

Company Number: 3676188

RFML INVESTMENT FUND LIMITED

REPORT AND ACCOUNTS

31 December 2005



EDX *EU000003* 170
COMPANIES HOUSE 2604 06.
COMPANIES HOUSE 26/05/2006

S.6.06
61

Contents

	Pages
Directors and officers	1
Directors' report	2
Statement of directors' responsibilities	3
Report of the Independent Auditors	4
Profit and loss account	5
Balance sheet	6
Notes to the financial statements	7-10

Directors and Officers

Directors

MRF Langdon	Chairman
ND Morrill	
PI Cartwright	
MJR Harris	
JR Brooks	

Secretary

NA Moss

Registered office

Rutland House
Rutland Gardens
London
SW7 1BX

Registered number

3676188

Auditor

KPMG Audit Plc
8 Salisbury Square
London
EC4Y 8BB

Directors' Report

For the Year Ended 31 December 2005

The directors present their report and the audited financial statements for the year ended 31 December 2005.

Principal activities

The Company's principal activity is that of a General Partner of a limited partnership which makes private equity investments. It is the intention of the Board that the Company will continue its current activities in the foreseeable future.

Results and dividends

The Company made a profit on ordinary activities for the year, after taxation, of £15,000 (2004: £1,000), which has been transferred to reserves. The directors do not recommend the payment of an ordinary dividend (2004: £nil).

Directors

None of the directors of the Company held any beneficial interests in the issued ordinary share capital of the Company during the year. The beneficial interests of the directors in the share capital of the ultimate parent undertaking, Rutland Fund Management Limited, are disclosed in the Report and Accounts of that company.

The beneficial interests of the directors in Rutland Partners LLP are disclosed in the Report and Accounts of that LLP.

CB Dowling resigned from the Board on 16 September 2005.

Directors' and Officers' liability insurance

The ultimate parent undertaking maintains a Directors' and Officers' liability insurance policy in respect of the directors and officers.

Auditor

KPMG Audit Plc have expressed their willingness to continue as auditor and in accordance with Section 385 of the Companies Act 1985 a resolution to approve their re-appointment as auditor will be submitted to the Annual General Meeting.

Taxation

The Company is considered to be a close company under the provisions of the Income and Corporation Taxes Act 1988.

Fixed assets

Changes in fixed asset investments are set out in note 7.

Directors' Report (continued)

Directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Under applicable law the directors are also responsible for preparing a Directors' Report that complies with that law.

By order of the Board



N A Moss
Company Secretary
21 April 2006

Independent Auditors' report to the members of RFML Investment Fund Limited

We have audited the financial statements of RFML Investment Fund Limited for the year ended 31 December 2005 which comprise the profit and loss account, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 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 auditors' 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

As described in the statement of directors' responsibilities on page 3, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
21 April 2006

8 Salisbury Square,
London EC4Y 8BB

Profit and Loss Account

For the year ended 31 December 2005

	Notes	2005 £000	2004 £000
Turnover	2	1,679	1,732
Administrative expenses	3	(1,637)	(1,717)
Profit on ordinary activities before taxation	5	42	15
Taxation	6	(27)	(14)
Retained profit for the financial year		15	1

All results shown in the above profit and loss account are from continuing operations.

The Company has no recognised gains and losses other than the profits above and therefore no separate statement of total recognised gains and losses has been presented.

In respect of the profit on ordinary activities before taxation and the retained profit for the year, there is no difference between the figures stated above and their historical cost equivalents.

The notes on pages 7 to 10 form part of the financial statements.

Balance Sheet

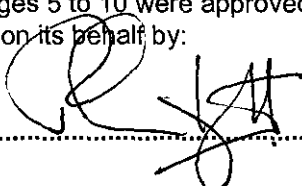
At 31 December 2005

	Notes	2005 £000	2004 £000
Fixed assets			
Investments	7	-	-
		-	-
Current assets			
Debtors	8	581	734
Cash at bank and in hand		6	6
		587	740
Creditors: amounts due within one year	9	(565)	(714)
Net current assets		22	26
Total assets less current liabilities		22	26
Provisions for liabilities and charges	10	-	(19)
Net assets		22	7
Capital and reserves			
Called up share capital	11	5	5
Profit and loss account	12	17	2
Total equity shareholders' funds	13	22	7

The notes on pages 7 to 10 form part of the financial statements.

The financial statements on pages 5 to 10 were approved by the board of directors on 21 April 2006 and were signed on its behalf by:

PI Cartwright



.....

Notes to the Financial Statements For the year ended 31 December 2005

1. Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom.

(i) Basis of accounting

The financial statements have been prepared on the going concern principle on the basis that the shareholders have confirmed their financial commitment to the Company ensuring all obligations of the Company will be met as and when they fall in for the foreseeable future. The financial statements are prepared in accordance with the historical cost convention.

(ii) Limited Partnership Fund

The Company acts as General Partner to a venture capital Limited Partnership, details of which are given in Note 7. Investments held through the Limited Partnership are made with the express intention of capital appreciation. The Company's investment in the Limited Partnership is held at cost less any permanent impairment in value.

(iii) Turnover

Turnover is stated net of value added tax and is accounted for when it becomes due.

(iv) Deferred tax

Deferred tax assets and liabilities arise from timing differences between the recognition of gains and losses in the financial statements and their recognition for tax purposes. Deferred tax liabilities are fully recognised and deferred tax assets are recognised when it is considered more likely than not that the asset will be recoverable. Deferred tax assets and liabilities are recognised on an undiscounted basis.

2. Turnover

As General Partner of Rutland Fund A, the Company is entitled to receive a priority profit share at the rate of 2% per annum on the total funds committed to this partnership, as adjusted to take account of relevant fees credited and expenses charged in respect of the partnership. The priority profit share receivable is accounted for by the Company as turnover.

3. Administrative expenses

	2005 £000	2004 £000
Administrative costs recharged from ultimate parent undertaking (Note 4i)	-	1,034
Management services fee payable to parent undertaking (Note 4ii)	1,637	674
Other expenses	-	9
	1,637	1,717

4. Employee information

- (i) The Company had no direct employees during the year. Up to 30 June 2004 the directors were employed and remunerated by the ultimate parent undertaking, and their services, together with the services of the other employees of the ultimate parent undertaking and share of other overheads, were charged to the Company under a consultancy and secondment agreement. These costs are included within administrative expenses.
- (ii) From 1 July 2004, the parent undertaking took over as Manager of the Company under a management arrangements agreement. The related management services fee is also included within administrative expenses.

Notes to the Financial Statements (continued)

5. Profit on ordinary activities before taxation

The auditor's remuneration is borne by the parent undertaking.

6. Taxation

	2005	2004
	£000	£000
(a) Analysis of tax charge for the year		
UK Corporation tax at 30% on taxable profits for the year	46	-
Deferred tax	(19)	14
	27	14

(b) Factors affecting tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

Profit on ordinary activities before tax	42	15
Profit on ordinary activities multiplied by standard rate of corporation tax of 30% (2004:30%)	13	5
Effects of:		
PPS loan taxable income/ (non-taxable)	596	(145)
Excess management expenses (utilised) / not utilised	(563)	140
	33	(5)
Current year tax charge	46	-
Deferred tax charge – current year	(33)	14
Deferred tax charge – prior year	14	-
Tax charge for the year	27	14

7. Investments

	2005	2004
	£000	£000
At cost		
Investment in Limited Partnership	-	-
	-	-

The Company is the General Partner of Rutland Fund A, a limited partnership which is incorporated in the UK and registered in England and Wales. The Company holds an investment of £1 as a Limited Partner in the limited partnership.

Notes to the Financial Statements (continued)

8. Debtors

	2005 £000	2004 £000
Amount due from parent undertaking	323	398
Prepayments and accrued income	258	336
	581	734

9. Creditors: amounts falling due within one year

	2005 £000	2004 £000
Corporation tax	46	-
Accruals and deferred income	519	714
	565	714

10. Provisions for liabilities and charges

	2005 £000	2004 £000
Deferred tax – short-term timing differences	-	19
	-	19

The movement in deferred tax provision comprises:

	£000
At 1 January 2005	19
Profit and loss account – current year	(33)
Profit and loss account – prior year	14
At 31 December 2005	-

11. Share capital

	£000
Authorised, allotted, called up and fully paid 5,000 ordinary shares of £1 each At 31 December 2005 and 31 December 2004	5

12. Profit and loss account

	£000
At 1 January 2005	2
Retained profit for the year	15
At 31 December 2005	17

13. Reconciliation of movements in shareholders' funds

	£000
Profit for the financial year	15
Net movement during the year	15
Shareholders' funds at 1 January 2005	7
Shareholders' funds at 31 December 2005	22

Notes to the Financial Statements (continued)

14. Related party transactions

- (i) As described in Note 2, the Company is the General Partner of Rutland Fund A. It is entitled to receive a priority profit share, at the rate of 2% per annum on total funds committed to this partnership. The priority profit share represents all of the Company's turnover.
- (ii) The Company has taken advantage of the exemption under FRS 8 "Related Party Disclosures" from disclosing all transactions or balances between entities within the Rutland Fund Management Limited group that have been eliminated on consolidation in the consolidated accounts of the ultimate parent undertaking.

15. Cash flow statement

The Company has not prepared a cash flow statement under the exemption contained in FRS1 "Cash Flow Statements" applicable to the Company, being a wholly owned subsidiary undertaking. A consolidated cash flow statement is included in the consolidated accounts of the ultimate parent undertaking.

16. Parent and ultimate parent undertaking

The parent undertaking is Rutland Partners LLP, which is registered in England. The ultimate parent undertaking is Rutland Fund Management Limited, which is registered in England. This is the parent undertaking of the only group to consolidate the accounts of the Company. A copy of the consolidated accounts of Rutland Fund Management Limited may be obtained from the Company Secretary, Rutland House, Rutland Gardens, London SW7 1BX.

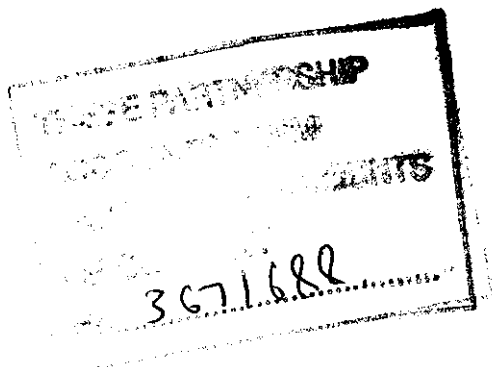
17. Exemption from preparing group financial statements

As disclosed in Note 7, the Company acts as General Partner to a venture capital limited partnership in which it has a participating interest, albeit small. This limited partnership is a subsidiary undertaking under the Companies Act 1985.

The Company is exempt from the obligation, under section 228 of the Companies Act 1985, to prepare group financial statements and to deliver them to the Registrar of Companies on the grounds that the Company's results have been consolidated in the group financial statements of Rutland Fund Management Limited and Rutland Partners LLP. Consequently these financial statements present information about the Company as an individual undertaking and not about its group.

3671688

Limited Partnership Number: LP 9571



RUTLAND FUND A
REPORT AND ACCOUNTS

31 December 2005

Contents

	Pages
General Partner's Report	1-2
Statement of Responsibilities of the General Partner	2
Report of the Independent Auditor	3
Balance Sheet	4
Income Account	5
Statement of Recognised Gains and Losses	6
Partners' Accounts	7
Notes to the Financial Statements	8-14

General Partner's Report

Partnership Agreement

Rutland Fund A ("the Partnership") was formed on 9 May 2000 as a UK limited partnership under the Limited Partnership Act 1907 and in accordance with the Limited Partnership Agreement dated 9 May 2000 ("the Partnership Agreement") for the purposes of making private equity and related investments. The Partnership Agreement provides for a term of ten years from 30 March 2001, the Partnership's final closing date, although the life of the Partnership may be extended for up to two years.

General Partner

The General Partner is RFML Investment Fund Limited, whose registered address is Rutland House, Rutland Gardens, London SW7 1BX. The Manager of the Partnership is Rutland Partners LLP ("Rutland"), which is authorised and regulated by the Financial Services Authority.

Financial statements

The financial statements are in respect of the year ended 31 December 2005.

Funds committed

The Partnership invests via a co-investment relationship with certain other limited partnerships collectively known as The Rutland Fund ("the Fund"), which together provide combined committed funds of £210m, of which the total funds committed by the Limited Partners of the Partnership were £107.4m. Up to 31 December 2005 the total amount invested by the Fund was £136.7m and by the Partnership was £70.0m, and the Fund's undrawn commitment for investment was £73.0m (Partnership £37.4m).

Review of the year

Realisations

In March 2005, Wolstenholme disposed of its interests in the Metasheen business for £22m. The net proceeds from the sale were used to repay third-party bank debt and make a distribution of £7.3m to Fund investors, comprising £3.4m repayment of capital investment and £3.9m loan stock interest. The Partnership's share of the distribution was £3.8m.

In June 2005, The Music Group disposed of its Buffet Crampon business for €37m. The proceeds were used to repay the remainder of its external group debt and make a distribution of £8.0m to Fund investors, comprising a capital repayment. The Partnership's share of the distribution was £4.1m.

In August 2005, Rutland agreed the sale of Interfloor Group for £84.1m in a secondary buy-out to European Acquisition Capital. After repayment of outstanding bank debt, pension contributions and transaction-related costs, the proceeds distributed to the Fund were £50.0m (Partnership share £25.6m).

New investments

In March 2005 the Fund completed the acquisition from BUPA of a group of temporary staffing businesses for the healthcare industry. The Fund invested through Advantage Healthcare Holdings Limited, a new company managed by an experienced team from the healthcare-staffing industry. The total initial investment by the Fund was £5.5m of which the Partnership's share was £2.8m.

Valuation of investments

In October Carron Energy completed the introduction of £35m of new independent bank lending facilities, providing funds for capital expenditure, the build-up of working capital going into the winter period and collateral for sales contracts. In relation to the new bank facilities, Carron contracted for the forward-sale of approximately one third of its generating capacity for the next three years along with the fuel requirements for that generation. In addition, the forward-sale of a further one third was contracted for the first quarter of 2006. In light of this new financing and the forward-sales contracts, the Fund's investment in Carron has been written up by £46.8m (Partnership's share £24.0m) to £70.0m (Partnership share £35.9m).

In view of improved trading and a strong business performance resulting from the actions implemented over the last year, the Fund's investment in H&T Group has been written up by £15.4m (Partnership share £7.9m) to £30.8m (Partnership share £15.8m).

General Partner's Report (continued)

Auditor

KPMG Audit Plc have expressed their willingness to continue as auditor to the General Partner and the Partnership.

Statement of responsibilities of the General Partner

The General Partner is responsible for preparing the General Partner's Report and the financial statements in accordance with applicable law and regulations. The General Partner is required to prepare financial statements for each financial year in accordance with the Limited Partnership Agreement dated 9 May 2000 and UK Accounting Standards.

The Limited Partnership Agreement requires the General Partner to prepare financial statements for each financial year, which present the state of affairs of the Partnership and the income or deficit for that period. In preparing these financial statements, the General Partner is required to:

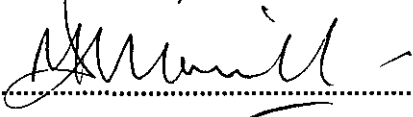
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Partnership will continue in business.

The General Partner is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Partnership and enable it to ensure that its financial statements comply with the Limited Partnership Agreement. It has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Partnership and to prevent and detect fraud and other irregularities.

Under applicable law the General Partner is also responsible for preparing a General Partner's Report that complies with that law.

Signed for and on behalf of the General Partner, RFML Investment Fund Limited

ND Morrill
29 March 2006


.....

Independent auditor's report to the Partners of Rutland Fund A

We have audited the financial statements of Rutland Fund A for the year ended 31 December 2005 which comprise the Income Statement, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Partners' Accounts and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the partners, as a body, in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the partners those matters we have been engaged to state to them in this 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 partners, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of General Partner and auditor

As described in the Statement of General Partner's Responsibilities on page 2, the General Partner is responsible for the preparation of the financial statements in accordance with the Limited Partnership Agreement dated 9 May 2000 (the "LPA"). Our responsibility under the terms of our engagement letter dated 14 January 2002 is to audit the financial statements in accordance with International Standards on Auditing (UK and Ireland) and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are prepared on the basis of the accounting policies set out in note 3 to the financial statements and in accordance with the LPA. We also report to you if, in our opinion, the General Partner's report is not consistent with the financial statements, if the Partnership has not kept proper accounting records or if we have not received all the information and explanations we require for our audit. We read the other information accompanying the financial statements and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinions

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

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

Opinions

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Partnership's affairs as at 31 December 2005 and of its surplus of income over expenditure for the year then ended; and
- have been prepared in accordance with the Limited Partnership Agreement dated 9 May 2000.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
29 March 2006

8 Salisbury Square,
London EC4Y 8BB

Balance Sheet

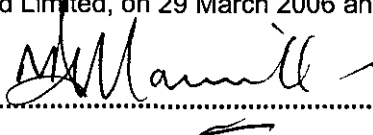
At 31 December 2005

	Notes	31 Dec 2005 £000	31 Dec 2004 £000
Investments			
Unquoted investments	6	66,323	61,583
Current assets			
Debtors	7	2,036	715
Cash		925	10
		2,961	725
Creditors: amounts falling due within one year	8	(214)	(50)
Net current assets		2,747	675
Net assets		69,070	62,258
Partners' accounts			
Capital contribution		13	13
Limited Partners' Loan accounts		33,618	58,202
Income account		4,003	(1,985)
Capital account		(2,153)	(9,011)
		35,481	47,219
Revaluation reserve	9	33,589	15,039
Capital and reserves		69,070	62,258

The notes on pages 8 to 14 form part of these financial statements.

The financial statements on pages 4 to 14 were approved by the board of directors of the General Partner, RFML Investment Fund Limited, on 29 March 2006 and were signed on its behalf by:

ND Morrill


.....

Income Account

For the year ended 31 December 2005

	Notes	2005 £000	2004 £000
Income			
Interest on investments		7,658	1,275
Other interest receivable		98	33
		7,756	1,308
Expenses			
Legal and professional fees		(72)	(56)
		(72)	(56)
Net surplus on Income Account		7,684	1,252
Priority profit share charge	5	(1,680)	(1,732)
Net surplus / (deficit) on income for the year		6,004	(480)
Capital			
Realised capital loss	10	(3,516)	-
Transfer from revaluation reserve of previously unrealised gains	9	12,733	-
Net capital gains		9,217	-
Unrealised losses		-	-
		9,217	-
Net income / (loss) for the year		15,221	(480)
Allocated as follows:			
Income			
General Partner		1,985	(480)
Limited Partners		4,019	-
		6,004	(480)
Capital			
Founder Partners		1,387	-
Limited Partners		7,830	-
		9,217	-
Total		15,221	(480)

The net surplus on Income Account arises from continuing activities.

The notes on pages 8 to 14 form part of these financial statements.

Statement of Total Recognised Gains and Losses For the year ended 31 December 2005

	2005 £000	2004 £000
Net income / (loss) for the year	15,221	(480)
Unrealised gains on investments	31,283	9,402
Unrealised gains released on realisation	(12,733)	-
Total recognised gains and losses for the year	33,771	8,922

The notes on pages 8 to 14 form part of these financial statements.

Partners' Accounts For the year ended 31 December 2005

	Capital Contribution	Limited Partners' Loan Accounts	Income Account	Capital Account	Total
	£000	£000	£000	£000	£000
General Partner					
At 1 January 2005	-	-	(1,985)	-	(1,985)
Cash paid to General Partner	-	-	(1,680)	-	(1,680)
Allocation of income	-	-	3,665	-	3,665
At 31 December 2005	-	-	-	-	-
Founder Partners					
At 1 January 2005	3	-	-	-	3
Cash paid to Founder Partner	-	-	-	(1,283)	(1,283)
Allocation of capital	-	-	-	1,387	1,387
At 31 December 2005	3	-	-	104	107
Limited Partners					
At 1 January 2005	10	58,202	-	(9,011)	49,201
Cash paid by Limited Partners	-	4,433	-	-	4,433
Cash repaid to Limited Partners	-	(29,017)	(16)	(1,076)	(30,109)
Allocation of income	-	-	4,019	-	4,019
Allocation of capital	-	-	-	7,830	7,830
At 31 December 2005	10	33,618	4,003	(2,257)	35,374
Total					
At 1 January 2005	13	58,202	(1,985)	(9,011)	47,219
Cash paid by Limited Partners	-	4,433	-	-	4,433
Cash repaid to Limited Partners	-	(29,017)	(16)	(1,076)	(30,109)
Cash paid to General Partner	-	-	(1,680)	-	(1,680)
Cash paid to Founder Partner	-	-	-	(1,283)	(1,283)
Allocation of income	-	-	7,684	-	7,684
Allocation of capital	-	-	-	9,217	9,217
At 31 December 2005	13	33,618	4,003	(2,153)	35,481

The allocation of the income account and capital account has been made in accordance with the Partnership Agreement.

The notes on pages 8 to 14 form part of these financial statements.

Notes to the Financial Statements For the year ended 31 December 2005

1. Partnership Agreement

Under the terms of the Partnership Agreement, the first charge on the net income of the partnership in any accounting period shall be the General Partner's profit share, details of which are set out in Note 11. The General Partner shall be entitled to draw down profit share six monthly in advance on 1 January and 1 July. Transaction, monitoring and directors' fees will be retained by the General Partner and offset against the profit share subject to a predefined formula set out in the Partnership Agreement.

The payment of the General Partner's profit share will be made out of net income and capital gains unless these are insufficient, in which case, until there are sufficient net income and capital gains to satisfy the General Partner's profit share, the Partnership will advance to the General Partner on an ongoing, interest-free basis, sums equivalent to the General Partner's profit share. Sums advanced are not recoverable from the General Partner other than by allocation of net income and capital gains.

The priority profit share is treated as an expense in accordance with Financial Reporting Standard 5.

2. Carried Interest

Under the terms of the limited partnership agreement, income and capital gains arising in respect of the investments are allocated between the partners. 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 the Partnership and 20% by way of carried interest to one of the Founder Partners, Rutland CILP. Rutland CILP is a limited partnership through which carried interest arising from the realisation of investments held by the Partnership may be distributed. The limited partners of Rutland CILP primarily comprise the partners of the Manager.

3. Accounting Policies

Basis of preparation

Accounts are prepared under the historical cost convention adjusted where appropriate for the revaluation of investments, and in accordance with applicable accounting standards in the United Kingdom.

As permitted by The Partnerships and Unlimited Companies (Accounts) Regulations 1993, the Partnership has taken advantage of the exemption from Regulations 4 to 6 conferred by Regulation 7 and is not preparing accounts in a format consistent with the requirements of the Companies Act 1985.

Income

Bank interest receivable is recognised on an accruals basis.

Dividends receivable from equity shares are brought into account on the ex-dividend date or, when no ex-dividend date is quoted, when the right to receive payment is established.

The shareholder loan stock held by the Partnership in private equity unlisted investments, as referred to in note 6, bears interest but is subordinated to the secured bank lenders of the relevant investment. Income may only be received by the Partnership if approved by such bank lenders and when certain conditions related to trading performance and/or banking covenants have been met, and therefore may be considered to be quasi-equity in nature. Accordingly, the income on these instruments is recognised on the same basis as that for equity shares, specifically when bank approval has been obtained and all necessary conditions for payment have been met.

Notes to the Financial Statements (continued)

Investment valuation

Investments are valued by the General Partner in accordance with the general principles set out below:

(i) Quoted investments

Quoted investments are valued at mid-market value.

(ii) Unquoted investments

In valuing unlisted investments the General Partner follows a number of general principles based on the International Reporting and Valuation Guidelines 2005, which have been adopted by the British Venture Capital Association, and which represent current best practice on the valuation of investments. 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 General Partner has 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 Reporting and 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 Partnership'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 General Partner consequently believes 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 Partnership's audited accounts, 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.

Notes to the Financial Statements (continued)

4. Taxation

The Partnership is not subject to income taxes as all income and expenses of the Partnership flow through to each Partner individually.

5. Priority profit share

	2005	2004
	£000	£000
Paid to General Partner	1,680	1,732
	1,680	1,732

One of the Founder Partners is entitled to a proportion of priority profit share, based on the level of funds committed to the partnership. No further amounts are payable to this Founder Partner.

6. Investments - unquoted

	Cost	Unrealised gains	Unrealised losses	Valuation
	£000	£000	£000	£000
At 1 January 2005	55,087	15,039	(8,543)	61,583
Acquisitions	2,870	-	-	2,870
Realisations	(16,680)	-	-	(16,680)
Unrealised gains released on realisation	-	(12,733)	-	(12,733)
Amounts written up during the year	-	31,283	-	31,283
At 31 December 2005	41,277	33,589	(8,543)	66,323

Investment by the Partnership is typically represented by a combination of shareholder loan stock, in the form of unsecured loan notes, and equity shares.

The acquisitions and realisations are attributable to the following investments:

	Acquisitions	Realisations
	£000	£000
Wolstenholme Group	-	(1,731)
Interfloor Group	-	(10,839)
The Music Group	52	(4,100)
H&T Group	-	(10)
Advantage Healthcare Holdings	2,818	-
	2,870	(16,680)

Notes to the Financial Statements (continued)

6a. Analysis of investments - 31 December 2005

	Holding %	Cost £000	Unrealised gains £000	Unrealised losses £000	Valuation £000
Wolstenholme Group					
Equity shares	30.8%	308	1,731	-	2,039
Shareholder loan stock	47.2%	5,392	-	-	5,392
		5,700	1,731	-	7,431
Openshaw Group					
Equity shares	43.6%	436	-	(436)	-
Shareholder loan stock	51.3%	8,107	-	(8,107)	-
		8,543	-	(8,543)	-
The Music Group					
Equity shares	51.3%	493	-	-	493
Shareholder loan stock	51.3%	2,421	-	-	2,421
		2,914	-	-	2,914
Carron Energy Group					
Equity shares	41.0%	102	23,982	-	24,084
Shareholder loan stock	51.3%	11,787	-	-	11,787
		11,889	23,982	-	35,871
H&T Group					
Equity shares	44.6%	446	7,876	-	8,322
Shareholder loan stock	51.3%	7,430	-	-	7,430
		7,876	7,876	-	15,752
Svensk Pantbelaning AB					
Equity shares	51.3%	513	-	-	513
Convertible shares	51.3%	1,024	-	-	1,024
		1,537	-	-	1,537
Advantage Healthcare Holdings					
Equity shares	43.3%	73	-	-	73
Preference shares	50.5%	1,208	-	-	1,208
Shareholder loan stock	51.3%	1,537	-	-	1,537
		2,818	-	-	2,818
Total		41,277	33,589	(8,543)	66,323

Notes to the Financial Statements (continued)

6b. Analysis of investments - 31 December 2004

	Holding %	Cost £000	Unrealised gains £000	Unrealised losses £000	Valuation £000
Wolstenholme Group					
Equity shares	30.8%	308	2,306	-	2,614
Shareholder loan stock	47.2%	7,123	-	-	7,123
		7,431	2,306	-	9,737
Openshaw Group					
Equity shares	43.6%	436	-	(436)	-
Shareholder loan stock	51.3%	8,107	-	(8,107)	-
		8,543	-	(8,543)	-
Interfloor Group					
Equity shares	44.0%	436	12,733	-	13,169
Shareholder loan stock	50.5%	10,403	-	-	10,403
		10,839	12,733	-	23,572
The Music Group					
Equity shares	47.3%	441	-	-	441
Shareholder loan stock	51.3%	6,521	-	-	6,521
		6,962	-	-	6,962
Carron Energy Group					
Equity shares	41.0%	102	-	-	102
Shareholder loan stock	51.3%	11,787	-	-	11,787
		11,889	-	-	11,889
H&T Group					
Equity shares	45.6%	456	-	-	456
Shareholder loan stock	51.3%	7,430	-	-	7,430
		7,886	-	-	7,886
Svensk Pantbelaning AB					
Equity shares	51.3%	513	-	-	513
Convertible shares	51.3%	1,024	-	-	1,024
		1,537	-	-	1,537
Total		55,087	15,039	(8,543)	61,583

Notes to the Financial Statements (continued)

7. Debtors

	2005	2004
	£000	£000
Other debtors	2,036	715
	2,036	715

8. Creditors: amounts falling due within one year

	2005	2004
	£000	£000
Accruals and deferred income	214	50
	214	50

9. Revaluation reserve

	Notes	2005	2004
		£000	£000
Unrealised gains on investments		31,283	9,402
Release of previous unrealised gains on disposal		(12,733)	-
Net movement during the year	6	18,550	9,402
At 1 January		15,039	5,637
At 31 December		33,589	15,039

10. Disposal of Interfloor Group Limited

	2005
	£000
Gross proceeds	25,601
Interest received – recognised as income	(5,545)
Net capital proceeds	20,056
Cost	(10,839)
Capital gain in respect of the disposal of Interfloor	9,217
Transfer from revaluation reserve of previously unrealised gains	(12,733)
Realised capital loss per income account	(3,516)

On the disposal of the investment in Interfloor Group, a carried interest payment of £1,283,000 was made in accordance with the arrangements set out in Note 2.

Notes to the Financial Statements (continued)

11. Partners' Commitments

- i) Following the Final Closing on 30 March 2001, the Limited Partners have committed total funds of £107.4m. Under the terms of the Partnership Agreement, the remaining undrawn commitments may be drawn down by the General Partner on 10 business days' written notice and may be drawn down to make new investments for a period of five years ending on 30 March 2006 ("the Commitment Period") and to make follow-on investments for a further period of five years ending on 30 March 2011. In March 2006 the Limited Partners granted a limited extension to the Commitment Period to enable the General Partner to make new investments until 30 March 2007.
- ii) At 31 December 2005, the Partnership has drawn down for investment a total amount of £70.0m and undrawn commitments at that date were £37.4m. In addition, the Partnership has given certain guarantees, secured on its undrawn commitments, in respect of bank and other facilities of portfolio investments. At 31 December 2005, the Partnership's share of the guarantees was £0.3m.
- iii) No amount may be drawn down after the date when all Fund Commitments have been drawn down in full and amounts which can be re-advanced have been so re-advanced.
- iv) The 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 the Partnership
 - Thereafter – 1.5% per annum of sums invested by the Partnership, being total amounts drawn down less amounts returned.

12. Co-investment Agreement

The Partnership has entered into a co-investment agreement with three other limited partnerships, The Rutland Partnership, Rutland CCLP and Rutland Park Avenue LP. These parties are collectively known as "The Rutland Fund". The co-investment agreement requires that all partnerships of The Rutland Fund shall be entitled and bound to co-invest on the same terms and conditions and in proportion to their respective commitments.

13. Cash Flow Statement

In accordance with Financial Reporting Standard 1, "Cash flow statements", the Partnership is exempt from preparing a cash flow statement.

14. Contingent liability

As detailed in Note 2, carried interest is payable to Rutland CILP. If all the Partnership's investments were realised at the values stated at 31 December 2005, carried interest totalling £6.2m would be payable.