

## Chairman's statement

# Renaissance US Growth Investment Trust remains an excellent way for investors to participate in the growth of entrepreneurial investing.

As we reported in the annual report and in our recent newsletter, 2006 has turned out to be a transition year in the US stock market. We are not seeing a major bear market, but it has been a difficult year for US markets. From 31 March 2006 to 30 September 2006, the Russell 2000 index decreased 12% in sterling and 5% in dollars. Your Company performed slightly better, with net asset value decreasing 11% in sterling and 4% in dollars.

A number of uncertainties has worried investors including rising interest rates, declines in the housing market, conflict in the Middle East and higher oil prices. Despite these problems, the US economy has remained fairly strong. Fortunately, your Company has realised substantial profits in 2006, about \$21 million to date. This gives us the firepower to look for attractive new investments. As always, the ultimate success of this Company does not depend on US market performance but on whether the management of your portfolio companies execute their plans. There are a number of basic changes in the portfolio which I will outline here and which are also detailed in the Investment Manager's review.

### The Portfolio Garden

The composition of the portfolio has changed materially in the past six

months. The largest holding for several years, Laserscope, was purchased by American Medical Systems Holdings (see below). Additionally, substantial profits were realised in the energy sector as we reduced our holdings in this area. New portfolio names have risen to the forefront of the portfolio due to appreciation. I will detail more of this later. With the profit taking, your Company now has substantial cash, including treasury bills, of approximately \$22 million, which places us in a good position to find attractive new investments.

### Harvesting the Garden

In July 2006, Laserscope was acquired by American Medical Systems Holdings. Including a previous sale of Laserscope stock, your Company has realised a total gain of \$29.9 million on its original investment of \$1.5 million in 2000 representing a return of approximately 2000%. This gain points to what can happen when you are right on an emerging growth company. The key here, as always, was an excellent CEO, Eric Reuter, who guided Laserscope over the past four years.

Significant gains were realised in the energy sector where your Company had substantial positions. Many of the gains were greater than 200%. While we believe the energy sector will continue to

be attractive long term, it appears that the price of oil will be in a trading range in the short term. We did not want to give up the substantial profits we had made; thus, we liquidated a portion of our energy holdings in the first half of the financial year. Further reductions in energy holdings were made in October 2006. Outside of the energy area, we realised outstanding percentage gains in Franklin Covey. The stock rose from the \$2 level to \$8 and your Company exited from the position. As a result of harvesting the garden, we now have a high cash position.

### New Plantings

Our main investment objective continues to be finding successful entrepreneurs with which to join. In this effort, we will consider most industry groups. However, there are major economic themes that can make success easier, i.e., in sailing terms, having the "wind at your back." As an illustration, your Company rode the energy upturn for many years.

Several new investment themes have evolved. Among the most important is US-traded companies managed by Chinese entrepreneurs and operating in China. In this area, during the period we added China Security & Surveillance Technology (OTC: CSST) to the portfolio, a company which is engaged in the design and sale of security systems in

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China. With the 2008 Olympics in China, there is a major push for security all over the country. We also added to the portfolio Wonder Auto Technology (OTC: WATG) a leading manufacturer of electrical automotive parts with concentration in alternators and starters. Your Company will continue to add additional US-listed China-based companies, but will keep the proportion within reason.

Other additions include Pipeline Data (OTC: PPDA) which provides merchant credit payment processing services in the US; Quintana Maritime Limited (NASDAQ: QMAR) which provides marine transportation services worldwide and is a play on the developing global economy and Silverleaf Resorts (AMEX: SVL) which has been successful in the development and marketing of getaway timeshare resorts in the US. Adding to the medical component of our portfolio, Symbolon Pharmaceuticals (OTC: SYMBA) has a phase III FDA breast cancer drug that shows excellent promise. The Investment Manager's review details more about new additions to the portfolio.

One new area of interest to the Investment Manager is the growth of commerce via the internet. Phase II of the economic cycle for the internet has begun but on a much more solid basis. Your Company is studying a number of new opportunities in this rapidly growing area.

The top holdings of your Company changed materially over the past six months. The largest holding is now Comtech Group (NASDAQ: COGO), a US traded China-based company which concentrates on technology in China. Comtech just announced a major license from Microsoft to develop a whole range

of products in China. The second largest holding has become Bovie Medical Corporation (ASE: BVX). Bovie's stock has had major appreciation in recent months. Our cost per share is \$1.75. The stock has sold as high as \$9 recently and is currently trading at about \$7 per share. Bovie has announced several new surgical devices that could have wide application. Additionally, Bovie announced a joint venture with a major medical company, Boston Scientific. Another portfolio holding, Simtek Corporation, which is now our fourth largest holding is under new management and has been reporting excellent results. They expect to continue rapid growth.

Your Investment Manager has been actively working with many of our portfolio companies to assist them with merger and acquisition opportunities. Precis (NASDAQ: PCIS) has announced the intention of merging with Insuraco, a rapidly growing health insurance company. The Chairman of Insuraco, Peter Nauert, will become the new CEO of Precis. Russell Cleveland, your Investment Manager and a director of Precis, introduced the two companies. We are actively working with several other portfolio companies that may merge or acquire profitable companies. Robert Pearson of RENN Capital Group is also actively working in this area and it is possible that these efforts will add materially to the portfolio over the next year.

### Discount to Net Asset Value

We have been able to maintain a discount to net asset value under 10%. While this is an improvement over the experience of past years, we believe this

discount is unwarranted given the track record of this Company. Your Board of Directors will continue to monitor this and work with our stockbroker to maintain a good market for our shares.

Your Board and Investment Manager have continued to work at providing investors with timely information about the Company. In 2005, your Company appointed Lansons Communications to assist us in investor relations. A number of articles on the Company appeared in various media in recent months. The most recent was a major article on Russell Cleveland and the Company, which appeared in the October 2006 issue of Bloomberg Magazine. Twice a year, your Investment Manager visits the UK to meet personally with our major shareholders, as well as with analysts and brokers who might be interested in the Company.

### Conclusion

It appears that the US stock market is in a transition phase which could end shortly resuming the bull market which began in the fall of 2002. Your Company, with its recent cash profits, 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 remains an excellent way for investors to participate in the growth of entrepreneurial investing.

**Ernest Fenton**, Chairman  
29 November 2006