



Renaissance US Growth Investment Trust PLC

# Annual Report

for the year ended 31 March 2007

*FINDING VALUE / ADDING VALUE / REALISING VALUE*





## Company summary

Management company	RENN Capital Group, Inc. See page 16 for further details.
Total assets and shareholders' funds	£62,192,000 as at 31 March 2007.
Market capitalisation	£58,479,000 as at 31 March 2007.
Capital structure	19,332,008 Ordinary 25p shares.
Wind-up date	Continuation resolution to be put to shareholders annually.
Management fee	The Manager receives a fee calculated at a rate of 0.125% of the total net assets of the Company per month, payable quarterly in arrears. No fee is payable on cash or near cash investments. A performance fee is also payable as described in the Report of the Directors on page 19 and note 3 to the accounts.
Secretarial fee	The Company Secretary receives an annual fee of £51,480 which is subject to an annual RPI uplift.
ISA status	The Company is fully eligible for inclusion in ISAs.
AIC	The Company is a member of the Association of Investment Companies.

## Summary of results and financial highlights

	<b>Year ended</b> <b>31 March 2007</b>	Year ended 31 March 2006	% change
Total net assets and shareholders' funds	<b>£62,192,000</b>	£67,538,000	(7.91)
Net asset value ("NAV") per Ordinary share – pence	<b>321.71</b>	349.36	(7.91)
– US cents	<b>630.99</b>	605.99	4.13
Mid-market price per Ordinary share	<b>302.50p</b>	311.00p	(2.73)
Discount to NAV	<b>5.97%</b>	10.98%	–
Net revenue deficit after taxation	<b>£296,000</b>	£886,000	–
Revenue loss per Ordinary share	<b>1.53p</b>	4.52p	–
Costs of running the trust			
– Investment Manager's fee	<b>£766,000</b>	£861,000	(11.03)
– Performance fee	–	–	–
– Other expenses	<b>£476,000</b>	£398,000	19.60
As a percentage of average net assets			
– Investment Manager's fee	<b>1.18%</b>	1.41%	–
– Performance fee	–	–	–
– Other expenses	<b>0.73%</b>	0.65%	–
Exchange rate – US\$/£	<b>1.96135</b>	1.73455	(13.08)
S&P 500 Index (Total Return)	<b>2,200.12</b>	1,967.38	11.83
S&P 500 Index (Total Return) – Sterling adjusted	<b>1,121.74</b>	1,134.20	(1.10)
Russell 2000 Index (Total Return)	<b>3,393.70</b>	3,204.37	5.91
Russell 2000 Index (Total Return) – Sterling adjusted	<b>1,730.29</b>	1,847.33	(6.34)

	High	Date	Low	Date
Mid-market price per Ordinary share	318.5p	07/04/06	283.0p	13/09/06
NAV per Ordinary share*	347.5p	26/04/06	304.5p	22/09/06
Discount to NAV*	12.11%	13/09/06	2.15%	17/05/06

\* Excluding current period revenue.

## Chairman's statement

Although the strength of Sterling led to a fall in the NAV, the Company has outperformed all of the major indices over the past five years and since inception by a significant margin.

During the year ended 31 March 2007, your Company's net asset value increased 4.1% in Dollars and declined 7.9% in Sterling. The Russell 2000 had a return of 5.9% in Dollars and a loss of 6.3% in Sterling. In the Manager's review you can see all the comparisons with other market indices. The Company has outperformed all of the major indices over the past five years and since inception by a significant margin.

After the Russell 2000's 26% rise last year, it was unsurprising to find that this year the index performed more modestly, achieving a gain of 5.9%, approximately half that of the S&P 500. For the current year it will not be surprising to find smaller companies outperforming larger ones once more – and your Manager is optimistic about the prospects for 2008.

### The main strategy

The main area of significant appreciation over the past seventy-six years in the US has come from emerging growth companies. Your Manager concentrates on emerging growth companies with a focus on those managed by entrepreneurial founders/managers.

From time to time, your Company focuses on certain industries for special advantage. As I wrote last year, the Manager concentrated on energy stocks several years ago which has resulted in the significant realisation of profits. Currently your Company is focused on medical technology, US listed Chinese companies and the growth of the internet. Your Company has added to these themes, as you will read in the Manager's review.

### Harvesting the garden

Your Company had a substantial amount of harvesting over the year, reflected best by the increase of cash and cash equivalents as a percentage of total assets. On 31 March 2006 your Company had just 3.1% of its assets in cash and cash equivalents. On 31 March 2007 cash and cash equivalents comprised approximately 17.5% of the assets of the portfolio. As we discussed in the interim report, much of this came from the acquisition of Laserscope by American Medical Systems Holdings. Your Manager also concluded sales of several smaller energy holdings. Energy company allocation has decreased from 32% of the portfolio last year to approximately 11% on 31 March 2007.

In early April 2007, after the end of our financial year, your Company made partial sales in two of the US listed Chinese company holdings. Your Manager sold approximately 37% of our \$1.8 million investment in Comtech Group receiving proceeds of approximately \$3.7 million and gains of approximately \$3 million. Your Company still holds a remaining position valued at approximately \$5.8 million. In July of 2006, your Company made a \$1 million "new planting" into the common stock and warrants of China Security & Surveillance Technology. By early April of 2007 the investment had appreciated by approximately 450%. Your Manager took this opportunity to sell approximately 73% of our cost basis receiving proceeds of approximately \$3.5 million and gains of approximately \$2.8 million. Due to our unexercised warrant position, your Company still holds a remaining position in China Security valued at approximately \$2.1 million.

### New plantings

During the year ended 31 March 2007, your Company made over \$13 million in new investments, including several US listed Chinese companies. Such companies are all listed in the US and run by American trained Chinese executives with

their business activities based in the burgeoning Chinese mainland economy. They now represent 36% of your Company's portfolio. Due to the attractive growth rates and valuations, your Manager has added new investments in this area. Among these are American Oriental Bioengineering, which manufactures plant-based pharmaceutical products; Duoyuan Digital Printing Technology which is the largest non-government owned manufacturer of commercial printing equipment; China Security & Surveillance Technology which manufactures and installs digital surveillance products; Hanwei Energy Services Corporation which manufactures fiberglass-reinforced plastic pipes for the oil and gas industry; Shine Media Acquisition Corporation which was formed to make acquisitions in the media or advertising industry; Skystar Bio-Pharmaceutical Company which engages in production and marketing of veterinary products; and lastly Wonder Auto Technology which designs and manufactures electrical auto parts.

Other additions include Points International, which provides information technology and internet solutions to the loyalty card industry globally; Pipeline Data which provides merchant credit payment processing services in the US; Quintana Maritime Limited which provides marine transportation; and Silverleaf Resorts, a successful developer and marketer of getaway timeshare resorts in the US. Adding to our medical portfolio, Symbolon Pharmaceuticals has a phase III FDA breast cancer drug that shows excellent promise.

#### Discount to net asset value

Your Board of Directors and Manager have made concerted efforts to narrow the discount to net asset value. On 31 March 2007 the discount stood at 6.0%.

The Company has continued to work at having timely information available. A number of articles on Renaissance US Growth Investment Trust appeared in various media in recent months. The most recent was a major article on Russell Cleveland and our Company that appeared in the October 2006 issue of Bloomberg Magazine. Twice a year, your Investment Manager visits the UK to personally see our major shareholders and meet analysts and brokers who could be interested in our Company.

We have continued to retain Lansons Communications for assistance in investor relations. Lansons' and the Manager's efforts led to considerable media coverage. Of course, the Company's superior record long term helped in this effort. Secondly, our Stockbroker's continued efforts have led to greater sponsorship and improved communication with the financial community.

#### Retiring Director

Mr C A Rundell Jnr. has decided to retire from the Board after this year's AGM. C A has been on the Board since 1996 and has played a very important part in guiding your Company to the success it has enjoyed. I and my colleagues take this opportunity to thank C A for all his hard work and sound advice over the years – and the rare blend of professionalism and friendliness he brought to the Boardroom. We will all miss him greatly.

#### Conclusion

As always, your Investment Manager will continue to look for opportunities to invest alongside entrepreneurial management teams, regardless of industry. With the concerted effort of the Manager, your Board of Directors is confident that such opportunities will continue to present themselves.

Your Company currently has substantial cash resources after a spate of profit taking and is in a good position to add attractive new portfolio companies. In addition, some of our long term core holdings could bring new life through merger and acquisition activities. Renaissance US Growth Investment Trust PLC remains an excellent way for investors to participate in the most important economic trend of the 21st Century, the growth of entrepreneurial investing.

**Ernest Fenton**, Chairman

*4 June 2007*

## Manager's review

For the year ended 31 March 2007 your Company had a return of 4.1% in Dollars and a loss of 7.9% in Sterling. Our benchmark, the Russell 2000, had an annual return of 5.9% in Dollars and a loss of 6.3% in Sterling.

### Year end review

Although we seek a positive Sterling denominated return every year, it was impractical to expect this in last year's currency environment. Though we anticipate a reversion to the mean, the US Dollar declined approximately 13% against Sterling for the year ended 31 March 2007. However, one should note that since inception your Company has had an annualised return of 15.2% in Dollars and 12.5% in Sterling, far exceeding our benchmark. Your Company ended 31 March 2007 with substantial cash and cash equivalents at approximately 17.5% of the portfolio. As always, your Company's Manager does

not invest simply to invest, but rather waits for appropriate opportunities to put capital to work. Given the large liquidity position, your Company has ample capital should opportunities become available.

As we will discuss later, based upon a new appraisal of the unquoted investment in eOriginal Holdings, it became necessary to write down its value by approximately 43%. Nevertheless, your Manager remains confident of its eventual success which could yield large gains.

### Performance

During the year your Company's net asset value increased 4.1% in Dollars and lost 7.9% in Sterling. Unlike last year, this year we witnessed an institutional asset allocation away from smaller stocks and into larger stocks demonstrated by a 5.9% outperformance of the Standard & Poors 500 over the Russell 2000 Index. Nevertheless for the five-year period ended 31 March 2007, your Company produced an annual return of 15.9% in Dollars and 8.7% in Sterling beating all major US indices including the Russell 2000. The table below compares these returns to our benchmark and major US indices.

### Annual equivalent total return: Renaissance US Growth Investment Trust PLC versus selected US market indices

	1 Year		5 Years		Inception	
	US\$	GB£	US\$	GB£	US\$	GB£
<b>RUSGIT</b>	<b>4.13%</b>	<b>(7.91)%</b>	<b>15.92%</b>	<b>8.73%</b>	<b>15.25%</b>	<b>12.53%</b>
Russell 2000	5.97%	(6.41)%	10.97%	4.04%	9.54%	7.15%
S&P 500	11.85%	(1.22)%	6.25%	(0.38)%	8.96%	6.59%
Dow Jones Industrial Average	13.85%	0.54%	5.84%	(0.76)%	9.68%	7.29%
NASDAQ Composite	4.23%	(7.94)%	6.22%	(0.41)%	7.35%	5.01%

## Performance of holdings

At 31 March 2007, the top ten holdings made up approximately 44% of net assets.

### Top 10 holdings at:

31 March 2007 Portfolio company	% of net assets	31 March 2006 Portfolio company	% of net assets
Comtech Group	7.2%	Laserscope	12.1%
Bovie Medical Corporation	5.8%	Gasco Energy	6.9%
Integrated Security Systems	5.6%	Integrated Security Systems	5.7%
SIMTEK Corporation	5.0%	Comtech Group	4.3%
China Security & Surveillance Technology	4.5%	Exploration Company of Delaware	4.2%
Cover-All Technologies	3.8%	Consolidated Energy	3.4%
Fushi International	3.2%	Access Integrated Technologies	3.2%
Zhongpin	3.2%	Bovie Medical Corporation	3.0%
Gasco Energy	2.9%	eOriginal Holdings	2.8%
Hemobiotech	2.8%	OmniVision	2.6%

In gross Dollar terms, the best returns during the year ended 31 March 2007 came from two US incorporated and traded Chinese companies. Firstly, a new investment, **China Security & Surveillance Technology (OTC: CSCT)**, has performed exceedingly well as market participants began to understand the company and its growth prospects. The company has a broad portfolio of surveillance products and is capitalising on multiple growth drivers such as new government driven public security ordinances throughout China. On 12 March 2007 the company reported outstanding results with revenues increasing 227% and earnings up 215%. For the fourth quarter revenues increased 451% to \$41 million and earnings increased 417% to \$6.6 million. In early April 2007 we sold approximately 73% of our \$1 million cost basis receiving proceeds of approximately \$3.5 million. Partially due to our warrant position, your Company still holds a remaining position valued at approximately

\$2.1 million. China Security is well managed and we believe will continue to outperform the market. Secondly, **Comtech Group (NASDAQ: COGO)** increased in value by \$3.7 million, as it continues to win significant contracts from its growing customer base of over 200 companies in the mobile phone, telecom infrastructure and consumer electronics markets. Last year Comtech had about 220 engineers, but today has approximately 400 engineers on the payroll. Digital media is currently the company's fastest growing business unit. On 31 October 2006 Comtech announced a collaborative arrangement with Microsoft, which allows the company to license next generation software from Microsoft's IP Ventures program and use various source codes to design and develop solutions across a variety of digital media products. The company reported record revenue for the year ended 2006 of \$170 million, an increase of 58% and earnings of \$15.8 million, an increase of 46%. The company also

provided 2007 revenue guidance of \$210–\$215 million. In early April we sold approximately 37% of our \$1.8 million cost basis position receiving proceeds of approximately \$3.7 million. Your Company still holds a remaining position valued at approximately \$5.8 million.

**Bovie Medical Corp. (AMEX: BVX)** was the third best performer increasing in value by \$3.6 million and placing it in the second largest position in the portfolio. Bovie has made significant progress in developing new products. On 12 March 2007 Bovie announced completion of the development of monopolar and bipolar forceps which it expects to significantly impact future growth. Bipolar vessel sealing and coagulation is one of the fastest, most lucrative growing markets in endoscopy, estimated to be over \$500 million in revenues worldwide. Meanwhile Bovie reported record results for fiscal 2006 with revenues up 32% and a 560% increase in earnings.

## Manager's review

(continued)

### **Cover-All Technologies (OTC: COVR)**

was also a strong performer, increasing in value approximately \$3.2 million. Although their financial results were better than in 2005, Cover-All reported a loss of \$1 million for 2006. The stock is performing better due to various strategic improvements made over the last two years. The interest level in the company's capabilities have grown and their success with existing customers is raising their visibility which we believe will pay off due to the tremendous size of their addressable market.

### **Integrated Security Systems (IZZI)**

has three divisions: B&B Armr, which supplies barriers for protection against terrorists that are used by various government units as well as chemical plants and nuclear plants; B&B Roadway, which supplies gates and barriers for use in highways; and lastly, Intelli-Site, which is a software system that can control prisons and any number of security applications. B&B Roadway is a profitable company with good margins. IZZI owns 65% of this unit. Intelli-Site is also profitable but on a small scale. The problem has been B&B Armr, which has a large backlog but has been unable to get the backlog into production. This is because there is a long lead time in dealing with Government. The company gets an order but the Government may ask for delivery in a year. B&B Armr has been booking nearly \$1 million per month but shipping only \$300,000. The company will have to scale back operations or increase the throughput of revenues. Your Manager, together with the directors of the company, have been examining all alternatives including the sale of the company or various parts of the company and hope to make progress on this in 2007.

**SIMTEK Corp. (OTC: SMTK)** appreciated approximately \$2.7 million for the fiscal year. In September 2006 your Company invested \$500,000 into a follow-on round of common and warrants. Simtek engages in the design and marketing of re-programmable and nonvolatile semiconductor memory products. The company is performing well as reflected in their fourth quarter and annual results. In Q4, gross margins increased to 45% from just 25% a year ago and 40% in Q3 2006. Furthermore, the company anticipates gross margins to increase to 50% by the end of 2007. For Q4 of 2006, product revenue increased by 227% and 175% for the year. The company also posted a profit of \$598,000 against a loss of \$1.8 million in Q4 of the previous year. For 2007 the company expects product revenue growth of between 60% to 75%.

### **CaminoSoft Corp. (OTC: CMSF)**

CaminoSoft experienced an unrealised loss of approximately \$2 million for the fiscal year. The business has not developed as expected due to long sale cycle times and the inability to develop enterprise level solutions. Your Manager is committed to finding alternative opportunities for this entity.

The company we experienced the largest decline in was **Gasco Energy (AMEX: GSX)**. As you may recall, we fortuitously sold approximately 40% of our position in Gasco in December of 2005 when the stock was trading above \$7.00 per share, realising a return of 728%. During the year ended 31 March 2007, the stock declined from \$5.60 per share to \$2.44. Much of the decline was caused by the decline of natural gas prices. Nevertheless the current position is still up 212% from cost and we believe as the company

continues to execute its drilling program the stock will begin to recover. On 28 February Gasco reported 2006 results with total revenues up 52% to a record \$25.7 million. Net cash provided by operating activities for 2006 was a record \$9.4 million as compared with \$2.1 million in 2005, an increase of 348%. The capital budget for 2007 is anticipated to be \$40 million to drill ten net wells and to install associated pipeline infrastructure.

### **Revaluation of e-Original Holdings**

Due to a new appraisal on unquoted eOriginal, it became necessary to write down the value by approximately 43% of its value, or approximately \$1.6 million. Nevertheless, eOriginal owns unique and defensible intellectual property and continues to make significant progress. eOriginal provides enterprise software solutions that enable enterprises to execute secure business transactions consisting of legally enforceable electronic documents that completely replace paper as the essential source records. There is a tremendous growing awareness in various vertical markets of their products and we are beginning to see an increasing amount of adoption in mortgages, leasing and automobile finance. Two top US banks have entered into agreements to license the company's "Vault-in-a-Box" technology. One of the largest leasing companies in the world is close to adopting their technology as well. We feel confident that in time eOriginal will become a big success.

## New investments

During the year, your Company made over \$13 million in new investments into 12 new portfolio companies. The companies, with a brief description of their business, are as follows:

### **American Oriental Bioengineering**

**(NYSE: AOB)** engages in the development, manufacture, and commercialisation of plant-based pharmaceutical products. The company is based in Shenzhen, China.

### **China Security & Surveillance**

**Technology (OTC: CSCT)** engages in the manufacture, distribution, installation and maintenance of security and surveillance systems, as well as in the development and integration of related software in China.

### **Duoyuan Digital Printing Technology, Inc. (Quote expected early Q3 2007)**

In October of 2006 your Company invested \$1.5 million in Duoyuan Digital Printing Technology. Duoyuan is the largest non-government owned manufacturer of commercial printing equipment in China. Duoyuan is going public through a reverse merger with public shell **Asian Financial Inc.** The company filed a form S-1 with the Securities and Exchange Commission on 22 March 2007. The company will become quoted as soon as the registration statement is declared effective. We anticipate trading to commence during early Q3 of 2007. For the three months ending 31 December 2006, Duoyuan reported revenues of \$21.4 million and net income of \$5.8 million.

**Hanwei Energy Services Corp. (TSX: CDNX)** engages in the manufacture and sale of fiberglass-reinforced plastic pipes for the oil and gas sector in China and other parts of Asia.

### **Pipeline Data Inc. (OTC: PPDA)**

provides merchant payment processing services and related software products in the US. It provides credit and debit card-based payment processing solutions primarily to small to medium sized merchants over the Internet, or in mobile, or wireless settings through cellular-based wireless devices.

### **Points International, Ltd (PTS: TSX)**

provides information technology solutions to the loyalty industry globally. It owns and operates Points.com, a reward program management portal that enables consumers to earn, buy, gift, share, swap and redeem miles and points with various loyalty programs and retail partners worldwide.

### **Quintana Maritime Limited**

**(NASDAQ: QMAR)** provides dry-bulk marine transportation services worldwide. Its dry-bulk carriers transport various cargoes, including coal, iron ore and grain.

### **Shea Development Corp. (OTC: SDLP)**

In early March of 2007, former private company Information Intellect was reverse merged into a public shell named Shea Development Corp. A new experienced entrepreneurial chief executive officer has revised the company's strategy to become a leader in the business process automation and content delivery sector. On 26 April 2007 Shea Development announced the acquisition of Bravera, Inc. Bravera provides robust business processing management and content management software deployed to over 80,000 users worldwide. Shea Development has also announced an agreement to acquire Riptide Software, an enterprise grade custom software and systems development company with a strong track record of delivering mission-critical, zero defect engagements to government and commercial customers. The company plans to make additional acquisitions during the course of 2007.

### **Silverleaf Resorts (AMEX: SVL)**

engages in the development, marketing, and operation of getaway and destination timeshare resorts in the US.

### **Shine Media Acquisition Corp. (OTC: SHNDU)**

is a special purchase acquisition company formed to acquire direct or indirect ownership through a merger, capital stock exchange, asset or stock acquisition or other similar business combination, or control through contractual arrangements, of one or more operating businesses in the media and advertising industry with their principal operations and business in China.

## Manager's review

(continued)

**Skystar Bio-Pharmaceutical Company (OTC: SKBI)** engages in the research, development, production, marketing and sale of bio-pharmaceutical and veterinary products in the People's Republic of China. It offers bio-pharmaceutical veterinary vaccine, veterinary medicines, feed additives and micro-organism products to cure and prevent diseases in poultry, livestock, birds and pets.

**Symbollon Pharmaceuticals Inc. (OTC: SYMBA)** engages in the development and commercialisation of iodine-based products for infection control and treatment in biomedical and bioagricultural industries in the US.

**Wonder Auto Technology Inc. (OTC: WATG)** is a leading manufacturer of electrical automotive parts products, specifically alternators and starters.

### New and follow-on investments

#### New investments

Company	Sector	Cost US\$	Instrument
American Oriental Bioengineering China Security & Surveillance Technology	Pharmaceuticals Electronic equipment	690,005 1,000,000	Common stock Common stock and warrants
Duoyuan Digital Printing Technology	Printing machinery	1,500,000	Common stock
Hanwei Energy Services Corporation	Oil and gas services	1,075,000	Common stock
Pipeline Data	Business services	1,500,000	Convertible debenture and warrants
Points International	Internet software	1,194,000	Common stock
Quintana Maritime	Shipping	1,341,344	Common stock
Shine Media Acquisition Corporation	Media	1,500,000	Units – common stock and warrants
Silverleaf Resorts	Travel & leisure	1,910,000	Common stock
Skystar Bio-Pharmaceutical Company	Biotechnology	1,000,000	Convertible debenture and warrants
Symbollon Pharmaceuticals	Biotechnology	250,000	Common stock and warrants
Wonder Auto Technology	Automobile parts	750,000	Common stock
<b>Total</b>		<b>13,710,349</b>	

The portfolio's largest allocation at 31 March 2007 was cash and cash equivalents at 17.5%. This was due to the sale of Laserscope as well as several energy holdings. Last year energy stocks

represented approximately 32% of the portfolio, while on 31 March 2007 energy represented approximately 11% of the portfolio. US traded Chinese companies represented 10.3% of the

portfolio at the end of March 2006 and 24% at 31 March 2007. We continue to see some of the best investment opportunities coming from foreign educated Chinese entrepreneurs.

**Realised gains**

<b>Company</b>	<b>Cost</b>	<b>Proceeds</b>	<b>Gain</b>	<b>Return</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>%</b>
Access Integrated Technologies	176,495	443,048	266,553	151
Canadian Superior Energy	1,012,944	1,214,817	201,873	20
Carrizo Oil & Gas	313,496	1,095,246	781,750	249
Denbury Resources	302,989	1,077,568	774,579	255
Exploration Company of Delaware	1,489,307	3,717,778	2,228,471	149
Franklin Covey	161,052	975,992	814,940	506
Laserscope	742,500	18,600,000	17,857,500	2,405
Metasolv	210,838	304,970	94,132	45
Petrohawk Energy	1,316,060	1,939,659	623,599	47
Progressive Gaming	1,116,798	1,552,599	435,801	39
Range Resources	528,308	1,637,631	1,109,323	210
Seitel	514,771	1,850,000	1,335,229	259
<b>Total</b>	<b>7,885,558</b>	<b>34,409,308</b>	<b>26,523,750</b>	<b>336</b>

**Realised losses**

<b>Company</b>	<b>Cost</b>	<b>Proceeds</b>	<b>Loss</b>	<b>Return</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>%</b>
Point North Energy	569,445	510,471	(58,974)	(10)
Prairie Schooner	241,651	195,288	(46,363)	(19)
Pyr Energy	1,344,127	1,111,820	(232,307)	(17)
TOR Minerals	657,500	510,851	(146,649)	(22)
<b>Total</b>	<b>2,812,723</b>	<b>2,328,430</b>	<b>(484,293)</b>	<b>(17)</b>
<b>Net realised gains</b>	<b>10,698,281</b>	<b>36,737,738</b>	<b>26,039,457</b>	<b>243</b>

Your Company had net realised gains of \$26 million during the year. Listed above, most of the net realised gains resulted from the sale of Laserscope as well as the final sales of several oil and gas positions.

**Future prospects**

We begin the new year with substantial liquidity and are optimistic about the next twelve months. As always, we are focused on partnering with successful entrepreneurs. History has clearly shown that investment results are superior when

investing through entrepreneurial managers as opposed to hired professional managers. We also focus our efforts on sourcing quality deal flow, making sure we are seeing the best possible investment opportunities in small emerging companies. Your Manager will continue to focus on what we do best, which is bottom-up analysis on small individual companies. We will continue to find new opportunities, endeavor to add value to the existing portfolio companies and finally we will endeavor to realise

value at the appropriate time when investments have matured.

**Russell Cleveland**

RENN Capital Group, Inc.

Dallas, Texas

4 June 2007

## Investment portfolio

as at 31 March 2007

	Sector	Book cost US\$'000	Market value		% of net assets
			US\$'000	£'000	
<b>Corporate investments</b>					
<i>US Treasury Bills</i>					
USA Treasury Bills 19/04/07	US Treasury Bills	17,930	17,930	9,142	14.70
<b>Total US Treasury Bills</b>		<b>17,930</b>	<b>17,930</b>	<b>9,142</b>	<b>14.70</b>
<i>US unlisted convertible debentures</i>					
Consolidated Energy	Energy	786	786	400	0.64
iLinc Communications	Technology services	500	500	255	0.41
Integrated Security Systems	Security services	1,150	1,150	586	0.94
Interpool	Leasing	375	375	191	0.31
Obsidian Enterprises	Diversified manufacturing and services	225	225	115	0.18
Pipeline Data	Business services	1,500	1,500	765	1.23
SIMTEK Corporation	Engineering	900	2,328	1,187	1.91
Skystar Bio-Pharmaceutical Company	Biotechnology	1,000	1,400	714	1.15
<b>Total US unlisted convertible debentures</b>		<b>6,436</b>	<b>8,264</b>	<b>4,213</b>	<b>6.77</b>
<i>US unlisted loan notes</i>					
CaminoSoft Corporation	Network storage	350	350	178	0.29
Consolidated Energy	Energy	–	137	70	0.11
Integrated Security Systems – 7% promissory	Security services	200	200	102	0.16
Integrated Security Systems – 8% promissory	Security services	1,550	1,550	790	1.27
OneLink Corporation	Internet software	500	15	8	0.01
<b>Total US unlisted loan notes</b>		<b>2,600</b>	<b>2,252</b>	<b>1,148</b>	<b>1.84</b>
<i>US unlisted convertible preference shares</i>					
Anchorfree*	Wireless communications	500	500	255	0.41
Celsia Technologies (formerly iCurie Lab Holdings)	Commercial services	526	103	52	0.09
Digital Recorders	Information technology	125	63	32	0.05
eOriginal Holdings*	Internet software	6,142	1,782	909	1.47
Gardant Pharmaceuticals	Biotechnology	500	17	9	0.01
i2 Telecom International	Telecommunications	619	113	58	0.09
iLinc Communications	Technology services	200	264	135	0.22
Integrated Security Systems	Security services	150	23	12	0.02
Ronco Corporation	Consumer products	1,061	36	18	0.03
Zhongpin	Food processing	1,500	2,768	1,411	2.27
<b>Total US unlisted convertible preference shares</b>		<b>11,323</b>	<b>5,669</b>	<b>2,891</b>	<b>4.66</b>

		Book cost	Market value		% of net
	Sector	US\$'000	US\$'000	£'000	assets
<b>Corporate investments (continued)</b>					
<i>US unlisted equities</i>					
Duoyuan Digital Printing Technology/ Asian Financial	Printing machinery	1,500	1,500	765	1.23
Shea Development Corporation	Software	1,973	2,135	1,088	1.75
<b>Total US unlisted equities</b>		3,473	3,635	1,853	2.98
<i>US unlisted warrants</i>					
Advance Nanotech	Technology	–	1	–	0.00
CaminoSoft Corporation	Network storage	–	6	2	0.00
China Security & Surveillance Technology	Electronic equipment	–	753	384	0.62
Consolidated Energy	Energy	–	29	15	0.02
Cover-All Technologies	Information technology	–	46	23	0.04
Dyadic International	Pharmaceuticals & biotechnology	–	288	147	0.24
eOriginal Holdings*	Internet software	–	112	57	0.09
Exploration Company of Delaware	Natural resources	–	551	281	0.45
Express-1 Expedited Solutions (formerly Segmentz)	Industrial transportation	–	16	8	0.01
Fushi International	Industrial manufacturing	–	1,043	532	0.86
Global Access Corporation	Commercial services	–	109	55	0.09
i2 Telecom International	Telecommunications	–	4	2	0.00
Integrated Security Systems	Security services	–	4	2	0.00
Intrusion	Systems software	–	7	4	0.01
Inyx	Drug delivery systems	–	224	115	0.18
Pipeline Data	Business services	–	189	96	0.15
SIMTEK Corporation	Engineering	–	108	55	0.09
Symbollon Pharmaceuticals	Biotechnology	–	82	42	0.07
Terra Nova Financial Group (formerly Rush Financial Technologies)	Financial services	–	350	179	0.29
Zhongpin	Food processing	–	882	450	0.71
<b>Total US unlisted warrants</b>		–	4,804	2,449	3.92
<i>Canadian listed equities</i>					
Arapahoe Energy Corporation	Oil and gas services	592	63	32	0.05
Dejour Enterprises	Oil and gas services	750	1,734	884	1.42
GEOCAN Energy	Natural resources	750	667	340	0.55
Hanwei Energy Services Corporation	Oil and gas services	1,075	926	472	0.76
Points International	Internet software	1,194	1,720	877	1.41
<b>Total Canadian listed equities</b>		4,361	5,110	2,605	4.19

## Investment portfolio

as at 31 March 2007 (continued)

		Book cost	Market value		% of net
	Sector	US\$'000	US\$'000	£'000	assets
<b>Corporate investments (continued)</b>					
<i>US listed equities</i>					
Access Integrated Technologies	Software & computer services	994	1,343	685	1.10
Access Plans USA (formerly Precis)	Consumer services	2,669	1,880	959	1.54
AdStar	Advertising services	350	641	327	0.53
Advance Nanotech	Technology	330	82	42	0.07
American Oriental Bioengineering	Pharmaceuticals	690	939	479	0.77
Aventine Renewable Energy Holdings	Energy	1,513	1,890	964	1.55
Bovie Medical Corporation	Healthcare services	1,761	7,100	3,620	5.83
CaminoSoft Corporation	Network storage	3,945	631	322	0.52
Cano Petroleum	Oil and gas services	1,250	1,365	696	1.12
China Agritech	Agriculture	900	1,044	532	0.85
China BAK Battery	Commercial manufacturing	1,249	650	331	0.53
China-Biotics	Biotechnology	250	922	470	0.76
China Security & Surveillance Technology	Electronic equipment	1,000	4,671	2,382	3.83
Comtech Group	Information technology	1,804	8,740	4,456	7.16
Consolidated Energy	Energy	92	14	7	0.01
Cover-All Technologies	Information technology	1,152	4,521	2,305	3.71
Digital Learning	Communications	–	10	5	0.01
Digital Recorders	Information technology	218	152	77	0.12
Dyadic International	Pharmaceuticals & biotechnology	750	1,423	726	1.17
Express1-Expedited Solutions (formerly Segmentz)	Industrial transportation	1,355	1,320	673	1.08
Fushi International	Industrial manufacturing	1,000	2,904	1,481	2.38
Gaming & Entertainment Group	Casino services	500	12	6	0.01
Gasco Energy	Natural resources	1,126	3,518	1,793	2.88
Global Axxess Corporation	Commercial services	2,012	513	261	0.42
Harken Energy	Natural resources	3,250	489	249	0.40
Hemobiotech	Biotechnology	1,890	3,420	1,744	2.80
i2 Telecom International	Telecommunications	36	34	18	0.03
iLinc Communications	Technology services	62	66	34	0.05
Integrated Security Systems	Security services	5,908	3,861	1,969	3.17
Inyx	Drug delivery systems	300	765	390	0.63
OmniVision Technologies	Information technology	1,036	1,296	661	1.06
OneLink Corporation	Internet software	263	10	5	0.01
PracticeXpert	Medical services	750	10	5	0.01
Pro-Dex	Healthcare services	622	288	147	0.24
Quintana Maritime	Shipping	1,341	2,424	1,236	1.99
Shine Media Acquisition Corporation (units)	Media	1,500	1,540	785	1.26
Silverleaf Resorts	Travel & leisure	1,910	2,325	1,185	1.91
SIMTEK Corporation	Engineering	1,793	3,639	1,855	2.98
Symbolon Pharmaceuticals	Biotechnology	250	238	121	0.19
Terra Nova Financial Group (formerly Rush Financial Technologies)	Financial services	750	1,150	586	0.94

	<b>Sector</b>	<b>Book cost</b>	<b>Market value</b>		<b>% of net</b>
		<b>US\$'000</b>	<b>US\$'000</b>	<b>£'000</b>	<b>assets</b>
<b>Corporate investments</b> <i>(continued)</i>					
US Home Systems	Home remodelling	536	1,403	715	1.15
Vaso Active Pharmaceuticals	Drug delivery systems	250	143	73	0.12
Wonder Auto Technology	Automobile parts	750	1,670	851	1.37
Zhongpin	Food processing	–	228	117	0.19
<b>Total US listed equities</b>		50,107	71,284	36,345	58.45
<b>Total corporate investments</b>		96,230	118,948	60,646	97.51
Net current assets			3,032	1,546	2.49
<b>Net assets</b>			121,980	62,192	100.00

In addition, the Company also holds the following stocks valued at nil: Celsia Technologies (warrants), Gaming & Entertainment Group (warrants), Gardant Pharmaceuticals (warrants), Obsidian Enterprises (warrants), PracticeXpert (warrants), Skystar Bio-Pharmaceutical Company (warrants), Outsource Parts (warrants), Career Engine Network (warrants), Cynat-Oncology (common stock) and Genaderm (common stock).

\* Unlisted convertible preference shares and warrants convert into unlisted common stocks

## Directors, Manager and Secretary

The Directors are:

**Ernest John Fenton** (Chairman), aged 68, appointed 8 May 1996, is a chartered accountant. He became a partner of W Greenwell & Co in 1972 and was chairman and chief executive of Greenwell Montagu Stockbrokers until 1993. He was director general of the Association of Investment Companies from 1993 to 1997. He is also a director of US Special Opportunities Trust PLC.

**Andrew Charles Barker**, aged 62, appointed 10 March 2005, has spent his career in investment management after joining F & C Management Ltd in 1970. He was responsible for F & C Management Ltd's North American Investments from 1985 until his retirement in 2000. He is chairman of British Portfolio Trust plc, International Biotechnology Trust plc, JP Morgan Midcap plc and Morant Wright Japan Income Trust Ltd. He is a non-executive director of Utilico Investment Trust plc.

**Steven Andrew Ralph Bates**, aged 49, appointed 27 January 2005, was head of global emerging markets at JP Morgan Fleming until 2002. He is a director of Zephyr Management UK Ltd, an FSA regulated investment business investing in emerging markets, and an investment adviser to Cardiff & Vale of Glamorgan Pension Fund. He is a member of the governing body of Kosovo Pensions Savings Trust. His non-executive directorships include Baring Emerging Europe plc, Magna Umbrella Fund plc, British Empire Securities and General Trust plc, Novy Neft Ltd (Bermuda), Occo Eastern Europe Fund and Occo Latin American Fund.

**George Russell Cleveland**, aged 68, appointed 24 April 1996, is president and chief executive of the Company's Manager, RENN Capital Group, Inc., which he founded in 1973. He is a director of a number of US public companies including Integrated Security Systems, Inc., Renaissance Capital Growth & Income Fund III, Inc., Digital Recorders, Inc., Cover-All Technologies, Inc., Tutogen Medical Inc., Caminosoft Corp. and Access Plans USA, Inc.

**Clarence Ainsworth Rundell Jr.**, aged 75, appointed 23 April 1996, has been a private investor and financial consultant, doing business as Rundell Enterprises, since May 1988. From 1977 to 1988, Mr Rundell was the president, chief executive and director of Cronus Industries, Inc. He was previously chief executive of Tyler Corporation from October 1996 to December 1998 and was chairman of NCI Building Systems, Inc. from April 1989 to July 2000. Mr Rundell is currently chairman of Integrated Security Systems, Inc.

**William Weeks Vanderfelt**, aged 64, appointed 2 August 1996, was a managing partner of Petercam SA, the largest independent member firm of the Brussels Stock Exchange until 31 December 2001. He is also a director of Compagnie Immobilière de Belgique, US Special Opportunities Trust PLC, Vietnam Opportunity Fund, USI Group Holdings AG and Apace Media PLC.

### Manager

RENN Capital Group, Inc. is an investment management company based in Dallas, Texas with a thirty-four year track record of investing principally in US smaller companies. It was founded in 1973 by Russell Cleveland, one of the Company's Directors. The firm concentrates on US smaller companies where it considers that potential earnings growth, attractive valuations and the availability of proportionately larger investment positions provide the opportunity for outperformance.

### Secretary

Capita Sinclair Henderson Limited provides company secretarial and administrative services for the Company. It provides similar services for a number of other investment trusts. Capita Sinclair Henderson Limited is a subsidiary undertaking of The Capita Group Plc.

## Report of the Directors

The Directors present their report and accounts for the year ended 31 March 2007.

The Company was incorporated on 19 January 1996 and commenced trading on 29 May 1996.

### Business review

#### The business of the Company

The principal activity of the Company is to conduct business as an investment trust. The Company is an investment company in accordance with the provisions of Section 266 of the Companies Act 1985. The Directors do not envisage any change in the Company's activity in the future.

The Company has received written approval from H.M. Revenue & Customs as an authorised investment trust, under Section 842 of the Income and Corporation Taxes Act 1988, for the year ended 31 March 2006. It is the opinion of the Directors that the Company has subsequently directed its affairs so as to enable it to continue to qualify for such approval and the Company will continue to seek approval under Section 842 each year. The Company will distribute to its shareholders not less than 85% of eligible investment income.

The Company's status as an investment trust allows it to obtain an exemption from paying taxes on the profits made from the sale of its investments. Investment trusts offer a number of advantages for investors, including access to investment opportunities that might not be open to private investors

and to professional stock selection skills at low cost.

The Company's investment objective is to achieve capital growth and outperform its benchmark, the Russell 2000 Index. The Company invests primarily in privately placed common stock, preferred stock and convertible debentures issued by quoted US listed companies which generally have market capitalisations of less than \$500 million at the time of investment, although from time to time the Company also invests in unlisted US companies with similar characteristics. It is the Company's policy not to invest in UK listed investment companies, including listed investment trusts. The Directors do not envisage any major changes in the Manager's investment approach in the foreseeable future.

The Company's Manager, RENN Capital Group, is based in Dallas and has a thorough understanding of the US economic climate, plus a thirty-four year track record in identifying growth opportunities in US smaller companies. The Manager's thoughts on the US small company sector and the US economy in general are detailed in the Manager's review on pages 6 to 11.

The Company's Articles of Association provide for shareholders to consider the continuation of the Company annually at each Annual General Meeting.

### Results and dividend

The results for the year and the proposed transfer from revenue reserves are set out in the Income statement on page 30. The Directors do not recommend that a dividend be paid in respect of the year ended 31 March 2007 (2006: nil).

### Principal risks associated with the Company

Risks associated with investing in the Company include, but are not limited to, liquidity/marketability risk, interest rate risk, gearing risk, foreign currency risk, market price and discount volatility risk, risk associated with non compliance with Section 842 of the Income and Corporation Taxes Act, credit risk, risks associated with the engagement of third parties and the risk that shareholders will not vote in favour of the continuation of the Company.

#### Liquidity/marketability risk

The Company is exposed to the US equity markets and could therefore be affected by a decline in the US equity markets as a whole. Furthermore, a large proportion of the stocks in which the Company invests are, by their very nature, less readily marketable than, for example, blue-chip UK equities.

Additionally, the returns associated with specific investment styles are cyclical and it is possible that the Manager's investment style could fall out of favour. The Investment Manager is committed to

## Report of the Directors

(continued)

investing in small and micro-cap companies, and attempts to manage liquidity risk by monitoring the trading volume of the stocks in which the Company invests. The Board closely monitors the performance of the Company through quarterly Board meetings and the review of monthly management accounts. The Manager monitors the value of the Company's underlying securities on a daily basis.

### *Interest rate risk*

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. The Company is invested primarily in equities, but it does hold some fixed income securities, most of which are convertible to common stock (equity). The benefit of a convertible debenture is that, if a portfolio company becomes troubled, the Company is protected through its position as a creditor. Alternatively, if the portfolio company performs well, the Company can participate in the upside by converting to common stock. Nonetheless, the Manager monitors interest rate risk on a regular basis.

### *Gearing risk*

As at 31 March 2007, and as at the date of this report, the Company did not have any borrowings. However, the Company is permitted to employ gearing, a process whereby funds are borrowed primarily for the purpose of purchasing securities, should the Board feel that it is appropriate to do so. The use of gearing can cause both gains and losses in the asset value of the Company to be magnified. If the Company were to use gearing, it would be with an understanding of the risks involved.

### *Foreign currency risk*

The Company invests in US stocks and its assets are therefore subject to fluctuations in the US Dollar: Sterling exchange rate. It is not the Company's policy to hedge the currency risk between the US Dollar and Sterling. Thus, the Manager does not manage currency risk.

### *Market price risk and discount volatility*

Since the Company invests in financial instruments, market price risk is inherent in these investments. The Company itself, being a closed-end fund, generally trades at a discount to its 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 Company's discount levels on a twice weekly basis and can use the Company's powers to buy back shares should it be thought appropriate to do so. No shares were bought back during the year ended 31 March 2007.

The Directors have also employed an investor relations firm which actively markets the Company and retain a Corporate Broker that can be consulted, if necessary. Furthermore, the Company seeks to manage discount volatility through active communication with its shareholders.

### *Compliance with Section 842 of the Income and Corporation Taxes Act*

If the Company did not comply with the provisions of Section 842, it would lose its investment trust status. In order to minimise this risk, the Directors, the Manager and the Company Secretary monitor the Company's compliance with the key criteria of Section 842 on a monthly basis. On a quarterly basis, compliance with these provisions is discussed in detail between the Board

and the Investment Manager and, furthermore, the Investment Manager provides the Board with a quarterly assurance that, to the best of its knowledge, the provisions of Section 842 relating to investments have been adhered to during the period.

### *Credit risk*

The Company invests in debentures. It is possible that such investee companies might default on these debentures or wind-up prior to their repayment. The Board does not consider this to be a major risk to the Company, as a diversified portfolio is maintained. Nonetheless, the Manager monitors the credit risk of the Company's portfolio companies on an on-going basis.

### *Risks associated with the engagement of third parties*

There are a number of potential operational risks associated with the fact that third parties undertake the Company's administration and custody of assets. Most seriously, there is the risk that third parties could fail to ensure that statutory requirements, such as the Companies Act and the rules of the London Stock Exchange, are complied with.

### *Risks associated with the annual continuation vote*

The Articles of Association currently provide for shareholders to vote for the continuation of the Company at each Annual General Meeting. While the Directors do not think it is likely, it is possible that the shareholders might vote against the continuation of the Company. Furthermore, should the continuation vote not be passed, the illiquid nature of some of the Company's investments means that it is likely to take a considerable length of time to dispose of the portfolio in its entirety.

Through the Investment Manager, the Company's Stockbroker and its investor relations advisers, the Board ensures that excellent communication regarding the Company's performance and long-term direction is maintained with major shareholders, whose opinions are duly considered by the Board.

#### *Further information on risk*

Further information regarding certain of these risks is included in note 15 to the accounts: Analysis of financial assets and liabilities. Information regarding the Company's risk review procedures may also be found under 'Internal control review'.

Further details of the Investment Manager's investment approach and the performance for the year are included in the Chairman's statement and the Manager's review.

#### **Future developments and events subsequent to the year end**

The Directors are seeking to renew the Company's powers to purchase its own shares and to issue new shares at the forthcoming Annual General Meeting. The Board has no immediate intention to utilise these powers, but may do so during the year if it becomes evident that to do so would be in shareholders' best interests.

#### **Directors**

The Directors in office during the year are as shown on page 16. Details of each Directors' status as independent or non-independent and of forthcoming re-elections and retirements can be found on pages 20 to 22 in the corporate governance statement.

#### **Management agreement**

The Company's investments are managed by RENN Capital Group, Inc. under an agreement dated 17 May 1996, as amended. The management fee is calculated at the rate of 0.125% per calendar month (exclusive of any VAT) of the net asset value of the Company and is payable quarterly in arrears. No management fee is payable on any cash or near cash investments held by the Company. RENN Capital Group is also entitled to an annual performance fee equivalent to 20% of the amount by which the net asset value of the Company at the year end, together with gross dividends paid or distributions made, exceeds the net asset value of the Company at the preceding financial year and as increased or decreased in line with the movement in the Russell 2000 Index over the same period. No performance fee will be payable in respect of any year where the net asset value is less than either the placing price or the net asset value at the end of the preceding financial year. This year no performance fee was payable.

Further details of the Manager's fees are given in note 3 to the accounts.

#### **Appointment of RENN Capital Group, Inc. as Manager**

Through the Management Engagement Committee, the independent Directors keep under review the performance of the Manager. In the opinion of the Directors the continuing appointment of RENN Capital Group, Inc. as Manager, on the terms outlined in the Management Agreement dated 17 May 1996, as amended, is in the best interests of shareholders as a whole. The Company's net asset value performance since inception when compared to its benchmark, the Russell 2000 Index, has been excellent. While the Company did

not out-perform this benchmark for the year ended 31 March 2007, the Board is not unduly concerned by this, as long-term performance is considered to be more important in view of the long-term nature of Company's investments. During the year, the Manager has added additional professional staff to its team and continued to operate a robust investment process, which the Board believes will deliver the Company's objective of capital growth.

The agreement may be terminated by either party giving to the other not less than twelve months' notice in writing at any time. No additional compensation is payable to the Manager in the event of termination.

#### **Secretarial agreement**

Under an agreement dated 8 May 1996, company secretarial services and the general administration of the Company are undertaken by Capita Sinclair Henderson Limited for a fee for the year to 31 March 2007 of £51,480 (2006: £50,292), subject to an annual review based on the UK Retail Price Index. The agreement may be terminated by either party giving to the other not less than twelve months' notice at any time.

#### **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 take place and it is our policy to abide by those terms. All supplier invoices received by 31 March 2007 had been paid (2006: none outstanding).

## Report of the Directors

(continued)

### Directors' beneficial and family interests

The interests of the Directors in the Ordinary shares of the Company are set out below:

	<b>Number of Ordinary shares at 31 March 2007</b>	Number of Ordinary shares at 1 April 2006
E J Fenton	<b>50,000</b>	50,000
A C Barker	<b>35,000</b>	20,000
S A R Bates	<b>12,500</b>	12,500
G R Cleveland	<b>180,004</b>	180,004
C A Rundell, Jr.	<b>55,000</b>	55,000
W W Vanderfelt	<b>1,125,000</b>	1,125,000

There have been no changes to any of the above holdings between 31 March 2007 and the date of this report.

### Substantial shareholdings

In accordance with Chapter 5 of the FSA Disclosure and Transparency Rules, (or, if prior to 20 January 2007, the Companies Act 1985) the Directors had been informed of the following notifiable interests in the Company's voting rights as at the date of this report:

	Number of voting rights held	% of total issued voting rights
East Riding of Yorkshire Council	2,000,000	10.35
Universities Superannuation Scheme Ltd	1,940,000	10.04
HBOS plc	1,751,940	9.06
New Star Asset Management Ltd	1,250,000	6.47
Friends Provident Life Office		
– includes 730,000 (3.73%) held by Friends Provident Corporate Pensions	1,210,000	6.26
W W Vanderfelt	1,125,000	5.82
Reliance Mutual Insurance Society	800,000	4.14

### Corporate governance statement

Throughout the year ended 31 March 2007, the Directors have ensured that the Company has complied with the AIC Code of Corporate Governance, as far as is appropriate for the Company. The Financial Reporting Council considers that members of the Association of Investment Companies ("AIC") who follow the 2006 AIC Code of Corporate Governance ("AIC Code"), will thereby be meeting their obligations to comply with the Combined Code and report to shareholders accordingly.

### The Board

The Board currently consists of six Directors, all of whom are non-executive and whose biographies appear on page 16. The terms and conditions of the appointment of the non-executive Directors are formalised in letters of appointment, copies of which are available for inspection from the Registered Office of the Company and will be available at the Annual General Meeting. None of the Directors had a service agreement with the Company as at 31 March 2007.

The Board has agreed arrangements whereby Directors may take independent professional advice in the furtherance of their duties and the Company has directors' & officers' liability insurance to cover legal defence costs.

In accordance with the Company's Articles of Association one third of the Directors are required to retire at each Annual General Meeting. The Board does not consider it appropriate that Directors be restricted to serving on the Board for a limited number of years and believe that the long-serving Directors of the Company bring extensive knowledge and experience to the Board. Given the size and nature

of the Company, it is not considered necessary to appoint a senior independent director. The Company does not have a chief executive officer, but in appointing a management company the roles of chairman and chief executive officer are effectively separated.

#### *Board balance and independence*

Mr Cleveland is president and chief executive of RENN Capital Group, Inc. and as such is interested in the Management Agreement. His other directorships include CaminoSoft Corporation, Cover-All Technologies Inc, Digital Recorders Inc, Precis, Inc. and Integrated Security Systems Inc., in which the Company has interests. None of the Directors has a contract of service with the Company nor, save as disclosed below, has there been any other contract or arrangement between the Company and any Director at any time during the year.

Mr Rundell is chairman of Integrated Securities Systems, which is considered to be an associate company, as your Company owns over 20% of its voting shares. Further details regarding its status as an associated company are included in note 7 to the accounts. Mr Rundell also has a significant shareholding in that company. None of the other Directors, nor any persons connected with them, had a material interest in any of the Company's transactions, arrangements or agreements during the year.

For the reasons set out above, Messrs Cleveland and Rundell are not deemed to be independent Directors.

All of the other Board members are considered by the Board to be independent. In making this statement the Board has noted the common-directorships of Mr Fenton and Mr Vanderfelt, which are set out below, and concluded that these do not affect their objective judgement.

Mr Fenton and Mr Vanderfelt are also directors of US Special Opportunities Trust PLC to which Renn Capital Group, Inc., the Company's Manager, and of which Mr Cleveland is president, acts as investment adviser to the Manager of that trust. Additionally, Mr Vanderfelt has a significant shareholding in the Company, which is deemed to align his interests with that of the shareholders and therefore does not compromise his independence.

#### *Chairman*

The Chairman, Mr Fenton, is deemed by his fellow Directors to be independent in character and judgement and free of conflicts of interest. His common directorship with Mr Vanderfelt is not deemed to affect his judgement. He has no other significant commitments other than those disclosed in his biography on page 16.

#### *Re-election and retirement of Directors*

In accordance with the Company's Articles of Association, Andrew Barker and Steven Bates will this year retire by rotation and, being eligible, will offer themselves for re-election by shareholders at the forthcoming Annual General Meeting. In accordance with the FSA Listing Rules, Russell Cleveland will offer himself for re-election, as he is required to do so on an annual basis, due to his connection with RENN Capital Group, Inc.

In accordance with the AIC Code of Corporate Governance, Ernest Fenton and William Vanderfelt will offer themselves for re-election (and will now do so on an annual basis) each having now served on the Board for over nine years.

The Board strongly recommends that shareholders vote in favour of each of these Directors' re-elections for the following reasons:

Andrew Barker joined the Board on 10 March 2005. He has spent his entire career in investment with particular emphasis on the investment trust sector. He brings to your Company a wealth of experience gained not only on the boards of several other investment trusts, including the chairmanships of International Biotechnology Trust plc, British Portfolio Trust plc and JP Morgan Midcap plc, but also as the fund manager of Foreign and Colonial's North American portfolio. He is an important and valuable member of the Board.

Steven Bates has also had a long and varied career in the investment industry having been head of global emerging markets with JP Morgan Fleming and having served on the board of several other investment trusts. His expertise is both recent and highly relevant to your Company's portfolio. Steven will make a very significant contribution to the Board's deliberations for many years ahead.

Russell Cleveland has been a Director since the Company's launch and is president and chief executive of the Manager, RENN Capital Group, Inc. His fellow Directors believe that management representation enhances the quality and balance of skills, experience and knowledge present on the Board and ensures that management and shareholder interests are aligned through improved communication and,

## Report of the Directors

(continued)

particularly, Mr Cleveland's direct experience of the US economy in which the Company invests. Mr Cleveland is not entitled to remuneration for his work as a Director.

Ernest Fenton has been a Director of the Company since its launch in 1996 and was appointed Chairman on 28 May 2004. He is a chartered accountant and has extensive experience within the investment trust sector. Mr Fenton commits considerable time to the affairs of the Company and assumes an additional invaluable shareholder relations role, ensuring major shareholders and potential investors are given the opportunity to meet with the Manager at least annually. In his role as Chairman, Mr Fenton provides effective leadership enabling a Board with a successful blend of knowledge and experience to be constructive in and out of Board meetings.

William Vanderfelt has a wide experience of investment matters having spent many years with Petercam SA, the largest independent firm on the Brussels Stock Exchange until he retired as managing partner in 2001. His detailed knowledge of the investment scene internationally is of great benefit to the Board and his support for the Company is also reflected in his substantial investment in its shares.

C A Rundell has taken the decision to retire from the Board following the conclusion of the forthcoming Annual General Meeting. C A Rundell has served on the Board since 23 April 1996. His lifetime work in the US investment industry, coupled with substantial hands-on experience of running successful companies, gave the Board the benefit of his unique business experience. We take this opportunity to thank C A for his many words of well considered counsel and encouragement. We will miss him greatly and wish C A and his wife, Sylvia,

many years of happy and healthy retirement together.

### *Board operation*

The Directors meet at regular Board meetings, at least once every quarter, and additional meetings and telephone meetings are arranged as necessary. Three of the four quarterly meetings are held in the United Kingdom with one meeting a year held in the US to enable the Board to meet with the management teams of investee companies.

At their meetings the Directors follow a formal agenda to review the Company's investments and all other important issues to ensure that control is maintained over the Company's affairs. The procedures are formalised in a schedule of matters specifically reserved for the Board's approval.

During the year, a total of four Board meetings and two Board Committee meetings were held at which there was 100% attendance by all Directors either in person or by telephone conference link, which is considered cost-effective for Directors not resident in the UK. All Directors attended the Annual General Meeting held in July 2006 in person.

The Board is responsible for adherence to the investment policy and strategic and operational decisions of the Company. The Company's main functions are delegated to a number of service providers, each engaged under separate legal contracts. The management of the Company's portfolio is delegated to the Manager, who has discretion to manage the assets in accordance with the Company's objectives and policies. A representative from the Manager attends each Board meeting to present written and verbal reports on its activities and portfolio performance. The Board regularly reviews its overall strategy and, as discussed in

the business review, monitors the discount of the share price to net asset value, with a view to taking action if the discount reaches unacceptable levels.

### *Committees of the Board*

The Board has appointed a number of Committees, as set out below, to assist its operations. Each Committee's delegated responsibilities are clearly defined in formal terms of reference, which are available from the Company's Registered Office. Mr Fenton chairs each of the Committees and will be present at the Annual General Meeting.

#### *Audit Committee*

The Audit Committee is comprised of Mr Fenton, Mr Vanderfelt, Mr Barker and Mr Bates all of whom are deemed to be independent non-executive Directors.

The Committee provides a forum through which the Company's external Auditors report to the Board of Directors, makes recommendations to the Board on the remuneration and terms of appointment of the Auditors, and monitors the Auditors' independence, objectivity and effectiveness. The Committee met twice during the year, at which each member of the Committee was present.

#### *Management Engagement Committee*

The Management Engagement Committee is comprised of Mr Fenton, Mr Vanderfelt, Mr Barker and Mr Bates all of whom are deemed to be independent non-executive Directors. The Committee is responsible for reviewing the terms of the Management Agreement to assess the continuing appointment of the Manager. The Committee met once during the year at which each member of the Committee was present.

*Remuneration and Nomination Committee*

The Remuneration and Nomination Committee comprises the entire Board. The Committee monitors Board balance, considers new appointments with a view to making recommendations to the Board and keeps under review the policy for remuneration. A majority of Committee members are deemed to be independent. This Committee met once during the year, at which each member of the Committee was present.

Full details of the remuneration arrangements for Directors can be found in the Directors' remuneration report on pages 25 and 26.

*Performance evaluation*

A formal performance evaluation of the Board, its Committees, individual Directors and the Chairman was undertaken following the year end by verbal consultation. It was concluded that each Director continued to contribute effectively and that the Board as a whole continued to demonstrate a suitable balance of skill and expertise.

*Dialogue with shareholders*

The Directors are always available to enter into dialogue with shareholders. Communications from shareholders should be sent to the Company's registered office. All shareholders are encouraged to attend and vote at the Annual General Meeting during which the Board and the Manager will be available to discuss issues affecting the Company.

Mr Fenton carries out an additional marketing role aimed at ensuring key investors are able to meet with the Manager at least once a year to discuss the performance of the Company and its portfolio companies.

The net asset value is released to the Stock Exchange on a bi-weekly basis and posted on the Manager's website, [www.rencapital.com](http://www.rencapital.com).

*Going concern*

As mentioned in the business review, the Company's Articles of Association require that a resolution proposing that the Company continues as an investment trust be put to shareholders annually. The Directors recommend that shareholders vote in favour of this resolution and believe that it will be passed due to Company's track record over the last five years. The Manager maintains continual contact with the Company's major shareholders. The Directors are therefore of the opinion that it remains appropriate to presume that the Company will continue in business for the foreseeable future and accordingly have continued to adopt the going concern basis in preparing the accounts.

No provision has been made for the costs of winding up the Company or liquidating its investments in the event that the continuation vote is defeated. The value which would be generated from the realisation of the Company's assets on a winding up cannot currently be estimated since this would be determined by investment markets and any unitisation and re-organisation proposal that the Board might propose to shareholders at that time.

*Internal control review*

The Board is responsible for establishing and maintaining the Company's system of internal control. Internal control systems 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 Directors have reviewed the effectiveness of the system

of internal control, including financial, operational and compliance controls and risk management. The key procedures which have been established to provide effective internal control are as follows:

- throughout the year under review and up until the time of writing, there has been an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process accords with guidance in the document "Internal Controls: Guidance for Directors on the Combined Code". This process is reviewed on a regular basis by the whole Board. The process involves reports from the Company Secretary on risk control and compliance, in conjunction with the Manager's regular reports which cover investment performance and compliance issues. In addition, the Board receives internal control statements from all the parties to which it delegates functions as listed below:
- investment management is provided by RENN Capital Group, Inc. The Board is responsible for setting the overall investment policy and monitors the action of the Manager at regular Board and investment meetings;
- Capita Sinclair Henderson Limited is responsible for the provision of administration and company secretarial duties for the Company;
- custody of the Company's assets is undertaken by Frost National Bank;
- 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;

## Report of the Directors

(continued)

- 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 and the Board monitors their ongoing performance and contractual arrangements;
- mandates for the authorisation of investment transactions and expense payments are set by the Board; and
- the Board reviews financial information produced by the Manager and the administrator in detail on a regular basis.

In accordance with guidance issued to directors of listed companies in December 1994, the Directors have carried out a review of the effectiveness of the system of internal controls as it has operated since 1 April 2006.

### International Accounting Standards

The Company is not required to produce consolidated accounts and therefore International Accounting Standards ("IAS") are not mandatory. The Board continues to monitor the developments of IAS and intends to continue to prepare accounts under UK Generally Accepted Accounting Principles ("UK GAAP").

### Special business at the Annual General Meeting

At the Annual General Meeting held on 24 July 2003, authority was given to the Directors to allot new shares up to an aggregate nominal amount equal to £1,673,084 in accordance with statutory pre-emption rights. This authority, which will expire on 24 July 2008, was not utilised during the year nor up to the date of this report. Therefore the Directors will not need to renew this authority at the forthcoming Annual General Meeting.

At the Annual General Meeting held last year, the Directors were granted the authority to allot new shares or shares out of treasury free from statutory pre-emption rights, up to an aggregate nominal amount of £483,300. This amount is equivalent to 10% of the issued shares. This authority was not used during the year but will expire on 10 July 2007. Therefore, the Directors will seek to renew this authority at the forthcoming Annual General Meeting; this is set out as Resolution 9 in the Notice of Meeting as a Special resolution. This authority will only be used if it is in the interests of all shareholders to do so.

The Directors will also be seeking the renewal of the authority to purchase up to 2,897,867 of the Company's own shares (representing 14.99% of the issued Ordinary shares as at the date of this report) in the market for a further year. This authority, set out as Resolution 10 as a Special resolution, will be exercised only if, having taken account of the likely impact on the financial position of the Company, the Directors are satisfied that any such purchase will be in the interests of shareholders.

As required by the Company's Articles of Association, an Ordinary resolution proposing that the Company continues as an investment trust will be put to shareholders at the Annual General Meeting. The Directors recommend that this resolution be adopted. This resolution is set out as Resolution 11.

### Auditors

KPMG Audit Plc has expressed its willingness to continue in office as Auditors and, in accordance with Section 385 of the Companies Act 1985, a resolution for its re-appointment will be proposed at the forthcoming Annual General Meeting.

### Statement as to Disclosure of Information to Auditors

The Directors who held office as at the date of approval of this Report of the Directors 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 steps that he ought to have been 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.

By order of the Board

**Capita Sinclair Henderson Limited**

Secretary

4 June 2007

## Directors' remuneration report

The Board has prepared this report, in accordance with the requirements of the Schedule 7A to the Companies Act 1985. An Ordinary resolution will be put to the members at the forthcoming Annual General Meeting to approve it.

The law requires your Company's Auditors to audit certain disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditors' opinion is included in their report on pages 28 and 29.

### Remuneration Committee

The Company has six non-executive Directors. The Remuneration and Nomination Committee fulfils the function of a remuneration committee. This Committee is comprised of all members of the Board. The Board has appointed the Company Secretary, Capita Sinclair Henderson Limited, to provide advice when the Directors consider the level of Directors' fees.

### Policy on Directors' fees

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other similar companies of a similar size, having a similar capital structure (ordinary shares and potential bank borrowings) and a similar investment objective (capital growth). It is intended that this policy will continue for the year ending 31 March 2008.

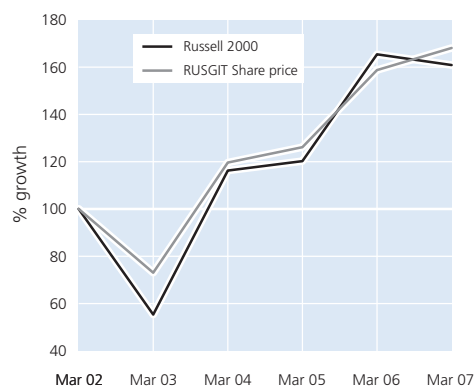
The fees of the non-executive Directors are determined within the limits set out in the Company's Articles of Association, and they are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

### Directors' service contracts

It is the Board's policy that none of the Directors has a service contract. The terms of their appointment provide that a Director shall retire and be subject to re-election at the first Annual General Meeting after his appointment, and at least every three years thereafter. The terms also provide that a Director may be removed without notice and that compensation will not be due on leaving office.

### Your Company's performance

The graph below compares the total return to Ordinary shareholders compared to the total shareholder return on a notional investment made up of shares of the same kinds and number as those by reference to which the Russell 2000 Index is calculated. The index was chosen for comparison purposes, as it is the benchmark used for investment performance measurement purposes.



## Directors' remuneration report

(continued)

### Directors' emoluments for the year\*

The Directors who served in the year received the following emoluments in the form of fees:

	2007	2006
	£	£
E J Fenton**	30,000	30,000
A C Barker	15,000	15,000
S A R Bates	15,000	15,000
G R Cleveland	–	–
C A Rundell, Jr	15,000	15,000
W W Vanderfelt	15,000	15,000

\* This information has been audited.

\*\* This includes additional fees for an extra shareholder relations and marketing role.

Mr Cleveland is not entitled to any remuneration.

### Approval

The Directors' remuneration report was approved by the Board of Directors on 4 June 2007.

### Ernest Fenton

Chairman

## Statement of Directors' responsibilities in respect of the accounts

The Directors are responsible for preparing the annual report 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 UK Accounting Standards.

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 judgments and estimates that are reasonable and prudent;
- state whether applicable UK 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 that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' report, Directors' remuneration report and corporate governance statement that comply with that law and those regulations.

## Report of the independent Auditors

To the members of Renaissance US Growth Investment Trust PLC

### Independent Auditors' report to the members of Renaissance US Growth Investment Trust PLC

We have audited the financial statements of Renaissance US Growth Investment Trust Plc for the year ended 31 March 2007 which comprise the Income statement, the Reconciliation of movements in shareholders' funds, the Balance sheet, the Statement of cash flows and the related Notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 annual report, the Directors' remuneration report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' responsibilities on page 27.

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

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

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not.

We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments 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 and the part of the Directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' remuneration report to be audited.

## Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2007 and of its total return for the year then ended;
- the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

## KPMG Audit Plc

Chartered Accountants

100 Temple Street

Bristol BS1 6AG

Registered Auditors

4 June 2007

## Income statement

for the year ended 31 March 2007

	Notes	2007			2006		
		Revenue	Capital	Total	Revenue	Capital	Total
		£'000	£'000	£'000	£'000	£'000	£'000
(Losses)/gains on investments	7	–	<b>(4,696)</b>	<b>(4,696)</b>	–	15,316	15,316
Exchange (losses)/gains on capital items	7	–	<b>(354)</b>	<b>(354)</b>	–	294	294
Income	2	<b>949</b>	–	<b>949</b>	376	–	376
Investment management fee	3	<b>(766)</b>	–	<b>(766)</b>	(861)	–	(861)
Other expenses	4	<b>(476)</b>	–	<b>(476)</b>	(398)	–	(398)
<b>Return before and after finance costs and before taxation</b>		<b>(293)</b>	<b>(5,050)</b>	<b>(5,343)</b>	(883)	15,610	14,727
Taxation on ordinary activities	5	<b>(3)</b>	–	<b>(3)</b>	(3)	–	(3)
<b>Return on ordinary activities after taxation for the financial year</b>		<b>(296)</b>	<b>(5,050)</b>	<b>(5,346)</b>	(886)	15,610	14,724
<b>Return per Ordinary share</b>	6	pence <b>(1.53)</b>	pence <b>(26.12)</b>	pence <b>(27.65)</b>	pence (4.52)	pence 79.71	pence 75.19

The total column of this statement is the profit and loss account of the Company. The supplementary revenue return and capital return column have been prepared in accordance with the AIC's SORP. Revenue and capital return per share figures shown are also supplementary information.

All revenue and capital items in the above statement derive from continuing activities.

There are no recognised gains and losses other than those reflected in the Income statement for the year, accordingly no statement of recognised gains and losses has been prepared.

The notes on pages 34 to 50 form part of these accounts.

## Reconciliation of movements in shareholders' funds

for the year ended 31 March 2007

	Share capital	Share premium account	Capital redemption reserve	Special reserve*	Capital reserve realised	Capital reserve unrealised	Revenue reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2006	<b>4,833</b>	<b>5,995</b>	<b>498</b>	<b>6,955</b>	<b>27,868</b>	<b>23,472</b>	<b>(2,083)</b>	<b>67,538</b>
Decrease in unrealised appreciation before transfer on disposal <sup>†</sup>	-	-	-	-	-	<b>(3,559)</b>	-	<b>(3,559)</b>
Transfer on disposal of investments <sup>†</sup>	-	-	-	-	<b>14,066</b>	<b>(14,066)</b>	-	-
Net losses on sales of investments <sup>†</sup>	-	-	-	-	<b>(1,137)</b>	-	-	<b>(1,137)</b>
Exchange gains/(losses) on currency and capital items <sup>†</sup>	-	-	-	-	<b>36</b>	<b>(390)</b>	-	<b>(354)</b>
Retained revenue deficit for the year	-	-	-	-	-	-	<b>(296)</b>	<b>(296)</b>
At 31 March 2007	<b>4,833</b>	<b>5,995</b>	<b>498</b>	<b>6,955</b>	<b>40,833</b>	<b>5,457</b>	<b>(2,379)</b>	<b>62,192</b>

	Share capital	Share premium account	Capital redemption reserve	Special reserve*	Capital reserve realised	Capital reserve unrealised	Revenue reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 April 2005	5,019	5,995	312	8,822	23,931	11,799	(1,197)	54,681
Increase in unrealised appreciation before transfer on disposal <sup>†</sup>	-	-	-	-	-	15,514	-	15,514
Transfer on disposal of investments <sup>†</sup>	-	-	-	-	4,112	(4,112)	-	-
Net losses on sales of investments <sup>†</sup>	-	-	-	-	(198)	-	-	(198)
Exchange gains on currency and capital items <sup>†</sup>	-	-	-	-	23	271	-	294
Repurchase of Ordinary shares	(186)	-	186	(1,867)	-	-	-	(1,867)
Retained revenue deficit for the year	-	-	-	-	-	-	(886)	(886)
As at 31 March 2006	4,833	5,995	498	6,955	27,868	23,472	(2,083)	67,538

\* The special reserve was created in September 1998, following a transfer from the share premium account, to enable the Company to purchase its own shares.

† See note 7 for further details.

The notes on pages 34 to 50 form part of these accounts.

## Balance sheet

as at 31 March 2007

	Notes	2007 £'000	2006 £'000
<b>Fixed assets</b>			
Investments at fair value	7	<b>60,646</b>	66,662
<b>Current assets</b>			
Debtors	8	<b>129</b>	255
Cash at bank		<b>1,724</b>	935
		<b>1,853</b>	1,190
<b>Creditors – amounts falling due within one year</b>			
Creditors and accruals	9	<b>307</b>	314
		<b>1,546</b>	876
<b>Total net assets</b>		<b>62,192</b>	67,538
<b>Share capital and reserves</b>			
Called up share capital	10	<b>4,833</b>	4,833
Share premium account		<b>5,995</b>	5,995
Capital redemption reserve		<b>498</b>	498
Special reserve		<b>6,955</b>	6,955
Capital reserve – realised		<b>40,833</b>	27,868
Capital reserve – unrealised		<b>5,457</b>	23,472
Revenue reserve		<b>(2,379)</b>	(2,083)
<b>Equity shareholders' funds</b>		<b>62,192</b>	67,538
<b>Net asset value per Ordinary share</b>		<b>321.71p</b>	349.36p

These accounts were approved by the Board of Directors on 4 June 2007.

### Ernest Fenton

Chairman

The notes on pages 34 to 50 form part of these accounts.

## Statement of cash flows

for the year ended 31 March 2007

	Notes	2007 £'000	2006 £'000
<b>Operating activities</b>			
Investment income received		561	180
Deposit interest received		114	88
Other income received		5	9
Investment management fees paid		(814)	(809)
Secretarial fees paid		(51)	(50)
Other cash payments		(379)	(405)
<b>Net cash outflow from operating activities</b>	11	<b>(564)</b>	(987)
<b>Taxation</b>			
Irrecoverable overseas tax		(2)	(3)
<b>Total taxation paid</b>		<b>(2)</b>	(3)
<b>Capital expenditure and financial investment</b>			
Purchases of investments		(99,926)	(23,574)
Sales of investments		101,671	24,549
<b>Net cash inflow from capital expenditure and financial investment</b>		<b>1,745</b>	975
<b>Financing</b>			
Repurchase of Ordinary shares for cancellation		–	(1,867)
<b>Net cash outflow from financing</b>		<b>–</b>	(1,867)
<b>Increase/(decrease) in cash</b>	12	<b>1,179</b>	(1,882)

The notes on pages 34 to 50 form part of these accounts.

## Notes to the accounts

for the year ended 31 March 2007

### 1 ACCOUNTING POLICIES

#### Accounting convention

The accounts are prepared under the historical cost convention, as modified by the revaluation of fixed asset investments, and in accordance with applicable accounting standards in the United Kingdom and with the Statement of Recommended Practice ("SORP") regarding the Financial Statements of Investment Trust Companies, issued by the Association of Investment Companies ("AIC") in January 2003 and revised in December 2005. All the Company's activities are continuing. The accounts are prepared on the going concern basis which assumes that the ordinary resolution for the continuation of the Company will be passed at the forthcoming Annual General Meeting.

#### Investments

Financial assets are designated by the Company as at fair value through profit or loss. Purchases and sales of financial assets are recognised on the trade date, which is when the Company commits to purchase, or sell the assets.

After initial recognition, the Company measures financial assets designated as at fair value through profit or loss, at fair values without any deduction for transaction costs it may incur on their disposal. The fair value of quoted financial assets is their last traded price at the balance sheet date. If the market for a financial asset is not active, the Company establishes fair values by using a valuation technique. Valuation techniques include the use of recent arm's length market transactions, references to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

Unquoted investments are valued by the Directors as follows:

- Unquoted equity investments are included at fair value based on latest dealing prices, stockbroker valuations, net asset values or other information, as appropriate. This valuation incorporates all factors that market participants would consider in setting a price.
- Unquoted convertible debenture investments and unquoted convertible preferred stock of companies with a quoted common stock are valued by reference to the fair value of the underlying equity of the investments only if conversion terms are satisfied. Where the conditions are satisfied the closing last traded price of the common stock is used to value the position. Discounted cash flow is used where no market price for the underlying equity is available or where the market price is less than cost but interest payments are up to date. Where interest payments are not up to date, valuation is based on net asset values and other available information.
- Unquoted loan notes are valued at fair value.
- Redeemable preferred stock is valued at the greater of discounted cash flow or, if quoted, market price.
- Unquoted warrant investments are valued at fair value using the Black Scholes methodology, which includes a time value which is calculated and added to the intrinsic value to arrive at a total valuation for each warrant. The application of the Black Scholes methodology requires certain assumptions to be made on the volatility of the underlying shares to which the warrants subscribe. Previously warrants were valued at their intrinsic value.

Investment transactions are recognised on the date that they are traded.

Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss, are included in the Income statement in the period in which they arise. Net changes in the fair value of financial assets classified as at fair value through profit or loss includes interest income.

There is a degree of uncertainty in determining the fair values ascribed in the unlisted investments held by the Company and the Directors have used their judgement in determining the most appropriate methodology and valuation for each unlisted investment. These estimates may differ significantly to the values that might have been used if an active market existed.

Where investments in a company have been valued at nil, the loss has been charged to the realised capital reserve. Other than as stated above, any unrealised profits and losses are taken directly to the capital reserve – unrealised. Any realised profits and losses arising on the disposal of investments are taken directly to the capital reserve – realised.

#### **Income recognition**

Dividends receivable on quoted shares are included in the accounts when the investments concerned are quoted 'ex-dividend'. Dividends receivable on such shares where no ex-dividend date is quoted are brought into account when the Company's right to receive payment is established. The fixed return on a debt security is recognised on a time apportionment basis so as to reflect the effective yield on the debt security. Interest receivable is included on an accruals basis.

The ordinary element of stocks received in lieu of dividends is recognised as income of the Company. Any enhancement above the equivalent value of the cash dividend that would have been receivable is treated as a capital gain on the associated investment.

#### **Management expenses and finance costs**

Management expenses and finance costs are allocated in full to the revenue account. The investment management performance fee, which is based on capital performance, is charged to capital (see note 3).

#### **Foreign currency**

Transactions denominated in foreign currencies are converted to Sterling at the actual exchange rate as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rate of exchange at the balance sheet date. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in the capital reserve or the revenue account depending on whether the gain or loss is of a capital or revenue nature.

#### **Taxation**

No taxation liability arises on gains from sales of fixed asset investments made by the Company by reason of its investment trust status. However, the net revenue (excluding UK dividend income) accruing to the Company is liable to corporation tax at the prevailing rates.

The payment of taxation is deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes. Full provision for deferred taxation is made under the liability method, without discounting, on all timing differences that have arisen but not reversed by the balance sheet date, unless such provision is not permitted by Financial Reporting Standard No.19: Deferred Tax.

## Notes to the accounts

for the year ended 31 March 2007 (continued)

### 1 ACCOUNTING POLICIES (continued)

#### Capital reserve realised

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- realised exchange differences of a capital nature;
- other capital charges and credits charged or credited to this account in accordance with the above policies.

#### Capital reserve unrealised

The following are accounted for in this reserve:

- increases and decreases in the valuation of investments held at the year end;
- unrealised exchange differences of a capital nature.

<b>2 INCOME</b>	<b>2007</b>	2006
	£'000	£'000
<b>Income from US investments</b>		
Government stocks	<b>313</b>	34
Convertible debenture stocks – unlisted	<b>242</b>	128
Convertible debenture stocks – unlisted (reinvested)	<b>118</b>	101
Convertible preference shares – unlisted	<b>144</b>	20
	<b>817</b>	283
<b>Other income</b>		
Bank interest receivable	<b>127</b>	84
Other income receivable	<b>5</b>	9
	<b>949</b>	376
Total income comprises:		
Dividends and stock dividends	<b>144</b>	20
Interest and stock interest	<b>800</b>	347
Other income	<b>5</b>	9
	<b>949</b>	376

**3 INVESTMENT MANAGEMENT FEE**

	2007			2006		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Investment management fee	<b>766</b>	–	<b>766</b>	861	–	861

Investment management services are provided by RENN Capital Group Inc., whose fees are calculated at 0.125% per calendar month of the total net assets of the Company as adjusted for any uninvested cash or 'near cash' investments. As at 31 March 2007, the Company held 'near cash' investments in USA Treasury Bills, valued at £9,142,000 (2006: £1,148,000), and cash at bank of £1,724,000 (2006: £935,000).

The Manager is also entitled to a performance fee in accordance with the provisions of the management agreement, the calculation of which is described in the Report of the Directors on page 19. No performance fee is due in respect of the year ended 31 March 2007 (2006: nil).

**4 OTHER EXPENSES**

	2007	2006
	£'000	£'000
Secretarial services	<b>51</b>	50
Auditor's remuneration – for audit	<b>21</b>	20
– for other services to the Company	<b>6</b>	4
Directors' remuneration (see page 25 and 26)	<b>90</b>	90
Other expenses	<b>308</b>	234
	<b>476</b>	398

Total fees paid to the auditors for the year, all of which were charged to revenue, comprised:

Audit services – statutory audit – current year	<b>21</b>	20
– prior year	–	(1)
– review of interim report	–	1
Tax services – compliance services	<b>3</b>	4
Other services	<b>3</b>	–
	<b>27</b>	24

The Directors do not consider that the provision of non-audit work to the Company affects the independence of the Auditor.

**5 TAXATION ON ORDINARY ACTIVITIES**

	2007			2006		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>(a) Analysis of charge in year:</b>						
Based on net return for the year						
Overseas tax suffered	<b>3</b>	–	<b>3</b>	3	–	3

## Notes to the accounts

for the year ended 31 March 2007 (continued)

### 5 TAXATION ON ORDINARY ACTIVITIES (continued)

#### (b) Factors affecting the current tax charge:

The tax assessed on the net return for the year is different to the standard rate of corporation tax of 30% (2006: 30%). The differences are reconciled below:

	2007	2006
	£'000	£'000
<b>Return on ordinary activities before tax</b>	<b>(5,343)</b>	14,727
Theoretical tax at UK corporation tax rate of 30% (2006: 30%)	<b>(1,603)</b>	4,418
Effects of:		
Losses/(gains) on investments and exchange losses/(gains) on capital items	<b>1,515</b>	(4,683)
Expenses not deductible for tax purposes	<b>10</b>	8
Irrecoverable overseas tax	<b>3</b>	3
Excess management expenses for tax purposes	<b>78</b>	257
<b>Total current tax charge</b>	<b>3</b>	3

The Company is subject to corporation tax at 30% (2006: 30%). However, the available tax deductible expenses (including substantial brought forward amounts) exceed the taxable income of the Company and, as a result, there is no UK tax charge (2006: nil).

At 31 March 2007, the Company had excess management expenses for tax purposes of £8,867,000 (2006: £8,609,000) which have not been recognised as a deferred tax asset. This is because the Company is not expected to generate taxable income in future periods in excess of the deductible expenses of those future periods and, accordingly, it is unlikely that the Company will be able to reduce future tax liabilities through the use of existing surplus expenses.

After allowing for accrued taxable income at the year end, the Company has eligible unrelieved foreign tax of £18,000 (2006: £15,000) that is available to offset against tax chargeable on future taxable overseas revenue. No deferred tax asset has been recognised in respect of these amounts as they will only be recoverable to the extent that there is sufficient future taxable overseas revenue, not relieved by future eligible foreign tax suffered.

### 6 RETURN PER ORDINARY SHARE

	2007			2006		
	Revenue	Capital	Total	Revenue	Capital	Total
	pence	pence	pence	pence	pence	pence
Basic	<b>(1.53)</b>	<b>(26.12)</b>	<b>(27.65)</b>	(4.52)	79.71	75.19

Revenue return per Ordinary share is based on the net deficit on ordinary activities after taxation of £296,000 (2006: deficit of £886,000) and on 19,332,008 (2006: 19,584,501) Ordinary shares, being the average number of Ordinary shares in issue during the year.

Capital return per Ordinary share is based on a net capital loss for the year of £5,050,000 (2006: £15,610,000 return), and on 19,332,008 (2006: 19,584,501) Ordinary shares likewise.

<b>7 INVESTMENTS</b>	<b>2007</b>	2006
<b>a) Investment portfolio summary</b>	£'000	£'000
<b>Listed investments</b>		
– US Treasury Bills	<b>9,142</b>	1,148
– Equities	<b>38,950</b>	50,751
<b>Unlisted investments</b>		
– Equities	<b>1,853</b>	1,286
– Convertible debenture stocks	<b>4,213</b>	3,769
– Loan notes	<b>1,148</b>	1,464
– Convertible preference shares	<b>2,891</b>	6,577
– Warrants	<b>2,449</b>	1,667
	<b>60,646</b>	66,662

	2007			
	Treasury	Listed	Unlisted	Total
	Bills			
<b>b) Analysis of investment portfolio movements</b>	£'000	£'000	£'000	£'000
Opening book cost	<b>1,146</b>	<b>28,989</b>	<b>12,401</b>	<b>42,536</b>
Opening unrealised appreciation	<b>2</b>	<b>21,762</b>	<b>2,362</b>	<b>24,126</b>
Opening valuation	<b>1,148</b>	<b>50,751</b>	<b>14,763</b>	<b>66,662</b>
Movements in the year:				
Transfers	–	<b>1,945</b>	<b>(1,945)</b>	–
Purchases at cost	<b>88,715</b>	<b>6,461</b>	<b>4,995</b>	<b>100,171</b>
Sales				
– Proceeds	<b>(80,142)</b>	<b>(19,913)</b>	<b>(1,436)</b>	<b>(101,491)</b>
– Realised (losses)/gains on sales	<b>(569)</b>	<b>13,764</b>	<b>(266)</b>	<b>12,929</b>
Decrease in unrealised appreciation	<b>(10)</b>	<b>(14,058)</b>	<b>(3,557)</b>	<b>(17,625)</b>
Closing valuation	<b>9,142</b>	<b>38,950</b>	<b>12,554</b>	<b>60,646</b>
Closing book cost	<b>9,150</b>	<b>31,246</b>	<b>13,749</b>	<b>54,145</b>
Closing unrealised (depreciation)/appreciation	<b>(8)</b>	<b>7,704</b>	<b>(1,195)</b>	<b>6,501</b>
	<b>9,142</b>	<b>38,950</b>	<b>12,554</b>	<b>60,646</b>

During the year, the Company incurred transaction costs of £18,000 on purchases of investments and £57,000 on sales of investments. These are included within losses on investments in the Income statement.

## Notes to the accounts

for the year ended 31 March 2007 (*continued*)

<b>7 INVESTMENTS</b> ( <i>continued</i> )	<b>2007</b>	2006
<b>c) Analysis of capital gains and losses</b>	£'000	£'000
Realised gains on sales of investments	<b>12,929</b>	3,914
Appreciation dealt with last year	<b>(14,066)</b>	(4,112)
<hr/>		
Realised losses for the year	<b>(1,137)</b>	(198)
(Decrease)/increase in unrealised capital appreciation	<b>(3,559)</b>	15,514
<hr/>		
(Losses)/gains on investments	<b>(4,696)</b>	15,316
<hr/>		
Realised exchange gains on capital items	<b>36</b>	23
Unrealised exchange (losses)/gains on currency	<b>(390)</b>	271
<hr/>		
Exchange (losses)/gains on capital items	<b>(354)</b>	294
<hr/>		

During the year there were no material disposals of unlisted investments.

## 7 INVESTMENTS (continued)

Details of material investments in unlisted securities are as follows:

Investment	Total cost £'000	Carrying value at 31 March 2007 £'000	Carrying value at 31 March 2006 £'000	Net income from investment £'000	Latest accounts for year end	Aggregate capital and reserves US\$m	Profit/ (loss) after tax for year US\$m
Anchorfree – preference shares	285	255	288	–	31/12/2006	3	(3)
CaminoSoft Corporation – loan notes	185	178	249	10	31/12/2006	(3)	(2)
Celsia Technologies – preference shares	291	52	295	14	31/12/2006	(0)	(7)
China Security & Surveillance Technology							
– warrants	–	384	–	1	31/12/2006	90	23
Consolidated Energy – debentures	413	400	1,636	23	30/09/2006	(1)	(17)
– loan notes	–	70	79	4			
Digital Recorders – preference shares	74	32	31	5	31/12/2006	17	(4)
Duoyuan Digital/Asian Financial							
– common stock	801	765	–	–	31/12/2006	54	15
Dyadic International – warrants	408	147	–	–	31/12/2006	28	(11)
eOriginal Holdings – preference shares	3,830	909	1,854	–	31/12/2006	(2)	(3)
– warrants	–	57	33	–			
Exploration Company of Delaware – warrants	–	281	322	–	31/12/2006	124	7
Fushi International – warrants	–	532	151	–	31/12/2006	65	18
Gardant Pharmaceuticals – preference shares	284	9	211	–	30/09/2005	(31)	(321)
i2 Telecom International – preference shares	335	58	63	19	31/12/2006	(4)	(6)
iLinc Communications – preference shares	124	135	95	8	31/12/2006	7	0
– debentures	354	255	288	40			
Integrated Security Systems – debentures	611	586	–	21	31/12/2006	(8)	(3)
– preference shares	91	12	17	–			
– loan notes	1,044	892	1,009	86			
Interpool – debentures	236	191	216	18	31/12/2006	571	107
Inyx – warrants	–	115	158	–	30/09/2006	(39)	(37)
Obsidian Enterprises – debentures	161	115	144	9	31/10/2005	(21)	(12)
OneLink Corporation – loan notes	275	8	311	25	30/06/2006	(4)	(11)
Pipeline Data – warrants	–	96	–	48	31/12/2006	31	(2)
– debentures	825	765	–	–			
Ronco Corporation – preference shares	581	18	535	32	31/12/2006	4	(54)
Shea Development Corporation							
– common stock	1,004	1,088	–	–	31/12/2006	2	(3)
SIMTEK Corporation – debentures	590	1,187	786	37	31/12/2006	19	(2)
Skystar Bio-Pharmaceutical Company							
– debentures	509	714	–	4	30/09/2006	9	2
Terra Nova Financial Group – warrants	–	179	–	–	31/12/2006	31	(1)
Zhongpin – preference shares	846	1,411	1,405	–	31/12/2006	53	6
– warrants	–	450	–	–			

## Notes to the accounts

for the year ended 31 March 2007 (continued)

### 7 INVESTMENTS (continued)

#### Significant interests

The following are investments in which the Company has an interest exceeding 20% of the nominal value of that class in the investee company.

Investment	Country of registration	Class of capital	% of class held
CaminoSoft Corporation	US	8% Non-convertible promissory note	50.0%
Integrated Security Systems	US	7% Promissory note	50.0%
Obsidian Enterprises	US	8% Convertible debentures	50.0%
Integrated Security Systems	US	6% Convertible debentures	42.6%
Integrated Security Systems	US	8% Promissory note	38.2%
Integrated Security Systems	US	Common stock	34.5%
CaminoSoft Corporation	US	7% Secured subordinated promissory note	33.3%
SIMTEK Corporation	US	7.5% Convertible debentures	33.3%
Integrated Security Systems	US	8% Convertible promissory note	25.9%
Skystar Bio-Pharmaceutical Company	US	8% Convertible debentures	24.5%
CaminoSoft Corporation	US	Common stock	21.1%

The Company only holds more than 20% of the common stock of Integrated Security Systems and CaminoSoft Corporation. The investments in these companies are not held on a long term basis and although they are greater than 20%, their value to the Company is their marketable value, as a part of the overall investment portfolio. Accordingly they have not been accounted for as associate companies.

In addition to the above, the Company has a holding of 3% or more that is material in the context of the accounts in the following investments:

Investment	Country of registration	Class of capital	% of class held
Cover-All Technologies	US	Common stock	16.4%
i2Telecom International	US	7% Convertible preference shares	13.9%
Digital Recorders	US	Series 'E' preference shares	13.7%
iLinc Communications	US	12% Convertible debentures	9.8%
Hemobiotech	US	Common stock	9.3%
Integrated Security Systems	US	Series 'D' preference shares	8.2%
Global Axcess Corporation	US	Common stock	7.4%
Zhongpin	US	Series 'A' preference shares	7.1%
Bovie Medical Corporation	US	Common stock	6.6%
Onelink Corporation	US	10% Convertible promissory notes	5.6%
Consolidated Energy	US	6% Sr. secured conv. promissory notes	5.5%
Consolidated Energy	US	3% Sr. secured non-conv. promissory notes	5.2%
Access Plans USA	US	Common stock	4.4%
SIMTEK Corporation	US	Common stock	3.9%
Hanwei Energy Services Corporation	Canada	Common stock	3.7%
PracticeXpert	US	Common stock	3.7%
Gaming & Entertainment Group	US	Common stock	3.1%

A full listing of the investment portfolio is provided on pages 12 to 15.

<b>8 DEBTORS – amounts falling due within one year</b>	<b>2007</b>	2006
	£'000	£'000
Due from sales of investments	–	144
Accrued income	<b>93</b>	71
Prepayments and other debtors	<b>36</b>	40
	<b>129</b>	255

<b>9 CREDITORS – amounts falling due within one year</b>	<b>2007</b>	2006
	£'000	£'000
Due on purchases of investments	<b>12</b>	13
Accruals	<b>295</b>	301
	<b>307</b>	314

At 31 March 2007, £4,000 was due for payment to the Company Secretary (2006: £4,000).

At 31 March 2007, £192,000 was due for payment to the Manager (2006: £240,000) in respect of investment management fees and nil (2006: nil) in respect of the performance fee.

<b>10 CALLED UP SHARE CAPITAL</b>	<b>2007</b>	2006
	£'000	£'000
Authorised:		
40,000,000 Ordinary shares of 25p each	<b>10,000</b>	10,000
Allotted, called up and fully paid:		
19,332,008 (2006: 19,332,008) Ordinary shares of 25p each	<b>4,833</b>	4,833

<b>11 RECONCILIATION OF NET RETURN BEFORE FINANCE COSTS AND TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	<b>2007</b>	2006
	£'000	£'000
Net return before finance costs and taxation	<b>(5,343)</b>	14,727
Net capital return	<b>5,050</b>	(15,610)
Stock dividends/interest received	<b>(246)</b>	(101)
(Decrease)/increase in creditors and accruals	<b>(6)</b>	2
Increase in prepayments and accrued income	<b>(19)</b>	(5)
Net cash outflow from operating activities	<b>(564)</b>	(987)

## Notes to the accounts

for the year ended 31 March 2007 (*continued*)

### 12 RECONCILIATION OF NET CASH FLOW TO NET FUNDS

	2007	2006
	£'000	£'000
Increase/(decrease) in cash in the year	1,179	(1,882)
Effect of exchange rate movements	(390)	271
Movement in net funds	789	(1,611)
Net funds at beginning of year	935	2,546
Net funds at end of year	1,724	935

#### Net funds are comprised as follows:

	2007	2006
	£'000	£'000
Cash at bank	1,724	935
Net funds at 31 March	1,724	935

### 13 NET ASSET VALUE PER ORDINARY SHARE

The basic net asset value per Ordinary share is based on net assets of £62,192,000 (2006: £67,538,000) and on 19,332,008 (2006: 19,332,008 Ordinary shares), being the number of shares in issue at the year end.

There are no dilutive elements or potentially dilutive elements in existence at the year end (2006: none).

### 14 COMMITMENTS AND CONTINGENT LIABILITIES

At 31 March 2007 there were no outstanding commitments or contingent liabilities (2006: none).

## 15 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

As detailed on the first page of this report, the primary investment objective of the Company is to achieve capital growth and outperform its benchmark, the Russell 2000 Index. This is principally achieved by investing primarily in privately placed common stock, preferred stock and convertible debentures of US quoted companies, and from time to time in unlisted US companies.

The Company's financial instruments comprise securities, warrants, other investments and bank deposits which are held to achieve its investment objective as well as debtors and creditors that arise from its operations, for example sales and purchases of securities awaiting settlement and debtors of accrued income.

The principal risks the Company faces through the holding of financial instruments are:

- liquidity/marketability risk;
- interest rate risk;
- market price risk; and
- foreign currency risk.

The Company does not enter into derivative contracts.

The Manager monitors the financial risks affecting the Company on a daily basis. The Directors receive financial information on a monthly basis which is used to identify and monitor risk.

As required by Financial Reporting Standard No.25: Financial Instruments: Disclosure and Presentation, an analysis of financial assets and liabilities, which identifies the risk to the Company of holding such items, is given on pages 46 to 49.

## Notes to the accounts

for the year ended 31 March 2007 (continued)

### 15 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (continued)

#### Financial assets

Full analysis of the Company's investment portfolio is given on pages 12 to 15. Details of warrants held are given below.

	<b>Intrinsic</b>	<b>Time</b>	<b>Total</b>	
	<b>Value</b>	<b>Value</b>	<b>Value</b>	<b>Expiry</b>
	£'000	£'000	£'000	<b>Date</b>
Advance Nanotech	–	–	–	01/02/2008
Caminosoft Corporation	–	2	2	19/07/2009
Caminosoft Corporation	–	–	–	18/12/2008
Caminosoft Corporation	–	–	–	21/02/2011
Celsia Technologies	–	–	–	11/07/2010
Celsia Technologies	–	–	–	11/07/2010
China Security & Surveillance Technology	336	48	384	31/07/2011
Consolidated Energy	–	15	15	24/02/2010
Cover-All Technologies	22	1	23	09/05/2011
Dyadic International	47	100	147	29/10/2009
eOriginal Holdings	1	1	2	13/02/2009
eOriginal Holdings	7	18	25	29/12/2009
eOriginal Holdings	–	24	24	30/09/2010
eOriginal Holdings	–	6	6	30/09/2008
Exploration Company of Delaware	269	12	281	20/05/2008
Express-1 Expedited Solutions	–	8	8	30/04/2009
Fushi International	409	123	532	18/12/2010
Gaming & Entertainment Group	–	–	–	31/05/2010
Gardant Pharmaceuticals	–	–	–	07/10/2010
Global Axxess Corporation	–	37	37	29/01/2009
Global Axxess Corporation	–	12	12	29/01/2009
Global Axxess Corporation	–	6	6	29/01/2009
i2 Telecom International	–	2	2	11/08/2007
Integrated Security Systems	–	2	2	13/10/2010
Integrated Security Systems	–	–	–	05/05/2010
Integrated Security Systems	–	–	–	01/10/2008
Intrusion	–	4	4	25/03/2009
Inyx	59	4	63	30/10/2008
Inyx	46	6	52	30/10/2008
Obsidian Enterprises	–	–	–	19/03/2008
Pipeline Data	–	96	96	29/06/2011
PracticeXpert	–	–	–	28/04/2009
SIMTEK Corporation	10	5	15	26/05/2011
SIMTEK Corporation	–	2	2	07/11/2008
SIMTEK Corporation	–	2	2	07/11/2008
SIMTEK Corporation	2	7	9	28/06/2010
SIMTEK Corporation	3	24	27	20/09/2011

**15 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES** (continued)

	<b>Intrinsic Value</b>	<b>Time Value</b>	<b>Total Value</b>	<b>Expiry Date</b>
	£'000	£'000	£'000	
Skystar Bio-Pharmaceutical Company	–	–	–	31/05/2010
Symbollon Pharmaceuticals	–	42	42	30/06/2011
Terra Nova Financial Group	–	179	179	15/03/2011
Zhongpin	228	124	352	30/01/2011
Zhongpin	54	44	98	30/01/2011
<hr/>				
Value at 31 March 2007	<b>1,493</b>	<b>956</b>	<b>2,449</b>	

The method of valuing the fixed asset investments is discussed in the accounting policies of the Company in note 1 on page 34. Cash and trade debtors arising from the operations of the Company as at 31 March 2007 amounted to £1,724,000 (2006: £935,000) and £129,000 (2006: £255,000) respectively.

*Credit risk*

The Directors do not consider that the Company has significant exposure to credit risk. The Company is exposed to credit risk by way of its debenture portfolio but the Directors do not consider there to be a major risk of material default on these debentures. They do recognise however that from time to time, default might occur.

*Liquidity risk*

The investments made by the Company are in smaller US companies. Although at the year end 79% of the portfolio (2006: 78%) is held in listed securities or Treasury Bills, it should be recognised that the Company is exposed to liquidity risk as many of these holdings are relatively illiquid. Hence any forced sales are likely to generate significantly lower proceeds than the valuations in the portfolio shown on pages 12 to 15.

*Interest rate risk*

The effect of interest rates on the Company's portfolio of interest bearing securities is reduced by holding debentures. At the time of investing, interest rates are fixed and any movement in long term interest rates will not affect the Company. The Company also holds cash, in the short term, which it invests in money market accounts and government backed Treasury Bills. The interest rate received on these holdings is based on short term interest rates.

## Notes to the accounts

for the year ended 31 March 2007 (*continued*)

### 15 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (*continued*)

The interest rate profile of the Company's fixed interest financial assets at 31 March was as follows:

	Value	Value	Weighted average interest rate	Weighted average period for which rates are fixed
	US\$'000	£'000	%	(years)
<b>As at 31 March 2007</b>				
US unlisted convertible debentures	<b>8,264</b>	<b>4,213</b>	<b>6.0</b>	<b>3.2</b>
US unlisted loan notes	<b>2,252</b>	<b>1,148</b>	<b>8.9</b>	<b>0.9</b>
US unlisted convertible preference shares	<b>5,669</b>	<b>2,891</b>	<b>2.4</b>	–
US Treasury Bills	<b>17,930</b>	<b>9,142</b>	<b>5.1</b>	<b>0.1</b>
As at 31 March 2006				
US unlisted convertible debentures	6,536	3,769	4.8	3.4
US unlisted loan notes	2,540	1,464	7.4	1.5
US unlisted convertible preference shares	11,409	6,577	1.5	–
US Treasury Bills	1,992	1,148	4.4	0.1

The maturity profile of assets held in the portfolio at 31 March was as follows:

	2007	2006
	£'000	£'000
Within one year	<b>10,355</b>	1,805
Within one to two years	<b>3,406</b>	2,008
Within two to three years	<b>962</b>	1,989
Within three to four years	<b>1,451</b>	1,321
Within four to five years	<b>587</b>	419
More than five years	<b>191</b>	504
<hr/>		
	<b>16,952</b>	8,046
Investments with no maturity dates	<b>43,694</b>	58,616
<hr/>		
	<b>60,646</b>	66,662

The remaining current assets of the Company of £1,853,000 (2006: £1,190,000) have no maturity date.

#### *Market price risk*

Since the Company invests in financial instruments, market price risk is inherent. The Company will always face uncertainty as to the future price of the financial instruments in which it is invested. This risk represents the potential loss the Company may suffer in the light of adverse market price movements. The price of certain unquoted stocks is also affected by their relative illiquidity (see above).

See the Manager's review on pages 6 to 11 for discussion of investments made during the year. The method of valuing the investments is discussed in the accounting policies on page 34.

**15 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES** (continued)*Foreign currency risk*

Due to the Company's holdings being wholly overseas, the Company is also exposed to the risk of movement in the £/\$ exchange rate. The Company does not, nor does it intend to, hedge the portfolio against any movement in the exchange rate.

The Company settles its investment transactions from its bank accounts in US\$. In the year ended 31 March 2007, realised exchange gains of £36,000 (2006: £23,000) and unrealised losses relating to currency of £390,000 (2006: £271,000 gains), have been taken to the realised capital reserve and unrealised capital reserve respectively.

The following tables summarise the Company's currency exposure:

<b>As at 31 March 2007</b>	<b>Investment portfolio</b>	<b>Cash</b>	<b>Other current assets</b>	<b>Financial assets</b>	<b>Financial liabilities</b>
	£'000	£'000	£'000	£'000	£'000
USA \$	<b>58,041</b>	<b>1,713</b>	<b>98</b>	<b>59,852</b>	<b>226</b>
Canada \$	<b>2,605</b>	–	–	<b>2,605</b>	–
UK £	–	<b>11</b>	<b>31</b>	<b>42</b>	<b>81</b>
	<b>60,646</b>	<b>1,724</b>	<b>129</b>	<b>62,499</b>	<b>307</b>

<b>As at 31 March 2006</b>	<b>Investment portfolio</b>	<b>Cash</b>	<b>Other current assets</b>	<b>Financial assets</b>	<b>Financial liabilities</b>
	£'000	£'000	£'000	£'000	£'000
USA \$	64,090	887	227	65,204	269
Canada \$	2,572	–	–	2,572	–
UK £	–	48	28	76	45
	66,662	935	255	67,852	314

**Financial liabilities**

The Company finances its operations primarily through equity and retained profits, although trade creditors and accruals arise from its operations. At 31 March 2007, all financial liabilities are due within one year and are stated at fair value.

The Company also has a margin facility which attracts interest at a variable rate. At 31 March 2007 this facility was not utilised (31 March 2006: not used). The maximum draw down available is 40% of the securities nominated as collateral. At 31 March 2007, no securities were nominated and hence no draw down was available (31 March 2006: no draw down). The facility is a rolling facility and therefore does not have a renewal date.

## Notes to the accounts

for the year ended 31 March 2007 (*continued*)

### 16 RELATED PARTY TRANSACTIONS

The Manager, RENN Capital Group, Inc., is regarded as a related party of the Company. The amounts paid to the Manager are disclosed in note 3. The relationships between the Company, its Directors and the Manager are disclosed in the Report of the Directors.

Mr Rundell, a Director of the Company, is chairman of Integrated Security Systems Inc. Mr Cleveland is a director of CaminoSoft Corporation, Cover-All Technologies, Inc., Digital Recorders, Inc., Access Plans USA, Inc. and Integrated Security Systems Inc. Details of the Company's holdings in these investments are disclosed in note 7, in the Manager's review on pages 6 to 11 and in the Investment portfolio on pages 12 to 15. At the year end accrued interest of £14,000 was due from and £16,000 had been received in advance from these holdings.

## Glossary of terms

### Net asset value ("NAV")

The NAV is the shareholders' funds expressed as an amount per individual share. Shareholders' funds are the total value of a company's assets, at current market value, less its liabilities.

### Discount

If the share price of an investment trust is lower than the NAV per share, the shares are said to be trading at a discount. The size of the discount is calculated by subtracting the share price from the NAV per share and is usually expressed as a percentage of the NAV per share. If the share price is higher than the NAV per share, the shares are said to be trading at a premium.

### Gearing

Gearing is the process whereby capital growth and income to the ordinary shareholders of a trust are boosted by borrowings, which provide scope for additional investment but which carry a fixed liability. The return on this extra investment minus the cost of borrowing the money gives the shareholder an enhanced or geared profit or loss.

### Total return

The combined effect of any dividends paid, together with the rise or fall in the NAV. Total return statistics enable the investor to make performance comparisons between trusts with different dividend policies. Any dividends (after tax) received by a shareholder are assumed to have been reinvested in either additional shares of the trust at the time the shares go ex-dividend (the share price total return) or in the assets of the trust at its NAV per share (the NAV total return).

## Company information

### Directors

Ernest J Fenton (Chairman)  
Andrew C Barker  
Steven A R Bates  
G Russell Cleveland (USA)  
C A Rundell Jr. (USA)  
William W Vanderfelt (Switzerland)

### Secretary and Registered Office

Capita Sinclair Henderson Limited  
Beaufort House  
51 New North Road  
Exeter EX4 4EP  
Tel: 01392 412122  
Fax: 01392 253282

### Manager

RENN Capital Group, Inc.  
Suite 210 LB59  
8080 North Central Expressway  
Dallas, Texas 75206-1857  
USA  
Tel: 001 214 891 8294  
Fax: 001 214 891 8291  
[www.rencapital.com](http://www.rencapital.com)

### Custodian (USA)

Frost National Bank  
8201 Preston Road  
Suite 540  
Dallas, Texas  
USA

### Stockbrokers

Winterflood Investment Trusts  
The Atrium Building  
Cannon Bridge  
25 Dowgate Hill  
EC4R 2GA

### Auditor

KPMG Audit Plc  
100 Temple Street  
Bristol BS1 6AG

### Registrars

Capita Registrars  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield  
West Yorkshire HD8 0LA  
Tel: 0870 162 3131  
(or 0044 208 639 3399 for overseas enquiries)  
email: [ssd@capitaregistrars.com](mailto:ssd@capitaregistrars.com)  
[www.capitaregistrars.com](http://www.capitaregistrars.com)

### Sources of further information

The Company's share price is listed in the Financial Times and Daily Telegraph under "Investment Companies".

### Key dates

March	Company year end
May	Annual results
June	Annual report posted to shareholders
July	AGM
November	Interim results

### Frequency of NAV Publication

The Company's net asset value is released to the London Stock Exchange on a bi-weekly basis and is published on the Manager's website: [www.rencapital.com](http://www.rencapital.com).

*Further copies of the Annual Report may be obtained from the Secretary.*

## Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Renaissance US Growth Investment Trust PLC will be held at the offices of the AIC, 9th Floor, 24 Chiswell Street, London EC1Y 4YY at 11.00am on Tuesday, 10 July 2007 for the following purposes:

### Ordinary business

1. To receive and, if approved, adopt the accounts for the year ended 31 March 2007, together with the Reports of the Directors and Auditor thereon.
2. To receive and, if thought fit, to accept the Directors' remuneration report for the year ended 31 March 2007.
3. To re-elect Mr Barker as a Director of the Company.
4. To re-elect Mr Bates as a Director of the Company.
5. To re-elect Mr Cleveland as a Director of the Company.
6. To re-elect Mr Fenton as a Director of the Company.
7. To re-elect Mr Vanderfelt as a Director of the Company.
8. To re-appoint KPMG Audit Plc as Auditors to the Company, to hold office from the conclusion of this Meeting until the next General Meeting, and to authorise the Directors to determine its remuneration.

### Special business

To consider, and if appropriate to pass, the following resolutions, resolutions 9 and 10 as Special resolutions and resolution 11 as an Ordinary resolution.

9. THAT, the Directors be empowered pursuant to Section 95(1) of the Companies Act 1985 to allot equity securities (as defined in Section 94(2) of the Companies Act 1985) for cash pursuant to the authority granted at the Annual General Meeting held on 24 July 2003, and to sell equity securities (within the Meaning of Section 94 of the Act) which are held by the Company in treasury as if Section 89(1) of the Companies Act 1985 did not apply to any such allotment provided that this power be limited to the allotment of equity securities: for cash up to an aggregate nominal amount of £483,300, being 10 per cent of the current issued share capital, at a price not less than the Net Asset Value per share and shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2008, save that the Company may, before the expiry of such power, make offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired.
10. THAT, notwithstanding the provisions of Article 155 of the Articles of Association of the Company:
 

the Company be and it is hereby authorised in accordance with Section 166 of the Companies Act 1985 to make market purchases (within the meaning of Section 163 of the said Act) of shares provided that:

  - (i) the maximum number of Ordinary shares of 25p each ("Shares") hereby authorised to be purchased is 2,897,867;
  - (ii) the minimum price which may be paid for a share shall be 25p;
  - (iii) the maximum price (exclusive of expenses) which may be paid for a share shall not be more than 5% above the average of the market value of the shares as quoted on the Official List of the London Stock Exchange for the 5 business days before the purchase is made; and
  - (iv) unless renewed, the authority hereby conferred shall expire on the conclusion of the Annual General Meeting of the Company to be held in 2008, save that the Company may, prior to such expiry, enter into a contract to purchase shares which will or may be completed or executed wholly or partly after such expiry.

## Notice of Annual General Meeting

11. THAT, the Company shall continue as an investment trust, provided that if this resolution is not passed, the Board will convene an Extraordinary General Meeting in the manner and for the purposes set out in Article 170.1(b) of the Articles of Association and the provisions of Article 170.1(c) and (d) shall thereupon apply in respect of such meeting.

Registered Office:  
Beaufort House  
51 New North Road  
Exeter EX4 4EP

By Order of the Board  
**Capita Sinclair Henderson Limited**  
Secretary  
4 June 2007

### **NOTES:**

- 1. A member entitled to attend and vote is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him/her. A proxy need not also be a member of the Company. Lodgement of the form of proxy will not preclude a shareholder from attending the Meeting and voting in person.*
- 2. A form of proxy is enclosed for use in connection with the business set out above. This form of proxy should be completed and sent, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, to reach the Registrars at the address printed on the form of proxy not later than 11.00am on Sunday, 8 July 2007.*
- 3. The Company, pursuant to Regulation 41 of the Uncertified Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at 11.00am on Sunday, 8 July 2007 shall be entitled to attend or vote at the aforesaid Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 11.00am on Sunday, 8 July 2007 ("the specified time") shall be disregarded in determining the rights of any person to attend or vote at the Meeting. If the Meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original Meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned Meeting. If however the Meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at the time which is 48 hours before the time fixed for the adjourned Meeting, or if the Company gives notice of the adjourned Meeting, at the time specified in that notice.*
- 4. Shareholders (and any proxies or representatives they appoint) agree, by attending the Meeting, that they are expressly requesting and that they are willing to receive any communications (including communications relating to the Company's securities) made at the Meeting.*
- 5. The Articles of Association of the Company will be available for inspection at the Registered Office of the Company during normal business hours (Saturdays excepted) from the date of this notice until the date of the Annual General Meeting and at the place of the Annual General Meeting for 15 minutes prior to and during the Meeting.*

## Notes

## Notes





## Form of proxy

FOR USE AT THE ANNUAL GENERAL MEETING OF RENAISSANCE US GROWTH INVESTMENT TRUST PLC

I/We (Block Capitals please) .....

a member/members of Renaissance US Growth Investment Trust PLC ("the Company"), hereby appoint the Chairman of the Meeting/

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at the offices of the AIC, 9th Floor, 24 Chiswell Street, London EC1Y 4YY at 11.00am on Tuesday, 10 July 2007, and at any adjournment thereof.

Signature .....

Date .....2007

Please indicate with an X in the spaces below how you wish your votes to be cast.

		FOR	AGAINST	WITHHELD
RESOLUTION 1	To adopt the accounts for the year ended 31 March 2007, together with the Reports of the Directors and Auditor thereon.			
RESOLUTION 2	To accept the Directors' remuneration report for the year ended 31 March 2007.			
RESOLUTION 3	To re-elect Mr Barker a Director.			
RESOLUTION 4	To re-elect Mr Bates a Director.			
RESOLUTION 5	To re-elect Mr Cleveland a Director.			
RESOLUTION 6	To re-elect Mr Fenton a Director.			
RESOLUTION 7	To re-elect Mr Vanderfelt a Director.			
RESOLUTION 8	To re-appoint KPMG Audit Plc as Auditors to the Company, and to authorise the Directors to determine its remuneration.			
RESOLUTION 9	To authorise the Directors to allot shares for cash and to disapply pre-emption rights in accordance with resolution 9 of the notice of meeting.			
RESOLUTION 10	To authorise the purchase of Ordinary shares as laid out in resolution 10 of the notice of meeting.			
RESOLUTION 11	That the Company shall continue as an investment trust.			

### NOTES:

1. A member may appoint a proxy of his/her own choice. If such an appointment is made, delete the words 'the Chairman of the Meeting' and insert the name of the person appointed proxy in the space provided.
2. If the appointor is a corporation, this form must be under its common seal or under the hand of some officer or attorney duly authorised in that behalf.
3. In the case of joint holders, the signature of any one holder will be sufficient but the names of all the joint holders should be stated.
4. If this form is returned without any indication as to how the person appointed proxy shall vote, he/she will exercise his/her discretion as to how he/she votes or whether he/she abstains from voting.
5. To be valid, this form must be completed and deposited at the office of the Company's Registrars not less than 48 hours before the time fixed for holding the Meeting or adjourned Meeting.

Do not affix Postage Stamps if posting in  
Gt. Britain, Channel Islands, or N. Ireland

Third fold and tuck in

BUSINESS REPLY SERVICE  
Licence No. RRHB-RSXJ-GKCY

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First fold

Capita Registrars PLC  
Proxy Processing Centre  
Telford Road  
BICESTER  
OX26 4LD

Second fold