

Report and Accounts 31 December 2006

Rutland Trust PLC



Rutland Trust PLC

Rutland Trust invests through The Rutland Fund in businesses which face difficult commercial or financial challenges and where active management involvement by Rutland Partners can enhance value or cash returns over the medium term.

Highlights of the year

- Disposal of Carron Energy – proceeds £39.3m (3.7x original cost)
- Disposal of H&T Group – proceeds £18.1m (2.6x original cost)
- Investment in Scott Tod PLC – cost £4.8m
- £30m returned to shareholders through share repurchase at 60p per share
- Net asset value per share 66.2p at 31 December 2006
- Final dividend proposed 1.0p giving total dividend for the year 2.6p
- Post balance sheet events.
 - Investment in TRM (ATM) Limited – cost £5.0m
 - Exchange on sale of investment property Rutland House for £18.25m (book value at 31 December 2006 £10.0m)
- Announcement of Section 110 Scheme of Reconstruction proposals and related arrangements with August Equity Trust/New Star Asset Management

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Board of directors

1 OHJ Stocken (65)*†

Independent Chairman

Oliver Stocken joined the Board on 1 October 1999 and subsequently took over as Chairman on 1 January 2000. Mr Stocken was formerly Group Finance Director of Barclays PLC and is currently Chairman of Home Retail Group plc, Deputy Chairman of 3i Group plc and a non-executive director of Standard Chartered PLC.

2 RJJ Wickham (73)*†

Senior Independent Director

Bob Wickham joined the Board on 17 July 1996. Formerly General Manager of Bank of Scotland with responsibility for England, he is currently on the Board of Georgica PLC and Deputy Chairman of Arbutnot Banking Group PLC and a number of unlisted companies.

3 Dr R Hawley CBE (70)*†

Independent Director

Bob Hawley joined the Board on 11 September 2000. Formerly Chief Executive of British Energy plc from 1995 to 1997 and Chairman of Taylor Woodrow plc between June 1999 and May 2003, Dr Hawley has extensive high level experience of senior management positions in the Engineering industry. He is currently on the Board of Colt Telecom Group SA, Berkeley Resources Limited and Carron Acquisition Co. Limited.

4 MRF Langdon (59)

Chairman, Rutland Fund Management Limited

Michael Langdon is a former partner in Price Waterhouse, specialising in investigative and corporate finance work, which he left in November 1986 to establish Rutland Trust, joining the Board on 5 January 1987. As Chief Executive of Rutland Trust until 12 May 2000 he has been responsible for group strategy and has had direct involvement in all its investments. He is Chairman of Rutland Fund Management Limited, the independent fund manager which manages Rutland Trust and comprises the former management team of Rutland Trust.

*member of the Audit Committee

†member of the Nomination Committee

All directors are non-executive

Chairman's statement

Introduction

Rutland Trust PLC ("the Trust") is an investment trust whose principal strategic objective is to invest through The Rutland Fund ("the Fund"), a £210m private equity fund, in businesses which face difficult commercial or financial challenges and where active management involvement can enhance value and cash returns over the medium term. The Trust's overall commitment to the Fund is £100m, representing 48% of the Fund's total commitments. The Trust's Investment Manager is Rutland Fund Management Limited ("RFML"). Investments made through the Fund are managed by Rutland Partners LLP, a subsidiary of RFML. References in this statement to "the Investment Manager" or to "Rutland" refer to both RFML and Rutland Partners LLP.

Investment portfolio

The majority of the Trust's investments comprise the unlisted investments made through the Fund, which at 31 December 2006 comprised Wolstenholme, The Music Group, Svensk Pantbärlning, Advantage Healthcare and Notemachine. The Trust's directly held investments comprised the investment property of Rutland House and a minority interest in Cunningham Lindsey Group Inc., a Canadian listed company. Further information on the investment approach and the Trust's investment portfolio is set out in the Investment Manager's review by the Chairman of the Investment Manager.

Review of the year

Realisations

In April 2006 Rutland disposed of its investment in Carron Energy, the owner of Uskmouth Power Station, to a specially formed company backed by Deutsche Bank AG for a cash consideration which valued Uskmouth at £125m. Rutland acquired Carron in July 2004 and the original acquisition was funded by an investment from the Fund of £23.2m, the Trust's share of which was £10.6m. After repayment of outstanding bank debt, payment of transaction related costs and after allowing for the equity participation of Carron's management, proceeds received by investors in the Fund were £95.7m, the Trust's net share of which was £39.3m.

In May 2006 Rutland realised its investment in H&T Group ("H&T") for cash through an AIM listing. The enterprise value of H&T on flotation was £91.9m and the market capitalisation was £54.2m. In September 2004 Rutland had completed the acquisition through H&T Group Limited of Harvey & Thompson, the UK's leading pawnbroker, which was acquired from Cash America International, Inc on a debt-free/cash-free basis for a consideration of £49.0m. The acquisition was funded with £15.4m from the Fund and a bank debt package. The Trust's share of the cost of investment was £6.9m. The proceeds received by the Fund, after costs and management's equity, were £44.5m, the Trust's net share of which was £18.1m.

New investments

In September 2006 the Fund completed the acquisition of Scott Tod PLC, a company listed on AIM. Scott Tod is an independent ATM Deployer involved in the provision of ATM services throughout the UK. The Fund invested through Notemachine Limited, a newly formed company, providing total funding of £11.2m. The Trust's share of the cost of investment (net of transaction costs) was £4.8m.

In November 2006 Advantage Healthcare, which the Fund acquired in March 2005, completed the £4.5m acquisition from Quantica PLC of its healthcare business Quantica Healthcare, a branch based provider of nurses, carers and social workers. The Fund invested £3.5m as a follow-on investment through Advantage, which brings the total investment in Advantage from the Fund to £9.0m. The Trust's share of the total cost of investment in Advantage (net of transaction costs) increased to £3.9m.

Valuation of investments

The valuation of the Trust's investment property Rutland House, in Knightsbridge, was increased by £2.0m to £7.5m at 30 June 2006. A further review was carried out at 31 December 2006 and the directors, following discussions with the Trust's property advisors, considered it appropriate to increase the value at 31 December 2006 by a further £2.5m to £10.0m.

Post balance sheet events

In January 2007 Notemachine Limited acquired TRM (ATM) Limited ("TRM"), the UK operations of TRM Inc for £45.3m. TRM is a complementary business involved in the deployment of ATMs in the UK and Germany. The Fund invested £11.0m in Notemachine to support the acquisition with the balance of the funding coming from a debt package provided by Barclays and Kaupthing Singer & Friedlander. This brings the Fund's total investment in Notemachine from the Fund to £22.2m. The Trust's share of the total cost of investment in Notemachine (net of transaction costs) increased by £5.0m to £9.8m.

In February 2007 contracts were exchanged for the deferred sale of Rutland House to CPC Group, an investment consortium from Guernsey, for £18.25m although completion will not take place until the end of June 2007.

Financial review

The consolidated net asset value per share at 31 December 2006 was 66.2p (31 December 2005: 62.2p), based on net assets of £96.5m (31 December 2005: £121.8m). The consolidated results showed a profit before tax of £19.2m for the year ended 31 December 2006 (2005: £26.2m), including net capital gains of £13.3m (2005: £20.8m). The movement in net assets and net asset value per share during the year is summarised as follows:

	Net assets £m	NAV per share p
At 1 January 2006	121.8	62.2
Revenue		
Investment and other income	6.9	
Expenses and interest payable	(1.0)	
Revenue profit	5.9	
Capital		
Realised gains and losses		
– Sale of Carron *	25.8	
– Sale of H&T *	9.4	
– release of previously recognised unrealised gains		
– Carron	(18.8)	
– H&T	(6.6)	
– Other	(0.5)	
Unrealised gains and losses		
– Rutland House	4.5	
– Cunningham Lindsey	(0.5)	
Capital profit	13.3	
Total profit for the year	19.2	
Tax	(1.4)	
Dividends paid	(12.7)	
Repurchase of shares	(30.4)	
Movement for the year	(25.3)	4.0
At 31 December 2006	96.5	66.2

* The overall gross gain on realisation of Carron was £28.7m of which £25.8m is a realised capital gain and £2.9m is investment income. The overall gross gain on realisation of H&T was £11.2m of which £9.4m is a realised capital gain and £1.8m is investment income.

Repurchase of shares

In August 2006 the Trust returned £30.0m to shareholders by way of a repurchase of 50m shares at 60p per share, pursuant to a Tender Offer. This followed the successful realisations of Carron Energy and H&T, and is consistent with the Trust's stated commitment to return to shareholders the net profits arising from the realisation of investments. The shares repurchased were subsequently cancelled and the Trust's ordinary shares in issue reduced from 195.87m to 145.87m.

Dividend

An interim dividend of 1.6p per share amounting to £2.3m (2005: 0.4p totalling £0.8m) was paid on 27 October 2006. This included a 1.1p special dividend of £1.6m relating to the realisations of Fund investments. A final dividend of 1.0p per share amounting to £1.5m (2005: 5.3p totalling £10.4m, including a 5.0p special dividend of £9.8m) is now proposed which, if approved, will be paid on 24 May 2007 to shareholders on the Register at the close of business on 27 April 2007.

Section 110 Scheme of Reconstruction and related arrangements with August Equity Trust and New Star Asset Management

The Board announced in the Interim results in September 2006 that it had decided that the Trust would not be making a commitment to a new private equity fund being raised by Rutland Partners LLP, and that it was considering broadening the scope of the Trust's investment policy in a way which will deploy the financial resources of the Trust more quickly than through a commitment to a single private equity fund.

On 22 March 2007, the Board announced proposals under which shareholders will have the opportunity to realise their shareholding for cash or exchange their shares in the Trust for shares in a separate listed investment trust. It is anticipated that shareholders will be able to realise their shareholdings at net asset value per share.

In summary the proposals are:

- August Equity Trust plc ("August"), a listed investment trust, will be renamed New Star Private Equity Investment Trust PLC ("NSPEIT") and will be managed by New Star Asset Management Limited.
- Rutland Trust will enter into a Scheme of Reconstruction under s 110 Insolvency Act, which a liquidator will be appointed to administer.
- Under the Scheme, shareholders will have the option of exchanging their shareholdings in Rutland Trust for new shares in NSPEIT. Shareholders may alternatively elect to receive cash at net asset value, which will be distributed pursuant to a liquidation of the Trust under the Scheme.
- The Trust will transfer certain of its assets to NSPEIT (including its interests in the Fund investments) in exchange for NSPEIT shares which will be issued directly to those shareholders who do not elect to receive cash, while the remaining assets will be realised and the proceeds available for distribution under the liquidation to shareholders who have elected to receive cash.
- The proposals are subject to the approval of shareholders of both Rutland Trust and August, and full details will be included in a circular to be issued to shareholders as soon as practicable following regulatory approval of the documentation. It is expected that the proposals will become effective at the end of June 2007.

The proposals provide an opportunity for shareholders who want to realise their interests for cash at net asset value and the Board believes the proposals are in the best interests of shareholders overall.

The consolidated net asset value per share at 31 December 2006 was 66.2p. After adjusting for the effect of the post balance sheet events and the proposals reported above, the pro-forma net asset value per share is approximately 69p.

Oliver Stocken, Chairman

10 April 2007

Investment Manager's review

Investment Manager

The Trust's Investment Manager is Rutland Fund Management Limited ("RFML"). RFML provides investment management and general administrative services to the Trust and is responsible for managing its directly held portfolio of investments. Rutland Partners LLP manages the Trust's £100m commitment to the £210m Rutland Fund ("the Fund"). References in this review to "the Investment Manager" or to "Rutland" refer to both RFML and Rutland Partners LLP.

The Rutland management team, which manages both Rutland Partners and RFML, has extensive transaction experience and commercial management skills which have been developed from active involvement with operational management in a variety of investments. Rutland has established a strong reputation in the UK as an added value investor, its management team having completed, managed and exited investments through multiple business and economic cycles since 1987 and having been responsible for raising the Fund.

Investment approach

Rutland works actively alongside management teams post investment to improve operating performance and enhance equity value by initiating and completing the primary changes identified for each investment.

In all cases Rutland leads any investment it makes and its investment team actively contributes to each portfolio company. This involves engagement with management to implement a range of priority tasks identified in an initial pre-defined action plan, pursuing specific goals for the first 12 to 24 months of ownership and, thereafter, searching for opportunities for further strategic improvements and growth. Once the value added objectives have been achieved Rutland will seek an appropriate exit opportunity within the target time frame of 3 to 5 years.

A Rutland investment will typically involve a UK company that is facing difficult strategic challenges or which may be underperforming, in need of restructuring or entering a period of change. The company will have defensive properties through its market niche, asset underpinning or other forms of competitive advantage and will ideally possess strong operating management. The value of the company will typically range from £20m to £150m with Rutland committing between £10m and £40m per investment.

Valuation policy – principles of valuation of unlisted investments

The Trust principally makes investments in unlisted investments through a limited partnership, The Rutland Partnership ("RP"), in which it is a limited partner. The underlying investments of RP usually take the form of a combination of equity securities and shareholder loan stock. The main proportion of the investment is shareholder loan stock, which bears interest which is subordinated to the secured bank lenders of the relevant investment. The equity element of the investment typically accounts for a relatively small proportion (typically 5%) of the total investment.

In valuing unlisted investments a number of general principles are followed based on the International Private Equity and Venture Capital Valuation Guidelines, which have been adopted by the British Venture Capital Association, and which represent current best practice on the valuation of investments. These guidelines are also an appropriate basis for valuation within International Financial Reporting Standards ("IFRS"). The main principles of the guidelines are that investments should be reported at fair value - where fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction - and that in estimating fair value a methodology should be applied that is appropriate in light of the nature, facts and circumstances of the investment and its materiality in the context of the total investment portfolio and that uses reasonable assumptions and estimates.

The directors have given due consideration to the basis of valuation of investments in light of IFRS and have decided that the valuation of each investment is most appropriately determined by reference to the general principles set out below, which are based on the principles of the International Private Equity and Venture Capital Valuation Guidelines

- An investment is valued according to one of the following bases
 - 1 Price of recent transaction,
 - 2 Open market valuation,
 - 3 Earnings multiple, or
 - 4 Net assets
- In light of the Trust's principal strategic objective to invest in businesses which face difficult commercial or financial challenges, the short term trading situation is not necessarily indicative of an investment's underlying commercial value. The directors consequently believe that it is appropriate for an investment to be fair valued based on the price of the recent transaction, for a limited period after acquisition unless it is believed that there are compelling reasons to the contrary. The main reasons to adjust the initial valuation would be either an impaired trading outlook or a realisation, refinancing, an offer or a significant and sustainable improvement in underlying trading and commercial prospects
- Generally the earnings multiple basis of valuation will be used unless this is inappropriate, as in the case of certain asset-based businesses. When valuing on an earnings basis, the profits before interest and tax of the current and prospective year will normally be used, depending on the predictability of future profits. Such profits will be adjusted to a maintainable basis, taxed at the full corporation tax rate, and multiplied by a price/earnings multiple. Price/earnings multiples utilised are related to comparable quoted companies and are subject to adjustments to reflect the specific circumstances of the investment
- Where a company has incurred losses, or if comparable quoted companies are not primarily valued on an earnings basis, then the valuation may be calculated with regard to the underlying net assets and any other relevant information, such as the pricing for subsequent investments by a third party in a new financing round which is deemed to be at arms length. In cases where an exit is actively being sought then any offers from potential purchasers would be relevant in assessing the valuation of an investment and are factors taken into account in arriving at the valuation
- When an investment has obtained an exit (either by listing or trade sale) after the valuation date but before finalisation of the Trust's relevant accounts (interim or final), the valuation is based on the exit valuation. In arriving at the value of an investment the percentage ownership is calculated after taking into account any dilution through outstanding warrants, options and performance-related mechanisms

Investment Manager's review continued

Investment portfolio

	Valuation at 1 Jan 2006 £m	Additions £m	Realisations £m	Gains/ (losses) £m	Valuation at 31 December 2006 £m
Investments through the Fund					
(all unlisted)					
Wolstenholme	6.4	–	–	0.3	6.7
The Music Group	2.7	–	(0.7)	–	2.0
Carron Energy	29.4	–	(36.4)	7.0	–
H&T	14.9	–	(16.3)	2.8	1.4
Advantage Healthcare	2.3	1.6	–	–	3.9
Notemachine	–	4.8	–	–	4.8
	55.7	6.4	(53.4)	10.1	18.8
Directly held investments					
Investment property – Rutland House	5.5	–	–	4.5	10.0
Cunningham Lindsey Group Inc (listed)	1.3	–	–	(0.5)	0.8
	6.8	–	–	4.0	10.8
Investment portfolio	62.5	6.4	(53.4)	14.1	29.6
Rutland Partnership – net current assets	0.8				0.7
Short dated gilts / cash	64.5				70.5
Total investments	127.8				100.8

Investments through the Fund

The Fund is a £210m private equity fund, comprising a series of limited partnerships. Through one of these, The Rutland Partnership, the Trust has committed to co-invest a total of £100m alongside other institutional investors. The Trust therefore has a 48% share of the investments made by the Fund. Investment by the Fund is typically represented by a combination of equity and shareholder loan stock, with senior management of the investee company holding a minority interest. The figures in this review relating to cost of investment are stated net of attributable transaction costs.

The Fund acquired Wolstenholme Rink PLC for £63.0m in September 2000. Wolstenholme Group Limited (Wolstenholme) and Openshaw Group Limited (Openshaw) were both subsidiaries of Wolstenholme Rink. Openshaw operated as a supplier of consumables to the UK print industry and also manufactured press chemistry and thermography for the print industry internationally. The Trust's share of the total cost of the investment in Openshaw of £7.9m was fully provided for in 2003 and an administrative receiver was appointed in January 2005.

Wolstenholme Group Limited Pigments and coatings

Acquired September 2000

	31 December 2006	31 December 2005
Cost of investment (<i>net of repayments</i>)	£4.9m	£4.9m
Valuation (<i>basis – earnings multiple</i>)	£6.7m	£6.4m
Equity interest	28.6%	28.6%
Interest in shareholder loan stock	43.9%	43.9%
% of Trust's net assets	6.9%	5.3%

Wolstenholme is a leading manufacturer of pigments and coatings for the print industry and was purchased for £34.0m, which included £17.9m of acquisition debt finance and £16.1m of equity and shareholder loan stock. The overall investment by the Fund was £14.5m comprising equity of £0.6m and shareholder loan stock of £13.9m. The Trust's share of the original cost of investment was £6.5m (£4.9m net of capital repayments).

Investment Manager's review continued

Wolstenholme benefited in 2006 from the restructuring process in the previous year and the business returned to profitability in 2006. The impact of high copper prices was in part mitigated during the year by the introduction of a copper surcharge. Wolstenholme finished the year trading strongly.

Wolstenholme's unaudited management results for the year ended 31 December 2006 showed turnover of £29.2m (2005: £27.7m), earnings before interest, tax, depreciation and amortisation (EBITDA) of £1.4m (2005: loss £0.3m), earnings before interest, tax and amortisation of goodwill (EBITA) loss of £0.2m (2005: loss £1.8m) (both before exceptional costs) and free cash flow (operating cash flow before tax and interest but after capital expenditure) of £0.2m (2005: £-0.1m). At 31 December 2006 Wolstenholme had net cash resources of £3.0m (31 December 2005: £3.0m).

The Music Group Limited Musical instruments

Acquired February 2003

	31 December 2006	31 December 2005
Cost of investment (net of repayments)	£1.3m	£2.0m
Valuation (basis – earnings multiple)	£2.0m	£2.7m
Equity interest	47.7%	47.7%
Interest in shareholder loan stock	47.7%	47.7%
% of Trust's net assets	2.1%	2.2%

In February 2003 The Music Group Limited ("TMG") completed the acquisition of the musical instrument manufacturing division of Boosey & Hawkes Plc, comprising some of the world's leading instrument and accessory brands and operating on a world-wide basis. Both the purchase price of £33.2m and a further £1.1m of working capital were funded by £19.5m of acquisition debt finance and £14.8m of equity and shareholder loan stock. The overall investment by the Fund was £14.6m comprising equity of £0.8m and shareholder loan stock of £13.8m. The Trust's share of the original cost of investment was £6.3m.

TMG has been broken up over the last two years and completed the final phase of restructuring the remaining German-based Schreiber business following the closure of its Nauheim factory in December. Its operations are now located in one modern facility in Markneukirchen which offers a lower cost base and committed work force. Schreiber has managed this transition well and achieved budget in a difficult year and the business is on course for a fresh start in 2007 with the focus switching to market and product development. During the year TMG made a capital repayment of £1.5m, of which the Trust's share was £0.7m. The Trust's remaining share of the cost of investment (net of transaction costs and capital repayments) was £1.3m.

TMG's unaudited management results for the year ended 31 December 2006 showed turnover of £13.9m (2005: £19.0m), break-even EBITDA (2005: £0.2m), EBITA loss of £0.3m (2005: loss £0.3m) (both before exceptional costs), and free cash outflow of £0.7m (2005: £0.6m). At 31 December 2006 TMG had net debt of £0.5m (31 December 2005: net cash £2.6m).

Advantage Healthcare Holdings Limited Healthcare-staffing

Acquired March 2005

	31 December 2006	31 December 2005
Cost of investment	£3.9m	£2.3m
Valuation (<i>basis – earnings multiple</i>)	£3.9m	£2.3m
Equity interest	40.3%	40.3%
Interest in preference shares	47.0%	47.0%
Interest in shareholder loan stock	47.7%	47.7%
% of Trust's net assets	4.0%	1.9%

In March 2005 the Fund completed the acquisition of a group of healthcare-staffing businesses from BUPA. The businesses were renamed Advantage Healthcare Group and form one of the UK's leading, flexible healthcare-staffing businesses providing temporary nurses, doctors, allied health professionals and carers to a range of private care-providers. The businesses were acquired for a combined consideration of £9.0m of which the Fund invested £5.5m and the remainder was funded by acquisition debt finance. The Trust's share of the cost of investment was £2.3m.

In November 2006 Advantage Healthcare completed the £4.5m acquisition from Quantica Plc of its healthcare business Quantica Healthcare, a branch based provider of healthcare staff and qualified social workers. The Fund has invested £3.5m as a follow-on investment through Advantage, which brings the total investment in Advantage from the Fund to £9.0m. The Trust's share of the total cost of investment in Advantage increased to £3.9m.

In common with the sector, the original Advantage business experienced a challenging 2006 as the NHS cash crisis disrupted the staffing market place and forced many traditional NHS suppliers into the niche markets. Advantage is targeting. This plus a reduction in one or two key accounts impacted Advantage as it migrated its business towards the growing local community nursing and care at home business that is emerging. Despite this, progress has been made across the network with a shift in the customer profile, improved margins and good cash generation.

The strategy remains to grow the business through development of the sales base in these areas and to improve the consistency of branch performance across the network. The Quantica acquisition has extended the Advantage branch network and offers a complementary customer base. The management accounts for the year ended 31 December 2006 show that Quantica made pro-forma EBITDA of £1.0m. Advantage is in the process of integrating Quantica and extracting the synergies from the combined businesses.

Advantage Healthcare's unaudited management accounts for the year ended 31 December 2006 (compared with the nine month period from acquisition to 31 December 2005) showed turnover of £31.2m (2005: £29.7m), EBITDA of £0.5m (2005: £1.1m), EBITA of £0.4m (2005: £1.0m) (both before exceptional costs) and free cash flow of £2.1m (2005: £0.4m). At 31 December 2006 net bank debt was £2.6m (31 December 2005: £3.0m). The figures outlined above do not include a consolidation of Quantica Healthcare's results from acquisition in early November 2006 until 31 December 2006, however the net debt figure at 31 December 2006 does include £1.0m of debt drawn down to fund that acquisition.

Notemachine Limited ATM services

Acquired September 2006

	31 December 2006	31 December 2005
Cost of investment	£4.8m	–
Valuation (basis – price of recent transaction)	£4.8m	–
Equity interest	38.1%	–
Interest in shareholder loan stock	47.6%	–
% of Trust's net assets	5.0%	–

In September 2006 the Fund completed the acquisition of Scott Tod PLC, a company listed on AIM. Scott Tod is an independent ATM Deployer involved in the provision of ATM services throughout the UK. The Fund invested through Notemachine Limited, a newly formed company.

Scott Tod has an installed ATM base of approximately 2,000 machines but is significantly underperforming its competitors, reporting operating losses of £1.1m on turnover of £10.3m for the year ended 31 December 2005. Rutland appointed Peter McNamara as Chairman of Scott Tod. He has extensive expertise in this sector, and it is believed that in private ownership, and with his and Rutland's support, there are excellent opportunities to improve the performance of the business and to actively develop the ATM estate. The Fund has invested £11.2m to acquire the business and fund its development. The Trust's share of the cost of investment was £4.8m.

Notemachine's unaudited management results for the four month period from acquisition to 31 December 2006 showed turnover of £2.9m, EBITDA of £0.1m, EBITA loss of £0.4m (both before exceptional costs) and free cash flow of £0.4m. At 31 December 2006 net cash was £2.3m.

In January 2007, subsequent to the balance sheet date, Notemachine Limited acquired TRM (ATM) Limited ("TRM"), the UK operations of TRM Inc. for £45.3m. TRM is a complementary business involved in the deployment of ATMs in the UK and Germany. The Fund invested £11.0m in Notemachine to support the acquisition with the balance of the funding coming from a debt package provided by Barclays and Kaupthing Singer & Friedlander. As a result, the Fund's total investment in Notemachine increased to £22.2m and the Trust's share of the cost of investment in Notemachine increased by £5.0m to £9.8m.

Fund Investments realised during the year**Carron Energy Limited** Power station

Realised April 2006

Cost – July 2004	£10.6m
Proceeds	£39.3m

Uskmouth is a 363 MW coal-fired power station near Newport in South Wales with three independent coal-fired units, 240 acres of land and a 1,250 MW connection to the National Grid. Uskmouth underwent significant refurbishment in 2000 by its former owners ensuring compliance with the latest emission standards. Re-commissioning problems and delays coupled with general turmoil in the electricity industry at that time led to the asset being left in the hands of bank lenders for more than two years.

Rutland acquired Carron Energy in July 2004 backing an experienced management team from the power generation industry to acquire Uskmouth out of Administrative Receivership. It represented an opportunity to buy a distressed asset against a background of early signs of a recovery in UK electricity prices and the inadequate state of UK power generation capacity coming into focus. The acquisition of the facility, the necessary re-commissioning projects and the working capital base for the business were initially funded by way of a £23.2m all-equity investment from Rutland, the Trust's share of which was £10.6m. In addition to the extensive work in re-commissioning the power station, Rutland and the new management created a comprehensive operational, financial and commercial infrastructure for the business. Power generation re-commenced in late 2004 and led to the introduction of bank financing and forward power sale agreements in October 2005.

Investment Manager's review continued

Following a formal auction process, in April 2006 Rutland disposed of its investment in Carron Energy to a specially formed company backed by Deutsche Bank AG for a cash consideration valuing Uskmouth at £125m. In addition, the new owner acquired the working capital of the business. Following repayment of outstanding bank debt, payment of transaction related costs and after allowing for the equity participation of Carron's management, proceeds received by investors in the Fund were £95.7m. The Trust's net share of the proceeds was £39.3m, including interest income, compared with an original cost of investment of £10.6m. The Trust's gross gain on the sale of Carron was £28.7m, allocated between capital and income as follows:

	Capital gain £m	Income £m	Total £m
Proceeds	36.4	2.9	39.3
Cost of investment	10.6	–	10.6
Gross gain	25.8	2.9	28.7

H&T Group Limited Pawnbrokers

Realised May 2006

Cost – September 2004	£8.3m
Proceeds	£18.1m
Residual valuation (<i>basis – earnings multiple</i>)	£1.4m

In September 2004 the Fund completed the acquisition through H&T Group Limited of Harvey & Thompson ("H&T") the UK's leading pawnbroker. In conjunction with this acquisition, a majority equity stake was also acquired in Svensk Pantbelaning AB ("SP"), Sweden's leading pawnbroker. Both H&T and SP were acquired from Cash America International, Inc. H&T was acquired on a debt-free/cash-free basis for a consideration of £49.0m, the acquisition being funded with £15.4m from the Fund and a bank debt package. The Fund has invested SEK 40m (£3.0m) as part of a SEK 319m (£23m) refinancing of SP. The Fund's total cost of investment in H&T and SP was £18.4m of which the Trust's share was £8.3m.

Since acquiring H&T, Rutland reshaped the senior management team, oversaw an improvement in the efficiency of the operations, supported the management to develop new products and accelerated the roll-out of new stores. This resulted in the strong underlying growth of the business and paved the way for a flotation on AIM. In May 2006 Rutland realised its investment in H&T for cash through an AIM listing. The enterprise value of H&T on flotation was £91.9m and the market capitalisation was £54.2m. The proceeds received by the Fund, after costs and management's equity, were £44.5m, the Trust's net share of which was £18.1m, including interest income, compared with an original cost of investment of £6.9m. The Trust's gross gain on the sale of H&T was £11.2m, allocated between capital and income as follows:

	Capital gain £m	Income £m	Total £m
Proceeds	16.3	1.8	18.1
Cost of investment	6.9	–	6.9
Gross gain	9.4	1.8	11.2

Following the disposal of H&T, Rutland has retained the Fund's £3.0m controlling investment in SP (Trust share £1.4m). SP's unaudited management results for the year ended 31 December 2006 showed net revenue of £6.8m (2005: £6.6m), EBITDA of £2.8m (2005: £2.4m), EBITA of £2.6m (2005: £2.1m) (both before exceptional costs), and free cash flow of £3.1m (2005: £3.2m). At 31 December 2006 net bank debt was £17.8m (31 December 2005: £18.6m).

Directly held investments

The Trust also directly holds investments which were originally acquired prior to the change of its status to an investment trust

Rutland House Investment property

Acquired June 1987

	31 December 2006	31 December 2005
Valuation (<i>basis – fair value</i>)	£10.0m	£5.5m
% of Trust's net assets	10.4%	4.5%

The valuation of the Trust's investment property Rutland House, in Knightsbridge, was increased by £2.0m to £7.5m at 30 June 2006. A further review was carried out at 31 December 2006 to take account of market conditions for properties of a similar type and location, and the directors, following discussions with the Trust's property advisors, considered it appropriate to increase the value at 31 December 2006 by a further £2.5m to £10.0m.

The property was marketed for sale in February 2007, at a time when property values in the Knightsbridge area in particular were experiencing significant appreciation. Contracts were exchanged for the deferred sale of the property to CPC Group, an investment consortium from Guernsey, for £18.25m although completion will not take place until the end of June 2007.

Cunningham Lindsey Group Loss adjusting/claims handling

Acquired October 1998

	31 December 2006	31 December 2005
Valuation (<i>basis – bid price</i>)	£0.8m	£1.3m
Equity interest	2.4%	2.4%
% of Trust's net assets	0.8%	1.1%

Cunningham Lindsey is listed on the Toronto Stock Exchange and through its subsidiaries provides policy administration and independent insurance claims and loss management services to insurance companies, self-insured, government agencies and independent organisations worldwide.

Michael Langdon, Chairman, Rutland Partners LLP
10 April 2007

Corporate information

Directors

OHJ Stocken	Independent Chairman
RJJ Wickham	Senior Independent Director
Dr R Hawley CBE	Independent Director
MRF Langdon	Chairman, Rutland Fund Management Limited

Registered number

1491292 England

Secretary and registered office

N A Moss
Rutland Trust PLC
Rutland House, Rutland Gardens, London SW7 1BX
Telephone 020 7225 3391
Fax 020 7225 1364
E-mail info@rutlandtrust.co.uk
Website www.rutlandtrust.co.uk

Investment Manager

Rutland Fund Management Limited
Rutland House, Rutland Gardens, London SW7 1BX
Telephone 020 7556 2600
Fax 020 7581 8766
E-mail info@rutlandpartners.com
Website www.rutlandpartners.com

Registrars

Capita Registrars
The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU
Telephone 0870 162 3100
Fax 020 8639 2342
E-mail ssdblueco@capitaregistrars.com

Independent Auditor

KPMG Audit Plc
1-2 Dorset Rise, London EC4Y 8EN

Stockbrokers

JPMorgan Cazenove Limited
20 Moorgate, London EC2R 6DA

Solicitors

Taylor Wessing
Carmelite, 50 Victoria Embankment, Blackfriars, London EC4Y 0DX

Slaughter and May
One Bunhill Row, London EC1Y 8YY

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Report of the directors

The directors present their Report and the audited financial statements for the year ended 31 December 2006

Principal activities

Rutland Trust PLC ("the Company") is an investment company as defined by section 266 of the Companies Act 1985 and has directed its affairs during the year ended 31 December 2006 in order to qualify as an Investment Trust under section 842 of the Income and Corporation Taxes Act 1988

Financial statements

The Company is reporting on the year ended 31 December 2006. The financial statements have been prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies" issued in January 2003 and revised in December 2005. The Company is required to prepare its financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("adopted IFRS")

Investment Manager

The Investment Manager is Rutland Fund Management Limited ("RFML"), which is authorised and regulated by the Financial Services Authority. Under the terms of its investment management agreement with the Company, RFML provides investment management and general administrative services to the Company, with specific responsibility for managing the Company's directly held portfolio of investments. Details of the investment management arrangements, including details of compensation for early termination, are set out in Note 4.

The Company also invests through The Rutland Partnership, a limited partnership which co-invests in a private equity fund known as The Rutland Fund. RFML Partners Limited, a wholly owned subsidiary of RFML, is the General Partner to The Rutland Partnership while Rutland Partners LLP, another subsidiary of RFML, has responsibility for managing the Company's commitment to this partnership.

In the opinion of the directors, the continuing appointment of RFML as Investment Manager, on the terms set out in the investment management agreement between the Company and RFML, and of its subsidiaries as General Partner to and Manager of The Rutland Partnership, is in the best interests of shareholders as a whole. This opinion is based on a number of factors, including the alignment of investment objectives and timeframes between the Trust and RFML, the historical and close relationship with, and the relevant experience and skills of, RFML's investment management team, RFML's track record of making and exiting investments, and the experience and direct knowledge of RFML's financial and administrative support team.

Directors and directors' interests

The present directors of the Company are listed on page 13 and all served throughout the year. MRF Langdon is Chairman and a major shareholder of RFML. With the exception of these interests, no director was otherwise materially interested in any contract or arrangement with the Company which was significant in relation to the Company's business. An analysis of the directors' beneficial interests in the shares of the Company is given in the directors' remuneration report.

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Results

The Group's consolidated results for the year ended 31 December 2006 are set out on page 24. The Group reported a profit before tax of £19,154,000 (2005: £26,169,000) including net capital gains of £13,280,000 (2005: £20,820,000). The Company reported a profit before tax of £18,890,000 (2005: £26,130,000) including net capital gains of £10,772,000 (2005: £20,813,000).

Repurchase of shares

On 16 August 2006 the Company returned £30.0m to shareholders by way of a repurchase of 50m shares of 60p per share, pursuant to a Tender Offer. The Shares were subsequently cancelled and the Company's ordinary shares in issue reduced from 195.87m to 145.87m.

Dividends

An interim dividend of 1.6p per share amounting to £2.3m (2005: 0.4p totalling £0.8m) was paid on 27 October 2006. This included a 1.1p special dividend of £1.6m relating to the realisations of Fund investments. A final dividend of 1.0p per share amounting to £1.5m (2005: 5.3p totalling £10.4m, including a 5.0p special dividend of £9.8m) is now proposed which, if approved, will be paid on 24 May 2007 to shareholders on the Register at the close of business on 27 April 2007.

Tax status

The Inland Revenue's practice is that the approval of Investment Trust status under section 842 of the Income and Corporation Taxes Act 1988 (section 842) will not be given until after the relevant period. However, in the opinion of the directors, the Company's affairs for the year ended 31 December 2006 have been conducted so as to enable it to carry on the business of an Investment Trust. In addition, they are of the opinion that the Company is not a close company within the provisions of the Income and Corporation Taxes Act 1988. The Company has received from the Inland Revenue approval of Investment Trust status under section 842 in respect of the year ended 31 December 2005.

Donations

During the year, the Group made charitable donations of £2,000 (2005: £nil).

Financial risk

Information on the financial risk applicable to the Company is included in Note 27.

Report of the directors continued

Insurance

The Company has maintained insurance for its directors and officers against liabilities in relation to the Company

Creditor payment policy

The supplier payment policy for Group companies is to agree terms and conditions for business transactions with suppliers. Payment is then made on these terms, subject to the terms and conditions being met by the supplier. Creditors of the Company at 31 December 2006 were equivalent to 5 days' purchases, based on the average daily amount invoiced by suppliers to the Company during the year.

Substantial shareholdings

The directors have been notified that the following have interests of 3% or more in the issued ordinary share capital of the Company

	Number of ordinary shares	Percentage of the issued share capital
Deutsche Bank AG	33,459,098	22.94
Geyser S A	32,400,000	22.21
Schroder Investment Management Limited	9,655,577	6.62
Fidelity International Limited	9,326,316	6.39
Asset Value Investors Limited	6,709,646	4.60
MRF Langdon	6,446,818	4.42

The Company has not received any notification of any other interests or group of interests held by persons acting together which at 10 April 2007 represented 3% or more of the issued ordinary share capital of the Company

Annual General Meeting – special business

At the Annual General Meeting to be held on 16 May 2007, the Notice of which is set out on page 42, resolutions will be proposed on the items of special business set out below. Each of these Resolutions was approved at the previous Annual General Meeting on 18 May 2006 and it is therefore the intention only to renew the authority

(i) To authorise the allotment of shares (Resolution 8)

The directors consider it to be in the best interests of the Company that they should continue to have the power to allot authorised but unissued share capital. A general authority is sought to allot unissued shares up to a maximum nominal amount of £814,000, representing one-third of the authorised but unissued share capital of the Company.

(ii) To disapply Section 89 of the Companies Act 1985 (Resolution 9)

The directors consider it to be in the best interests of the Company that they should continue to have the power to allot a relatively small number of shares, to enable the Company to act quickly should a suitable opportunity arise. Authority is therefore sought to disapply the pre-emption provisions of Section 89 of the Companies Act 1985 in respect of ordinary shares up to an aggregate nominal amount of £73,000, representing 5% of the Company's issued ordinary share capital at 31 December 2006.

(iii) To authorise the directors to purchase the Company's own shares (Resolution 10)

The directors consider that in certain circumstances market purchases of the Company's own shares, up to an aggregate nominal amount of £219,000 representing 15% of the Company's issued ordinary share capital at 31 December 2006, could be beneficial to all shareholders having due regard to the overall business activity and the effect on net asset value per share. This general authority, which is contained in the Articles of Association, was given at the previous Annual General Meeting and is renewed at each Annual General Meeting.

The Company is also allowed to purchase its own shares either for holding in "treasury" for future sale, or for subsequent cancellation. Shares held in treasury will have no voting, dividend or other rights. The Board considers that the purchase of shares into treasury could be beneficial to shareholders in the long term. Consequently, of the £219,000 issued ordinary share capital of the Company at the date of this proposed Resolution which may be bought back by the Company pursuant to this Resolution, up to £145,800 (being approximately 10% of the issued ordinary share capital) may be used for the Company to buy back its shares into treasury. The disapplication of pre-emption provisions pursuant to the proposed Resolution 8 above, if approved by shareholders, will also apply to shares held in treasury which are to be sold.

Auditor

KPMG Audit Plc have expressed their willingness to continue as auditor to the Company and in accordance with Section 385 of the Companies Act 1985 a resolution concerning their reappointment as auditor will be proposed at the forthcoming Annual General Meeting.



By Order of the Board

NA Moss, Secretary

10 April 2007

Business review

This review has been prepared by the directors in accordance with the requirements of Section 234ZZB of the Companies Act 1985, and forms part of the directors' report. The Company's independent auditor is required by law to report on whether the information given in the directors' report (including the business review) is consistent with the financial statements, and this opinion is included in the report of the independent auditor on page 23.

Objectives

Rutland Trust PLC ("the Company") is an investment company as defined by section 266 of the Companies Act 1985 and has directed its affairs during the year ended 31 December 2006 in order to qualify as an Investment Trust under section 842 of the Income and Corporation Taxes Act 1988.

Risk management

The Board carries out a regular review of the risk environment in which the Company operates. The main areas of risk identified by the Board are as follows:

(i) Investment

The primary business risks of the Company are the identification and evaluation, management and subsequent realisation of value of its investments. Further information is set out on page 21.

(iii) Investment trust qualifying status

The Company is required at all times to observe the conditions set out in section 842 of the Income and Corporation Taxes Act 1988 to ensure the annual approval of investment trust status. The loss of such approval could lead to the Company losing its exemption from corporation tax on capital gains. The manager keeps the Company's investment trust qualifying status under continual review and reports to the Board at Board meetings.

(iii) Financial

The Company maintains a level of liquid resources by way of cash or short-term gilt edged securities which would enable it to meet its commitments to the Fund and repay its borrowings if required. Accordingly, the Company is subject to changes in prevailing interest rates. In view of the liquidity of its cash and gilts resources, the Company regards its liquidity risk as low.

(iv) Internal controls

The Board regularly reviews the effectiveness of the Company's internal controls, including its financial, operational and compliance controls. These include controls designed to ensure that the Company's assets are safeguarded and that the proper accounting records are maintained. Further information is set out on page 21.

Key performance indicators

The Board monitors the performance of the Company against certain key performance indicators:

- Share price discount to net asset value – this is benchmarked against comparable investment trusts in the sector
- Total shareholder return – this is compared against the movement in the FTSE All-Share index. Further information is set out on page 19.

Review of the business

A review of the Group's business during the year is set out in the Chairman's Statement on pages 2 to 4, which contains a financial review, details of dividends for the year, and a summary of proposals which were announced on 22 March 2007. A report on the performance of the Group's investments is set out in the Investment Manager's review on pages 5 to 12.



By Order of the Board

NA Moss, Secretary

10 April 2007

Directors' remuneration report

The Company is required to report on directors' remuneration. This report is prepared in accordance with Schedule 7A of the Companies Act 1985.

The Company's auditor is required to report on certain information contained within this report. Where information set out below has been audited it is indicated as such. The auditor's opinion is included within the auditor's report on page 23.

Remuneration committee

The Board of directors currently comprises four non-executive directors, whose details appear on page 1. Under Listing Rule 15.4.15 issued by The Financial Services Authority, where an investment trust company has no executive directors the Code principles relating to directors' remuneration do not apply. Accordingly, the Board does not maintain a Remuneration Committee, and all matters relating to directors' remuneration are considered by the Board as a whole.

Consideration of matters relating to directors' remuneration

The remuneration policy is set by the Board and is described below. The Board has access to independent advice where it considers it appropriate. During the year ended 31 December 2006 no such advice was sought.

Remuneration policy

All of the directors of the Company are non-executive, and their remuneration is based upon the time required to attend Board and Committee meetings at a level of remuneration set in relation to market rates and comparable Investment Trusts. The Chairman remains available to attend such other meetings as are required from time to time in respect of the Group's activities.

The Company's Articles of Association limit fees payable to the directors to £250,000 per annum in aggregate, or such higher amount as may from time to time be decided by ordinary resolution of the Company. Directors' fees payable during the year totalled £120,000, as set out in the table below. No directors' remuneration is performance related and directors are not eligible for bonuses, pension benefits, share options, long term incentive schemes or other benefits.

It is the intention of the Board that the remuneration policy will continue to apply in the forthcoming financial year.

Directors' remuneration (audited)

The information in this section has been subject to audit. Directors' remuneration comprises only fees, payable quarterly in arrears. The directors who served during the year received the following remuneration:

	2006 £000	2005 £000
OHJ Stocken (Chairman)	48	48
RJJ Wickham	24	24
Dr R Hawley	24	24
MRF Langdon	24	24
Total	120	120

Directors' interests

The directors' beneficial interests in the ordinary shares of 1p each in the Company were:

	At 31 December 2006 Fully Paid	At 31 December 2005 Fully Paid
OHJ Stocken (Chairman)	200,000	200,000
RJJ Wickham	6,000	6,000
Dr R Hawley	25,000	25,000
MRF Langdon	6,446,818	6,446,818

There has been no change in directors' interests between 31 December 2006 and 10 April 2007. No director retains any share options. The Company's register of directors' interests (which is open to inspection) contains full details of directors' shareholdings. The beneficial interests of MRF Langdon include family interests.

Directors' remuneration report continued

Service contracts

No director has a service contract with a notice or contract period of more than one year or with provisions for pre-determining compensation on termination of an amount which exceeds one year's fees. The Company's Articles of Association provide that directors shall retire and be subject to election at the first Annual General Meeting after their appointment, and at least every three years thereafter.

Total shareholder return

The graph below charts the cumulative total return (on the assumption that all dividends are reinvested) to ordinary shareholders in the Company in the five years ended 31 December 2006. This return is compared to the movement in the FTSE All-Share index because this is the index commonly used by investment trusts as a comparison.

Approval of report

This directors' remuneration report was approved by the Board of directors on 10 April 2007. An ordinary resolution for the approval of this report will be put to shareholders at the forthcoming Annual General Meeting.



O.H.J. Stocken, Chairman

Corporate governance

The Company is committed to high standards of corporate governance throughout the Group. The Board of directors ("the Board") confirms that the Company has complied throughout the year ended 31 December 2006 with the nine provisions of The Combined Code on Corporate Governance issued by The Financial Reporting Council in July 2003 ("the Code"). The Board is accountable to the Company's shareholders for good governance and this statement describes how the principles identified in the Code are applied to the Company.

The Board

The Board comprises four non-executive directors, as set out on page 1. All are considered by the Board to be wholly independent under the Code with the exception of MRF Langdon, who is Chairman of the Investment Manager, Rutland Fund Management Limited ("RFML"), as described on page 15.

The Board meets at least on a quarterly basis. The Board receives information that it considers to be sufficient and appropriate to enable it to discharge its duties. There is a schedule of matters reserved for the Board and each director receives board papers several days in advance of each scheduled Board meeting. Individual directors may seek independent professional advice in furtherance of their duties at the Company's expense and within certain parameters. All directors have access to the advice and services of the Company Secretary. Any question of the removal of the Company Secretary would be a matter for consideration by the Board as a whole. The Board met five times during the year, attended by all directors with the exception of one meeting which Dr R Hawley was unable to attend.

The Board has established a formal process, led by the Chairman, for the annual evaluation of its own performance and that of its committees and individual directors. The Chairman conducts appraisals of the other directors, while the Senior Independent Director conducts appraisals of the Chairman, taking into account the views of the other directors. The annual performance evaluation was conducted in respect of the year to 31 December 2006 and the Board concluded that its performance, and that of its committees and directors, was effective and satisfactory.

Re-election

The Company's Articles of Association provide that directors shall retire and be subject to election at the first Annual General Meeting after their appointment, and at least every three years thereafter. Any director who reaches the age of 70 or who is a representative of the Investment Manager is also subject to annual re-election. Accordingly, resolutions will be put to the forthcoming Annual General Meeting to re-elect RJJ Wickham (aged 73), Dr R Hawley (aged 70) and MRF Langdon (Chairman of the Investment Manager). Biographical details of the directors appear on page 1.

Remuneration Committee

Under Listing Rule 15.4.15 issued by The Financial Services Authority, where an investment trust company has no executive directors the Code principles relating to directors' remuneration do not apply. Accordingly, the Board does not maintain a Remuneration Committee and all matters relating to directors' remuneration are considered by the Board as a whole. The directors' remuneration report is set out on pages 18 and 19.

Nomination Committee

The Nomination Committee is authorised to make appropriate recommendations to the Board. It meets on an ad hoc basis and comprises OHJ Stocken (Chairman), RJJ Wickham and Dr R Hawley. The Nominations Committee did not meet during the year.

Audit Committee

The Audit Committee operates within written terms of reference setting out its authority and duties. It will meet a minimum of twice a year to approve interim and year end results, and on an ad hoc basis when required. It met four times during the year, each attended by all members of the Committee. It currently comprises RJJ Wickham (Chairman), Dr R Hawley and OHJ Stocken. The Chairman also has a direct line of access to the auditor where required. The most significant of the terms of reference include:

- monitoring the integrity of the Company's financial statements and any formal announcements relating to its financial performance,
- making recommendations to the Board in relation to the terms of engagement of the external auditor,
- meeting with the external auditor to consider their recommendations and take the appropriate action,
- reviewing the external auditor's independence and objectivity and the effectiveness of the audit process and monitoring their engagement to supply non-audit services, and
- reporting to the Board on any related matters and making recommendations on appropriate action required.

The Company does not have a dedicated internal audit function, but relies on the internal controls operated by the Investment Manager to fulfil this function. Although the Company has no employees, procedures are maintained by the Investment Manager under which its staff might raise concerns about possible improprieties relating to the Company's financial reporting or other matters.

The auditor provides certain non-audit services, details of which are included in Note 7. Auditor objectivity and independence is safeguarded by a number of factors, including the agreement of audit fees independent of the level of non-audit services, and the use of alternative accountancy firms for non-audit services.

Statement on going concern

The directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Shareholders

The directors have regular dialogue with the Company's institutional shareholders. In addition, there is an opportunity for individual shareholders to question directors at any General Meeting and the Company regularly responds to communications from shareholders on a wide range of issues. The Notice of Annual General Meeting is dispatched to shareholders not less than 20 working days before the Meeting.

Internal controls

In accordance with the requirements of the Code, the Board reviews at least annually the effectiveness of the Company's and the Group's internal controls including its financial, operational and compliance controls and risk management. The Board has continued to apply procedures necessary to comply with the requirements of the Turnbull Committee guidelines "Internal Control: Guidance for Directors on the Combined Code" for the financial year ended 31 December 2006.

The Company's investment management and administrative functions are contracted to RFML under an investment management agreement while RFML has contractually delegated its own management arrangements to a subsidiary Rutland Partners LLP ("Rutland"), which is also directly responsible for managing the Company's commitment to The Rutland Fund. References to "the Investment Manager" or "Rutland" therefore encompass all management responsibilities relating to the Company. Rutland has reported to the Board on its own control policies and procedures which are in place to ensure that the Company's objectives are met. The basis on which the Board monitors the performance of Rutland and its controls are set out below.

The Board has carried out a risk and control assessment, including a review of Rutland's risk management procedures. The directors have overall responsibility for the Company's systems of internal controls and for reviewing their effectiveness. These aim to ensure that assets of the Company are safeguarded, proper accounting records are maintained and the financial information used within the business and for publication is reliable. The identification, control and evaluation of risk is assisted by Rutland's reports. The systems of internal controls are designed to manage, rather than eliminate, risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss. These systems are regularly reviewed by the Board and accord with the Turnbull Committee guidelines.

Identification and evaluation of business risk

The primary business risks of the Company are the identification and evaluation, management and subsequent realisation of value of its investments. Rutland has discretionary management over the investments made through the Company's commitment to The Rutland Fund. Rutland includes in its process of investment appraisal a comprehensive study of potential investments in co-operation with outside resources provided by market research specialists, lawyers and accountants. The Board is apprised of potential investments by the Manager, and its breadth of expertise enables the Board to identify likely areas of risk directly with the Manager. The independent directors are available for direct dialogue with the Manager where specific skills are directly and practically relevant. In respect of the Company's directly held investments, the Board retains the authority to approve investment decisions recommended by Rutland. The identification of other business risks is delegated to Rutland which is responsible for advising the Board of any material risks. This includes a review of the internal controls applied by the portfolio investments owned by the Rutland Fund.

Control procedures

The main areas of control relate to the Company's investments and the financial controls which enable the Board to meet its responsibilities for the integrity and accuracy of the Group's accounting records. The Board delegates responsibility for the effectiveness of such controls to Rutland but monitors the performance of Rutland through its reports at each Board meeting on the following key procedures:

- Analysis of potential investments leading, where appropriate, to the preparation of a full investment report,
- Regular monitoring of completed investments by Rutland. As set out in the Investment Manager's review, Rutland works actively alongside the management teams of each investment, and is represented on the Board of directors of the investment. This enables Rutland to receive up-to-date and relevant information on the key performance indicators of the investment. Investment performance summaries are prepared and reviewed at regular meetings of Rutland's management board,
- A comprehensive report on the financial results of the Group, including its underlying investments
- A review of the various compliance tests relating to the ongoing monitoring of the ability of the Company to maintain its investment trust status under s 842 of the Income and Corporation Taxes Act 1988.

Although no system of internal control can provide absolute assurance against material misstatement or loss, the Company's system is designed to assist the directors in obtaining reasonable assurance that if any significant failings or weaknesses are identified, the necessary action is taken to deal with them as appropriate and on a timely basis. No such failings or weaknesses were identified in respect of the year to 31 December 2006.

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the group ("Group") and parent company ("Company") financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU ("adopted IFRS") and applicable law and have elected to prepare the Company financial statements on the same basis.

The Group and Company financial statements are required by law and adopted IFRS to present fairly the financial position and the performance of the Group and the Company, the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Company 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 they have been prepared in accordance with adopted IFRS, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and 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 Group 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the members of Rutland Trust PLC for the year ended 31 December 2006

We have audited the group ("Group") and parent company ("Company") financial statements (the "financial statements") of Rutland Trust PLC for the year ended 31 December 2006 which comprise the consolidated income statement, the Group and Company balance sheets, the Group and Company cash flow statements, the Group and Company statements of changes in equity and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

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 International Financial Reporting Standards as adopted by the EU ("adopted IFRS") are set out in the statement of directors' responsibilities on page 22.

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. The information given in the directors' report includes that specific information presented in the Chairman's Statement on pages 2 to 4, the Investment Manager's review on pages 5 to 12 and the total shareholder return graph on page 19 that is cross referred from the Business Review on page 17. In addition, we report to you if in our opinion the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read 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 Group's and Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with adopted IFRS, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended,
- the Company financial statements give a true and fair view, in accordance with adopted IFRS, as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 31 December 2006,
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the financial statements, Article 4 of the IAS Regulation, and
- the information given in the directors' report is consistent with the financial statements.

KPMG Audit Plc
KPMG Audit Plc

10 April 2007

23 Rutland Trust PLC

Chartered Accountants
Registered Auditor
1-2 Dorset Rise
London EC4Y 8EN

Consolidated income statement
for the year ended 31 December 2006

	Notes	2006			2005		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Realised gains and losses on investments	2	–	9,294	9,294	–	(3,529)	(3,529)
Unrealised gains and losses on investments	2	–	3,986	3,986	–	24,349	24,349
Income from investments	3	5,173	–	5,173	5,469	–	5,469
Other income	3	1,681	–	1,681	661	–	661
		6,854	13,280	20,134	6,130	20,820	26,950
Investment management fees	4	(205)	–	(205)	(175)	–	(175)
Other expenses	5	(644)	–	(644)	(465)	–	(465)
Interest payable	6	(131)	–	(131)	(141)	–	(141)
Profit before tax		5,874	13,280	19,154	5,349	20,820	26,169
Tax	8	(1,728)	351	(1,377)	(1,581)	(970)	(2,551)
Profit for the year		4,146	13,631	17,777	3,768	19,850	23,618
Earnings per 1p ordinary share				10.04p			12.06p

- (i) The total columns of this statement represent the consolidated income statement prepared in accordance with adopted IFRS. The revenue and capital columns are supplementary to this and are prepared under guidance from the Association of Investment Companies.
- (ii) The above results relate to continuing operations.
- (iii) The notes on pages 28 to 41 form part of these financial statements.

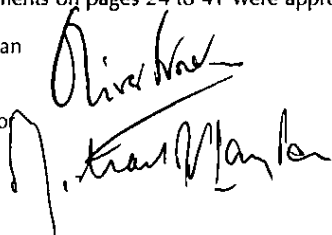
Balance sheets
at 31 December 2006

	Notes	Group		Company	
		2006 £000	2005 £000	2006 £000	2005 £000
Non-current assets					
Property, plant and equipment	11	–	97	–	–
Investments held at fair value through profit or loss	12	20,344	57,808	20,444	63,414
Investment property	13	10,000	5,500	10,000	–
		30,344	63,405	30,444	63,414
Current assets					
Cash and cash equivalents	27	70,515	64,478	70,340	64,136
Other current assets	15	856	737	872	720
		71,371	65,215	71,212	64,856
Current liabilities					
Financial liabilities	16	(2,775)	(2,871)	(2,775)	(2,871)
Current tax payable		(881)	(2,299)	(608)	(2,233)
Other current liabilities	17	(1,571)	(1,609)	(1,790)	(1,329)
		(5,227)	(6,779)	(5,173)	(6,433)
Net assets		96,488	121,841	96,483	121,837
Equity attributable to equity holders					
Called up equity share capital	19	1,459	1,959	1,459	1,959
Share premium account	20	28,079	28,079	28,079	28,079
Capital redemption reserve	20	1,700	1,200	1,700	1,200
Retained earnings					
Capital reserve – realised	20	64,853	60,807	60,360	55,854
Capital reserve – unrealised	20	(7,052)	13,778	(11,275)	12,305
Revenue reserve	20	7,449	16,018	16,160	22,440
Equity shareholders' funds		96,488	121,841	96,483	121,837
Net asset value per share		66 15p	62 20p	66 15p	62 20p

- The notes on pages 28 to 41 form part of these financial statements
- The financial statements on pages 24 to 41 were approved by the Board of Directors on 10 April 2007

OHJ Stocken, Chairman

MRF Langdon, Director



Cash flow statements
for the year ended 31 December 2006

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Cash flows from operating activities				
Profit before tax	5,874	5,349	8,118	5,317
Depreciation	97	23	-	-
(Increase)/decrease in debtors	(381)	(55)	(414)	38
(Decrease)/increase in creditors	(38)	(91)	461	37
Tax paid	(2,795)	(562)	(2,739)	(493)
Net cash flow from operating activities	2,757	4,664	5,426	4,899
Cash flows from investing activities				
Purchase of investments	(6,991)	(2,671)	(14,491)	(2,671)
Sale of investments	53,497	24,189	58,495	24,245
Net cash flow from investing activities	46,506	21,518	44,004	21,574
Cash flows from financing activities				
Dividends paid	(12,715)	(1,371)	(12,715)	(1,371)
Repurchase of own shares	(30,415)	-	(30,415)	-
Repayment of financial liabilities	(96)	(229)	(96)	(229)
Repayment of financial assets	-	250	-	250
Net cash flow from financing activities	(43,226)	(1,350)	(43,226)	(1,350)
Net increase in cash and cash equivalents	6,037	24,832	6,204	25,123
Cash and cash equivalents at 1 January	64,478	39,646	64,136	39,013
Cash and cash equivalents at 31 December	70,515	64,478	70,340	64,136
Cash and cash equivalents at 31 December				
Investments – short dated gilts	53,907	34,530	53,907	34,530
Cash	16,608	29,948	16,433	29,606
	70,515	64,478	70,340	64,136

The notes on pages 28 to 41 form part of these financial statements

Statements of changes in equity
for the year ended 31 December 2006

	Share capital £000	Share premium £000	Capital redemption reserve £000	Capital reserve realised £000	Capital reserve unrealised £000	Revenue reserve £000	Total £000
Group							
Year ended 31 December 2006							
Total equity at 1 January 2006	1,959	28,079	1,200	60,807	13,778	16,018	121,841
Changes in equity							
Net profit for the year	–	–	–	9,076	4,555	4,146	17,777
Transfer on disposal of investments	–	–	–	25,385	(25,385)	–	–
Total recognised income and expenses	–	–	–	34,461	(20,830)	4,146	17,777
Repurchase of own shares	(500)	–	500	(30,415)	–	–	(30,415)
Dividends	–	–	–	–	–	(12,715)	(12,715)
Equity changes during the year	(500)	–	500	4,046	(20,830)	(8,569)	(25,353)
Total equity at 31 December 2006	1,459	28,079	1,700	64,853	(7,052)	7,449	96,488

Group							
Year ended 31 December 2005							
Total equity at 1 January 2005	1,959	28,079	1,200	51,411	3,324	13,621	99,594
Changes in equity							
Net profit for the year	–	–	–	(3,529)	23,379	3,768	23,618
Transfer on disposal of investments	–	–	–	12,925	(12,925)	–	–
Total recognised income and expenses	–	–	–	9,396	10,454	3,768	23,618
Dividends	–	–	–	–	–	(1,371)	(1,371)
Equity changes during the year	–	–	–	9,396	10,454	2,397	22,247
Total equity at 31 December 2005	1,959	28,079	1,200	60,807	13,778	16,018	121,841

Company							
Year ended 31 December 2006							
Total equity at 1 January 2006	1,959	28,079	1,200	55,854	12,305	22,440	121,837
Changes in equity							
Net profit for the year	–	–	–	9,536	1,805	6,435	17,776
Transfer on disposal of investments	–	–	–	25,385	(25,385)	–	–
Total recognised income and expenses	–	–	–	34,921	(23,580)	6,435	17,776
Repurchase of own shares	(500)	–	500	(30,415)	–	–	(30,415)
Dividends	–	–	–	–	–	(12,715)	(12,715)
Equity changes during the year	(500)	–	500	4,506	(23,580)	(6,280)	(25,354)
Total equity at 31 December 2006	1,459	28,079	1,700	60,360	(11,275)	16,160	96,483

Company							
Year ended 31 December 2005							
Total equity at 1 January 2005	1,959	28,079	1,200	46,465	1,851	19,996	99,550
Changes in equity							
Net profit for the year	–	–	–	(3,536)	23,379	3,815	23,658
Transfer on disposal of investments	–	–	–	12,925	(12,925)	–	–
Total recognised income and expenses	–	–	–	9,389	10,454	3,815	23,658
Dividends	–	–	–	–	–	(1,371)	(1,371)
Equity changes during the year	–	–	–	9,389	10,454	2,444	22,287
Total equity at 31 December 2005	1,959	28,079	1,200	55,854	12,305	22,440	121,837

Notes to the financial statements

1 Accounting policies

The principal accounting policies adopted in the preparation of these financial statements for the year ended 31 December 2006 are set out below. Both the Company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRS"). On publishing the Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved financial statements. These policies have been consistently applied to all previous periods presented.

(a) Basis of preparation

The financial statements have been prepared in accordance with adopted IFRS and under the historical cost convention, as modified by the revaluation of investments and the investment property held at fair value, using the accounting policies set out below. Where presentational guidance set out in the Statement of Recommended Practice ("SORP") for investment trusts, issued by the Association of Investment Trusts in January 2003 and revised in December 2005, is consistent with the requirements of adopted IFRS, the Company has sought to prepare the financial statements on a basis compliant with the recommendations of the SORP. IFRS 7 'Financial instruments: disclosure' was available for early adoption but has not been applied by the Company in these financial statements.

(b) Basis of consolidation

The consolidated accounts incorporate the financial statements of the Company and entities controlled by the Company made up to the end of the financial period. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

(c) Investments

The Company's investments are all classified as investments and are designated at fair value through profit or loss. Gains and losses on realisation are dealt with through the income statement and taken to the realised capital reserve. The difference between the fair value of investments and cost is shown as an unrealised gain or loss in the income statement and taken to unrealised capital reserve. All purchases and sales of investments are regular way transactions under contracts whose terms require delivery of the financial asset within the time frame established generally by regulation or convention in the marketplace concerned.

The Rutland Fund ("the Fund") is a £210 million private equity fund comprising a series of limited partnerships. As a limited partner in one of these, The Rutland Partnership ("RP"), the Company has committed to co-invest a total of £100 million to the Fund. The Company's interest in RP, and specifically in RP's underlying assets which include the Company's unlisted investments made through the Fund, is classified as an investment and is designated at fair value through profit or loss. RP is a vehicle for holding the investments, and the investment in RP has been valued having regard to its underlying investments. Any gain or loss in the Company's investment in RP is recognised in the income statement. RP's net income is treated in the income statement either as a revenue item or as a realised capital movement, depending on their allocation to the Company. The accounting for the investment in RP is the same for the Company and the Group.

In valuing the Company's investment in RP, the underlying investments of RP are valued at fair value according to the following rules and also in accordance with International Accounting Standards and International Private Equity and Venture Capital Valuation Guidelines which have been adopted by the British Venture Capital Association. The International Private Equity and Venture Capital Valuation Guidelines meet the definition of fair value. The principles of valuation for each type of investment are as follows:

(i) Unlisted investments

To determine the fair value of the investment in RP, the underlying investments are valued based on price of recent transaction, open market valuation, earnings multiple or net assets. Consideration is also given to the period since acquisition, whether any specific event has arisen to change materially the fair value, and in the case of an exit after the valuation date the timing of the accounts. The policy for valuing unlisted investments is set out in full in the Investment Manager's review.

(ii) Listed investments

Investments which are listed are stated at the quoted bid price.

(iii) Investment property

Investment properties are properties which are held to earn rental income and for capital appreciation. Investment properties are stated at fair value having regard to the current market conditions and prices in an active market for similar properties in the same location and condition and subject to similar lease contracts.

(d) Cash and cash equivalents

Cash and cash equivalents comprise:

(i) Cash

This includes cash and call deposits.

1 Accounting policies (continued)

(ii) Short dated gilt edged securities

Such investments are held to finance the Company's investments and, notwithstanding the maturity date of the stock, are realisable at one day's notice. Accordingly gilt edged securities are classified as current assets and designated at fair value through profit or loss. Gilts are valued at bid price.

(e) Income from investments

The significant policies relating to income from investments comprise

(i) Income from The Rutland Partnership

Income of RP is allocated initially against expenses of RP, including expenses of the partnership and priority profit share. This represents a repayment of an interest free-loan from the Company, and accordingly this proportion of net income is treated by the Company as a realised capital movement. The remaining net income allocated to the Company from RP is treated as revenue.

(ii) Income from investment properties

Rental income from investment properties is recognised on a straight line basis over the term of the lease.

(iii) Dividends

Dividends receivable from equity shares are recognised when the right to receive payment is established. For quoted shares this right is taken as established when the share goes ex-dividend.

(iv) Interest from gilts

Interest from gilt edged securities is taken to income using the effective interest rate method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(f) Transaction costs

Transaction costs incurred by RP which are incidental to the acquisition of its underlying investments are treated as a fair value movement and shown as a realised capital loss in the income statement.

(g) Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. The current tax charge recognises income which must be accrued for tax purposes but which is not recognised in the income statement in the current period, in accordance with the Company's accounting policies.

(h) Deferred tax

Deferred tax is recognised in full using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Where a valuation implies that income will be received on realisation this is reflected within capital and recognised within revenue when received. Due to the Company's status as an investment trust, and the intention to continue to meet the conditions required to obtain approval in the foreseeable future, the Company has not provided for deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

(i) Property, plant and equipment

Property, plant and equipment are written off on a straight line basis over their estimated useful lives as follows:

Computers and office equipment	3–5 years
Fixtures and fittings	5–10 years

(j) Capital reserves

Gains and losses on investments realised are accounted for in the realised capital reserve. Increases and decreases in the valuation of investments held are accounted for in the unrealised capital reserve.

(k) Expenses

Expenses are accounted for on an accruals basis and are wholly charged to revenue within the income account with the following exceptions:

- (i) Transaction costs – as in Note 1(f) above
- (ii) Expenses which are incidental to the disposal of investments are deducted from the disposal proceeds of the investment.

(l) Vendor loan notes

Vendor loan notes, which were issued in 1989 as part consideration for the acquisition of former subsidiaries, are classified as financial liabilities and are held at amortised cost.

Notes to the financial statements continued

1 Accounting policies (continued)

(m) Financial guarantees

The Company has adopted the amendments to IAS 39 and IFRS 4 in relation to financial guarantee contracts which apply for periods commencing on or after 1 January 2006. Where the Company enters into financial guarantee contracts to guarantee the indebtedness of companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

(n) Key judgements

Certain judgements have been made in the process of applying the Company's accounting policies which have an effect on the amounts recognised in the financial statements. The most significant of these relate to the basis of valuation of RP's unlisted investments, the reliability of the Toronto Stock Exchange in respect of the valuation of Cunningham Lindsey, and the state of the property market in respect of the valuation of the Company's investment property at 31 December 2006.

(o) Key assumptions

Certain assumptions have been made that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The most significant of these relate to the potential realisation of income in next accounting period, the corporate tax rate and the assumption that section 842 clearance is obtained from the Inland Revenue in respect of the Company's investment trust status for the current year.

(p) Dividends payable

Interim dividends are recognised when paid. Final dividends are recognised as a liability when they are approved by shareholders at the Annual General Meeting.

2 Gains/(losses) on investments

	2006 £000	2005 £000
Realised		
Disposal of unlisted investments (i)		
Realised gain	35,194	7,799
Unrealised gains previously recognised	(25,385)	(12,925)
	9,809	(5,126)
The Rutland Partnership (ii)	-	1,863
Transaction costs	(568)	(265)
Gilt edged securities	53	(1)
	9,294	(3,529)
Unrealised		
Unlisted investments	264	23,903
Listed investments	(463)	272
Investment property (iii)	4,500	-
Gilt edged securities	(315)	174
	3,986	24,349
Total	13,280	20,820

(i) Realised gains of £35.2 million comprise capital proceeds less costs in respect of the realisation of RP's share of the investments in Carron Energy and H&T Group. The gain on Carron was £25.8 million, comprising proceeds of £36.4 million less cost of £10.6 million. The gain on H&T Group was £9.4 million, comprising proceeds of £16.3 million less cost of £6.9 million. Proceeds excluded income of £4.7 million, comprising £2.9 million from Carron and £1.8 million from H&T Group.

(ii) As described in Note 1(e)(i) a proportion of the net income of RP allocated to the Company is treated as a realised capital movement. This comprises investment income of £1,786,000 (2005: £3,403,000), bank interest of £110,000 (2005: £90,000), administrative costs of £50,000 (2005: £68,000) and priority profit share of £1,846,000 (2005: £1,562,000).

(iii) The investment property was revalued upwards by £4.5 million during the year. Further information is included in Note 13.

Notes to the financial statements continued

3 Income

	2006 £000	2005 £000
Income from investments		
Income from The Rutland Partnership	3,008	3,725
Income from investment property	250	237
Interest from gilt edged securities	1,915	1,507
	5,173	5,469
Other income		
Bank deposit interest	1,681	561
Loan interest	-	2
Other income	-	98
	1,681	661

4 Investment management fees

	2006 £000	2005 £000
Investment management fee (i)	205	175
	205	175

(i) The Company's Investment Manager Rutland Fund Management Limited ("RFML") provides investment management and general administrative services to the Company. In line with the costs incurred by RFML in providing such services, an investment management fee of £205,000 per annum has been approved by the Board in respect of the year to 31 December 2006, which includes £75,000 in respect of additional services relating to the tender offer process and strategic proposals. This fee is subject to an annual review by the Board. The management agreement can be terminated by either party by giving not less than one year's notice. No compensation would be payable.

(ii) The Company has committed funds totalling £100 million to make investments through RP, in respect of which RP's General Partner is entitled to receive a priority profit share. Details of these arrangements are set out in Note 23. The priority profit share is recognised under adopted IFRS within realised capital gains and losses (Note 2).

5 Other expenses

	2006 £000	2005 £000
Directors' fees	120	120
Social security costs	4	3
Depreciation	97	23
Other administrative costs	423	319
	644	465

Details of directors' fees are given in the directors' remuneration report on page 18. The group employed no staff during the year.

6 Interest payable and similar charges

	2006 £000	2005 £000
Bank overdrafts and loans repayable within 5 years not by instalments	131	141
	131	141

Notes to the financial statements continued

7 Profit before tax

	2006 £000	2005 £000
This is stated after charging		
Amounts receivable by auditors and their associates in respect of		
Audit of these financial statements	35	29
Audit of financial statements of subsidiaries	6	8
Other services relating to taxation	38	26
All other services	12	36
Depreciation – owned tangible fixed assets	97	23

8 Tax

(a) Analysis of tax charge for the year

	2006 £000	2005 £000
Revenue		
UK corporation tax at 30% (2005 30%)		
on taxable profits for the year	1,159	2,538
Tax charge arising in respect of prior years	–	13
Current tax	1,159	2,551
Deferred tax charge/(credit)	569	(970)
	1,728	1,581
Capital		
UK corporation tax at 30% (2005 30%)		
on subsidiary taxable gains for the year	218	–
Deferred tax (credit)/charge	(569)	970
	(351)	970
	1,377	2,551

Further information is included in Note 18

(b) Factors affecting tax charge for the year

The differences between the tax assessed for the year and the standard rate of corporation tax in the UK are explained below

	2006 £000	2005 £000
Profit on ordinary activities before tax	19,154	26,169
Profit on ordinary activities multiplied by standard rate of corporation tax in UK of 30% (2005 30%)	5,746	7,851
Effect of items adjusted for tax purposes		
Timing differences – accelerated income	(569)	970
Non taxable income	(42)	(36)
Capital allowances below/(in excess of) depreciation	8	(1)
Non taxable realised capital (gains)/losses	(2,788)	1,059
Non taxable unrealised capital (gains)/losses	(978)	(7,305)
	(4,369)	(5,313)
Tax charge for the year	1,377	2,538
Tax charge arising in respect of prior years	–	13
	1,377	2,551

9 Earnings per 1p ordinary share

	2006 Pence	2005 Pence
Revenue	2.34	1.93
Capital	7.70	10.13
	10.04	12.06

(i) The total earnings per share of 10.04 pence (2005 12.06 pence) are calculated on a profit of £17,777,000 (2005 £23,618,000) and on a weighted average number of 176,968,886 shares (2005 195,872,996 shares) in issue during the year

(ii) There is no dilution in the earnings per share in respect of the current or prior year

Notes to the financial statements continued

10 Dividends

	2006		2005	
	£000	Pence per share	£000	Pence per share
Amounts recognised as distributions to equity shareholders during the year				
Final dividend – year ended 31 December 2005	587	0.3	587	0.3
Final special dividend – year ended 31 December 2005	9,794	5.0	–	–
Interim dividend – year ended 31 December 2006	729	0.5	784	0.4
Interim special dividend – year ended 31 December 2006	1,605	1.1	–	–
	12,715	6.9	1,371	0.7
Proposed final dividend for the year ended 31 December 2006				
Special dividend	–	–	9,794	5.0
Ordinary dividend	1,459	1.0	587	0.3
	1,459	1.0	10,381	5.3

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

The total dividend in respect of the financial year, which is the basis on which the requirements of Section 842 Income and Corporation Taxes Act 1988 ("Section 842") are considered, comprises

	2006		2005	
	£000	Pence per share	£000	Pence per share
Interim dividend	2,334	1.6	784	0.4
Proposed final dividend	1,459	1.0	10,381	5.3
	3,793	2.6	11,165	5.7

The Company considers that all the dividends relating to 2005 and 2006 are required to meet the minimum distribution requirements of Section 842, with the exception of 3.9p relating to the 2005 special dividend, which represented an additional dividend to meet the Board's commitment to return to shareholders profits on successful realisations.

11 Property, plant and equipment

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Cost				
At 1 January	626	626	229	229
Transfer from subsidiary undertaking	–	–	397	–
At 31 December	626	626	626	229
Depreciation				
At 1 January	529	506	229	229
Transfer from subsidiary undertaking	–	–	397	–
Provision for the year	97	23	–	–
At 31 December	626	529	626	229
Net book amount				
At 31 December	–	97	–	–
At 1 January	97	120	–	–

The property, plant and equipment comprises fixtures and fittings relating to the Group's investment property. During the year fixtures and fittings with an original cost of £397,000 were transferred to the Company from a Group subsidiary.

12 Investments held at fair value through profit or loss**(a) Valuation of investments**

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Unlisted investments – The Rutland Partnership	19,541	56,542	19,541	56,542
Listed investments	803	1,266	803	1,266
Subsidiary undertakings	–	–	100	5,606
Valuation	20,344	57,808	20,444	63,414
Cost	32,572	44,452	32,672	49,308
Unrealised gains/(losses)	(12,228)	13,356	(12,228)	14,106
Valuation	20,344	57,808	20,444	63,414

The valuation of the Group's investments comprises

	2006 £000	2005 £000
Equity shares	4,247	29,143
Fixed interest shareholder loan stock	16,097	28,665
	20,344	57,808

(b) Movements in investments

	Unlisted investments The Rutland Partnership £000	Listed investments £000	Total £000
(i) Group			
1 January 2006			
Cost	36,955	7,497	44,452
Unrealised gains/(losses)	19,587	(6,231)	13,356
Valuation at 1 January 2006	56,542	1,266	57,808
Movements in the year			
Purchases at cost	6,991	–	6,991
Disposals – proceeds	(53,497)	–	(53,497)
Disposals – realised gains based on carrying value at previous balance sheet date	9,809	–	9,809
Other realised losses	(568)	–	(568)
Movement in unrealised gains/(losses)	264	(463)	(199)
Valuation at 31 December 2006	19,541	803	20,344
At 31 December 2006			
Cost	25,075	7,497	32,572
Unrealised gains/(losses)	(5,534)	(6,694)	(12,228)
Valuation	19,541	803	20,344

The Company makes investments as a limited partner through RP. The Company's investment in RP takes the form of loans and a small element of capital. The underlying investments of RP, together with the underlying value of the net current assets of RP, are included in the Group balance sheet as fixed asset investments designated as fair value through profit or loss and valued in accordance with the Group's accounting policy for investments set out in Note 1. In the Company's balance sheet RP is valued at an amount reflecting its underlying net asset value. Further information is set out in Note 23.

At 31 December 2006, the investment in RP has been invested in equity of £2,303,000 (2005: £2,204,000) and shareholder loan stock of £23,943,000 (2005: £36,210,000) and excludes transaction costs of £1,884,000 (2005: £2,281,000). Further analysis of the Group's investments is given in Note 14.

Notes to the financial statements continued

12 Investments held at fair value through profit or loss (continued)

(ii) Company	Limited partnership £000	Subsidiary undertakings £000	Listed investments £000	Total £000
1 January 2006				
Cost	36,955	4,856	7,497	49,308
Unrealised gains/(losses)	19,587	750	(6,231)	14,106
Valuation at 1 January 2006	56,542	5,606	1,266	63,414
Movements in the year				
Purchases at cost	6,991	–	–	6,991
Disposals – proceeds	(53,497)	(4,998)	–	(58,495)
Disposals – realised gains based on carrying value at previous balance sheet date	9,809	150	–	9,959
Other realised gains/(losses)	(568)	92	–	(476)
Movement in unrealised gains/(losses)	264	(750)	(463)	(949)
Valuation at 31 December 2006	19,541	100	803	20,444
At 31 December 2006				
Cost	25,075	100	7,497	32,672
Unrealised gains/(losses)	(5,534)	–	(6,694)	(12,228)
Valuation	19,541	100	803	20,444

13 Investment property

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Cost	3,277	3,277	7,500	–
Unrealised gains	6,723	2,223	2,500	–
Valuation at 31 December	10,000	5,500	10,000	–
Valuation at 1 January	5,500	5,500	–	–

The Company's freehold property at Rutland House, Rutland Gardens, London SW7 is classified as an investment property. It was last valued externally in December 2002 by FPD Savills, at £4.75 million. The directors increased the valuation of the property by £2.0 million to £7.5 million at 30 June 2006. During the year, the Company reacquired the property from a Group subsidiary.

A further review was carried out at 31 December 2006 and the directors, following discussions with the Company's property advisors, considered it appropriate to increase the value at 31 December 2006 by a further £2.5 million to £10.0 million.

RFML leases the property for a current annual rent of £250,000 per annum. The lease has a ten year term expiring on 11 May 2010, although the lease may be terminated on three months' notice on 11 May 2007 or annually thereafter. In February 2007, the Company gave the appropriate notice to terminate the lease on 11 May 2007.

Notes to the financial statements continued

14 Significant interests

Through its investment in RP the Company had a significant interest in the following investments at 31 December 2006

Name of undertaking	Country of incorporation and registration	Description of shares held	Percentage of equity held	Aggregate capital and reserves £m ⁽ⁱ⁾	Earnings before interest tax and amortisation £m
Wolstenholme Group Limited (ii)	England	Ordinary	28.6%	14.2	(0.2)
The Music Group Limited (ii)	England	Ordinary	47.7%	2.9	(0.3)
Svensk Pantbelaning AB (ii)	Sweden	Ordinary	47.7%	3.0	2.6
Advantage Healthcare Group Limited (ii)	England	Ordinary	40.3%	7.1	0.4
Notemachine Holdings Limited (iii)	England	Ordinary	38.1%	10.3	(0.4)

(i) Aggregate capital and reserves include shareholder loan stock

(ii) Figures for Wolstenholme, The Music Group, Svensk Pantbelaning and Advantage Healthcare Group relate to the year ended 31 December 2006. All are unaudited.

(iii) Figures for Notemachine are unaudited and relate to the four months ended 31 December 2006.

Further information on the above investments is included in the Investment Manager's review.

15 Other current assets

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Debtors within one year				
Prepayments and accrued income	856	737	856	720
Amounts owned by group undertakings	–	–	16	–
	856	737	872	720

16 Financial liabilities

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Vendor loan notes	2,775	2,871	2,775	2,871
	2,775	2,871	2,775	2,871

The vendor loan notes, which carry an interest rate of 3 month LIBID, equivalent to 5.2% at 31 December 2006, are repayable on 13 December 2009, or earlier on three months' notice by the loan note holders. The Company may redeem the loan notes on three months' notice when the remaining balance does not exceed £500,000.

17 Other current liabilities

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Other taxes and social security	5	4	5	4
Accruals and deferred income	1,566	1,605	1,535	1,325
Amounts owed to group undertakings	–	–	250	–
	1,571	1,609	1,790	1,329

Notes to the financial statements *continued*

18 Deferred tax

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Timing differences – accelerated income	(401)	(970)	(401)	(970)
Allocation to capital	401	970	401	970
	–	–	–	–

	Group £000	Company £000
Movements in deferred tax comprise		
At 1 January 2006	–	–
Charge to income statement – revenue	569	569
Charge to income statement – capital	(569)	(569)
At 31 December 2006	–	–

The Company recognises a current tax charge on income which must be accrued for tax purposes but which, in accordance with its accounting policies, the Company does not recognise for accounting purposes. As a result of this acceleration of the tax liability, the Company recognises a deferred tax asset, credited to revenue in the income statement. A corresponding deferred tax liability is also recognised, charged to capital in the income statement, to reflect the potential reduction in the net realisable value of the investments held due to the anticipated tax liability on such income accrued.

19 Share capital

The authorised, issued, called up and fully paid share capital of the Company comprises ordinary shares of 1p each, which are only equity shares.

	Number	£000
Authorised		
At 1 January 2006 and 31 December 2006	390,000,000	3,900
Issued, called up and fully paid		
At 1 January 2006	195,872,996	1,959
Repurchase and cancellation of shares	(50,000,000)	(500)
At 31 December 2006	145,872,996	1,459

- (i) On 16 August 2006, the Company returned £30,000,000 to shareholders by way of a repurchase of 50,000,000 shares at 60p per share, pursuant to a Tender Offer. The shares were subsequently cancelled.
- (ii) The middle market quotation of the Company's ordinary shares, as derived from The London Stock Exchange Daily Official List, was 60.5 pence at 31 December 2006 and the range for the year was 56.75 pence to 65.5 pence.
- (iii) The Company had no share option schemes in existence during the year and no options theretofore outstanding at 31 December 2006.

Notes to the financial statements continued

20 Reserves

	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Share premium account (ii)	28,079	28,079	28,079	28,079
Capital redemption reserve (iii)	1,700	1,200	1,700	1,200
Capital reserve – realised (iv)	64,853	60,807	60,360	55,854
Capital reserve – unrealised (v)	(7,052)	13,778	(11,275)	12,305
Revenue reserve (vi)	7,449	16,018	16,160	22,440
	95,029	119,882	95,024	119,878

- (i) The movement in reserves is included in the statements of changes in equity on page 27
- (ii) The share premium account is non-distributable and comprises the cumulative excess of the issue price of shares over their respective nominal value
- (iii) The capital redemption reserve is non-distributable and represents the cumulative nominal value of shares acquired for cancellation
- (iv) Realised capital reserve comprises cumulative gains less losses in respect of realised investments
- (v) Unrealised capital reserve comprises cumulative unrealised gains less unrealised losses
- (vi) Revenue reserve comprises accumulated profits less losses. The Group revenue reserve has been charged with £6.4 million of accumulated historic losses in respect of the Company's subsidiaries, which in the Company are treated as realised capital losses, and the Group has recognised £2.3 million of unrealised capital gains which the Company has recognised within its revenue reserve. The Company revenue reserve of £16.2 million is a distributable reserve.
- (vii) No profit and loss account is presented for the Company as provided by Section 230 of the Companies Act 1985. The Company's net income for the year was £6,435,000.

21 Net asset value per share

	2006		2005	
	NAV per share p	Net assets £000	NAV per share p	Net assets £000
Consolidated net asset value per share	66.15	96,488	62.20	121,841
Difference between consolidated and Company	–	(5)	–	(4)
Company net asset value per share	66.15	96,483	62.20	121,837

- (i) The difference between the consolidated net assets and the Company net assets represents the difference between the valuation of the unlisted subsidiary undertakings and their attributable net assets included in the consolidated balance sheet.
- (ii) The net asset values per share in 2006 are calculated on 145,872,996 (2005: 195,872,996) shares in issue.

22 Subsidiary undertakings

The Company continues to include in the consolidated financial statements certain subsidiary undertakings which at 31 December 2006 had all ceased to trade. The Company directly held 100% of the shares and voting rights in the subsidiaries which were all incorporated in the UK and comprised:

Rutland Corporate Services Limited
 SJP Holdings Limited
 Rutland Corporate Finance Limited

23 The Rutland Partnership

- (i) The Company has undertaken to invest as a limited partner through RP, the limited partnership through which the Company invests in The Rutland Fund ("the Fund") a total commitment of £100 million. As at 31 December 2006 the Company had drawn down a total amount of £83.9 million and undrawn commitments at that date were £16.1 million. In addition, the Fund has given certain guarantees, secured on its undrawn commitments, in respect of bank and other facilities of portfolio investments and at 31 December 2006, RP's share of these guarantees was £0.3 million.

Under the terms of RP's limited partnership agreement, funds may be drawn down on 10 business days' notice and until 30 March 2007 when the Fund's investment period ends ("the Commitment Period") may be drawn to make new investments. As from 31 March 2007, funds may be drawn only to make follow-on investments in respect of existing portfolio investments for a further period of five years ending 30 March 2011, and to meet expenses of the partnership including the General Partner's priority profit share. The amount which may be drawn for follow-on investments is restricted to the lower of 15% of the Company's total commitment to RP or the total undrawn commitments available. As at 31 March 2007, the Company had drawn down a total amount of £89.5 million and undrawn commitments were £10.5 million. At that date RP's share of the Fund's guarantees was £6.1 million.

- (ii) The Company's interest in RP is classified as an investment designated at fair value through profit or loss. Details of the Company's treatment of gains or losses arising from RP, and its income and expenses, are given in Note 1(c) and 1(e)(i).

- (iii) RP's General Partner is entitled to receive a priority profit share equal to

- during the Commitment Period – 2% per annum of the total funds committed to RP by the Company,
- thereafter – 1.5% per annum of the net amounts invested by RP, being total amounts drawn down for investment less amounts returned in respect of investments previously made. At 31 March 2007 the net amount invested by RP was £23.5 million.

The priority profit share, as set out above, is adjusted to take account of RP's relevant share of fees credited and certain expenses charged in accordance with the terms of the partnership agreement.

In the absence of misconduct, removal of the General Partner is subject to the approval of the Company and 80% of the Fund's other investors, by value of total funds committed to the Fund. The General Partner would be entitled to receive compensation on removal of an amount equal to two years' priority profit share, by reference to the last accounting period prior to termination, plus all distributions due to it up to the date of removal.

- (iv) Income and capital gains arising in respect of RP's investments are allocated in accordance with the limited partnership agreement. After prior repayment of expenses, priority profit share and investment loans, profits will be distributed, subject to achievement of a hurdle rate of return equivalent to 8% per annum compounded annually, as to 80% to RP and 20% by way of carried interest to Rutland CILP, a limited partnership through which the carried interest is distributed.

24 Guarantees

A bank guarantee of £0.2 million given in respect of the lease obligations of a former subsidiary of SJP Holdings Limited expired in December 2006 and was accordingly cancelled.

25 Capital and operating lease commitments

Except as disclosed elsewhere in these accounts, the Group had no capital commitments or operating lease commitments at 31 December 2006. Details of the contractual commitments in respect of The Rutland Partnership are included in Note 23.

26 Contingent liabilities

Except as provided for in these accounts, the directors believe the possibility of any transfer in settlement of the Group's contingent liabilities to be remote.

27 Financial instruments

The Group's financial instruments, including those of the subsidiary companies whose balance sheets are included in the consolidated balance sheet at 31 December 2006, include equity shares, the investment in RP, gilt edged securities, cash balances and short-term bank deposits and vendor loan notes. The Group does not have any financial instruments that are subject to contractual interest rate repricing and has not taken out any derivative instruments to date. The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk.

(a) Interest rate risk

The Group's net revenue will be affected by changes in prevailing interest rates since a substantial amount of its net assets and liabilities are currently in the form of gilt edged securities, variable rate bank deposits or borrowings. Interest rate risk profiles for financial assets and liabilities are shown below, and exclude short-term debtors and creditors.

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at 31 December 2006 and the periods in which they mature or, if earlier, are repriced.

At 31 December 2006		Basis of Interest rate	Effective Interest rate %	Total £000	0 to 1 years £000	1 to 2 years £000
Assets						
Investments – short dated gilts	Fixed		4.7%	53,907	19,978	33,929
Cash deposits	Floating		5.1%	16,608	16,608	–
				70,515	36,586	33,929
Liabilities						
Vendor loan notes	Floating		5.2%	2,775	2,775	–
				2,775	2,775	–
At 31 December 2005						
Assets						
Investments – short dated gilts	Fixed		4.4%	34,530	19,465	15,065
Cash deposits	Floating		4.6%	29,948	29,948	–
				64,478	49,413	15,065
Liabilities						
Vendor loan notes	Floating		4.5%	2,871	2,871	–
				2,871	2,871	–

All financial assets and liabilities are denominated in Sterling. The cash deposits are available at one day's notice. Notwithstanding the fixed periods to redemption, the gilts may be redeemed at one day's notice at the prevailing market price. At 31 December 2006 the carrying values of all the Group's financial instruments were their fair values.

(b) Liquidity risk

The Group has maintained a level of liquid resources which would enable it to meet its commitments to the Fund and repay its borrowings if required. In view of the liquidity of its cash and gilts resources outlined above, the Group regards its liquidity risk as minimal.

(c) Other risks

The Group is exposed to some credit risk regarding its bank deposits, although this credit risk is considered to be low. The Group is not exposed to currency risk as its assets and liabilities are predominantly denominated in sterling.

28 Related party transactions

Related party transactions which took place during the year are described below

- (i) The Company's Investment Manager is Rutland Fund Management Limited ("RFML") Rutland Partners LLP ("Rutland"), a subsidiary of RFML also acted as Manager of RP through the provision of investment management services to RP's General Partner, which is a wholly owned subsidiary of Rutland and which is entitled to receive a priority profit share from RP Details of the investment management fees payable to RFML and the priority profit share entitlement are set out in Note 4
- (ii) MRF Langdon is Chairman and a major shareholder of RFML and is Chairman and a member of Rutland
- (iii) A subsidiary of RFML is the General Partner of Rutland CILP, a limited partnership through which carried interest is distributable in respect of the realisation of investments of RP During the year ended 31 December 2006, carried interest allocated to Rutland CILP in respect of RP was £8.9 million, of which £8.8 million was paid to Rutland CILP and of which MRF Langdon received £3.0 million and other key Rutland management £3.8 million A further £54,000 entitlement remained payable to Mr Langdon at 31 December 2006 (other key Rutland management £70,000), and if all of the investments held by RP were realised at the values stated at 31 December 2006, Mr Langdon would be entitled to a further carried interest payment of £90,000 (other key Rutland management £117,000)
- (iv) A subsidiary of RFML is the General Partner of Rutland CCLP, a limited partnership which co-invests in The Rutland Fund, and in which MRF Langdon is a Limited Partner
- (v) RFML retains, under a Licence and Transfer Agreement, the use of certain of the Company's equipment
- (vi) RFML has a lease with the Company in respect of its investment property Details are set out in Note 13
- (vii) During the period to April 2006 when the Fund disposed of its investment in Carron Energy Limited, Dr R Hawley received consultancy fees from Carron totalling £21,000 in respect of services relating to certain engineering aspects of the investment
- (viii) Certain transactions took place during the year between the Company and its subsidiaries, which are related parties, and which have been eliminated on consolidation These comprised the sale by Rutland Corporate Services Limited (RCS) to the Company of its investment property for £7,500,000, payments by RCS to the Company relating to dividends of £2,552,000 and the repayment of an inter-company balance of £4,848,000 A repayment was also made to the Company of an inter-company balance of £150,000 by a subsidiary of SJP Holdings Limited

Notice of Annual General Meeting

Notice is hereby given that the 27th Annual General Meeting of the Company will be held at Rutland House, Rutland Gardens, London SW7 on 16 May 2007 at 11 00 am for the following purposes

- 1 To receive and adopt the financial statements for the year ended 31 December 2006 and the reports of the directors and auditor thereon
- 2 To re-elect as a director Mr RJJ Wickham (aged 73) who retires and being eligible offers himself for re-election
- 3 To re-elect as a director Dr R Hawley (aged 70) who retires and being eligible offers himself for re-election
- 4 To re-elect as a director MRF Langdon (aged 59) who retires and being eligible offers himself for re-election
- 5 To approve the directors' remuneration report
- 6 To approve the re-appointment of KPMG Audit Plc as auditor and to authorise the directors to fix their remuneration
- 7 To declare a dividend on the ordinary shares for the year ended 31 December 2006

Special Business

To consider and if thought fit pass the following Resolutions

Ordinary Resolution

- 8 That the directors be generally and unconditionally authorised for the purpose of Section 80 of the Companies Act 1985 (as amended) ("the Act") to exercise any power of the Company to allot relevant securities (as defined by that Section) up to an aggregate maximum nominal amount equal to £814,000, representing one-third of the authorised but unissued share capital of the Company immediately following the passing of this Resolution. This authority shall expire on 16 May 2012 but may previously be revoked or varied by the Company in general meeting. The Company may make an offer or agreement before the expiry of this authority which would or might require relevant securities to be allotted after this authority has expired and the directors may allot relevant securities in pursuance of any such offer or agreement.

Special Resolutions

- 9 That during the period from the passing of this Resolution until the end of the Annual General Meeting of the Company to be held in 2008 or any adjournment thereof, the directors be and they are hereby empowered to make allotments of equity securities (within the meaning of Sections 94(2) to 94(3A) of the Act) pursuant to the general authority conferred by Resolution 8 above as if Section 89(1) of the Act did not apply to any such allotment provided always that the power hereby confirmed shall be limited:
 - (a) to the allotment of equity securities in connection with a rights issue in favour of holders of equity securities where the equity securities respectively attributable to the interest of all such holders are proportionate (as nearly as may be practicable having regard to the interest of the Company as a whole) to the respective numbers of equity securities held by or attributable to them on the record date for such allotment, and
 - (b) to the allotment of equity securities (otherwise than in pursuance of sub-paragraph (a) above) up to an aggregate nominal value of £73,000, and subject as aforesaid the directors shall be entitled to make at any time before the expiry of the power hereby conferred any offer or agreement which will or might require equity securities to be allotted after the expiry of such power.The power contained in this Resolution applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 94(3A) of the Act as if in the first paragraph of this Resolution the words 'pursuant to the general authority conferred by Resolution 8 above' were omitted.
- 10 That in accordance with the provisions of Section 166 of the Act the Company be unconditionally authorised to make market purchases (as defined in Section 163 of the Act) of ordinary shares of 1p in the capital of the Company provided that:
 - (a) the maximum number of ordinary shares hereby authorised to be acquired is 21,900,000 (representing approximately 15 per cent of the issued ordinary share capital),
 - (b) the minimum price which may be paid for such shares is 1p per share,
 - (c) the maximum price which may be paid for such shares shall be not more than 5 per cent above the average of the middle market quotations for the ten business days prior to such purchase (in each case exclusive of expenses), and
 - (d) the authority granted by this resolution shall expire at the conclusion of the next Annual General Meeting of the Company.

By Order of the Board

NA Moss, Secretary 16 April 2007

Notes

- 1 A member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and such proxies need not be members. The instrument appointing a proxy must be deposited with the Company's registrars not less than 48 hours before the time for holding the meeting.
- 2 The register of directors' interests, kept by the Company in accordance with Section 325 of the Act, will be open for inspection at the Annual General Meeting.
- 3 No director has a service contract of more than one year's duration or with provisions for predetermining compensation on termination of an amount which equals or exceeds one year's fees.

Rutland Trust PLC

Rutland House, Rutland Gardens, London SW7 1BX

Telephone 020 7225 3391

Facsimile 020 7225 1364

e-mail info@rutlandtrust.co.uk

Website www.rutlandtrust.co.uk