company's assets and liabilities at fair values, categorised by the earlier of contractual re-pricing or maturity date measured by the carrying value of the assets and liabilities:

Notes to the Financial Statements

for the year ended 31 December 2009

15 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Interest Rate Risk (continued)

As at 31 December 2009:

	Less than 1 month GBP	1 to 3 months GBP	Over 1 year GBP	Fixed interest GBP	Non-interest Bearing GBP	Total GBP
Financial Assets						
Financial assets at fair value through profit or loss on initial recognition	-	-	603,122	4,326,564	11,418,224	16,347,910
Derivative financial instruments	-	-	-	-	108,563	108,563
Balances due from brokers	-	-	-	-	100,727	100,727
Cash and cash equivalents	958,929	-	-	-	-	958,929
Interest, dividends and other receivables	-	-	-	-	287,291	287,291
Total Financial Assets	958,929	-	603,122	4,326,564	11,914,805	17,803,420
Financial Liabilities						
Derivative financial instruments	-	-	-	-	-	-
Accrued expenses	-	-	-	-	72,414	72,414
Loans payable	6,000,000	-	-	-	-	6,000,000
Total Financial Liabilities	6,000,000	-	-	-	72,414	6,072,414
Total interest sensitivity gap	5,041,071	-	603,122	4,326,564		

As at 31 December 2008:

	Less than 1 month GBP	1 to 3 months GBP	Over 1 year GBP	Fixed interest GBP	Non-interest Bearing GBP	Total GBP
Financial Assets						
Financial assets at fair value through profit or loss on initial recognition	-	73,680	65,300	4,086,432	7,051,998	11,277,410
Balances due from brokers	-	-	-	-	451,773	451,773
Cash and cash equivalents	653,898	-	-	-	-	653,898
Interest, dividends and other receivables	-	-	-	-	361,176	361,176
Total Financial Assets	653,898	73,680	65,300	4,086,432	7,864,947	12,744,257
Financial Liabilities						
Derivative financial instruments	-	-	-	-	237,350	237,350
Accrued expenses	-	-	-	-	71,053	71,053
Loans payable	4,400,000	-	-	-	-	4,400,000
Total Financial Liabilities	4,400,000	-	-	-	308,403	4,708,403
Total interest sensitivity gap	3,746,102	73,680	65,300	4,086,432		

Interest rate sensitivity only takes account of the effect of interest rate movements on cash balances and loan amounts. Any other interest rate risks are already reflected in the market price risk disclosures at Note 15(a).

Notes to the Financial Statements

for the year ended 31 December 2009

15 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Interest Rate Risk (continued)

Interest rate sensitivity

If interest rates had been 25 basis points higher and all other variables were held constant, the Company's return attributable to shareholders for the year ended 31 December 2009 would have decreased by approximately £12,603 (2008: £9,365) or 0.07% (2008: 0.07%) of Total Assets due to an increase in the amount of interest receivable on the bank balances of £2,397 (2008: £1,635) offset by an increase in the amount of interest payable on the bank loan of £15,000 (2008: £11,000).

If interest rates had been 25 basis points lower and all other variables were held constant, the Company's return attributable to shareholders for the year ended 31 December 2009 would have increased by approximately £12,603 (2008: £9,365) or 0.07% (2008: 0.07%) of Total Assets due to a decrease in the amount of interest receivable on the bank balances of £2,397 (2008: £1,635) offset by a decrease in the amount of interest payable on the bank loan of £15,000 (2008: £11,000).

(e) Foreign Exchange Risk

Forward currency transactions are used to hedge the foreign currency exposure in bonds, other investments and cash balances held within the portfolio. The purpose of the hedge is to protect the Company's assets from a decline in value that might arise from the depreciation of a foreign currency against sterling.

At 31 December 2009, the Company's holdings in forward currency contracts translated into GBP were as specified below:

Type of contract	Expiration	Underlying	Notional amount of contracts outstanding	Fair value assets/ (liabilities) GBP
Forward	January 2010	Sold USD	420,000	4,311
Forward	January 2010	Sold EUR	1,800,000	72,141
Forward	January 2010	Sold GBP	134,397	(1,533)
Forward	March 2010	Sold AUD	215,000	(356)
				<u>74,563</u>

At 31 December 2008, the Company's holdings in forward currency contracts translated into GBP were as specified below:

Type of contract	Expiration	Underlying	Notional amount of contracts outstanding	Fair value assets/ (liabilities) GBP
Forward	March 2009	Sold AUD	210,000	(9,561)
Forward	January 2009	Sold EUR	1,280,000	(224,119)
Forward	February 2009	Sold USD	370,000	(3,670)
				<u>(237,350)</u>

Notes to the Financial Statements

for the year ended 31 December 2009

15 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(e) Foreign Exchange Risk (continued)

Exchange rate exposures are managed by minimising the amount of foreign currency held at any one time and entering into forward exchange contracts.

The following table sets out the Company's total exposure to foreign currency risk and the net exposure to foreign currencies of the monetary assets and liabilities:

	Monetary assets GBP	Monetary liabilities GBP	Forward FX contracts GBP	Net exposure GBP
Euro	1,531,689	–	(1,668,420)	(136,731)
US Dollar	308,240	–	(264,051)	44,189
Australian Dollar	120,518	–	(118,883)	1,635

Amounts in the above table are based on the carrying value of monetary assets and liabilities and the underlying principle amount of forward currency contracts.

(f) Capital Management

The principal investment objectives of the Company are to provide shareholders with a high income and also the opportunity for income and capital growth by investing primarily in smaller capitalised United Kingdom companies admitted to the Official List of the United Kingdom Listing Authority and traded on the London Stock Exchange or traded on AIM.

The Company's portfolio is invested in equities and high income and fixed interest and other income-bearing securities in order to achieve its investment objectives. It is the aim of the Company to provide both income and capital growth predominantly through investment of approximately 70% of the portfolio in smaller capitalised United Kingdom companies. The Company also aims to further enhance income for shareholders by investing approximately 30% of its assets in high yielding securities which will be predominantly fixed income securities (including corporate bonds, preference and permanent interest bearing shares, convertible and reverse convertible bonds and debentures) but may include up to 15% of the portfolio (measured at time of acquisition) in high yielding investment company shares.

The Company employs gearing in the form of a bank loan. This gearing means that for any movement, up or down, in the Company's total assets there will, in most circumstances be a greater movement in the net asset value of the Ordinary shares. This in turn may be reflected in greater volatility in the share price of the Ordinary shares and adds to the risk associated with this investment. The Company is required to adhere to a number of covenants in respect of its gearing arrangements. Failure to meet these requirements could jeopardise the Company's future as these borrowings are secured by a prior charge on the Company's assets. The Board monitors the compliance with any covenants on a regular basis.

As the Company's Ordinary shares are traded on the London Stock Exchange, the Ordinary shares may trade at a discount to their Net Asset Value per Share on occasion. However, the Directors and the manager monitor the discount on a regular basis.

Notes to the Financial Statements

for the year ended 31 December 2009

15 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(f) Capital Management (continued)

The Company monitors capital on the basis of the carrying amount of equity as presented on the face of the Statement of Financial Position. Capital for the reporting periods under review is summarised as follows:

	GBP
Distributable reserves	1,348,416
Share capital and share premium	168,571
Non distributable reserves	<u>10,214,019</u>
Total	<u>11,731,006</u>

The distributable reserves comprises the revenue reserve. Included in non distributable reserves are the special reserve and the capital reserve. The special reserve was created on the cancellation of part of the Company's share premium account. The Directors have resolved that the capital reserve is a non distributable reserve.

Risk Warning

An investment in the Company is only for financially sophisticated investors who are capable of evaluating the risks and merits of such investments, or other investors who have been professionally advised with regard to investment, and who have sufficient resources to bear any loss which might result from such investment. There can be no guarantee that investors will recover their initial investment. This investment employs gearing and may be subject to sudden and large falls in value. You should be aware that movements in the net asset value of the Company, and therefore the price of shares, may be more volatile than movements in the price of the underlying investments and that there is a risk that you may lose all the money that you have invested. Investors considering an investment should consult their stockbroker, bank manager, solicitor, accountant or other independent financial adviser.

Investors contemplating an investment in Ordinary Shares should recognise that the market value of, and the income derived from, such shares can fluctuate and may not always reflect the underlying value of the Company's portfolio. Securities listed on recognised exchanges are valued at their bid market prices as at close of business on 31 December 2009. The market prices at which these investments are valued may not be the realisable value of those investments, taking into account both the size of the Group's holding, the frequency with which such investments are traded and the spread between the bid and offer prices.

Future dividends on the Ordinary Shares will depend on the dividend capital growth of investments in the underlying portfolio. Dividend cuts by companies within the portfolio or falls in the share prices of the underlying investments may result in the Ordinary Shares yielding less in future years. Falling bond prices or reduction in bond yields may also lead to a reduction in dividends on the Ordinary Shares. Any change in the tax treatment of dividends or interest paid or received by the Company may reduce the level of dividend received by Ordinary Shareholders.

There can be no guarantee that the Company's investment objectives will be met.

Directors and Advisers

Directors	John Campbell Boothman (Chairman) John Michael McKean Helen Foster Green
Manager	Premier Asset Management (Guernsey) Limited PO Box 405 Anson Place Mill Court La Charroterie St Peter Port Guernsey GY1 3GF
Investment Adviser - Smaller Companies portfolio	Unicorn Asset Management Limited Preacher's Court The Charterhouse Charterhouse Square London EC1M 6AU
Investment Adviser - Income portfolio	Premier Fund Managers Limited Eastgate Court High Street Guildford GU1 3DE
Administrator, Secretary and Registrar	Anson Fund Managers Limited PO Box 405 Anson Place Mill Court La Charroterie St Peter Port Guernsey GY1 3GF
Custodian	BNP Paribas Trust Company (Guernsey) Limited BNP Paribas House St Julian's Avenue St Peter Port Guernsey GY1 3WE
United Kingdom Stockbrokers	Fairfax I.S. PLC 46 Berkeley Square Mayfair London W1J 5AT
Auditors	KPMG Channel Islands Limited PO Box 20 20 New Street St Peter Port Guernsey GY1 4AN
Registered Office	Anson Place Mill Court La Charroterie St Peter Port Guernsey GY1 1EJ

Notice of General Meeting

NOTICE IS HEREBY GIVEN that the GENERAL MEETING of the voting Members of Acorn Income Fund Limited (the "Company") will be held at Anson Place, Mill Court, La Charroterie, St Peter Port, Guernsey, Channel Islands on Tuesday 24 August 2010 at 10:00 a.m. You will be asked to consider and vote on the resolutions below, each of which will be proposed as an ordinary resolution:

ORDINARY BUSINESS:

1. To receive the Annual Financial Report for the year ended 31 December 2009.
2. To reappoint KPMG Channel Islands Limited as Auditor to the Company, to hold office from the conclusion of this meeting until the conclusion of the next annual general meeting, and to authorise the directors to determine their remuneration.

SPECIAL BUSINESS TO BE PROPOSED AS AN ORDINARY RESOLUTION:

3. THAT the Company be and hereby is generally and unconditionally authorised in accordance with the Companies (Guernsey) Law, 2008 (as amended) (the "Law") to make one or more market acquisitions (as defined in section 316 of the Law) of ordinary shares in the Company ("Ordinary shares") provided that:
 - (i) the maximum aggregate number of Ordinary shares hereby authorised to be purchased shall be 14.99 per cent. of the issued Ordinary Shares in issue on the date this resolution is passed;
 - (ii) the minimum price payable by the Company for each ordinary share shall be £0.01;
 - (iii) the maximum price payable by the Company for each Ordinary share shall be the higher of (a) an amount equal to 105 per cent of the average of the middle market quotation for an Ordinary Share as derived from The London Stock Exchange for the five business days immediately preceding the day on which the Ordinary Shares are purchased and (b) the higher of the price of the last independent trade and highest bid on the London Stock Exchange when the purchase is carried out; and
 - (iv) unless previously varied, revoked or renewed, the authority hereby conferred shall expire at the conclusion of the next general meeting of the Company to be held in 2011 under section 199 of the Law, save that the Company may, prior to such expiry, enter into a contract to purchase Ordinary Shares under such authority and may make a purchase of Ordinary Shares pursuant to any such contract.

SPECIAL BUSINESS TO BE PROPOSED AS A SPECIAL RESOLUTION :

4. THAT the Company proposes to amend Clause 12.7 of the Management Agreement in order that the Manager is entitled to a minimum Management Fee of £100,000 per annum with effect from 1 January 2010.

BY ORDER OF THE BOARD

Anson Fund Managers Limited
Secretary

26 April 2010

Registered Office:

Anson Place
Mill Court
La Charroterie
St Peter Port
Guernsey, GY1 1EJ
Channel Islands

Notes:

- Ordinary Resolution: To be passed this type of resolution requires a simple majority of the votes cast by those shareholders voting in person or by proxy at the meeting to be voted in favour of the resolution.
- A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to speak and vote instead of them. A proxy need not be a member of the Company. Completion and return of the form of proxy will not preclude members from attending or voting at the meeting, if they so wish.
- More than one proxy may be appointed provided each proxy is appointed to exercise the rights attached to different shares.
- To be valid the Form of Proxy, together with the power of attorney or other authority, if any, under which it is executed (or a notarially certified copy of such power of authority) must be deposited with the Company's agent, for this purpose being, Computershare Investor Services (CI) Limited, PO Box 83, Ordnance House, 31 Pier Road, St Helier, Jersey JE4 8PW, not less than 48 hours before the time for holding the meeting. A Form of Proxy is enclosed with this Notice.
- All persons recorded on the register of shareholders as holding shares in the Company as at 5.00 p.m. on 20 August 2010 or, if the GM is adjourned, as at 48 hours before the time of any adjourned GM, shall be entitled to attend and vote (either in person or by proxy) at the GM and shall be entitled to one vote per share held.
- Where there are joint registered holders of any shares such persons shall not have the right of voting individually in respect of such shares but shall elect one of their number to represent them and to vote whether in person or by proxy in their name. In default of such election the person whose name stands first on the register of shareholders shall alone be entitled to vote. Where there are joint participants in respect of any share such persons shall not have the right of voting individually in respect of such share but shall elect one of their number to represent them and to vote whether in person or by proxy in their name. In default of such election the participant whose interests are first notified to the Company shall alone be entitled to vote.
- On a poll votes may be given either personally or by proxy and a shareholder entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.
- Any corporation which is a shareholder may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative at this meeting. Any person so authorised shall be entitled to exercise on behalf of the corporation which he represents the same powers (other than to appoint a proxy) as that corporation could exercise if it were an individual shareholder.
- None of the Directors has a Contract of Service with the Company.

Form of Proxy

FOR USE BY HOLDERS OF VOTING SHARES AT THE GENERAL MEETING OF ACORN INCOME FUND LIMITED (THE "COMPANY") CONVENED FOR 10:00 A.M. ON TUESDAY 24 AUGUST 2010, AND AT ANY ADJOURNMENT THEREOF

I/We
(BLOCK LETTERS)

of.....
(BLOCK LETTERS)

being [a] member[s] of the Company, hereby appoint the Chairman of the Meeting*

oras my/our proxy to vote for me/us on my/our behalf, as directed below on the Resolutions to be proposed at the general meeting of the Company to be held on Tuesday 24 August 2010 at 10:00 a.m., and at any adjournment thereof.

*Note: If it is desired to appoint as proxy any person other than the Chairman of the Meeting, his/her name and address should be inserted in the relevant place and reference to the Chairman of the meeting deleted and the alternation initialled.

I/We direct the proxy to vote on the Resolutions as follows:

Ordinary Resolutions:	FOR	AGAINST	WITHHELD
1. To receive the Annual Financial Report for the year ended 31 December 2009.			
2. To reappoint KPMG Channel Islands Limited as Auditor to the Company, to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting, and to authorise the directors to determine their remuneration.			
3. THAT the Company be authorised to make market acquisitions of Ordinary shares in the Company on the terms set out in the Notice of Meeting.			
Special Business:			
4. THAT the Company be authorised to amend the terms of Clause 12.7 in the Management Agreement on the terms set out in the Notice of Meeting.			

Please indicate with an X in the appropriate space how you wish your vote to be cast. On receipt of the form duly executed and in the absence of a specific direction, your proxy will vote or abstain as he or she thinks fit on the resolutions.

Signed:

Dated:

Notes:

- On receipt of this Form of Proxy duly signed, in the absence of any specific instructions or where only partial instructions have been given, the proxy will vote or abstain at their discretion.
- If you wish to appoint a proxy other than the Chairman you should delete the words "the Chairman of the Meeting or", and complete in block capitals his or her full name and address in the space provided and initial the amendment.
- Please indicate by placing a mark in the appropriate space how you wish your votes to be cast.
- This Form of Proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its common seal or under the hand of an officer or attorney so authorised.
- To be valid this completed Form of Proxy, together with the power of attorney or other authority (if any) under which it is signed or a notorially certified copy of such power of authority, shall be deposited with the Company's agent not less than forty-eight hours before the time appointed for holding the relevant meeting.
- In the case of joint holders, the vote of the senior who tenders a vote whether in person or by proxy will be accepted to the exclusion of the votes of other joint holders. For this purpose seniority will be determined by the order in which the names stand in the register in respect of the holdings.
- A proxy need not be a member of the Company. A Shareholder may appoint more than one proxy to attend on the same occasion.
- A proxy is entitled to exercise all or any rights to attend, speak and vote at the Meeting.
- No instrument appointing a proxy shall be valid after the expiration of twelve months from the date named in it as the date of its execution except at an adjourned meeting or on a poll demanded at a meeting or an adjourned meeting in cases where the meeting was originally held within twelve months from such date.



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