
RAB Special Situations Company Limited

managed by RAB Capital plc

Unaudited Interim Report and Financial Statements
for the period ended 30 June 2007

Contents

Investment Objective and Policy	IFC	Statement of Net Assets	7
Chairman's Statement	1	Cash Flow Statement	8
Performance	3	Notes to the Interim Financial Statements	9
Investment Manager's Report	4	Risk Warning	18
Income Statement	5	Directors	32
Statement of Changes in Equity	6	Directors and Advisers	IBC

Investment Objective and Policy

INVESTMENT OBJECTIVE

The investment objective of RAB Special Situations Company Limited (the "Company") is to maximise its total return primarily through the capital appreciation of its investments.

INVESTMENT POLICY

The Company seeks to achieve its investment objective by investing up to 100% of its assets directly in the shares of RAB Special Situations (Master) Fund Limited (the "Master Fund") and by investing (including taking short positions) any remaining assets directly in a wide range of securities and other instruments.

The Company and the Master Fund (collectively known as the "Funds") have conferred on the Investment Manager (RAB Capital plc) maximum flexibility to exploit a very wide range of investment opportunities as they arise. The Investment Manager will search throughout the global markets for investment opportunities, evaluate their risk and profit potential, and invest when it deems appropriate. There are no material limitations on the investment strategies that the Investment Manager may employ on behalf of the Funds or the instruments, markets or countries in which the Funds may invest or trade.

The Investment Manager believes that the investment and trading opportunities available to the Funds will be varied and diverse. The Investment Manager has complete flexibility in selecting the investment and trading strategies implemented by the Funds and intends to make investments that, in its opinion, present the best opportunities. The Investment Manager is not limited to trading any specific instruments or pursuant to any specific investment or trading strategies.

A closed-ended investment company, incorporated under The Companies (Guernsey) Law, 1994.

REGISTERED IN GUERNSEY No. 43060

Chairman's Statement

I am pleased to present to Shareholders the unaudited Interim Report and Financial Statements of RAB Special Situations Company Limited (the "Company") for the period ended 30 June 2007.

During the period the Company sought to achieve its investment objective (of maximising its total return primarily through the capital appreciation of its investments) by investing all of its assets directly in the shares of RAB Special Situations (Master) Fund Limited (the "Master Fund").

The basic net asset value per Ordinary Share performed well over the period, rising 13.69p to 170.37p, representing a return of 8.74%. Over the same period, the Ordinary Share price increased 23.75p to 152.75p, equating to a gain of 18.41% and resulting in a narrowing of the discount of the share price to net asset value from 17.67% at 31 December 2006 to 10.34% at 30 June 2007.

The performance of both the net asset value and share price was, however, held back in May due to the conversion of the B Warrants into Ordinary Shares. All 20,000,000 B Warrants were converted into 20,000,000 Ordinary Shares on 25 May 2007 at the exercise price of 130.00p per B Warrant. This resulted in an estimated decrease in the net asset value of approximately 11.72p per Ordinary Share.

During the period, your Board took action with the aim of raising the profile of the Company and of narrowing the discount of the share price to net asset value by changing the Company's Nominated Adviser and Broker. I am pleased to confirm that KBC Peel Hunt Limited has been appointed as

Nominated Adviser and joint Broker to the Company, and Winterflood Securities Limited as joint Broker. The new joint Brokers have to date acted successfully in raising the profile of the Company and we have seen a narrowing of the discount in share price to net asset value of the Company.

I am pleased to announce that at the Company's second Annual General Meeting held on 17 July 2007, all of the proposed resolutions were duly passed, including the special resolution to allow the Company to hold treasury shares. Due to the narrowing of the discount of the share price to net asset value that has been achieved over the period, the Board does not feel it is necessary to use the powers it now has to repurchase Ordinary Shares and hold them as treasury shares at the present time. However, should the discount to net asset value widen and be judged to be too large, your Board will consider using this authority.

In accordance with Rule 19 of the AIM Listing Rules, the Company has, with effect from 1 January 2007, changed from preparing its financial statements under United Kingdom Generally Accepted Accounting Policies ("UK GAAP"), to preparing its financial statements under International Financial Reporting Standards ("IFRS"). As such, the basis of preparation for the Company's financial statements has changed to comply with AIM Rule 19. This has had a disclosure impact on these interim financial statements but no financial impact in relation to 30 June 2007, 30 June 2006 and 31 December 2006 financial statements.

Chairman's Statement (continued)

Since the period end, the net asset value has decreased 6.58% to 159.16p (based on the estimated net asset value of the Master Fund) and the share price has also decreased 4.90% to 145.25p as at 16 August 2007. These falls have resulted from the increased volatility in the market due to the sub-prime concerns and mortgage defaults in the US, but we remain up since the year end.

The 8.74% increase in the year to date and 79.81% increase from launch to 30 June 2007 of the net asset value of the Company reflects the strong performance of the Master Fund. As mentioned by the Investment Adviser in his report, the Board is also hopeful that the strong performance to date will continue into the second half of 2007.

QUENTIN SPICER

21 August 2007

Performance

	Basic NAV pence	Fully-diluted NAV ⁽¹⁾ pence	Ordinary Share price (mid) pence	A Warrant price (mid) pence	B Warrant price (mid) pence	FTSE AIM All-Share Index
31 May 2005 (launch) ⁽²⁾	94.75 ⁽³⁾	94.75 ⁽³⁾	95.64	2.12	2.24	957.60
31 December 2005	123.77	123.77	106.50	3.75	8.63	1,046.10
30 June 2006	143.81	143.81	123.00	n/a ⁽⁴⁾	18.00	1,080.40
31 December 2006	156.68	156.68	129.00	n/a	8.00	1,054.60
30 June 2007	170.37	170.37	152.75	n/a	n/a ⁽⁵⁾	1,216.40
31 July 2007	176.42	176.42	154.25	n/a	n/a	1,195.40
Percentage increase in period	+8.74%	+8.74%	+18.41%	n/a	n/a	+15.34%
Percentage increase from launch to 30 June 2007	+79.81%	+79.81%	+59.71%	n/a	n/a	+27.03%

⁽¹⁾ The dilution calculation is based on the share price (mid) of the Ordinary Shares.

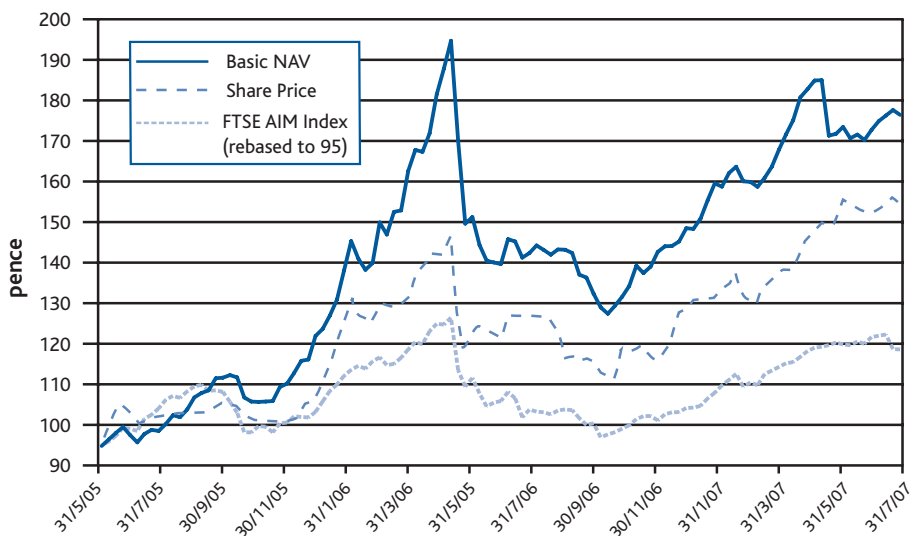
⁽²⁾ The 100p launch price of the Ordinary Shares and Warrants has been allocated in the ratio of the closing price of each on the day of admission to trading.

⁽³⁾ Net of issue costs of £2,098,710.

⁽⁴⁾ All A Warrants were exercised on 26 May 2006, reducing the NAV by approximately 11.54p per Ordinary Share.

⁽⁵⁾ All B Warrants were exercised on 25 May 2007, reducing the NAV by approximately 11.72p per Ordinary Share.

NAV/Share Price Performance



Investment Manager's Report

The first half of 2007 was a good one for the RAB Special Situations Strategy with returns of around 22.2% for the half year. This acceleration in performance took place against positive world equity markets and particularly strong growth in China of nearly 12% in the second quarter. The dollar slide began again and has got worse in July, largely reflecting concerns around the sub-prime bust. Our win/loss ratio improved to 3.0x, up from 1.7x in the first quarter, this being \$420m of profits against \$140m of losses.

Nevertheless, we have become more cautious on world markets as inflation worries appear to us to be well founded. Prices of energy, food (driven partly by bio-fuel) and metals are all primary building blocks of inflation, while money supply growth has been in the mid-teens for some years. Finally it appears to be affecting manufacturing wages in China (up over 15%) and may soon infect the service sector in the West as workers seek to more than just maintain their standard of living. Therefore, it does seem logical that interest rates will have to stay higher for longer, and may even surprise further on the upside. This should be a more difficult environment for both bonds and equities, and sub-prime worries may further weaken the market. We have reflected this by reducing the leverage on our long book to only 10% and by hedging around -36% in index futures.

Aside from our concern about markets we remain optimistic for the medium-term on our portfolio. In particular we are still able to buy significant stakes in world scale assets at exceptionally cheap prices. These should offer us multiple upside in the next few years as they are moved up the development curve. As ever, checking out the asset quality, making sure of clear legal tenure and backing strong, entrepreneurial management teams are vital to the success of our investments. We continue to find opportunities both in companies which are new to us and in those which we already know, in oil, gas, uranium, copper, nickel, iron ore, molybdenum etc. The flow of new opportunities continues to grow, and for this reason we have expanded the team to 7 analysts and 7 members of the legal team, and we are looking to add another trader.

We enter the third quarter in a strong position, and indeed at the time of writing in late July, the portfolio is performing well. We thank all our investors for their continued confidence in us and hope that our performance in the second half of the year will at least match that of the first half.

PHILIP RICHARDS
RAB Capital plc
July 2007

Income Statement

for the six months ended 30 June 2007 (unaudited)

		Six months ended 30 June 2007			Period ended	Period ended
		(unaudited)			30 June	31 December
		Notes	Revenue	Capital	2006	2006
		£'000	£'000	(unaudited)	(audited)	
		£'000	£'000	Total	Total	
				£'000	£'000	
Gains on investments	3	–	21,870	21,870	18,267	28,844
Bank interest		22	–	22	12	15
Investment management fee	4	–	(1,152)	(1,152)	(763)	(1,651)
Performance fee	4	–	(4,266)	(4,266)	(3,582)	(5,385)
Administration fee	4	(57)	–	(57)	(50)	(100)
Other expenses	5	(132)	–	(132)	(96)	(209)
Net (loss)/return on ordinary activities for the period/year		(167)	16,452	16,285	13,788	21,514
(Loss)/return per Ordinary Share: basic and fully-diluted		(0.26)p	25.67p	25.41p	31.35p	41.33p

These interim financial statements are unaudited and are not the Company's statutory financial statements.

The revenue and capital columns represent supplementary information.

The total column of this statement represents the Income Statement of the Company.

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

The Income Statement is presented in accordance with the Statement of Recommended Practice for Financial Statements of Investment Trust Companies.

The accompanying notes on pages 9 to 17 form an integral part of the unaudited interim financial statements.

Statement of Changes in Equity

Six months ended 30 June 2007 (unaudited)

	Share Capital £'000	Share premium £'000	Special distributable reserve £'000	A Warrant reserve £'000	B Warrant reserve £'000	Revenue reserve £'000	Capital reserve £'000	Total £'000
At 1 January 2007	600	23,594	35,849	–	848	(465)	33,584	94,010
Warrant conversion	200	26,648	–	–	(848)	–	–	26,000
(Loss)/return for the period	–	–	–	–	–	(167)	16,452	16,285
At 30 June 2007	800	50,242	35,849	–	–	(632)	50,036	136,295

Six months ended 30 June 2006 (unaudited)

	Share Capital £'000	Share premium £'000	Special distributable reserve £'000	A Warrant reserve £'000	B Warrant reserve £'000	Revenue reserve £'000	Capital reserve £'000	Total £'000
At 1 January 2006	400	–	35,849	804	848	(171)	11,776	49,506
Warrant conversion	200	23,594	–	(804)	–	–	–	22,990
(Loss)/return for the period	–	–	–	–	–	(134)	13,922	13,788
At 30 June 2006	600	23,594	35,849	–	848	(305)	25,698	86,284

Year ended 31 December 2006 (audited)

	Share Capital £'000	Share premium £'000	Special distributable reserve £'000	A Warrant reserve £'000	B Warrant reserve £'000	Revenue reserve £'000	Capital reserve £'000	Total £'000
At 1 January 2006	400	–	35,849	804	848	(171)	11,776	49,506
Warrant conversion	200	23,594	–	(804)	–	–	–	22,990
(Loss)/return for the year	–	–	–	–	–	(294)	21,808	21,514
At 31 December 2006	600	23,594	35,849	–	848	(465)	33,584	94,010

These interim financial statements are unaudited and are not the Company's statutory financial statements.

The accompanying notes on pages 9 to 17 form an integral part of the unaudited interim financial statements.

Statement of Net Assets

as at 30 June 2007 (unaudited)

	Notes	30 June 2007 (unaudited) £'000	30 June 2006 (unaudited) £'000	31 December 2006 (audited) £'000
Fixed assets				
Investments at fair value through profit or loss	8	140,268	89,622	99,499
Current assets				
Receivables and prepayments		28	31	22
Cash and cash equivalents		557	412	88
		585	443	110
Current liabilities				
Payables and accruals	9	(4,558)	(3,781)	(5,599)
Net current liabilities				
		(3,973)	(3,338)	(5,489)
Net assets				
		136,295	86,284	94,010
Share capital and reserves				
Called-up share capital	10	800	600	600
Share premium	12	50,242	23,594	23,594
Special distributable reserve	12	35,849	35,849	35,849
A Warrant reserve	12	–	–	–
B Warrant reserve	12	–	848	848
Revenue reserve		(632)	(305)	(465)
Capital reserve		50,036	25,698	33,584
Total Equity Holders' funds				
		136,295	86,284	94,010
Net asset value per Ordinary Share:				
<i>basic and fully-diluted</i>	13	170.37p	143.81p	156.68p

These interim financial statements are unaudited and are not the Company's statutory financial statements.

The accompanying notes on pages 9 to 17 form an integral part of the unaudited interim financial statements.

Cash Flow Statement

for the six months ended 30 June 2007 (unaudited)

	Notes	30 June 2007 (unaudited) £'000	30 June 2006 (unaudited) £'000	31 December 2006 (audited) £'000
Net cash outflow from operating activities	14	(6,632)	(3,546)	(4,570)
Servicing of finance		–	–	–
Investing activities				
Purchase of investments	8	(25,250)	(22,400)	(22,400)
Sale of investments	8	6,351	3,250	3,950
Net cash outflow from investing activities		(18,899)	(19,150)	(18,450)
Equity dividends paid		–	–	–
Cash outflow before financing		(25,531)	(22,696)	(23,020)
Financing activities				
Proceeds from issue of Ordinary Shares and Warrants		26,000	22,990	23,000
Formation expenses and listing fees paid		–	–	(10)
Net cash inflow from financing		26,000	22,990	22,990
Increase/(decrease) in cash and cash equivalents		469	294	(30)
Cash and cash equivalents brought forward		88	118	118
Increase/(decrease) in cash and cash equivalents		469	294	(30)
Cash and cash equivalents carried forward		557	412	88

These interim financial statements are unaudited and are not the Company's statutory financial statements.

The accompanying notes on pages 9 to 17 form an integral part of the unaudited financial statements.

Notes to the Interim Financial Statements

for the six months ended 30 June 2007 (unaudited)

1. Significant accounting policies

a) Statement of compliance

These unaudited interim financial statements have been prepared in accordance with International Accounting Standard 34: Interim Financial Reporting ("IAS 34") and in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), interpretations issued by the International Financial Reporting Interpretations Committee of the IASB and applicable legal and regulatory requirements of Guernsey Law and reflect the following policies, which have been adopted and applied consistently.

No IFRSs have been adopted early, however it is likely that any Standards issued (but that are not yet effective) would only require changes in disclosure and not result in changes to the accounting policies for recognition and measurement.

The interim financial statements were authorised for issuance on 21 August 2007.

b) Basis of preparation

The interim financial statements have been prepared on a historical cost basis, except for the measurement of investments at fair value through profit or loss. The interim financial statements are presented in Pounds Sterling ("Sterling"), rounded to the nearest thousand Pounds.

The accounting policies have changed from being prepared in accordance with United Kingdom Generally Accepted Accounting Principles ("UK GAAP"), to being prepared in accordance with IFRS with effect from 1 January 2007 as required by AIM Rule 19.

This change has had no effect on the numbers contained within the primary statements, therefore no reconciliation is required for the Company's equity under UK GAAP to the Company's equity under IFRSs at 1 January 2006, 30 June 2006 and 31 December 2006. Similarly, no reconciliation is required for the Company's profit or loss under UK GAAP to the Company's profit or loss under IFRSs for the six months ended 30 June 2006 the year ended 31 December 2006.

c) Segmental reporting

The Directors are of the opinion that the Company is engaged in a single segment of business, being investment business through the investment of up to 100% of the Company's assets directly in the shares of the RAB Special Situations (Master) Fund Limited (the "Master Fund"). During the period to 30 June 2007, the Company's only investment was in the ordinary shares of the Master Fund which operates in one geographic segment, the Cayman Islands.

d) Income

Bank interest is accounted for on an accruals basis.

Notes to the Interim Financial Statements (continued)

for the six months ended 30 June 2007 (unaudited)

1. Accounting policies (continued)

e) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged through the Income Statement to the revenue reserve except as follows:

- (i) expenses which are incidental to the acquisition or disposal of an investment are charged through the Income Statement to the capital reserve;
- (ii) 100% of the Company's management fee is charged through the Income Statement to the capital reserve in line with the Board's expected long-term split of returns between income and capital gains from the investment portfolio; and
- (iii) 100% of any performance fee is charged through the Income Statement to the capital reserve in line with the Board's expected long-term split of returns between income and capital gains from the investment portfolio.

f) Capital reserve

The following are charged through the Income Statement to the capital reserve:

- (i) realised gains and losses on the realisation of investments;
- (ii) unrealised gains and losses on investments; and
- (iii) expenses charged through the Income Statement to the capital reserve in accordance with the above accounting policies.

The Company's Articles of Association preclude it from distributing capital profits.

g) Transaction costs

Transaction costs incurred on the acquisition or disposal of an investment are charged through the Income Statement to the capital reserve in the period in which they are incurred.

h) Investments

Classification

The Company's business is investing in financial assets with a view to profiting from their total return primarily in the form of capital growth. The portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy. Information about the portfolio is provided internally to the Company's Board of Directors. Accordingly, upon initial recognition the investments are designated by the Company as "at fair value through profit or loss".

Notes to the Interim Financial Statements (continued)

for the six months ended 30 June 2007 (unaudited)

1. Accounting policies (continued)

Recognition

The Company recognises financial assets held as fair value through profit or loss assets on the date it commits to purchase the instruments. From this date, any gains and losses arising from the changes in fair value of the assets are recognised.

Measurement

Fair value through profit or loss assets are initially recognised at cost, being the fair value of the consideration given, excluding transaction costs associated with the investment (see note 1(g)). Subsequent to initial recognition, all fair value through profit or loss assets are measured at fair value with changes in value being recognised in the Income Statement and taken to the capital reserve. Shares in the Master Fund are valued at the latest relevant valuation provided by the administrator of the Master Fund in accordance with the principles set out in the prospectus of the Master Fund.

Derecognition

A fair value through profit or loss asset is derecognised when the Company loses control over the contractual rights that comprise that asset. This occurs when rights are realised, expire or are surrendered. Realised gains and losses on fair value through profit or loss assets sold are calculated as the difference between the sales proceeds and costs. Fair value through profit or loss assets that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Company commits to sell the assets. The Company uses the weighted average method to determine realised gains and losses on derecognition.

i) Functional and presentational currency

The currency of the primary economic environment in which the Company operates (the functional currency) is Pounds Sterling ("Sterling"), which is also its presentational currency.

j) Cash and cash equivalents

Cash in hand and in banks and short-term deposits, which are held to maturity, are carried at cost. Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of the Cash Flow Statement, cash and cash equivalents consist of cash in hand and deposits at banks.

Notes to the Interim Financial Statements (continued)

for the six months ended 30 June 2007 (unaudited)

2. Taxation

The Company has been granted exemption from Guernsey taxation under the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 and is charged an annual exemption fee of £600.

3. Gains on investments

	<i>Six months ended 30 June 2007 (unaudited) £'000</i>	<i>Six months ended 30 June 2006 (unaudited) £'000</i>	<i>Year ended 31 December 2006 (audited) £'000</i>
Realised gains on sales of investments	2,738	1,051	1,304
Movement in unrealised appreciation	19,132	17,216	27,540
	<u>21,870</u>	<u>18,267</u>	<u>28,844</u>

4. Investment Management and Administration

Investment Management

RAB Capital plc (the "Investment Manager") is entitled to an investment management fee, payable by the Company in arrears, of up to 1/12th of 2.00% per month calculated on the net asset value of the Company and from which it may, at its discretion, pay to any person to which it has delegated any of the functions it is permitted to delegate. Elysium Fund Management Limited (the "Administrator") calculates the investment management fee. The Investment Manager is also entitled to reimbursement of certain expenses incurred by it in connection with its duties.

The Investment Manager may also be entitled to a performance fee calculated on an aggregate net asset value basis in respect of any financial year if the closing net asset value for that financial year exceeds the opening net asset value for the financial year or the high watermark net asset value (if higher).

In such circumstances, the performance fee equates to 20.00% of the excess of the closing net asset value for that financial year over the opening net asset value for that financial year or the high watermark net asset value (as appropriate) less the proceeds of any issues since the beginning of the financial year or the date on which the high watermark net asset value occurred (as appropriate) plus the cost of any repurchases since the beginning of the financial year or the date on which the high watermark net asset value occurred (as appropriate). The Administrator calculates the performance fee and it is due to the Investment Manager within ten business days of the end of the financial year.

Notes to the Interim Financial Statements (continued)

for the six months ended 31 June 2007 (unaudited)

4. Investment Management and Administration (continued)

The performance fee is calculated based on the estimated net asset value at the year end, not the actual net asset value stated in the Balance Sheet in the financial statements. This is due to the performance fee being payable within ten business days of the year end (as per the Investment Management Agreement), before the final basic year end net asset value becomes available. Whilst this may result in a lower performance fee in certain periods (as was the case for the year ended 31 December 2006 and the period ended 31 December 2005), it is equally likely that the performance fee may be overpaid. The performance fee will not be amended for any overpayment or underpayment in a period due to the use of the estimated net asset value instead of the actual net asset value. However, the opening net asset value/high watermark of the subsequent period will be based on the estimated year end net asset value as applied in the performance fee calculation at the previous year end.

The Investment Manager has discretion to waive and rebate all or part of the performance fee payable in relation to the Company. The Investment Manager does not receive a management or performance fee in respect of its role as investment manager of the Master Fund in respect of the Company's shareholding in the Master Fund. The Investment Management Agreement is terminable on 90 days' notice after two years of its commencement.

Administration

The Administrator is responsible for providing administration and secretarial services to the Company, including the calculation of the net asset value per Ordinary Share of the Company. The Administrator also serves as the Company's agent for the issue and repurchase of Ordinary Shares. The Administrator is paid an annual fee of 0.10% of the net asset value of the Company, subject to a minimum annual fee of £100,000. The Administration Agreement is terminable on 90 days' notice.

5. Other expenses

	Six months ended 30 June 2007 (unaudited)			Six months ended 30 June 2006 (unaudited)	Year ended 31 December 2006 (audited)
	Revenue £'000	Capital £'000	Total £'000	Total £'000	Total £'000
Registrar fees	14	–	14	10	20
Nominated broker's fees	30	–	30	18	35
Auditors' remuneration	3	–	3	5	8
Directors' remuneration (note 6)	47	–	47	34	80
Other expenses	38	–	38	29	66
	132	–	132	96	209

Notes to the Interim Financial Statements (continued)

for the six months ended 30 June 2007 (unaudited)

6. Directors' remuneration

	<i>Six months ended 30 June 2007 (unaudited) £'000</i>	<i>Six months ended 30 June 2006 (unaudited) £'000</i>	<i>Year ended 31 December 2006 (audited) £'000</i>
Quentin Spicer	14	10	23
Peter Hodson	11	8	19
Christopher Wetherhill	11	8	19
Nicholas Wilson	11	8	19
	47	34	80

No bonus or pension contributions were paid or payable on behalf of the Directors.

7. Return per Ordinary Share

Basic

The basic return per Ordinary Share is based on a net gain of £16,284,950 (30 June 2006: £13,787,464; 31 December 2006: £21,513,793) and on a weighted average number of 64,088,398 (30 June 2006: 43,977,901; 31 December 2006: 52,054,795) Ordinary Shares in issue throughout the period. The revenue return per Ordinary Share is based on a net deficit of £166,841 (30 June 2006: deficit of £134,224; 31 December 2006: deficit of £293,533) and on a weighted average number of 64,088,398 (30 June 2006: 43,977,901; 31 December 2006: 52,054,795) Ordinary Shares in issue throughout the period. The capital gain per Ordinary Share is based on the net capital gain of £16,451,791 (30 June 2006: £13,921,688; 31 December 2006: £21,807,326) and on a weighted average number of 64,088,398 (30 June 2006: 43,977,901; 31 December 2006: 52,054,795) Ordinary Shares in issue throughout the period.

Fully-diluted

At 30 June 2007 the price of the Ordinary Shares was 152.75p (30 June 2006: 123.00p; 31 December 2006: 129.00p). As there were no A or B Warrants in issue at the period end, there was no dilution in the return per Ordinary Share.

Notes to the Interim Financial Statements (continued)

for the six months ended 30 June 2007 (unaudited)

8. Investments at fair value through profit or loss

	<i>Six months ended 30 June 2007 (unaudited) £'000</i>	<i>Six months ended 30 June 2006 (unaudited) £'000</i>	<i>Year ended 31 December 2006 (audited) £'000</i>
Opening valuation	99,499	52,205	52,205
Purchases	25,250	22,400	22,400
Sales – proceeds	(6,351)	(3,250)	(3,950)
– realised gain on sale of investment	2,738	1,051	1,304
Movement in unrealised appreciation	19,132	17,216	27,540
Closing valuation	140,268	89,622	99,499
Closing book cost	78,657	57,468	57,020
Closing unrealised appreciation	61,611	32,154	42,479
Closing valuation	140,268	89,622	99,499

The Company's only investment has been in the Sterling class of RAB Special Situations (Master) Fund Limited (the "Master Fund"). At the period end the Company held all of the shares of the Sterling class of the Master Fund. At 30 June 2007, the Sterling class accounted for 12.41% (30 June 2006: 13.00%; 31 December 2006: 11.64%) of the net assets of the Master Fund.

The Master Fund is managed by the Investment Manager. As stated in note 4, the Investment Manager does not receive a management or performance fee in respect of its role as investment manager of the Master Fund in respect of the Company's shareholding in the Master Fund.

9. Current liabilities

	<i>30 June 2007 (unaudited) £'000</i>	<i>30 June 2006 (unaudited) £'000</i>	<i>31 December 2006 (audited) £'000</i>
Investment management fee	236	151	165
Performance fee	4,266	3,582	5,385
Administration fee	11	17	8
Directors' fees	24	16	24
Other creditors and accruals	21	15	17
	4,558	3,781	5,599

Notes to the Interim Financial Statements (continued)

for the six months ended 30 June 2007 (unaudited)

10. Share capital

	30 June 2007 (unaudited) £'000	30 June 2006 (unaudited) £'000	31 December 2006 (audited) £'000
<i>Authorised:</i>			
300,000,000 Ordinary Shares of 1p	3,000	3,000	3,000
<i>Allotted, called up and fully paid at beginning of period:</i>			
60,000,000 (2006: 40,000,000) Ordinary Shares of 1p	600	400	400
<i>Issued during the period/year:</i>			
20,000,000 (2006: 20,000,000) Ordinary Shares of 1p	200	200	200
<i>Allotted, called up and fully paid at end of period/year:</i>			
80,000,000 (2006: 60,000,000) Ordinary Shares of 1p	800	600	600

All 20,000,000 B Warrants were fully exercised at 130p per share raising £26,000,000 (see note 11).

11. Warrants

At the placing on 31 May 2005, for each Ordinary Share received the subscriber also received one half A Warrant and one half B Warrant.

	<i>Exercise price pence</i>	<i>End of subscription period</i>	<i>Allotted</i>
A Warrants	115.00	23 May 2006	20,000,000
B Warrants	130.00	23 May 2007	20,000,000

On 25 May 2007, all of the B Warrants were converted at the price of 130.00p per share, resulting in an additional 20,000,000 Ordinary Shares.

Following the conversion of the A and B Warrants, there are no longer any Warrants in issue for the Company.

12. Reserves

The special distributable reserve was created on 31 May 2005 when, as stated in the Admission Document, the Company cancelled all of its share premium account (as approved in the Royal Court of Guernsey on 12 May 2005), transferring it to a distributable reserve to allow, amongst other things, the buy-back and cancellation of up to 14.99% of the Ordinary Shares.

The proceeds from the issue of the placing were split between the Ordinary Shares (share capital and share premium account), the A Warrant reserve and the B Warrant reserve based on the weighted average value of the Ordinary Shares and Warrants in issue at the close of business on the day of admission to trading. The weighted average value was calculated using the mid prices of the Ordinary Shares and Warrants as quoted on AIM at the close of business on the day of admission to trading.

Notes to the Interim Financial Statements (continued)

for the six months ended 30 June 2007 (unaudited)

13. Net asset value per Ordinary Share

Basic

The net asset value per Ordinary Share is based on the net assets attributable to equity Shareholders of £136,295,473 (30 June 2006: £86,284,194; 31 December 2006: £94,010,523) and on 80,000,000 (30 June 2006 and 31 December 2006: 60,000,000) Ordinary Shares in issue at the end of the period.

Fully-diluted

As there were no A or B Warrants in issue at the period end, there was no dilution in the net asset value per Ordinary Share..

Net asset value reconciliation

The difference between the estimated net asset value as at 30 June 2007 of 170.42p (announced on 4 July 2007) (30 June 2006: 143.43p; 31 December 2006: 155.45p) and the final net asset value of 170.37p (as disclosed in the Balance Sheet) (30 June 2006: 143.81p; 31 December 2006: 156.68p) is due to the revaluation of the investment in the Master Fund from its estimated value to its actual value (once available).

14. Reconciliation of net revenue return to net cash outflow from operating activities

	<i>Six months ended 30 June 2007 (unaudited) £'000</i>	<i>Six months ended 30 June 2006 (unaudited) £'000</i>	<i>Year ended 31 December 2006 (audited) £'000</i>
Net revenue return before finance costs and taxation	16,285	13,788	21,514
Gains on investment	(21,870)	(18,267)	(28,844)
Increase in prepayments	(6)	(13)	(4)
(Decrease)/increase in other creditors and accruals	(1,041)	946	2,764
Net cash outflow from operating activities	(6,632)	(3,546)	(4,570)

Risk Warning

No assurance can be given that Shareholders will realise a profit or will avoid a loss on their investment. The Ordinary Shares and Warrants are suitable only for investors who understand, or who have been advised of, the potential risk of capital loss from an investment in the Ordinary Shares and Warrants and that there may be limited liquidity in both the Ordinary Shares and the Warrants and the underlying investments of the Company and the Master Fund (collectively known as the "Funds"), and for whom the investment in the Ordinary Shares and the Warrants is part of a diversified investment portfolio and who fully understand the risks involved with such an investment. The risks referred to below do not purport to be exhaustive and potential investors should consult their stockbroker, bank manager, solicitor, accountant or other independent financial adviser before making an investment.

STRATEGY RISKS

Investment Approach

No guarantee or representation is made that the Funds will be successful. All investments of the Funds risk the loss of capital. As is true of any investment, there is a risk that an investment in the Company will be lost entirely or in part.

Investment Fund Restrictions

In an attempt to keep its expenses low and favour long-term investors, a family of funds or investment companies such as that managed by the Investment Manager may restrict or deny the ability of an investor from purchasing or redeeming its shares or from exchanging shares of one fund for another. In particular, the Company may not always be able to redeem its shares in the Master Fund. This may restrict the Funds' purchases, repurchases or exchanges and may prevent the Investment Manager from making other investments and as a result, the Funds may be locked into an unintended market position or the Funds' "capacity" may potentially be limited. Accordingly, the Funds face the risk that investment company families may restrict or limit the Funds' purchases, repurchases or exchanges of investment company shares, may involuntarily redeem the Funds' investments or require the Funds to pay additional fees or penalties, all of which could reduce the Funds' returns.

Risks of Investing in Investment Entities

Although the Investment Manager will attempt to monitor the performance of each investment company or other collective investment vehicle (collectively, "investment entities") the Funds may invest in, the Funds will not receive perfect information regarding the actual investments made by the investment entities and must ultimately rely on:

- i.* The investment manager or sponsor of each investment entity to operate in accordance with the investment strategy or guidelines laid out by such investment manager or sponsor; and
- ii.* The accuracy of the information provided to the Funds by such investment manager or sponsor.

Risk Warning (continued)

If the investment manager or sponsor of an investment entity does not operate in accordance with the investment strategy or guidelines specified for such entity, or if the information furnished by an investment entity is not accurate, the Funds might sustain losses with respect to their investment in such investment entity despite the Investment Manager's attempts to monitor such entity. In addition, privately offered and closed ended investment entities often have restrictions in their partnership agreements or other governing documents that limit the Funds' ability to withdraw funds from or invest in the entity. The Funds' ability to withdraw funds from or invest in investment entities with such restrictions will be limited and such restrictions may limit the Investment Manager's flexibility to reallocate assets among other investments or restrict the liquidity of the Funds.

Changes in Portfolio Strategy

The Investment Manager is not limited to trading any specific instruments or pursuant to any specific investment or trading strategies. As a result, it is possible that the nature and character of the Funds' investment portfolios may change substantially from time to time based upon the Investment Manager's view of where opportunities exist in the global marketplace. Furthermore, as a result of the Funds' opportunistic investment strategy, the expenses, risks, volatility and returns to the Funds, could vary significantly, from time to time, depending upon the investment strategies utilised by the Funds at any particular time.

Trading Strategies

There can be no assurance that the specific trading strategies utilised for the Funds will produce profitable results. Profitable trading is often dependent on anticipating trends or trading patterns. Markets subject to random price fluctuations, rather than defined trends or patterns, may generate a series of losing trades. There have been periods in the past when the markets have been subject to limited and ill-defined price movements, and such periods may recur. Any factor which may lessen major price trends (such as governmental controls affecting the markets) may reduce the prospect for future trading profitability. Any factor which could make it difficult to execute trades, such as reduced liquidity or extreme market developments resulting in limit moves, could also be detrimental to profits. The best trading strategy, whether based on fundamental or technical analysis, will not be profitable if there are no trends of the kind it seeks to follow. No assurance can be given that the techniques and strategies of the Investment Manager or any other portfolio manager engaged by the Investment Manager will be profitable in the future.

New Strategies

While the Investment Manager might develop new investment strategies in the future, any such strategies may not be thoroughly tested before being employed and may not, in any event, be successful. Were the Investment Manager to attempt to implement new strategies, the risk/reward profile of the Funds could be shifted significantly towards increased levels of risk. The Funds can only be successful if the Investment Manager is able to trade and invest successfully, and there can be no assurance that this will be the case.

Risk Warning (continued)

Undervalued Securities

One of the objectives of the Funds is to invest in undervalued securities. The identification of investment opportunities in undervalued securities is a difficult task and there can be no assurance that such opportunities will be successfully recognised. While investments in undervalued securities offer opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from the Funds' investments may not adequately compensate for the business and financial risks assumed.

The Funds may make certain speculative investments in securities which the Investment Manager believes to be undervalued; however, there can be no assurance that the securities purchased will in fact be undervalued. In addition, the Funds may be required to hold such securities for a substantial period of time before realising their anticipated value. During this period, a portion of the Funds' capital would be committed to the securities purchased, thus possibly preventing the Funds from investing in other opportunities. In addition, the Funds may finance such purchases with borrowed funds and thus will have to pay interest on such funds during such waiting period.

Directional Strategies

Directional investing is subject to all of the risks inherent in incorrectly predicting future price movements. Often these price movements will be determined by unanticipated factors, and the Investment Manager's analysis of known factors may prove inaccurate, in each case potentially leading to substantial losses.

Use of Leverage

The Funds may use leverage to enable them to make investments substantially in excess of their equity. The Funds reserve the right to use as much borrowing and leverage as permitted under applicable law and under the limits set by the Prime Broker and Custodian. Although such techniques increase the opportunity for a higher return on investment, they also increase the risk of loss.

The Investment Manager may, from time to time, adjust the Master Fund's leverage. Such adjustments may be in respect of certain markets or in respect of the Master Fund's overall investment portfolio. Factors which may affect the decision to adjust leverage include: ongoing research, volatility of individual markets, risk considerations, and the Investment Manager's subjective judgement and evaluation of general market conditions. Adjustments to leverage may result in greater profits or losses and increased brokerage costs. No assurance can be given that any leverage adjustment will be to the financial advantage of investors in the Funds.

Business and Regulatory Risks of Hedge Funds

Legal, tax and regulatory changes could occur that may adversely affect the Funds. The regulatory environment for hedge funds is evolving and changes in the regulation of hedge funds may adversely affect the value of investments held by the Funds and the ability of the Funds to obtain the leverage they may otherwise obtain or to pursue their investment strategies.

Risk Warning (continued)

No Formal Diversification Policies

Although diversification is an integral part of the Investment Manager's overall portfolio risk management process, the Investment Manager is not restricted as to the percentage of the Funds' assets that may be invested in any particular instrument, market or asset class. The Funds have not adopted fixed guidelines for diversification of their investments among issuers, industries, instruments or markets and may be heavily concentrated, at any time, in a limited number of positions. In attempting to maximise the Funds' returns, the Investment Manager may concentrate the holdings of the Funds in those industries, companies, instruments or markets which, in the sole judgement of the Investment Manager, provide the best profit opportunity in view of the funds' investment objectives.

Illiquidity in Certain Markets

The Funds will invest in illiquid or restricted securities for which there is no established resale market, including publicly traded or privately placed securities of small-capitalisation or financially troubled companies, illiquid over-the-counter securities, non-publicly traded securities, mortgage-backed securities, fixed-income securities and securities traded on non-US exchanges and emerging markets. Investors should note that, from time to time, such illiquid or restricted positions may represent a significant percentage of the Funds' capital. The Funds might only be able to liquidate these positions at disadvantageous prices, should the Investment Manager determine, or it become necessary to do so. For example, withdrawals from the Master Fund could require it to liquidate its positions more rapidly than otherwise desired in order to obtain the cash necessary to meet such withdrawals. Illiquidity in certain markets could make it difficult for the Funds to liquidate positions on favourable terms, thereby resulting in losses or a decrease in the NAV of the Funds. In addition, although many of the securities which the Funds may acquire may be traded on public exchanges, each exchange typically has the right to suspend or limit trading in all securities which it lists. Such a suspension could render it difficult or impossible for the Funds to liquidate their positions and would thereby expose the Funds to losses. The Funds therefore may be locked into an adverse price movement for several days or more which may result in immediate and substantial loss to an investor.

Distressed and High Yield Securities

The Funds may invest in securities of issuers in weak financial condition, experiencing poor operating results, needing substantial capital investment, perhaps having negative net worth, facing special competitive or product obsolescence problems or involved in or potentially facing bankruptcy or reorganisation proceedings. Investments of this type may involve substantial financial and business risks that can result in significant or even total losses. Among the risks inherent in investments in financially troubled issuers is the fact that it is frequently difficult to obtain reliable information as to their true financial condition. The market prices of distressed and high yield securities are subject to abrupt and erratic market movements and excessive price volatility. The spread between the bid and ask prices of such securities may be abnormally large, and the markets for such securities illiquid.

Risk Warning (continued)

Changes in Portfolio Holdings and Liquidity of Interests

The relative portfolio holdings of the Funds may be altered from time to time due to certain events such as significant repurchases of Ordinary Shares by the Company and/or withdrawals from the Master Fund. As a result, the illiquid portions of the Funds' portfolios may, at times, constitute a substantial portion of the Funds' overall holdings, and therefore, make liquidation of the Funds' holdings more difficult. Investors should note that the Company has the ability to defer repurchase requests in certain circumstances.

Participation on Creditors' Committees and Boards of Directors

Although not presently contemplated, from time to time the Funds may participate in committees formed by creditors to negotiate with the management of financially troubled companies that may or may not be in bankruptcy. The Funds may also seek to negotiate directly with debtors with respect to restructuring issues. In the situation where the Funds choose to join a creditors' committee, the Funds would likely be only one of many participants, each of whom would be interested in obtaining an outcome that is in its individual best interest. There can be no assurance that the Funds would be successful in obtaining results most favourable to them in such proceedings, although the Funds may incur significant legal fees and other expenses in attempting to do so. As a result of participation by the Funds on such committees, the Funds may be deemed to have duties to other creditors represented by the committees, which might thereby expose the Funds to liability to such other creditors who disagree with the Funds' actions.

Participation in restructuring activities frequently provides the participant with material non-public information that may restrict the Funds' ability to trade in a company's securities. Determination of whether information is material and non-public and how long knowledge of such information restricts trading is a matter of considerable uncertainty and judgement. While the Funds intend to comply with all applicable securities laws and to make judgements concerning restrictions on trading in good faith, the Funds may trade in a company's securities while engaged in restructuring activities relating to that company. Such trading creates a risk of litigation and liability that may cause the Funds to incur significant legal fees and potential losses.

In certain circumstances, it is possible that the Funds may be represented on the boards of some of the companies in which they make an investment. While such representation should enhance the Funds' abilities to manage their investments, it may also have the effect of impairing the ability of the Funds to sell the related securities when, and upon the terms, they might otherwise desire, including as a result of applicable securities laws. Such representation creates a risk of litigation and liability that may cause the Funds to incur significant legal fees and potential losses.

Interest of the Company and Reporting Obligations

The Investment Manager may hold substantial interest in investments in relation to which the Company is subject to disclosure obligations. Failure to comply with these obligations may give rise to penalties.

Risk Warning (continued)

Investments in Equity Securities

Common stock and similar equity securities generally represent the most junior position in an issuer's capital structure and, as such, generally entitle holders to an interest in the assets of the issuer, if any, remaining after all more senior claims to such assets have been satisfied. Holders of common stock generally are entitled to dividends only if and to the extent declared by the governing body of the issuer out of income or other assets available after making interest, dividend and any other required payments on more senior securities of the issuer. Warrants and stock purchase rights are securities permitting, but not obligating, their holders to subscribe for other equity securities, and they do not represent any rights in the assets of the issuer. As a result, warrants and stock purchase rights may be considered more speculative than other types of equity investments.

Derivative Instruments

The Funds may make extensive use of various derivative instruments, such as swaps, warrants, options and forward contracts. The use of derivative instruments involves a variety of material risks. These risks include the high degree of leverage which can be embedded in such instruments, a risk which can be materially increased by the limited liquidity which often characterises the derivative markets. The pricing relationships between derivatives and the underlying instruments on which they are based also may not conform to anticipated or historical correlation patterns, resulting in unanticipated losses. In addition, some of the derivatives traded by the Investment Manager may be over-the-counter instruments (contracts) between the Funds and third parties. The Funds may place collateral with certain of their counterparties in connection with their over-the-counter transactions. Although the Funds will principally engage in such transactions with money centre financial institutions, it is still subject to the risk of loss of such collateral as the risk of counterparty non-performance can be significantly greater in the case of these over-the-counter instruments (contracts) as opposed to exchange-traded derivative instruments. Furthermore, "bid-ask" spreads may be unusually wide in the substantially unregulated over-the-counter markets. To the extent the Funds invest in derivatives of various mortgage-backed securities, the prepayment risks, credit risks, interest rate risks and hedging risks associated with such securities also may be substantially magnified.

Price Fluctuations

Prices of derivative instruments are highly volatile. Prices are affected by a wide variety of complex and difficult-to-predict factors, such as supply of money, inflation, weather and climatic conditions, changing supply and demand relationships, governmental activities and regulations, political and economic events and prevailing psychological characteristics of the marketplace. These same factors also can affect the securities markets adversely.

Risk Warning (continued)

Specific Commodity Futures Considerations

Volatility and leverage

Commodity futures prices can be highly volatile. Because of the low margin deposits normally required in futures trading, an extremely high degree of leverage is typical of a futures trading account. As a result, a relatively small price movement in a futures contract may result in substantial losses to the investor. Like other leveraged investments, a futures transaction may result in losses in excess of the amount invested.

Daily price fluctuation limits

Commodity exchanges limit daily price fluctuations in certain commodity futures contracts. For contracts that have a price limit, no trades may be executed at prices beyond the "daily limit" during the trading day. Once the price of a futures contract for a particular commodity has increased or decreased by an amount equal to the daily limit, positions in the commodity can be neither initiated nor liquidated unless traders are willing to effect trades at or within the limit. Futures prices have occasionally moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the Funds from promptly liquidating unfavourable positions and subject the Funds to substantial losses.

Risk disclosure

Commodity futures trading is speculative. Price movements of commodity futures contracts are influenced by, among other things, changing supply and demand relationships, governmental, agricultural and trade programs and policies, and national and international political and economic events. Changing crop prospects occasioned by unexpected weather or damages by insects and plant diseases make it difficult to forecast supplies of agricultural commodities. Similarly, demand is also difficult to forecast due to such factors as variable world production patterns, unexpected purchases and continued changes in demand. Financial instrument futures prices are influenced primarily by changes in interest rates. Currency futures prices are influenced by, among other things, changes in balance of payments and trade, domestic and international rates of inflation, international trade restrictions and currency devaluations and revaluations.

Securities futures contracts

The Funds may engage in the trading of security futures contracts listed on US or non-US markets. In the US, security futures contracts are defined as both a security and futures contract and the offer, sale and trading of security futures are subject to a complex regulatory structure under both the US securities and commodities laws. Non-US listed security futures are subject to the regulatory regime of the exchange on which the contract is traded and the foreign regulatory authority having jurisdiction over such exchange. Because security futures contracts are new in the US (trading did not begin until November 2002), there can be no assurance that the trading strategies used by the Investment Manager will be applicable to any particular security futures contract which it chooses to trade. Moreover, to date the markets for security futures contracts in the US have been characterised by very limited trading volume when compared to the US futures markets generally. As a result, the Investment Manager may at times find it difficult to buy or sell a security futures contract at a favourable price, which could result in losses to the Funds.

Risk Warning (continued)

Forward trading

The Funds may trade forward contracts in the US and in markets (including interbank markets) located outside the US. Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and are not standardised; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. In such a case, the Funds will be subject to the risk that a counterparty will be unable, or refuse, to perform with respect to such contracts. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market traded by the Funds due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward trading to less than that which the Investment Manager would otherwise recommend, to the possible detriment of the Funds. Market illiquidity or disruption could result in major losses to the Funds.

Short Sales

The Funds may sell securities short as an aspect of their trading strategy. Since the borrowed securities sold short must later be replaced by market purchases, any appreciation in the prices of the borrowed securities results in a loss. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Furthermore, a short seller may be prematurely forced out of a position if the lender from which the short seller borrowed stock, in order to effect settlement of a short sale, recalls such stock under circumstances in which such stock cannot be borrowed from other sources.

Global Market Exposure

The Funds invest on a global basis in both developed and emerging markets. In doing so, the Funds are subject to:

- i.* Currency exchange-rate risk;
- ii.* The possible imposition of withholding, income or excise taxes;
- iii.* The absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and little or potentially biased government supervision and regulation; and
- iv.* Economic and political risks, including expropriation, currency exchange control and potential restrictions on investment and repatriation of capital.

Risk Warning (continued)

Swap Agreements

The Funds may enter into swap agreements. Swap agreements can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structure, swap agreements may increase or decrease the Funds' exposure to long-term or short-term interest rates (in the US or abroad), foreign currency values, mortgage securities, corporate borrowing rates, or other factors such as security prices, baskets of equity securities, or inflation rates. Swap agreements can take many different forms and are known by a variety of names. The Funds are not limited to any particular form of swap agreement if the Investment Manager determines it is consistent with the Funds' investment objective, approach and strategies.

Swap agreements tend to shift the Funds' investment exposure from one type of investment to another. For example, if the Funds agree to exchange payments in US Dollars for payments in foreign currency, the swap agreement would tend to change the Funds' exposure to US interest rates and its exposure to foreign currency and interest rates. Depending on how they are used, swap agreements may increase or decrease the overall volatility of the Funds' portfolio. The most significant factor in the performance of the swap agreements is the change in the specific interest rate, currency, individual equity values or other factors that determine the amounts of the payments due to and from the Funds. If a swap agreement calls for payment by the Funds, the Funds must be prepared to make such payments when due. In addition, if a counterparty's creditworthiness declines, the value of swap agreements with such counterparty can be expected to decline, potentially resulting in losses by the Funds.

Options may be cash settled, settled by physical delivery or by entering into a closing purchase transaction. In entering into a closing purchase transaction, the Funds may be subject to the risk of loss to the extent that the premium paid for entering into such closing purchase transaction exceeds the premium received when the option was written.

Repurchase and Reverse-Repurchase Agreements

The Funds may use repurchase and reverse-repurchase agreements, which involve certain risks. For example, if the seller of securities under a repurchase agreement defaults in its obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, the Funds will seek to dispose of such securities, which action could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganisation under applicable bankruptcy or other laws, the Funds' ability to dispose of the underlying securities may be restricted. Finally, it is possible that the Funds may not be able to substantiate their interest in the underlying securities. If the seller fails to repurchase the securities, the Funds may suffer a loss to the extent proceeds from the sale of the underlying securities are less than the repurchase price. Similar elements of risk arise in the event of the bankruptcy or insolvency of the buyer.

Risk Warning (continued)

OPERATING RISKS

Operating History

The past performance of the Funds should not be taken to be indicative of their future results. Finally, given that the Company may invest and engage in currency hedging activities independently of the Master Fund, the Company's performance may at times differ from that of the Master Fund.

Dependence Upon the Investment Manager

The operations of the Funds are substantially dependent upon the skill, judgement and expertise of the Investment Manager and its principals, specifically Philip Richards, who is responsible on a day-to-day basis for investment of the Funds' assets. In the event of the death, disability or other unavailability of Philip Richards, the business of the Funds may be materially and adversely affected.

Lack of Right to Redeem

A Shareholder may request the Company to repurchase all or part of its shareholding in the Company. The Company has absolute discretion whether to repurchase such holding and the terms on which it will do so. Any repurchase of shares by the Company will usually be at the prevailing market price. The Company will not repurchase shares at more than the net asset value per Ordinary Share.

Credit Risk

The Funds are subject to the risk that the Prime Broker and counterparties with which, and the exchanges on which, they execute transactions or carry positions may default. The default by the Prime Broker in particular, an exchange, clearing house or counterparty (whether due to insolvency, bankruptcy or other causes) with or through which the Funds trade could result in material losses. Further details are set out in the paragraph below headed Prime Broker and Custodian.

Suspensions of Trading

Each exchange typically has the right to suspend or limit trading in the securities it lists. Such a suspension could render it impossible for the Funds to liquidate their positions and thereby expose them to losses. In addition, there is no guarantee that non-exchange markets will remain liquid enough for the Funds to close out positions they hold on such markets.

Unregulated Markets and Jurisdictions

The Funds may invest in securities of companies domiciled and operating in unregulated environments. This involves considerations and possible risks not typically involved in investing in securities of companies domiciled and operating in regulated securities markets. Unregulated markets are less liquid, more volatile and less subject to governmental supervision than in regulated environments.

Risk Warning (continued)

Commissions and Expenses

The Funds are obliged to pay brokerage commissions and related transaction fees and costs, which can be substantial, regardless of whether their trading activities are profitable. The Funds must also pay their own fees and operating and administrative expenses. It will be necessary for the Funds to achieve gains in excess of these aggregate fees and costs in order for Shareholders to realise an increase in the NAV of the Ordinary Shares. There can be no assurance that the Funds will be able to achieve such, or any, appreciation of their assets.

Other Clients of the Investment Manager and its Affiliates

The Investment Manager, its affiliates and their principals manage other accounts and other collective investment vehicles. These accounts may employ different or similar trading strategies, and could increase the level of competition for the same trades or positions that the Funds might otherwise make, including the priorities of order entry. This could make it difficult or impossible to take or liquidate a position of a particular security at a satisfactory price. Moreover, in such situations, the Funds may not be able to engage in as large a portion of a transaction as they otherwise would.

The Investment Manager and its affiliates may employ investment methods, policies and strategies for their clients that differ from those under which the Funds operate. Therefore, the results of the Funds' trading may differ from those of other accounts traded by the Investment Manager and its affiliates. Moreover, certain of the Investment Manager's principals also may invest for their own accounts.

Litigation

The Funds' investment activities are subject to the normal risks of becoming involved in litigation by third parties. This risk is somewhat greater because the Funds will often hold substantial stakes in listed companies which could be considered to give rise to exercise of control or significant influence over a company's direction. Furthermore, many of the exchanges on which the Funds invest impose reporting and other obligations which, if not met, could lead to fines and other sanctions against the Funds or the Investment Manager. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgements may have to be borne by the Funds. In addition, certain of the Funds' strategies may be subject to claims for the return of profits or the recovery of losses on the basis of certain statutory, regulatory or administrative entitlements or prohibitions.

Risk Warning (continued)

Prime Broker and Custodian

Cash held by the Prime Broker and Custodian will not be treated as client money subject to the protections conferred by the rules of the FSA and accordingly would not be segregated from the Prime Broker and Custodian's own money. Cash could be used by the Prime Broker and Custodian in the course of their investment business and the Funds would therefore rank as unsecured creditors of the Prime Broker and Custodian in relation thereto. In relation to the Funds' right to the return of assets equivalent to those of the Funds' investments which the Prime Broker and Custodian borrow, lend or otherwise use for their own purposes, the Funds will rank as their unsecured creditors and in the event of the insolvency of the Prime Broker and Custodian the Funds might not be able to recover such equivalent assets in full.

Market Price Considerations

The market price of the Ordinary Shares and Warrants is expected to fluctuate over time due to the performance of the Funds' investments as well as market considerations. A Shareholder may not fully recover their initial investment when the Shareholder chooses to sell their Ordinary Shares or Warrants.

Tax Considerations

Where the Funds invest in securities that are not subject to withholding tax at the time of acquisition, there can be no assurance that tax may not be withheld in the future as a result of any change in applicable laws, treaties, rules or regulations or the interpretation thereof. Typically, the Funds will not be able to recover such withheld tax and so any change would have an adverse effect on the NAV of the Ordinary Shares. Where the Funds sell securities short that are subject to withholding tax at the time of sale, the price obtained will reflect the withholding tax liability of the purchaser. In the event that in the future such securities cease to be subject to withholding tax, the benefit thereof will accrue to the purchaser and not to the Funds.

Performance Fee

The performance fee is calculated based on the estimated net asset value at the year end, not the actual net asset value stated in the Balance Sheet in the financial statements. This is due to the performance fee being payable within ten business days of the year end (as per the Investment Management Agreement), before the final basic year end net asset value becomes available. Whilst this may result in a lower performance fee in certain periods (as was the case for the period ended 31 December 2005 and the year ended 31 December 2006), it is equally likely that the performance fee may be overpaid. The performance fee will not be amended for any overpayment or underpayment in a period due to the use of the estimated net asset value instead of the actual net asset value. However, the opening net asset value/high watermark of the subsequent period will be based on the estimated year end net asset value as applied in the performance fee calculation at the previous year end.

Risk Warning (continued)

Profit Sharing

In addition to receiving an investment management fee, the Investment Manager may also receive a performance fee based on the appreciation in the NAV of the Company and accordingly the performance fee will increase with regard to unrealised appreciation, as well as realised gains. The performance fee may create an incentive for the Investment Manager to make investments for the Funds which are riskier than would be the case in the absence of a fee based on the management of the Funds.

Conflicts of Interest

As a result of the Company having the opportunity to receive the investment management fee and the performance fee (as described above), the Investment Manager and its affiliates may have conflicts of interest in allocating investments among the Company and the other clients and in effecting transactions between the Company and other clients, including ones in which the Investment Manager and its affiliates may have a greater financial interest. Where appropriate, the Investment Manager and its affiliates may give advice or take action with respect to such other clients that differs from the advice given with respect to the Company.

The Investment Manager and its affiliates may be involved in other financial, investment or professional activities which may on occasion give rise to conflicts of interest with the Company. In particular the Investment Manager may provide investment management, investment advice or other services in relation to a number of funds which may have similar investment policies to that of the Funds.

Each of these parties will have regard to its obligations under its agreement with the Company or otherwise to act in the best interest of the Company, so far as is practicable having regard to its obligations to other clients, when potential conflicts of interest arise. In the event of a conflict of interest arising involving the Investment Manager, the Investment Manager will resolve such conflict of interest fairly. In particular, the Investment Manager will use its reasonable efforts to ensure that the Company has the opportunity to participate in potential investments identified by the Investment Manger which fall within the Company's investment objective and policy on the best terms reasonably obtainable at the relevant time with the aim of ensuring that the principal of best execution is attained.

The Investment Manager and its affiliates may carry on investment activities for their own accounts, for the accounts of their employees (and their families) and for other accounts in which the Company has no interest. The Investment Manager and its affiliates also provide investment management services to other clients, including other collective investment vehicles. The Investment Manager, and its affiliates may give advice and recommend securities to other managed accounts or investment funds which may differ from advice given to, or securities recommended or bought for, the Company, even though their investment programs may be the same or similar.

Certain inherent conflicts of interest arise from the fact that the Investment Manager and its affiliates generally carry on other investment activities in which the Company will have no interest. The Investment Management Agreement does not impose any specific obligations or requirements concerning the allocation

Risk Warning (continued)

of time, effort or investment opportunity by the Investment Manager to the Company. The Investment Manager and its members, officers and employees will devote as much of their time to the activities of the Company as they deem necessary and appropriate. The Investment Manager and its affiliates are not restricted from forming additional investment funds, from entering into other investment management or advisory relationships, or from engaging in other business activities, even though such activities may be in competition with the Company or any investee fund manager and/or may involve substantial time and resources of the Investment Manager. These activities could be viewed as creating a conflict of interest in that the time and effort of the members of the Investment Manager and its officers and employees will not be devoted exclusively to the business of the Company, but will be allocated between the business of the Company and the management of the monies of other clients of the Investment Manager.

The Company may, whether for the account of the Company or otherwise to the extent permitted by applicable law, engage in transactions with the Investment Manager or its affiliates. The Investment Manager may allocate a portion of the Company's assets to portfolio investments managed by the Investment Manager or its affiliates to the extent that the Investment Manager determines, in its sole discretion, that such investee funds represent an appropriate investment strategy for the Company. To the extent the Company invests in investee funds managed by the Investment Manager or its affiliates, all fees charged by the Investment Manager or its affiliates at the portfolio investment level will be waived or rebated to the Company.

US Persons

The Company's Ordinary Shares and Warrants have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "US Securities Act") or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, any US Person as that term is defined in Regulation S under the US Securities Act. The Company has not been registered and will not register under the United States Investment Company Act of 1940, as amended (the "US Investment Company Act").

The Company may force a shareholder to sell or may repurchase any Securities sold in contravention of any of the prohibitions. In addition, the Company may force a shareholder to sell or may repurchase the Securities of any investor at any time if, at the Director's discretion (a) they believe such sale or repurchase would be appropriate to protect the Company from a requirement to register as an Investment Company under the US Investment Company Act, from adverse tax consequences or from other adverse legal or regulatory consequences or (b) such sale or repurchase would be appropriate to avoid the Investment Managers being required to register as an Investment Adviser under the US Investment Advisers Act or (c) for purposes of the Investment Managers retaining the applicable exemption from certain disclosure, record keeping and reporting obligations claimed under the US Commodity Exchange Act. The Company also may refuse to register a transfer of Securities on the foregoing grounds. The Company also may require information from any investor.

Directors

Quentin Spicer (Chairman)

Mr Spicer is aged 62 and joined the Board in May 2005. He qualified as a solicitor with Wedlake Bell in 1968 and became a partner in 1970. He moved to Guernsey in 1996 as senior partner in Wedlake Bell Guernsey, specialising in United Kingdom property transactions for non-United Kingdom resident entities. He is chairman of a number of companies including the Guernsey Housing Association LBG, European Value and Income Fund Limited, Atlas Estates Limited, South African Property Opportunities plc, Quintain (Guernsey) Limited and is a non-executive director of several other funds.

Peter Hodson

Mr Hodson is aged 56 and joined the Board in May 2005. He qualified as a solicitor with Hyman Isaacs Lewis & Mills (now Beachcroft Starkys) in 1975 and became a partner in Masons, Hong Kong in 1985. He is a qualified solicitor in Hong Kong, England and Wales and also an accredited mediator with the Centre for Effective Dispute Resolution (“CEDR”) in London and with the Hong Kong International Arbitration Centre. He moved to Guernsey in 1998 where he is now based with Hodson & Company. He has had almost twenty years’ experience in fiduciary services, including roles with Standard Chartered Bank and Bank of Bermuda.

Christopher Wetherhill

Mr Wetherhill is aged 58 and joined the Board in May 2005, and was re-elected to the Board at the Annual General Meeting of the Company held on 12 July 2006. He founded and was chief executive officer of Hemisphere Management Limited (now renamed BISYS Hedge Fund Services Limited), a financial services company located in Bermuda, from 1981 to 2002, when he chose to retire. Mr Wetherhill is a chartered accountant, a Fellow of the Institute of Chartered Accountants in England and Wales, a member of the Canadian and Bermudan Institutes of Chartered Accountants, a Fellow of the Institute of Directors and a Freeman of the City of London. He is a Bermudan resident and is a non-executive director of investment companies of several jurisdictions.

Nicholas Wilson

Mr Wilson is aged 62 and joined the Board in May 2005, and was re-elected to the Board at the Annual General Meeting of the Company held on 17 July 2007. Mr Wilson has over 30 years’ experience in hedge funds and derivatives. He is non-executive chairman of Alternative Investment Strategies Limited, the longest running quoted fund of hedge funds and a constituent of the FTSE All Share Index. In addition, he sits on the boards of a number of other public companies. He is resident in the Isle of Man.

Directors and Advisers

Directors

Quentin Spicer (Chairman)
Peter Hodson
Christopher Wetherhill
Nicholas Wilson

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