# RIT Capital Partners plc

*Annual Report and Accounts 31 March 2005*

RIT Capital Partners plc Annual Report and Accounts 31 March 2005

# Advisers

## Secretary and Registered Office

**J. Rothschild Capital Management Limited**
(a wholly-owned subsidiary of RITCP)
27 St James's Place
London SW1A 1NR

## Auditors

**PricewaterhouseCoopers LLP**
Southwark Towers
32 London Bridge Street
London SE1 9SY

## Solicitors

**Linklaters**
One Silk Street
London EC2Y 8HQ

## Registrars and Transfer Office

**Computershare Investor Services PLC**
Registrar's Department
P.O. Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH
Telephone: 0870 702 0001

## Savings Scheme Administrator

**The Bank of New York Europe Limited**
12 Blenheim Place
Edinburgh EH7 5JH
Telephone: 0131 525 9819

## For Information

The Company's website is
**www.ritcap.co.uk**



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# RIT Capital Partners plc

## Contents



Company Registration Number 2129188

# Corporate Objective

**“to deliver long-term capital growth, while preserving shareholders’ capital;**

**to invest without the constraints of a formal benchmark, but to deliver for shareholders increases in capital value in excess of the relevant indices over time.”**

# Policy

**“to invest in a widely diversified, international portfolio across a range of asset classes, both quoted and unquoted;**

**to allocate part of the portfolio to exceptional managers in order to ensure access to the best external talent available.”**

# RIT Capital Partners plc

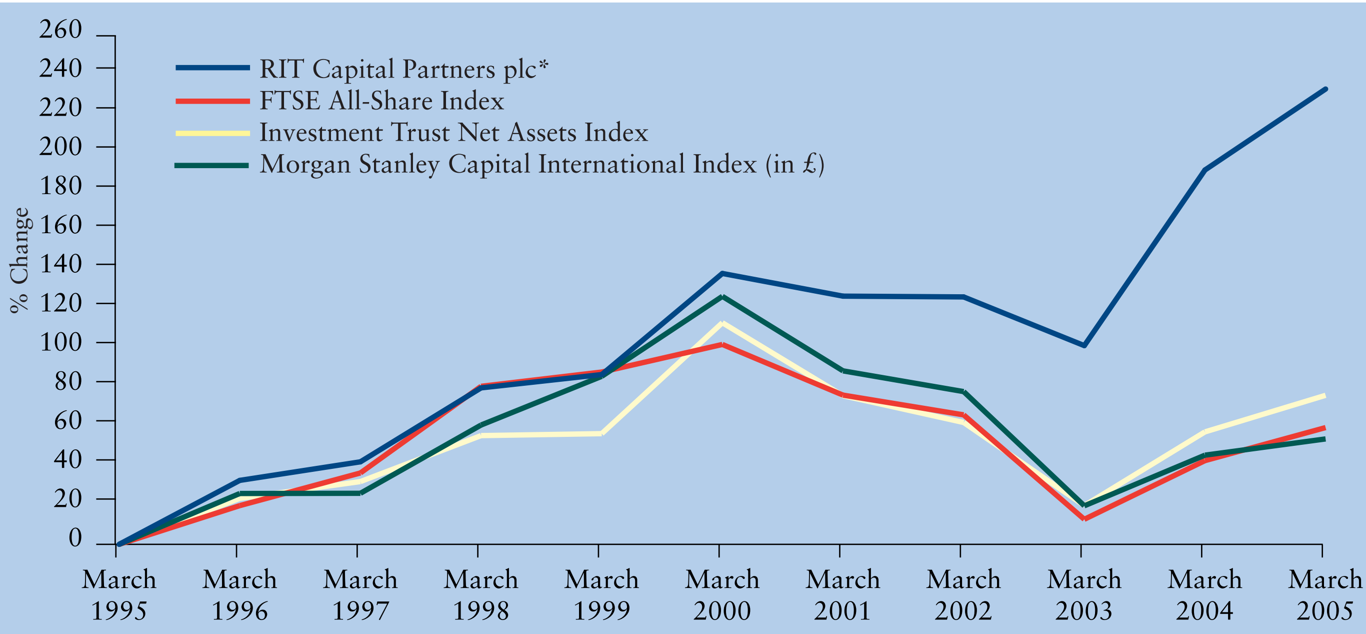
## Financial Highlights

| | 31 March 2005 | 31 March 2004 | % Change |
|---|---|---|---|
| Total Net Assets (£ million) | **1,109.2** | 975.3 | +13.7% |
| Net Asset Value per Share | **710.2p** | 621.8p | +14.2% |
| Share Price | **694.0p** | 577.5p | +20.2% |
| Discount | **2.3%** | 7.1% | –67.6% |

## Performance

| | 1 Year | 5 Years | 10 Years |
|---|---|---|---|
| RIT Capital Partners plc* | +14.2% | +39.5% | +232.8% |
| Morgan Stanley Capital International Index (in £) | +5.7% | –32.1% | +53.9% |
| FTSE All-Share Index | +11.9% | –21.0% | +59.7% |
| Investment Trust Net Assets Index | +11.6% | –17.4% | +76.2% |

## Performance against major indices over 10 years



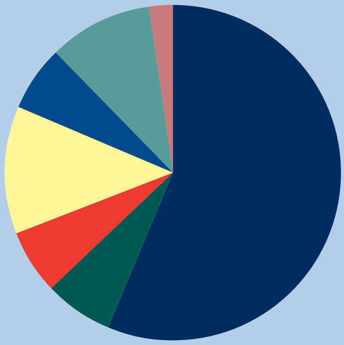

* Diluted Net Asset Value per Share

# Portfolio Analysis and Currency Exposure

AT 31 MARCH 2005

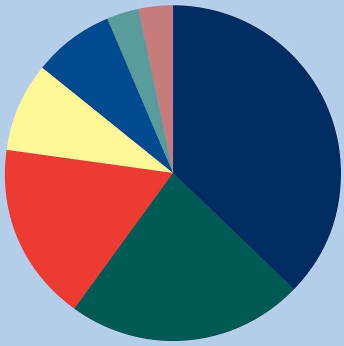
## PORTFOLIO ANALYSIS BY ASSET CATEGORY

| | £m | % |
|---|---|---|
| Quoted Investments | 634.7 | 56.3 |
| Hedge Funds | 74.9 | 6.6 |
| Long Equity Funds | 69.3 | 6.2 |
| Unquoted Investments | 138.5 | 12.3 |
| Private Equity Partnerships | 71.4 | 6.3 |
| Government Securities and Money Market Funds | 113.0 | 10.0 |
| Property | 25.5 | 2.3 |
| | 1,127.3 | 100.0 |



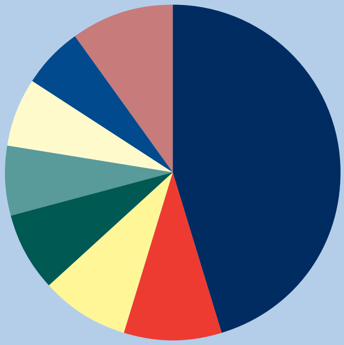
## PORTFOLIO ANALYSIS BY COUNTRY

| | £m | % |
|---|---|---|
| United States | 419.1 | 37.2 |
| Europe | 257.5 | 22.8 |
| United Kingdom | 193.0 | 17.2 |
| Far East | 97.0 | 8.6 |
| Japan | 88.1 | 7.8 |
| Canada | 35.2 | 3.1 |
| Other | 37.4 | 3.3 |
| | 1,127.3 | 100.0 |

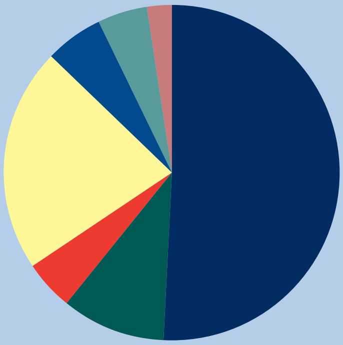


## NET ASSET ANALYSIS BY CURRENCY

| | £m | % |
|---|---|---|
| Sterling | 504.0 | 45.4 |
| Japanese Yen | 103.9 | 9.4 |
| Euro | 94.0 | 8.5 |
| US Dollar | 84.0 | 7.6 |
| Taiwan Dollar | 74.3 | 6.7 |
| Singapore Dollar | 73.3 | 6.6 |
| Swiss Franc | 65.5 | 5.9 |
| Other | 110.2 | 9.9 |
| | 1,109.2 | 100.0 |

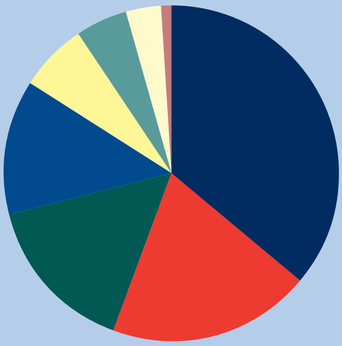


## AT 31 MARCH 2004



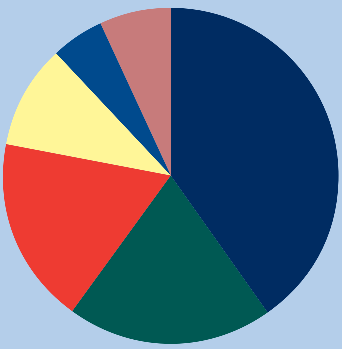
### PORTFOLIO ANALYSIS BY ASSET CATEGORY

| | £m | % |
|---|---|---|
| Quoted Investments | 497.2 | 50.8 |
| Hedge Funds | 97.6 | 10.0 |
| Long Equity Funds | 47.1 | 4.8 |
| Unquoted Investments | 211.8 | 21.6 |
| Private Equity Partnerships | 54.4 | 5.6 |
| Government Securities and Money Market Funds | 47.4 | 4.8 |
| Property | 23.3 | 2.4 |
| | 978.8 | 100.0 |



### PORTFOLIO ANALYSIS BY COUNTRY

| | £m | % |
|---|---|---|
| United States | 352.9 | 36.1 |
| United Kingdom | 191.5 | 19.6 |
| Europe | 150.2 | 15.4 |
| Japan | 127.7 | 13.0 |
| Far East | 65.0 | 6.6 |
| Canada | 48.9 | 5.0 |
| Russia | 32.3 | 3.3 |
| Other | 10.3 | 1.0 |
| | 978.8 | 100.0 |



### NET ASSET ANALYSIS BY CURRENCY

| | £m | % |
|---|---|---|
| Sterling | 390.8 | 40.1 |
| US Dollar | 193.1 | 19.8 |
| Japanese Yen | 176.1 | 18.1 |
| Euro | 97.6 | 10.0 |
| Swiss Franc | 50.2 | 5.1 |
| Other | 67.5 | 6.9 |
| | 975.3 | 100.0 |

# Chairman's Statement

In the year to 31 March 2005, your Company's net asset value per share increased by 14.2%, from 621.8p to 710.2p and its net worth by some £134 million. Over the same period, the Morgan Stanley Capital International Index (in Sterling), the FTSE All-Share Index and the Investment Trust Net Assets Index increased by 5.7%, 11.9% and 11.6% respectively. We were therefore able to out-perform these three indices in conditions which were significantly more difficult than in the previous year, when your Company's net asset value per share increased by 44.5%.

RITCP's net asset value per share at 20 May, the latest available date, was 704.4p.

## Asset Allocation

Set out below is our asset allocation at the year end.

| | % of Portfolio at 31 March 2005 | % of Portfolio at 31 March 2004 |
|---|---|---|
| Quoted investments | 56.3 | 50.8 |
| Government securities and money market funds | 10.0 | 4.8 |
| Hedge funds | 6.6 | 10.0 |
| Long equity funds | 6.2 | 4.8 |
| Unquoted investments | 12.3 | 21.6 |
| Private equity partnerships | 6.3 | 5.6 |
| Property | 2.3 | 2.4 |
| | 100.0 | 100.0 |

The principal change over the year has been the decrease in the unquoted investments section of the portfolio, as a result of the successful realisation of a number of our holdings, including the investment in Shinsei Bank. In addition, the quoted investments category has shown some increase, while the rise in the level of liquidity to 10% reflects our more cautious stance.

A more detailed analysis of your Company's portfolio and currency exposure can be found on pages 4 and 5.

## Quoted Portfolio

In view of the uncertainties prevailing in world markets, we have continued to diversify the portfolio into specific areas and away from general exposure to markets. Particularly during the early part of the year, we were investors in commodity and energy stocks, which benefited from China's growth and the pressures for a decline in the US Dollar.

In addition, we have maintained a level of liquidity within the portfolio. At the year end, our holdings in government securities and money market funds amounted to 10%, compared with 5% at 31 March 2004. Against our $150 million loan, we have retained net cash amounting to some £63 million.

At the year end, £635 million, or 56.3% of the portfolio, was held directly in quoted investments, compared with 50.8% at the previous year end. Some £390 million, or nearly two thirds, of this amount is managed by the external investment managers who are listed on page 17 of this report. The balance of £245 million is managed internally.

We have added to the geographical diversity of the portfolio over the last two years, increasing our asset allocation to Japan and the Far Eastern markets. We have also continued to diversify the currency exposure away from the US Dollar and the Euro to include the currencies of the leading Asian economies.

In terms of the geographical exposure, the increase in Europe from 15.4% to 22.8% has been partly attributable to increased holdings in European government bonds. The halving of our exposure to Japan from 13% to 7.8% has mainly come about as a result of the sale of our holding in Shinsei Bank.

## Unquoted Portfolio

The sale of the Shinsei holding was the largest of a number of successful realisations that we completed during the year under review. We realised a profit of £68 million, or 3.3 times our original cost, over the life of the investment. Other profitable realisations included the sale of a leading multiplex cinema company, Cine-UK, in October 2004 at 3.4 times the original cost, giving a total return of £18.3 million. At the year end, we increased the valuation of our holding in Power Measurement, a North American electronics company, to £29.1 million, or 4 times its original cost, following the announcement of the sale of the company. In March 2005, Seminis, a global seed producer, was sold to realise £13.3 million, or 3.2 times our original cost and a profit of £9 million.

In addition, during the first half of the year, two of our unquoted investments, PayPoint, an electronics payments systems business, and Blueheath, a web-based grocery wholesale business were successfully floated.

Our exposure to unquoted investments and private equity partnerships is set out on pages 4 and 5. In total, these amounted to £209.9 million, or 18.6% of the portfolio at the year end. Of this, £138.5 million, or 12.3%, represents investments made directly by our management and £71.4 million, or 6.3%, is invested in limited partnerships managed by third parties.

## Dividend

We are proposing to pay a dividend of 3.1p per share on 20 July 2005 to shareholders on the register at 17 June 2005, the same level of dividend as last year. The focus of your Company is to achieve capital growth rather than increases in dividend income.

## Outlook

The outlook for world markets is an unusually complex one. In 2003 and 2004 stock market values increased, reflecting economic growth, significant increases in corporate earnings and low levels of inflation. Today there is, on the one hand, some evidence of accelerating inflation but, on the other, there are some concerns about a slowdown in economic activity which could affect corporate profitability. Conventional wisdom tells us that the USA's massive trade deficit, unless moderated, will sooner or later lead to monetary crisis. The problem is a circular one, as the reduction in consumption required to solve it would depress the global economy at a time when increasing levels of unemployment and lack of growth are already evident, particularly in Europe. It is politically expedient, therefore, for the USA and the Far Eastern surplus countries to allow these imbalances to continue and to hope that the problems will somehow go away. We are living in uncharted waters and none of us can forecast the outcome with accuracy, particularly as regards timing.

Meanwhile, equity valuations on conventional criteria remain reasonable and the opportunities for stock selection and special situations are there to find. Nevertheless, we have sought to reduce the level of risk by taking profits, increasing liquidity and by continuing to diversify the portfolio. This has been achieved not only by a widely spread, global equity portfolio, but also through the diversification of currency exposure and a broad allocation over a number of asset classes, both quoted and unquoted. Further diversification is achieved by our policy of allocating part of the portfolio to exceptional managers, in order to give shareholders access to the best external talent available. Currently some 58% of the portfolio is managed in this way.

Unquestionably, conditions for investing have become more difficult, as levels of risk and uncertainty have increased in recent months. We shall continue to pursue new investment ideas and themes and to seek outstanding investment managers to improve and diversify your Company's portfolio. This policy has served shareholders well in the past and we believe that, in these uncertain times, it is the most likely way of doing so in the future.

**Rothschild**
26 May 2005

# Investment Portfolio

AT 31 MARCH 2005

| Investment Holdings | Country | Description | Value of Investment £ million | % of Portfolio |
|---|---|---|---|---|
| **QUOTED INVESTMENTS** | | | | |
| Deutsche Börse | Germany | German Stock Exchange | 36.0 | 3.2 |
| RHJ International | Japan | Investment Company with Japanese focus | 34.2 | 3.0 |
| Getty Images | USA | Stock Photography | 20.6 | 1.8 |
| PayPoint | UK | Electronic Payment Systems | 20.3 | 1.8 |
| Canadian Energy ETF | Canada | Energy Exchange Traded Fund | 15.3 | 1.4 |
| Venture Production | UK | Oil and Gas | 11.9 | 1.1 |
| Steel Authority of India | India | Indian Steel Producer | 11.6 | 1.0 |
| British Sky Broadcasting | UK | Television Broadcaster | 11.6 | 1.0 |
| Blueheath Holdings | UK | Web-based Grocery Wholesaler | 11.1 | 1.0 |
| Price Communications | USA | Cellular Telephone Systems | 10.7 | 1.0 |
| SIG Holding | Switzerland | Packaging Machinery | 10.0 | 0.9 |
| Xantrex Technology | Canada | Power Electronics | 8.6 | 0.8 |
| Altadis | Spain | Tobacco Products | 6.7 | 0.6 |
| AK Steel Holding | USA | Steel | 6.6 | 0.6 |
| Merrill Lynch World Mining Trust | UK | Metals/Mining Investment Trust | 6.6 | 0.6 |
| KB Home | USA | Housebuilding | 6.4 | 0.6 |
| Gazprom | Russia | Gas | 6.2 | 0.6 |
| Pulte Homes | USA | Construction | 6.0 | 0.5 |
| Autostrade | Italy | Road Toll Operator | 5.9 | 0.5 |
| Shaw Group | USA | Engineering/Construction | 5.3 | 0.5 |
| AWG | UK | Utility Services | 4.6 | 0.4 |
| Galahad Gold | UK | Mining Development | 4.1 | 0.4 |
| 556 Other Quoted Investments | | | 374.4 | 33.0 |
| **Total Quoted Investments** | | | **634.7** | **56.3** |
| **HEDGE FUNDS** | | | | |
| Atticus International | USA | Event-driven/Arbitrage | 21.0 | 1.8 |
| Cycladic Catalyst | Europe | European Equities | 15.6 | 1.4 |
| Tinicum Partners | USA | Arbitrage and Distressed Securities | 11.3 | 1.0 |
| Sofaer Capital Asian Hedge | Asia | Asian Securities | 10.0 | 0.9 |
| Parvus European Absolute Opportunities | Europe | European Equities | 5.2 | 0.4 |
| Brant Point Fund International | USA | American Equities | 4.1 | 0.4 |
| Satellite Overseas Fund | USA | Arbitrage and Distressed Securities | 4.0 | 0.4 |
| 2 Other Hedge Funds | | | 3.7 | 0.3 |
| **Total Hedge Funds** | | | **74.9** | **6.6** |
| **LONG EQUITY FUNDS** | | | | |
| Parvus European Opportunities | Europe | European Equities | 12.8 | 1.2 |
| Sloane Robinson Vista Emerging Markets | Global | Emerging Markets Equities | 8.8 | 0.8 |
| Sloane Robinson Vista Japan Fund | Japan | Japanese Equities | 7.5 | 0.7 |
| Tontine Capital Partners | USA | American Equities | 7.5 | 0.7 |
| Atlantis Japan Opportunities | Japan | Japanese Equities | 7.0 | 0.6 |
| Atlantis Asian Opportunities | Asia | Asian Equities | 6.2 | 0.5 |
| HSBC India | India | Indian Equities | 6.0 | 0.5 |
| New Century Holdings | Russia | Russian Securities | 5.6 | 0.5 |
| Taiwan Opportunities Fund | Taiwan | Taiwanese Securities | 4.5 | 0.4 |
| 4 Other Long Equity Funds | | | 3.4 | 0.3 |
| **Total Long Equity Funds** | | | **69.3** | **6.2** |

| Investment Holdings | Country | Description | Value of Investment £ million | % of Portfolio |
|---|---|---|---|---|
| **UNQUOTED INVESTMENTS** | | | | |
| Power Measurement | Canada | Power Measurement Devices | 29.1 | 2.6 |
| Robin Hood Holdings | Global | Generic Pharmaceuticals | 19.0 | 1.7 |
| The Economist Newspaper | UK | Publishing | 14.5 | 1.3 |
| Esporta Group | UK | Health, Racquet & Fitness Clubs | 12.7 | 1.1 |
| United America Indemnity | USA | Casualty Insurance | 10.4 | 0.9 |
| Gazprom Financial Notes | Russia | Gas | 10.1 | 0.9 |
| MessageLabs Group | UK | E-mail Security Services | 8.2 | 0.7 |
| Cortiva Group | USA | Education/Health Care | 4.6 | 0.4 |
| Fortress Investors | Germany | Residential Property | 4.2 | 0.4 |
| Eclipse Scientific | UK | Laboratory Analytical Services | 4.0 | 0.4 |
| 53 Other Unquoted Investments | | | 21.7 | 1.9 |
| **Total Unquoted Investments** | | | **138.5** | **12.3** |

RITCP has some indirect holdings in listed investments which are categorised as unquoted because they are held via unquoted special purpose vehicles. These comprise investments in United America Indemnity and Gazprom.

| Investment Holdings | Country | Description | Value of Investment £ million | % of Portfolio |
|---|---|---|---|---|
| **PRIVATE EQUITY PARTNERSHIPS** | | | | |
| Sandler Capital V | USA | Unquoted Telecommunications | 6.8 | 0.6 |
| RR Capital Partners | USA | Unquoted Investments | 6.5 | 0.6 |
| Blumberg Capital I | USA | Unquoted Information Technology | 5.2 | 0.5 |
| SCI Asian Ventures | Asia | Unquoted Asian Investments | 4.4 | 0.4 |
| Matlin Patterson Global Opportunities | USA | Distressed Securities | 4.1 | 0.4 |
| Tinicum Capital Partners | USA | Unquoted and Quoted Investments | 3.6 | 0.3 |
| 44 Other Private Equity Partnerships | | | 40.8 | 3.5 |
| **Total Private Equity Partnerships** | | | **71.4** | **6.3** |
| **GOVERNMENT SECURITIES AND MONEY MARKET FUNDS** | | | | |
| US Treasury 2006 | USA | Government Stock | 53.3 | 4.7 |
| Bundesrepublik 5% 2005 | Germany | Government Stock | 20.5 | 1.8 |
| Bundesrepublik 5% 2006 | Germany | Government Stock | 19.4 | 1.7 |
| Hamilton Fund | Ireland | Money Market Fund | 9.1 | 0.8 |
| Morgan Stanley Liquidity Fund | USA | Money Market Fund | 3.9 | 0.4 |
| Treasury 8 1/2% 2005 | UK | Government Stock | 2.7 | 0.2 |
| Conversion 9 1/2% 2005 | UK | Government Stock | 2.4 | 0.2 |
| Charles Schwab Worldwide Fund | USA | Money Market Fund | 1.7 | 0.2 |
| **Total Government Securities and Money Market Funds** | | | **113.0** | **10.0** |
| **PROPERTY** | | | | |
| Spencer House and other properties in St James's Place, London | | | **25.5** | **2.3** |
| **Total Investments** | | | **1,127.3** | **100.0** |

# Review of Principal Investments

## Quoted Investments

At 31 March 2005 RITCP held £634.7 million of quoted investments, amounting to 56.3% of the portfolio. Details of the six largest holdings in the quoted portfolio are set out below.

### Deutsche Börse

VALUATION AT 31 MARCH 2005: £36.0 MILLION
(COST: £30.8 MILLION)

RITCP acquired its holding in February 2005, after the announcement of the proposals for Deutsche Börse to acquire the London Stock Exchange. Deutsche Börse encountered opposition to the acquisition from a number of its largest shareholders, who believed that the company's resources would be better employed in buying back its own shares. Deutsche Börse subsequently agreed not to proceed with the bid and in May announced that its Chairman and Chief Executive would be resigning.

### RHJ International

VALUATION AT 31 MARCH 2005: £34.2 MILLION
(COST: £30.4 MILLION)

RITCP invested £30.4 million in RHJ International in March 2005 when the company was floated on the Belgian Stock Exchange. This initial public offering was novel in that it involved the listing of a company whose assets were formerly owned by a private equity fund. RHJ is a holding company with interests in seven businesses based in Japan. These companies operate in the automotive components, consumer electronics, consumer products, hospitality and media and entertainment industries. The Chief Executive Officer of RHJ is Tim Collins who was instrumental in the acquisition and subsequent flotation of Shinsei Bank, one of RITCP's most successful investments. Lord Rothschild is a non-executive director of RHJ.

### Getty Images

VALUATION AT 31 MARCH 2005: £20.6 MILLION
(COST: £1.0 MILLION)

RITCP was one of the original investors when this company was formed in 1995 and retains a 1% interest. Getty Images is one of the leading international providers of contemporary and archival images and film to a range of professional users, including advertising and design agencies, publishers and broadcasters. Getty's strategy has been to consolidate the leading businesses and collections and to make images available via the internet.

In July 1996 the company was floated on the US NASDAQ market, placing a valuation of £14.5 million on RITCP's shareholding, compared with the original cost of £3.8 million in March 1995. At the time of the flotation, RITCP sold about half its holding and has subsequently reduced its holding further, realising total proceeds of some £14.5 million.

The company recently announced that its revenues for the first quarter of 2005 had increased by 14% to \$178 million and earnings per share had increased by 25%, compared with the corresponding period in 2004. At the same time, it announced the acquisition of Digital Vision for \$165 million, its largest purchase for five years.

### PayPoint

VALUATION AT 31 MARCH 2005: £20.3 MILLION
(COST: £4.1 MILLION)

RITCP acquired its interest in PayPoint in 1999 when it was a private company. PayPoint owns and operates a network of electronic terminals in 14,000 shops throughout the UK and Ireland, which allow consumers to execute transactions, including the payment of household bills and the "topping-up" of credit onto pre-pay mobile telephones.

Since the company was floated in September 2004, its share price has increased by 16%. On the flotation, RITCP sold shares worth £2.5 million, leaving it with a 13.5% holding.

In the year to 31 March 2004 the company made pre-tax profits of £6.0 million on revenues of £67.1 million. This compares with the results for the year to 31 March 1999 (when RITCP made its investment), in which the company made a pre-tax loss of £15.5 million on revenues of £6.2 million.

### Canadian Energy ETF

VALUATION AT 31 MARCH 2005: £15.3 MILLION
(COST: £10.0 MILLION)

This exchange traded fund is an index fund which seeks to provide long-term capital growth by investing in shares of Canadian energy sector companies listed on the Toronto Stock Exchange. RITCP invested £10 million in March 2004.

### Venture Production

VALUATION AT 31 MARCH 2005: £11.9 MILLION
(COST: £2.9 MILLION)

RITCP invested a total of £4.7 million between 1999 and 2001 in this oil exploration and production company, when it was still unquoted. In March 2002, Venture successfully completed a flotation on the London Stock Exchange. Since the flotation in 2002, the company's share price has increased by 57%.

Venture's strategy is to purchase interests in proven oil and gas fields which are generally considered to be too small or close to depletion to be exploited by larger oil companies. Using modern extraction methods, Venture aims to improve recovery rates and extend the lives of these fields. Venture has interests in a number of North Sea fields and has recently announced its intention to sell its non-core assets in Trinidad.

RITCP has a 3.6% interest in Venture.

## Hedge and Long Equity Funds

### Atticus International

VALUATION AT 31 MARCH 2005: £21.0 MILLION
(COST: £17.3 MILLION)

Atticus International is a hedge fund which specialises in event-driven investing, with a focus on risk arbitrage when market conditions are favourable for that strategy. RITCP made an investment of £21.1 million in this fund in December 2000 and redeemed part of its holding in July 2004.

### Cycladic Catalyst Fund

VALUATION AT 31 MARCH 2005: £15.6 MILLION
(COST: £9.8 MILLION)

Cycladic is a hedge fund which invests in European companies, mainly where a "catalyst event" can be anticipated or initiated. Catalyst events include corporate or financial restructurings, events affecting an industry and the possibility of a take-over bid.

The fund realised profits after tax of £6.1 million during the year ended 31 December 2004 and had net assets at that date of £55.7 million.

### Parvus European Opportunities Fund

VALUATION AT 31 MARCH 2005: £12.8 MILLION
(COST: £11.0 MILLION)

Parvus is a "long-only" fund which invests principally in European equities and which is managed by Edoardo Mercadante. RITCP invested £11 million in this fund in October 2004 and subsequently invested an additional £5 million in Parvus European Absolute Opportunities, a hedge fund also managed by the same team.

## Unquoted Investments

The valuations of unquoted investments are reviewed twice a year by a valuation committee of non-executive Directors, the latest review being at 31 March 2005. However, if circumstances warrant, valuations are amended between these dates. Unquoted investments are initially valued at cost. Where a third party transaction has taken place, the implied value may be used as the basis of valuation, applying a discount (if appropriate) and taking into account the scale of the transaction and whether or not new money was raised. Where an investment is showing a trend of encouraging performance and the committee believes it to be undervalued, it may be revalued by reference to comparable listed companies, but applying an appropriate discount to take account of lack of marketability. Where an investment is showing poorer than expected performance, it may be valued downwards by reference to its latest accounts and its current trading performance. Each investment is reviewed on its own merits and therefore no predetermined valuation formula applies.

At 31 March 2005 RITCP held £138.5 million of unquoted investments, amounting to 12.3% of the portfolio. The four largest investments, which account for £75.3 million, are summarised below. Unless otherwise stated, no dividends were received from these investments.

### Power Measurement

VALUATION AT 31 MARCH 2005: £29.1 MILLION
(COST: £7.2 MILLION)

Based in Vancouver, Power Measurement is a leading provider of energy management systems for energy suppliers and consumers worldwide. RITCP invested £3.4 million in the company in October 1996 and subsequently increased its investment by £3.8 million.

During the year ended 31 December 2004, the company's profit after tax increased by nearly 40% to £2.1 million. The company had net assets of £25.8 million at 31 December 2004. RITCP owned 27% of the company on a fully diluted basis.

The company was sold in April 2005 and the valuation of RITCP's investment at 31 March 2005 has been made by reference to the sale proceeds subsequently received.

### Robin Hood Holdings

VALUATION AT 31 MARCH 2005: £19.0 MILLION
(COST: £17.8 MILLION)

Robin Hood Holdings is the holding company for the Arrow Group which manufactures and sells generic pharmaceuticals in the UK, France, Scandinavia, Germany, Canada, USA, Australia, New Zealand and elsewhere. RITCP invested £17.8 million between July 2003 and January 2005 in a mixture of debt and equity, and currently owns 7.3% of the company.

All of the companies in the group are majority owned other than a 38% interest held in Arrow Pharmaceuticals, which is listed on the Australian Stock Exchange. At 31 March 2005, Robin Hood's holding in this associated company had a market value of £118 million.

Prior to the formation of Arrow, the same management team ran Amerpharm, which also manufactured generic pharmaceuticals. RITCP invested £9.3 million in Amerpharm in 1989 and received proceeds of £68.7 million when it was sold in 1995.

Although the group is already showing strong growth in revenues, the benefits of the recent substantial investment in research and development will not become evident until 2006 and 2007. During the year ended 31 December 2004, after taking account of expenditure on research and development, the group incurred a loss of £24.1 million. The group had a deficit on share capital and reserves at that date of £7.9 million.

### The Economist Newspaper

**VALUATION AT 31 MARCH 2005: £14.5 MILLION (COST: £1.5 MILLION)**

RITCP has an interest of 5% in the ordinary shares of this company, which publishes The Economist magazine as well as a number of other specialist publications. It is also involved in supplying business information.

While the company's performance has been affected by the advertising recession which has characterised the last few years, its results have benefited from a major cost-cutting and restructuring of the business. In the six months to 30 September 2004, revenues grew by 4% to £94.2 million, pre-tax profit by 25% to £11.5 million and earnings per share by 53%.

Net assets at 30 September 2004 amounted to £25.4 million. During the year under review RITCP received dividends of £0.7 million from the company.

RITCP has applied the "indicative share valuation" calculated by the company's financial advisers to its own holding at 31 March 2005.

### Esporta Group

**VALUATION AT 31 MARCH 2005: £12.7 MILLION (COST: £24.1 MILLION)**

Esporta is the UK's second largest premium health and fitness and racquet club operator. RITCP was a founder shareholder in Invicta Leisure, which was sold to Esporta in September 2002 in exchange for loan stock and shares. At that time RITCP realised a capital profit of £12.3 million.

The interest payable to RITCP on the loan stock amounts to £7.5 million and this is included separately in RITCP's net asset value.

During the year ended 31 December 2004, Esporta Group incurred net losses of £13.5 million and had a deficit on share capital and reserves at that date of £54.9 million. RITCP owns 5.2% of the equity share capital of Esporta Group.

## PROPERTY

### Spencer House and other Properties in St James's Place, London

**VALUATION AT 31 MARCH 2005: £25.5 MILLION (COST: £25.1 MILLION)**

The properties are 12,13,15 and Spencer House, 27 St James's Place. They were professionally valued by Jones Lang LaSalle as at 31 March 2005 at open market value, on an existing use basis.

Spencer House is an 18th Century Grade I listed building overlooking Green Park. The principal State Rooms have been restored and the rest of the building has been converted into modern office accommodation. RITCP holds a 96 year lease that began on 25 December 1986 (with an option to renew for a further 24 years) at an annual rent of £80,000. St James's Place Administration Limited (a subsidiary of St James's Place Capital plc) leases the building from RITCP at an annual rent of £1.15 million, the lease expiring in the year 2013. RITCP operates a banqueting business for private and corporate clients which is based in the main State Rooms. These rooms are open to the public for guided tours on most Sundays.

The Company owns the freehold of 12 and 13 St James's Place which are let on a full repairing and insuring lease to Global Asset Management (UK) Limited for 25 years from 25 December 1984 with five-year upward only rent reviews. The current annual rent from these properties is £270,000.

In addition, RITCP also owns the freehold of 15 St James's Place, the majority of which is let under short-term arrangements.

# Board of Directors

## Executive Directors

### The Lord Rothschild, OM GBE FBA

Aged 69, he is Chairman of the Company's Board of Directors and the Nominations Committee. He was appointed a non-executive Director in 1988 and became an executive Director in 1996. He is also the Deputy Chairman and senior non-executive director of British Sky Broadcasting PLC, and a non-executive director of RHJ International.

Lord Rothschild began his career at N M Rothschild & Sons, where he subsequently ran the corporate finance department and became chairman of the executive committee. He left N M Rothschild & Sons in 1980 to develop RIT plc, a forerunner of RIT Capital Partners plc, and his interests in the financial sector. In addition to his career in finance, he has been involved in public service, including the arts and heritage fields, and philanthropy.

### Duncan Budge

Aged 49, he was appointed an executive Director and Chief Operating Officer of the Company in 1995. He has been a director of J. Rothschild Capital Management Limited, a wholly-owned subsidiary of RIT Capital Partners plc, since 1988 and has represented the Company on the Boards of a number of its investments. Prior to this, he spent six years with Lazard Brothers & Co Ltd.

## Non-Executive Directors (Non-Independent)

### Mikael Breuer-Weil

Aged 41, he was appointed a non-executive Director in 1998. Since 1994 he has been the principal investment adviser to philanthropic foundations connected with Lord Rothschild's family interests. Prior to this, he spent eight years at Mercury Asset Management Group plc as an investment manager, including a period of secondment to Odyssey Partners L.P. in New York.

### Nathaniel Rothschild

Aged 33, he is Vice Chairman of Atticus Capital, LLC, a US based hedge fund manager, and a director of Atticus UK Limited. He is also Chairman of JNR Limited, an investment banking boutique specialising in emerging markets and is a former Chairman of Vivarte SA, a retail group based in France. Mr. Rothschild formerly worked at Lazard Investors in London and at Gleacher and Co. in New York. He is also a member of the International Advisory Board of the Barrick Gold Corporation. He was appointed as a Director of RIT Capital Partners plc on 1 August 2004 and Timothy Barakett acts as his alternate.

### Michael Sofaer

Aged 47, he was appointed a non-executive Director in 1999. He has been Managing Director and Principal of Sofaer Capital Inc. (SCI) since its inception in 1986. He began his investment career as a securities analyst with Schroders in London before establishing the research department for Schroders Asia in Hong Kong, where he also managed two unit trusts. He founded First Pacific Fund Management in Hong Kong in 1983, where he pioneered hedged investing in Asia. SCI now manages four hedge funds and two private equity funds.

## Non-Executive Directors (Independent)

### Charles Bailey

Aged 70, he is a Chartered Accountant and was appointed a non-executive Director in 1988. He is the Senior Independent Director and Chairman of the Audit, Remuneration and Conflicts, and Valuation Committees, as well as a member of the Nominations Committee. He is also a director of General Oriental Investments Limited, Antofagasta plc, Atrium Underwriting plc and St James's Place Capital plc and is a member of the audit committees of those companies.

### Andrew Knight

Aged 65, he was appointed a non-executive Director in 1996 and is a member of the Audit, Nominations and Remuneration and Conflicts Committees. He is a director of News Corporation and Templeton Emerging Markets Investment Trust PLC. He is a former Editor of The Economist and served as Chief Executive of the Telegraph Group, Chairman of News International and Deputy Chairman of Home Counties Newspapers Holdings plc until its acquisition by Eastern Counties Newspapers. He is the founder of the SMA Trust to further research into spinal muscular atrophy.

### Baron Lambert

Aged 75, he was appointed a non-executive Director in 1988 and is a member of the Audit, Nominations, Remuneration and Conflicts and Valuation Committees. He is President of the Board of Global Asset Management (Schweiz) AG and was President of Banque Bruxelles Lambert (Suisse) SA and a Member of the Board of Directors of Banque Bruxelles Lambert SA Belgium until 1997.

### James Leigh-Pemberton

Aged 48, he has worked at Credit Suisse First Boston since 1994, holding positions as Head of Equity Syndicate, Head of Equity Capital Markets Division and, from 2001 to 2004, Head of European Investment Banking. In 2004, he was appointed Chairman of European Investment Banking. Mr. Leigh-Pemberton began his career at S.G. Warburg & Co, where he worked for fifteen years. He was appointed as a Director of RIT Capital Partners plc on 1 August 2004 and is a member of the Audit, Nominations and Remuneration and Conflicts Committees.

### Michael Marks CBE

Aged 63, he is the Chairman of NewSmith Capital Partners LLP, which he founded in 2003. He was formerly co-Head of the Global Equities business of Merrill Lynch, which he joined in 1995, and where he subsequently held positions as Chief Operating Officer of Merrill Lynch Europe, Middle East and Africa and was subsequently named Executive Chairman. He was also Executive Vice President of Merrill Lynch & Co., Inc. Mr. Marks began his career at Smith Bros. in 1958, where he became a director in 1975 and Chief Executive of Smith New Court in 1987. He is currently a non-executive director of Old Mutual plc and was, until 2004, a non-executive director of London Stock Exchange plc. He was appointed as a Director of RIT Capital Partners plc on 1 September 2004.

## Committee Membership

### Audit Committee

Charles Bailey (Chairman)
Andrew Knight
Baron Lambert
James Leigh-Pemberton

### Nominations Committee

Lord Rothschild (Chairman)
Charles Bailey
Andrew Knight
Baron Lambert
James Leigh-Pemberton

### Remuneration and Conflicts Committee

Charles Bailey (Chairman)
Andrew Knight
Baron Lambert
James Leigh-Pemberton

### Valuation Committee

Charles Bailey (Chairman)
Baron Lambert

# Directors' Report

The Directors present their annual Report and Accounts for the Company, covering the year ended 31 March 2005.

## Status of Company

The Company is registered as a public company. The Company conducts its affairs so as to qualify for approval as an investment trust for tax purposes, confirmation of which has been received from the Inland Revenue for the year ended 31 March 2004. Approval for the year ended 31 March 2004 is subject to no subsequent enquiry being made under the Corporation Tax Self Assessment legislation. The Directors are of the opinion that, since that date, the Company has conducted its affairs in a manner which will satisfy the conditions for continued approval as an investment trust under Section 842 of the Income and Corporation Taxes Act 1988. The close company provisions of the Income and Corporation Taxes Act 1988, as amended, do not apply to the Company.

The Company's subsidiaries are engaged in investment activities. The activities of the Group are principally undertaken in the UK.

## Directors

Biographies of the Directors holding office at the date of this report are shown on pages 13 and 14.

The following changes in the composition of the Board of Directors took place during the year ended 31 March 2005.

On 1 August 2004, Mr J Leigh-Pemberton was appointed as a Director. In addition, Nathaniel Rothschild was appointed as a Director with Timothy Barakett as his alternate, thereby reversing the roles they had held to that date.

On 1 September 2004, Mr M Marks was appointed as a Director and Mr J Pigozzi resigned as a Director.

## Results and Dividends

After taxation, the Group made a capital profit of £148.5 million and a revenue loss of £5.4 million during the year ended 31 March 2005.

The Board recommends the payment of a final dividend of 3.1p per share in respect of the year ended 31 March 2005 (year ended 31 March 2004: 3.1p), payable on 20 July 2005 to shareholders on the register at 17 June 2005. This dividend will absorb £4.8 million of distributable reserves.

The movements on capital reserve and consolidated revenue reserve are shown in notes 21 and 22 on pages 52 and 53.

## Share Capital

Details of the authorised and issued share capital are shown in note 19 on page 52 of the accounts. During the year ended 31 March 2005, no ordinary shares were issued and 670,000 ordinary shares were repurchased and cancelled, in accordance with the shareholders' authority granted on 8 July 2004. This authority expires on 30 September 2005 and a replacement authority is to be proposed at the forthcoming annual general meeting, as explained in the Notice and Explanatory Notes on pages 63 and 67.

## Net Asset Value

The net asset value of one ordinary share at 31 March 2005, after deducting the proposed dividend of 3.1p per share, was 710.2p.

## Review of Business

The Company specialises in investments which are held with a view to achieving long-term capital growth.

The investment portfolio was valued at £1.127 billion at 31 March 2005. An analysis of these investments is contained in note 10 on pages 45 to 48.

The Company holds both listed and unlisted investments, mainly in the USA, the UK, Europe and the Far East.

At the present time, the portfolio meets the requirements to enable the shares of the Company to be included as an investment within an Individual Savings Account (ISA).

## Post Balance Sheet Events

The Company's investment in Power Management was realised in April 2005 for £29.1 million.

## Principal Shareholders

The Directors are aware of the interests as at 26 May 2005 of the following companies, or the groups of which they are a member, in 3% or more of the ordinary issued share capital of the Company.

| Shareholder | Number of shares | % of Share capital |
|---|---|---|
| Legal & General Investment Management Limited | 5,698,455 | 3.65 |
| Prudential plc | 5,257,109 | 3.37 |

Other than the interests of Lord Rothschild, representing 17.17% of the ordinary share capital of the Company at 26 May 2005 (as set out below), the Directors are not aware of any other disclosable interest representing 3% or more of the shares of the Company.

## Directors' Interests

The interests of the Directors at 31 March 2005 in the ordinary shares of the Company are shown below with comparatives as at 1 April 2004 or subsequent dates of appointment where applicable (where different) shown in brackets.

| | Ordinary shares of £1 each | | |
|---|---|---|---|
| Director | Beneficial | Non-beneficial | % of Share capital |
| The Lord Rothschild | **20,106,931** | **6,708,324** | **17.17** |
| | (20,139,681) | (6,708,324) | (17.12) |
| Charles Bailey | **10,500** | — | **0.01** |
| Mikael Breuer-Weil | — | — | — |
| Duncan Budge | **45,139** | **5,000** | **0.03** |
| | (50,139) | (—) | (0.03) |
| Andrew Knight | — | — | — |
| James Leigh-Pemberton | — | — | — |
| Baron Lambert | **2,000** | — | — |
| Michael Marks | — | — | — |
| Nathaniel Rothschild | **6,326,909** | — | **4.05** |
| Michael Sofaer | — | — | — |

Included in the total of 20,106,931 shares of the Company owned beneficially by Lord Rothschild are 73,184 shares (31 March 2004: 108,184) held by the Company's Pension and Life Assurance Scheme, in which Lord Rothschild has a beneficial interest.

The above disclosures include a total of 2,789,002 shares in which both Lord Rothschild and Nathaniel Rothschild are interested either as trustees or beneficiaries of family trusts.

Between the end of the year and the date of this Report, there were no changes in the Directors' interests.

Requests from Directors and employees of the Group for permission to deal in the ordinary shares of the Company are referred to the Remuneration and Conflicts Committee, except in the case of small volume transactions requested by those other than Directors and senior executives, which are considered by the Group's Compliance Officer.

Lord Rothschild and Duncan Budge are directors of J. Rothschild Capital Management Limited, a subsidiary of the Company, which provides the services described in "Management and Administration" below.

Except as stated below, under "Management and Administration" (as regards Michael Sofaer and Nathaniel Rothschild), no Director has, or has had during the period under review, any beneficial interest in any contract or arrangement with the Company or any of its subsidiaries as defined by the Companies Act 1985 or in the terms laid down in the Listing Rules of the Financial Services Authority.

## Management and Administration

Details of the current investment managers who operate segregated accounts are shown below. All of these managers, with the exception of Prospect Investment Management, invest mainly in listed securities which are included under the "Quoted Investments" section of the portfolio. The funds managed by Prospect Investment Management currently include listed securities amounting to £43.3 million.

| Investment Manager | Area of expertise | Funds under management 31 March 2005 £'000 |
|---|---|---|
| Prospect Investment Management | Unquoted investments | 56,990 |
| Tontine Overseas Associates | US equities | 55,196 |
| Sofaer Capital | Global equities | 52,816 |
| K Capital Partners | Global equities | 42,081 |
| Findlay Park | Small to medium sized US companies | 40,539 |
| Lansdowne Partners | European equities | 37,294 |
| Cycladic Capital Management | European equities | 33,987 |
| Southeastern Asset Management | Global equities | 33,514 |
| Meditor Capital Management | Medium sized European equities | 30,109 |
| Morant Wright Management | Japanese equities | 23,765 |
| Cedar Rock Capital | Global equities | 22,755 |
| Edwards Capital Management | Global equities | 19,508 |
| Select Equity | US equities | 16,366 |
| Horizon Investment Management | Asian equities | 16,350 |
| Martin Currie | Asian equities | 13,492 |
| Baker Steel | Equities (gold and precious metals) | 9,701 |

Funds under management comprise investments, liquidity and other assets. Additional details of the investment management fees payable to Sofaer Capital and Atticus Capital are shown below, as members of those firms' senior management are Directors of the Company. The other investment managers charge fees based on a percentage of the funds under management (in the range from 0.5% to 1.6% per annum) and, in certain

## Management and Administration (continued)

cases, performance fees are charged where the increase in the value of the funds exceeds specified hurdles. The assets in the segregated account managed by Martin Currie include two other funds separately managed by Martin Currie, but the fees charged by these two funds are deducted from the investment management fee which would otherwise be payable to Martin Currie. None of the other amounts listed in the table above is invested in other funds managed by the investment managers themselves and therefore there is no double-counting of investment management fees. The investment management agreements can be terminated with notice periods of between one and six months. Apart from the right to receive accrued fees, the investment management agreements do not provide for any other payment on termination.

The performance of each of the investment managers is reviewed regularly by the executive Directors and the Board as a whole. The terms of the contracts between the Company and those managers are also reviewed to ensure that they are still appropriate. In the opinion of the Directors, the continuing appointment of the investment managers listed above gives the Company access to the expertise of managers who specialise in particular asset classes or geographical areas and is therefore in the best interests of shareholders.

A segregated account has been managed by Sofaer Capital Inc. ("SCI") since September 1999. SCI is an international money management firm whose Principal is Michael Sofaer, a Director of the Company. SCI is paid an investment management fee equal to 1% of funds under management. The fee payable for the year ended 31 March 2005 was £520,593 (31 March 2004: £456,175).

The Company also has an investment of £10.0 million in the Sofaer Capital Asian Hedge Fund whose investment adviser is SCI. The investment advisory fees are payable at a fixed rate of 1% p.a. of the net asset value of the fund and, in addition, there is an annual performance fee equal to 20% of the appreciation in value of the fund. The fund's accounting period ends on 31 December and during the year ended 31 December 2004 the total fees attributable to the Company's investment were £142,021 (31 December 2003: £75,205).

In addition, the Company is a limited partner in SCI Asian Ventures LP and the general partner/investment manager is SCI Asian Ventures Inc. which is owned equally by the Company and SCI. The partnership agreement provides for an annual investment management fee equal to 2% of the net asset value of the partnership. During the year ended 31 December 2004 SCI Asian Ventures LP paid investment management fees of £161,618 to SCI Asian Ventures Inc. (31 December 2003: £215,323). In respect of the year ended 31 December 2003, the Company received dividends of £38,066 from SCI Asian Ventures Inc. No dividends were received during the year ended 31 December 2004.

The Company invested US$30 million in Atticus International, Ltd on 1 December 2000. Atticus International is an offshore fund specialising in event-driven investing, with a focus on risk arbitrage when market conditions are favourable for that strategy. The investment management of the fund is provided by Atticus Capital, LLC. Nathaniel Rothschild, a director of the Company, is Vice Chairman and owner of Atticus Capital, LLC. Timothy Barakett, alternate director to Nathaniel Rothschild, is also Chairman and owner of Atticus Capital, LLC.

There is an annual performance fee of 10% of the appreciation in value in any one year. Payment of this fee is conditional on the growth in value of the assets under management exceeding 6% per annum and is subject to a "loss carry forward" arrangement. £497,704 was payable in respect of the year ended 31 March 2005 (31 March 2004: £357,813).

During the year ended 31 March 2005, the Company contributed towards the employment costs of two individuals employed by entities associated with Lord Rothschild. These individuals provided administrative services and economic research to the Company as well as those other entities. The Company's contributions amounted to £214,916 (31 March 2004: nil).

## Management and Administration (continued)

The majority of the remainder of the investment portfolio is managed by the Company's executive management.

During the year the Company maintained liability insurance for its Directors and Officers.

## Performance Attribution Analysis

The increase in the Group's net asset value during the year was £138.7 million before taking account of the proposed dividend. This is analysed below.

| | £'000 | Pence per share |
|---|---|---|
| Quoted investments | 82,280 | 52.7 |
| Hedge funds | 10,265 | 6.6 |
| Long equity funds | 4,201 | 2.7 |
| Unquoted investments and property | 47,249 | 30.3 |
| Private equity partnerships | 8,903 | 5.7 |
| Government securities and money market funds | 4,212 | 2.7 |
| Currency hedging gains and dealing losses | (4,720) | (3.0) |
| Other movements | (13,684) | (8.9) |
| **Increase in net asset value** | **138,706** | **88.8** |

The other movements mainly comprise administrative expenses (£6.7 million), interest expense (£3.3 million), the cost of share buy-backs (£3.7 million) and movements on provisions (£3.2 million).

## Derivatives and Other Financial Instruments

The Group's assets and liabilities include the following financial instruments:

- investments including equity and non-equity shares and fixed income securities which are held in accordance with the Group's investment objectives;
- cash, liquid resources and short-term debtors and creditors that arise directly from the Group's investment activities; and
- derivative transactions into which the Group enters to manage market risks and currency risks.

The main risks arising from the Group's financial instruments are market price risk, foreign currency risk and interest rate risk. The identification, mitigation and monitoring of these risks is undertaken by the executive Directors under the authority of the Board.

### Market Price Risk

Market price risk arises from uncertainty about the future value of the Group's investments. It represents the potential loss the Group might suffer through holding market positions as the result of price movements and movements in exchange rates.

From time to time, the Group may seek to reduce or increase its exposure to stock markets by taking positions in index futures relating to one or more stock markets. These instruments are used for the purpose of hedging the existing exposure within the Group's investment portfolio to those particular markets or to enable increased exposure when appropriate.

Short-term exposure to movements in exchange rates, caused by the buying and selling of investments for future settlement, is mitigated through entering into forward contracts.

## Derivatives and Other Financial Instruments (continued)

**Foreign Currency Risk**

The Group's total return and net assets could be significantly affected by currency movements as a substantial proportion of the Group's assets and liabilities are denominated in currencies other than Sterling.

The Group enters into forward currency contracts as a means of limiting or increasing its exposure to particular foreign currencies. These contracts are used principally for the purpose of hedging the existing currency exposure of elements of the Group's portfolio (as a means of reducing risk) or to enable increased exposure when this is deemed appropriate.

The Group's foreign currency exposures are analysed in note 27 on pages 55 and 56.

**Interest Rate Risk**

The Group finances its operations mainly through its share capital and retained profits, including realised gains on investments. In addition, financing has been obtained through bank borrowings. The executive Directors continually monitor the Group's exposure to interest rate fluctuations and take appropriate action.

## Payment of Suppliers

It is the Company's payment policy to obtain the best terms for all business. The Company agrees the terms on which business will take place with its suppliers, and it is the Company's policy to abide by such terms. The Company had no trade creditors at the year end.

## Political Contributions and Charitable Donations

During the year ended 31 March 2005, the Company made no charitable donations or political contributions.

## International Financial Reporting Standards ("IFRS")

A review of the anticipated changes in IFRS and their effect on the Group's financial statements is under way. The changes relevant to the Group have been identified and the consequential amendments to the Group's procedures required to maintain compliance with the new IFRS are being put in place. The Group's interim accounts for the six months ending 30 September 2005 and published accounts thereafter shall be prepared in accordance with the new IFRS.

## Independent Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

By Order of the Board

**J. Rothschild Capital Management Limited**
Secretary
26 May 2005

# Corporate Governance Report

The Directors present their Corporate Governance Report for the year ended 31 March 2005. Apart from certain matters reported below, the Directors believe that the Company has complied with the Combined Code on Corporate Governance annexed to the Listing Rules of the United Kingdom Listing Authority issued in July 2003 (the "Code") for the period under review.

The contents of this report are intended to address the subjects required under the Code, as well as providing a description of the Company's governance environment in general terms.

## THE BOARD OF DIRECTORS

The Company is an investment trust managed by its Board of Directors (the "Board") currently comprising ten Directors, two of whom are executive Directors, three of whom are non-independent non-executive Directors and the remaining five are independent non-executive Directors as determined by the Board. The full membership of the Board and the biographical details of each of the Directors are set out on pages 13 and 14.

The Board has a formal Schedule of Reserved Matters, which may be viewed on the Company's website – www.ritcap.co.uk. This is designed to prescribe the responsibilities of the Board in managing the Company's business within a framework of prudent and effective controls to facilitate assessment and management of risk.

The Board is responsible for setting the Company's strategic aims and ensuring that the necessary resources are in place to these ends, delegating as necessary to the Company's executive management. In general terms, the executive management of the Company is responsible for the implementation and execution of the Board's strategic directives relating to investment management, the Company's governance and administration.

The Board met formally on four occasions in the year ended 31 March 2005. Lord Rothschild, Mr Budge, Mr Breuer-Weil and Mr Knight attended each meeting; Mr Bailey, Baron Lambert, Mr Leigh-Pemberton, Mr Rothschild and Mr Sofaer attended three meetings; and Mr Marks attended two meetings. Messrs Leigh-Pemberton, Marks and Rothschild only served as directors for part of the year.

The non-executive Directors participate in discussions regarding the Company's strategy and performance. Such discussions may take place in meetings of the committees constituted by, and reporting to, the Board. There are four permanent committees, the composition of which is set out on page 14. Each such permanent committee has its own Terms of Reference which may be viewed on the Company's website. The permanent committees are as follows:

### The Audit Committee

The Audit Committee is comprised of four non-executive Directors, all of whom are independent of the Company. It is chaired by Charles Bailey, a former Senior Partner of Price Waterhouse, a member of the audit committees of three other public companies, and who the Board considers has appropriate financial experience. The Committee meets at least twice each year to review the Company's interim and annual accounts, to consider reports thereon from the external audit process and to review any issues arising with the Company's management. It may meet on additional occasions should the need arise. The Committee also monitors the adequacy of the Group's accounting policies and financial reporting, which are discussed with the external auditors.

The Audit Committee also considers the external auditors' independence, objectivity and the cost effectiveness of the audit process. The Committee monitored the level of non-audit services provided to the Company by the auditors, assessing their objectivity in providing such services and ensuring that the independence of the audit team from the Company was not compromised. Non-audit services provided by PricewaterhouseCoopers LLP in the year ended 31 March 2005 were primarily in relation to accounting services and reporting on related party matters.

The Committee also reviews the effectiveness of the Company's system of internal controls at least annually. The remaining matters in the Audit Committee's Terms of Reference are considered as and when necessary.

The membership of the Committee is set out on page 14. The Committee met formally on two occasions in the year ended 31 March 2005. Mr Bailey and Mr Knight attended both meetings, Baron Lambert attended one meeting and Mr Leigh-Pemberton, having been appointed to the Committee with effect from 1 August 2004, also attended one meeting.

### The Nominations Committee

The Nominations Committee is comprised of five Directors, four of whom are independent and non-executive and the fifth is Lord Rothschild, who is the Chairman of the Committee. The Committee will meet at least once a year on a formal basis, and on additional occasions as required. Its remit, as set out in its Terms of Reference, includes the leading of the process for appointments to the Board, to ensure that appointments are made on merit and against objective criteria and to review the suitability of those Directors who are retiring by rotation to stand for re-election. The Committee will also monitor the composition of the Board on an ongoing basis, with a view to succession planning and the maintenance of an appropriate balance of skills and experience within the Company and on the Board.

The membership of the Committee is set out on page 14. The Committee met formally on one occasion in the year ended 31 March 2005. All five members of the Committee attended this meeting.

### The Remuneration and Conflicts Committee

The Remuneration and Conflicts Committee is comprised of four non-executive Directors, all of whom are independent. The Committee meets at least once each year on a formal basis, and on additional occasions as may be required. Its primary responsibilities include the creation and maintenance of remuneration policies designed to attract, retain and motivate directors appropriately for a self-managed investment trust. This includes the review of the total remuneration packages of the executive Directors, ensuring an appropriate balance between fixed and performance-related elements. This exercise is conducted in part by reference to other companies of similar size and business objectives. The Remuneration and Conflicts Committee is empowered to seek the advice of external remuneration consultants as and when appropriate. The Committee is also responsible for monitoring the fees paid to the non-executive Directors, by reference to the roles and time commitment of each individual concerned.

It is also the responsibility of the Committee to determine the policy for the pension arrangements of the executive Directors and to monitor and pre-approve any arrangements entered into between the Company and any of its Directors or their connected interests.

The full membership of the Committee is set out on page 14. The Committee met formally on one occasion in the year ended 31 March 2005. All four members of the Committee attended this meeting.

### The Valuation Committee

The Valuation Committee is comprised of two independent non-executive Directors, and meets at least twice each year on a regular basis and additionally as may be required. Its principal responsibility is to review the Company's unlisted investments so that they are presented in the annual and interim accounts at a fair valuation. Listed investments are also reviewed to assess whether there may be any need for the application of a discount to the market price, such as illiquidity.

The full membership of the Committee is set out on page 14. The Committee met formally on two occasions in the year ended 31 March 2005.

## CHAIRMAN WITH EXECUTIVE RESPONSIBILITIES

Lord Rothschild is both Chairman of the Board and an executive Director. The Board recognises that this is at variance with the recommendations of the Code, which are concerned with the potential problems of combining the running of the Board with the executive responsibility for the running of the Company. The Board believes that the current arrangements are appropriate for a self-managed investment trust and are in the best interests of the Company and its shareholders on an ongoing basis. The Company has in place a structure of permanent board committees, described above, designed to devolve responsibility and control of certain key areas of Board responsibility away from the Chairman. The Audit, Remuneration and Conflicts and Valuation Committees are each comprised entirely of independent non-executive Directors. Whilst the Nominations Committee is chaired by Lord Rothschild, independent non-executive Directors represent a majority of its number. The Board is therefore of the view that the Company is not at risk from a concentration of power caused by the Chairman having executive responsibilities and believes that Lord Rothschild is well qualified for both roles.

As Chairman, Lord Rothschild is responsible for the leadership of the Board and its effectiveness in dealing with the matters reserved for its decision. This includes ensuring that Directors are properly briefed on issues arising at board meetings. He is also responsible for ensuring effective communication with shareholders and for facilitating the full and effective contribution of the non-executive Directors.

## BOARD BALANCE AND INDEPENDENCE

As described above, the Board is comprised of ten Directors of whom two are executive, three are non-executive but not independent and five are non-executive and determined by the Board as independent. This balance is intended to limit the scope for an individual or small group of individuals to dominate the Board's decision-making. More than half of the Board, excluding the Chairman, is therefore comprised of non-executive Directors determined by the Board to be independent.

The size and composition of the Board is considered to be suitable for the Company's size and business, whilst not being so large as to be unwieldy.

Of the five non-executive Directors determined by the Board to be independent, two do not meet one of the seven independence criteria set out in the Code, in that they have served on the Board more than nine years since the date of their first election. Both Mr Bailey and Baron Lambert, the long serving Directors concerned, bring relevant experience and knowledge to the Board without which its effectiveness would be reduced. The Board believes that an in-depth knowledge of the Company's business derived from long service is an advantage, particularly in the circumstances of a self-managed investment trust and recommends the re-election of Mr Bailey and Baron Lambert at the forthcoming annual general meeting.

## APPOINTMENTS TO THE BOARD

The Nominations Committee is responsible for the process of appointment of new directors to the Board. The Board, through the Nominations Committee, recognises the need to consider, on an ongoing basis, the appointment of new directors to bring fresh impetus and objectivity. Such appointments will be made on merit and ability to devote such time as is necessary to the position. The Committee will also be mindful of succession planning and board balance when recommending future appointments to the Board. Neither open advertising nor external search consultancies were used in respect of the non-executive director appointments made during the year, as the Board and Nominations Committee identify and assess candidates on the basis of their potential contribution to the Company.

Appropriate training on listed company governance and on the Company is provided to new directors on their first appointment.

## INFORMATION AND PROFESSIONAL DEVELOPMENT

The Chairman is responsible for ensuring that the Directors receive accurate, timely and clear information through the Company Secretary, J. Rothschild Capital Management Limited. This is effected through regular oral and written communication as well as in the papers provided for each of the Company's scheduled board meetings. Such communication is intended to update Directors' knowledge and familiarity with the Company and its business, to enable them to fulfil their respective roles on the Board or its committees. The Directors have access to the Company Secretary for advice and services. The Chairman, the Nominations Committee and the Company Secretary have formulated a full, formal and tailored induction process for new directors on their joining the Board.

All Directors are entitled to take independent professional advice, including legal advice, at the Company's expense where they judge it necessary to discharge their responsibilities as Directors, up to a maximum of £25,000 per annum.

The Company Secretary is responsible for ensuring that Board procedures and applicable rules and regulations are complied with and for advising the Board, through the Chairman, on corporate governance matters.

## PERFORMANCE EVALUATION

The Code requires the Company to report on the means by which performance evaluation of the Board, its committees and its individual Directors has been conducted. Following the consideration of various alternatives the Board determined that the completion of a confidential questionnaire by each of the Directors covering the processes, efficiency and composition of each of the Board, its committees and the directors, followed by discussion of the summarised responses was the most appropriate for the Company's circumstances. This exercise was conducted between December 2004 and March 2005.

## RE-ELECTION OF DIRECTORS

The Company has complied with the Code requirements for each Director to stand for re-election at least once every three years and that any director serving more than nine years since first elected should stand for re-election annually.

The Directors retiring by rotation and standing for re-election at the forthcoming Annual General Meeting are as set out in the Notice of Meeting on pages 63 to 64, and the summary of AGM business contained in the Explanatory Notes on pages 66 to 68.

## RELATIONS WITH SHAREHOLDERS

The Board and executive management maintain a dialogue with both institutional shareholders and analysts and also respond promptly to other shareholders' enquiries. Shareholders are invited to ask questions at the Annual General Meeting and, as far as is practicable, the Chairman of the Audit Committee, the Remuneration and Conflicts Committee, the Nominations Committee and the Valuation Committee will be available to answer any questions from shareholders.

The net asset value of the Company is disclosed on a monthly basis to the London Stock Exchange to enable shareholders and analysts to follow the progress of the Company. The Company also maintains a website at www.ritcap.co.uk where shareholders have access to the latest monthly financial data released by the Company, together with historical information and accounts.

## ACCOUNTABILITY AND AUDIT

### Statement of the Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the total return of the Company and the Group for that year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable 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 and the Group will continue in business.

The Directors have responsibility for ensuring that the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Internal Control

The Board of Directors is responsible for the Group's system of internal control although it has delegated the supervision of the system to the Audit Committee. Such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and, as such, can provide only reasonable and not absolute assurance against any material misstatement or loss. The Board has delegated to executive management the implementation of the systems of internal control within an established framework applicable throughout the Group. The system of internal control is reviewed annually. The Board considers that the necessary procedures have been implemented to satisfy the requirements of the Financial Services Authority with respect to the Turnbull guidance "Internal Control: Guidance for Directors on the Combined Code" issued in September 1999.

The Board has considered the need to establish a separate internal audit function. However, it was decided that the size and nature of the Group's activities do not currently merit the additional expense and operational complexity that an internal audit function would incur. This position is reviewed from time to time.

The Board has reviewed the effectiveness of the key systems of internal control in operation during the financial period and until the date of this report through the monitoring processes set out below.

### Control Environment

The Group has established an organisational structure which allocates defined levels of authority and reporting responsibility in respect of the operational, compliance, financial and taxation affairs of the Group to a small number of senior executives who meet regularly to discuss matters of importance to the Group.

### Risk Management

The identification of major business risks is carried out by the Board in conjunction with the relevant executives. The mitigation and monitoring of risks identified is undertaken by the Board or the executive management as appropriate. Detailed portfolio valuations are undertaken every week and these form the basis for risk control decisions regarding equity exposure, liquidity, market price risk and exchange rate risk.

### Social, Environmental and Ethical ('SEE') Responsibility

The Board is responsible for investment strategy and related questions of SEE policy. It has delegated the supervision of SEE related matters to the Audit Committee, and day-to-day responsibility resides with executive management. As as investment trust, the Board considers that the Company's direct SEE impact is low. However, SEE risk is considered on a case-by-case basis where management believes that investments made internally, as opposed to those made by external managers, would create an SEE risk exposure. Potential SEE risk is also considered in the selection of external investment managers.

### Financial Reporting and Control Procedures

There is a budgeting system with an annual budget approved by the executive management. Monthly actual results are reviewed and reported against budget and reviewed regularly by the executive management.

The Group maintains guidelines in relation to the key controls exercised over its financial and operating affairs. Duties are segregated to the extent commensurate with the size of the Group's organisation and business environment.

## STATEMENT ON GOING CONCERN

The Directors confirm that they are satisfied that the Company and the Group have adequate resources, an appropriate financial structure and suitable management arrangements in place to continue to adopt the going concern basis in preparing the financial statements.

# Directors' Remuneration Report

## Directors' Remuneration Report

This report details the remuneration paid to the Company's Directors including the Chairman, Lord Rothschild, and the Chief Operating Officer, Duncan Budge, for the year ended 31 March 2005.

## Audited Sections of the Directors' Remuneration Report

The following sections of the Report have been audited: the Directors' remuneration table, the sections on the long-term incentive plan and pension contributions, and the executive Director's pension table.

## Remuneration and Conflicts Committee

The remuneration packages of individual executive Directors are determined by the Remuneration and Conflicts Committee which comprises Charles Bailey as Chairman, Andrew Knight, Baron Lambert and James Leigh-Pemberton all of whom are considered by the Board to be independent, non-executive Directors. Lord Rothschild and Duncan Budge liaise closely with the Committee, although they do not take part in any discussions relating to decisions on their own terms and conditions of employment.

Determination of the remuneration of the non-executive Directors, within the limits imposed by the Articles of Association, is the responsibility of the Board as a whole. The Remuneration and Conflicts Committee is also responsible for the operation of the long-term incentive plan for executive Directors.

### Remuneration Policy

The Company complied in the year under review with the provisions relating to Remuneration Committees incorporated in the Combined Code issued in July 2003 (the "Code").

The Remuneration and Conflicts Committee aims to set executive remuneration at an appropriate level to attract, retain and motivate Directors of requisite calibre. Any arrangements made to provide longer term incentives will aim to encourage and reward performance and to benefit shareholders. The Remuneration and Conflicts Committee aims to compare remuneration packages of similar financial institutions to the Company and models its decisions on the median position of those institutions. In setting policy and making decisions, the Remuneration Committee gives full consideration to the provisions on the design of performance-related remuneration set out in Schedule A of the Code.

## Directors' Remuneration

Directors' remuneration for the year ended 31 March 2005 is shown below, with comparative figures for the previous year where applicable. Comparative figures for the individual Directors' emoluments are shown in brackets if they differ from the emoluments for the year ended 31 March 2005.

| Director | Salaries and fees £ | Bonuses £ | Pension contributions £ | Other benefits £ | Total emoluments £ |
|---|---|---|---|---|---|
| The Lord Rothschild | 340,000 | 425,900 | 68,000 | 35,672 | 869,572 |
| | (340,000) | (425,900) | (68,000) | (34,534) | (868,434) |
| Charles Bailey | 31,000 | — | — | — | 31,000 |
| | (27,500) | — | — | — | (27,500) |
| Timothy Barakett | 5,000 | — | — | — | 5,000 |
| | (15,000) | — | — | — | (15,000) |
| Mikael Breuer-Weil | 20,000 | — | — | — | 20,000 |
| Duncan Budge | 250,000 | 313,400 | 87,500 | 21,316 | 672,216 |
| | (250,000) | (313,400) | (87,500) | (20,913) | (671,813) |
| Andrew Knight | 27,000 | — | — | — | 27,000 |
| | (25,688) | — | — | — | (25,688) |
| Baron Lambert | 25,000 | — | — | — | 25,000 |
| | (20,000) | — | — | — | (20,000) |
| James Leigh-Pemberton | 18,000 | — | — | — | 18,000 |
| Michael Marks | 11,667 | — | — | — | 11,667 |
| Nathaniel Rothschild | 12,500 | — | — | — | 12,500 |
| Michael Sofaer | — | — | — | — | — |
| **31 March 2005** | 740,167 | 739,300 | 155,500 | 56,988 | 1,691,955 |
| 31 March 2004 | 698,188 | 739,300 | 155,500 | 55,447 | 1,648,435 |

## Basic Salary and Bonus

Basic salaries for the executive Directors are reviewed annually by the Remuneration and Conflicts Committee and the last review was at 31 March 2005. For the current year, to 31 March 2006, Lord Rothschild's salary is £357,000 per annum (2004/5: £340,000 per annum) and Duncan Budge's salary is £262,500 per annum (2003/4: £250,000 per annum).

The Board of Directors, on the recommendation of the Remuneration and Conflicts Committee, has adopted an Executive Bonus Plan. The Plan provides that each executive Director, and such other participants as may be determined by the Remuneration and Conflicts Committee, shall be entitled to an annual bonus. The amount payable under the Executive Bonus Plan is calculated by reference to the Company's three-year moving average outperformance over the three most relevant total return indices. The indices are currently the FTSE All-Share Total Return Index, the Investment Trust Net Assets Total Return Index and the Morgan Stanley Capital International Total Return Index (expressed in Sterling). The percentage of salary payable as a bonus rises on a straight line basis from 0% to 100%, if the average annual outperformance is between 0% and 7%. Thereafter, the percentage of salary payable as a bonus rises from 100% in a straight line to the maximum bonus payable under the Plan of 125%, if the average annual outperformance is between 7% and 10%. The bonuses payable under the Plan to Lord Rothschild and Mr Budge in respect of the year ended 31 March 2005 amounted to £425,000 (year ended 31 March 2004: £425,000) and £312,500 (year ended 31 March 2004: £312,500) respectively. In addition to the bonus entitlements under the Executive Bonus Plan, Lord Rothschild and Mr Budge each received a £900 bonus which was paid to all of the Group's employees in December 2004 (year ended 31 March 2004: £900).

## Long-term Incentive Plan

Long-term incentive arrangements were approved by shareholders on 10 July 1996, as they constituted related party transactions under Stock Exchange rules. Under their respective participation in the Share Appreciation Rights plan as at 31 March 1999, Lord Rothschild and Duncan Budge were both entitled, at a time of their choice between the third and tenth anniversary of the grant (and in respect of any subsequent grants) to a bonus. This would be calculated by reference to a notional number of the Company's shares (in each case 587,371 at 340.5p). The amount of the bonus will represent the increase, since the date of grant, in the Company's share price multiplied by the notional number of shares. This is, however, conditional on any increase in the share price, plus dividends paid, exceeding the increase in the Retail Price Index plus 3% per annum for any three year period between the date of grant and the tenth anniversary thereof. The Board, on the recommendation of the Remuneration and Conflicts Committee, has resolved that the performance condition relating to any further grants under the Share Application Rights Plan shall apply to the fixed three year period from the date of grant.

The Remuneration and Conflicts Committee decided that further participations in the Share Appreciation Rights plan should be granted to both Lord Rothschild and Duncan Budge on 22 March 2000 and 26 March 2003. The notional number of shares involved was 228,833 at 437p and 262,467 at 381p respectively in each case.

As at 31 March 2005 the amount accrued under all three participations was £6,971,960 payable in equal parts to Lord Rothschild and Duncan Budge. This compared with an accrued amount of £4,458,654 as at 31 March 2004 and followed an increase in the middle-market price of RITCP shares during the period from 577.5p to 694p. The lowest closing price of the Company's shares during the year was 544.5p and the highest was 739p. Should either participant leave their employment involuntarily at any time, the bonus accrued to the relevant date will be payable, subject to there being no grounds for non-payment arising out of negligence or other misconduct.

## Outstanding Share Appreciation Rights

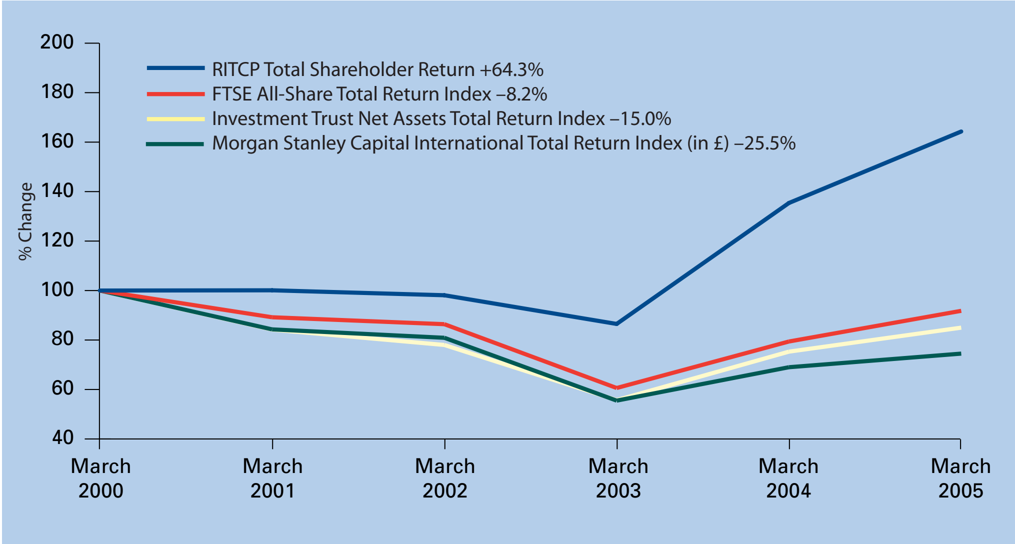
| | Outstanding at 1 April 2004 and 31 March 2005 | Exercise price | Date from which first exercisable | Expiry date |
|---|---|---|---|---|
| Lord Rothschild | 587,371 | 340.5p | 30 March 2002 | 29 March 2009 |
| | 228,833 | 437.0p | 22 March 2003 | 21 March 2010 |
| | 262,467 | 381.0p | 26 March 2006 | 25 March 2013 |
| Duncan Budge | 587,371 | 340.5p | 30 March 2002 | 29 March 2009 |
| | 228,833 | 437.0p | 22 March 2003 | 29 March 2010 |
| | 262,467 | 381.0p | 26 March 2006 | 25 March 2013 |

No Share Appreciation Rights were granted to, or exercised by, Lord Rothschild or Duncan Budge in the year ended 31 March 2005.

## Performance Graph

In accordance with the regulations made under the Companies Act 1985, it is necessary to include a performance graph which measures the Company's total shareholder return (calculated by reference to the Company's share price, including dividend reinvestment) against that of a broad equity market index. For this purpose the Committee considers that the Morgan Stanley Capital International Total Return Index (in Sterling), the FTSE All-Share Total Return Index and the Investment Trust Net Assets Total Return Index are the most suitable indices for comparative purposes. The graph below therefore compares the Company's total shareholder return to that of these three indices over the last 5 years.

## Total Shareholder Return Against Major Indices




### Pension Contributions

The policy of the Remuneration and Conflicts Committee is to facilitate a range of pension arrangements for executive Directors which take account of their age, personal circumstances and arrangements in force on joining the Company. Lord Rothschild and Duncan Budge are members of the RITCP Pension and Life Assurance Scheme, (the "RITCP Scheme"). Within the RITCP Scheme, money purchase arrangements have been set up for Lord Rothschild, to which the Company has contributed at the rate of 20% of basic salary, amounting to £68,000 during the year under review (year ended 31 March 2004: £68,000). Duncan Budge is a defined benefit member of the RITCP Scheme for which the contribution rate is 35% of basic salary.

No pension provision is made for the non-executive Directors.

### Executive Directors' Pensions

Duncan Budge is the only executive Director who is a member of the defined benefit section of the Company's pension scheme. The table below gives details of the movements in the potential benefits and transfer values during the year.

| | £ |
|---|---|
| Accrued benefit at 31 March 2004 | 102,670 |
| Change in accrued benefit due to inflation | 3,183 |
| Change in accrued benefit due to other factors | 2,342 |
| **Accrued benefit at 31 March 2005** | **108,195** |
| Transfer value at 31 March 2004 | 1,061,771 |
| Increase in transfer value | 108,700 |
| **Transfer value at 31 March 2005** | **1,170,471** |
| **Transfer value at 31 March 2005 in respect of increase in accrued benefit (excluding inflation)** | **25,324** |

The accrued, but deferred, pension entitlement is calculated on the basis that the Director left service on 31 March 2005.

The transfer value is a liability of the pension scheme rather than an amount due to be paid to the executive Director or a liability of the Company.

## Non-executive Directors

The remuneration of the non-executive Directors is determined by the Board as a whole, in accordance with the provisions of the Articles of Association, which limit the aggregate fees payable to non-executive Directors to £200,000 per annum. A proposal to increase this limit to £300,000 is to be proposed at the Annual General Meeting. Non-executive Directors do not take part in discussions on their own remuneration. The Board, on the recommendation of the Remuneration and Conflicts Committee, adopted the following structure for the determination of the annual fees of the non-executive directors from 1 October 2004:

| | |
|---|---|
| Basic fee | £20,000 |
| Committee membership fees: | |
| Audit Committee | £3,000 |
| Nominations Committee | £1,000 |
| Remuneration and Conflicts Committee | £3,000 |
| Valuation Committee | £3,000 |
| Committee Chairmanship fee (per committee) | £1,500 |

The non-executive Directors each have letters of appointment that are subject to termination upon one month's written notice on either side.

## Directors' Service Contracts

It is the policy of the Remuneration and Conflicts Committee not to grant service contracts with notice periods in excess of one year. The terms and conditions of the Directors' service contracts are detailed below and are reviewed as required.

Lord Rothschild and Duncan Budge both have service agreements with J. Rothschild Capital Management Limited.

Lord Rothschild's service agreement is dated 29 April 1996, but was initially with an associated company and originally dated 20 October 1993. The agreement can be terminated, *inter alia*, by either party giving the other not less than twelve months' written notice. It provides for benefits in kind in line with normal company practice, including pension provision, private health insurance and a company car. The agreement determined on Lord Rothschild's 65th birthday and is currently on a rolling one year basis. The agreement does not specify compensation payable in the event of early termination.

Duncan Budge's service agreement is dated 29 August 1996, but was originally with an associated company and dated 6 August 1985. The agreement can be terminated, *inter alia*, by either party giving the other not less than twelve months' written notice and will automatically terminate on his 60th birthday. It provides for benefits in kind in line with normal company practice, including pension provision, life assurance, permanent health insurance, private health insurance and a company car. The agreement does not specify compensation payable in the event of early termination.

When considering the size of any proposed termination payment, the Committee would take into account a number of factors including the health, length of service, age and the performance of the relevant executive, including the duty to mitigate his own loss, with a broad aim to avoid rewarding poor performance while dealing fairly with cases where the departure is due to other reasons, such as illness.

## Executive Directors' External Non-executive Directorships

Lord Rothschild served as the Senior Independent Director of British Sky Broadcasting Group plc throughout the year ended 31 March 2005 and received £45,048 for his services. Such fees were retained by Lord Rothschild.

Lord Rothschild is also a non-executive director of RHJ International, and became entitled to fees of €200,000 for his first year of service following its public offering in March 2005 and €100,000 for each year served thereafter. In addition, he became entitled to an annual fee of €25,000 as a member of the nomination and remuneration committee. These fees will be retained by Lord Rothschild.

No other fees are paid to the executive Directors in respect of external non-executive directorships.

### Termination Payments and Payments to Third Parties

No payments were made to a Director of the Company for termination of employment nor were any payments made to third parties for Directors' services during the year.

On behalf of the Board of Directors
**Charles Bailey**
26 May 2005
Chairman, Remuneration and Conflicts Committee

# Report of the Independent Auditors

## To the Members of RIT Capital Partners plc

We have audited the financial statements which comprise the Consolidated Statement of Total Return, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated and parent company Balance Sheets, the Consolidated Cash Flow Statement and the related notes which have been prepared under the historical cost convention, modified to include the revaluation of investments other than subsidiary undertakings and the accounting policies set out in the statement of accounting policies. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' Remuneration Report ("the auditable part").

## Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities. The Directors are also responsible for preparing the Directors' Remuneration Report.

Our responsibility is to audit the financial statements and the auditable part of the Directors' Remuneration Report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the Directors' Remuneration Report have been 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 transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Chairman's Statement, the Directors' Report (including the Corporate Governance Statement), the unaudited part of the Directors' Remuneration Report, and the Review of Principal Investments.

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

## Basis of Audit Opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the Directors' Remuneration Report. 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 and the auditable part of the Directors' Remuneration Report 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 of the state of affairs of the Company and the Group at 31 March 2005 and of the total return and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Directors' Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

**PricewaterhouseCoopers LLP**
**Chartered Accountants and Registered Auditors**
32 London Bridge Street, London SE1 9SY
26 May 2005

Notes:

(a) The financial statements are published on the RIT Capital Partners plc website www.ritcap.co.uk. The maintenance and integrity of the website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Consolidated Statement of Total Return

(INCORPORATING THE REVENUE ACCOUNT)

| For the year ended 31 March 2005 | Note | Revenue £'000 | Capital £'000 | Total £'000 |
|---|---|---|---|---|
| Gains on investments | | — | 147,841 | 147,841 |
| Dealing losses | | (12,638) | — | (12,638) |
| Investment income | 1 | 20,838 | — | 20,838 |
| Other income | | 350 | — | 350 |
| Administrative expenses | 2 | (6,703) | — | (6,703) |
| Investment management fees | 4 | (4,860) | (5,347) | (10,207) |
| Other capital items | 21 | — | 4,836 | 4,836 |
| **Net (loss)/return before finance costs and taxation** | | (3,013) | 147,330 | 144,317 |
| Interest payable and similar charges | 5 | (3,285) | — | (3,285) |
| Other finance income | 29 | 26 | — | 26 |
| **(Loss)/return on ordinary activities before taxation** | | (6,272) | 147,330 | 141,058 |
| Taxation on ordinary activities | 6 | 858 | 1,193 | 2,051 |
| **(Loss)/return on ordinary activities after taxation attributable to equity shareholders** | | (5,414) | 148,523 | 143,109 |
| Dividend | 7 | (4,842) | — | (4,842) |
| **Transfer (from)/to reserves** | | (10,256) | 148,523 | 138,267 |
| **(Loss)/return per ordinary share** | 8 | (3.5p) | 95.0p | 91.5p |
| **Net asset value per ordinary share** | 9 | | | 710.2p |

The revenue column of this statement is the consolidated profit and loss account of the Group.
All revenue and capital items in the above statement derive from continuing operations.
No operations were acquired or discontinued in the year.
Movements on reserves are set out in notes 21 and 22 on pages 52 and 53.

# Consolidated Statement of Total Recognised Gains and Losses

| For the year ended 31 March 2005 | Note | £'000 |
|---|---|---|
| Return on ordinary activities after taxation | | 143,109 |
| Actuarial gain on pension scheme | 29 | 558 |
| Movement on deferred tax relating to actuarial gain | 29 | (1,232) |
| Exchange movements arising on consolidation | | (52) |
| **Total recognised gains and losses for the year** | | 142,383 |
| Prior year adjustment | 22 | (2,124) |
| **Total recognised gains and losses since last annual report** | | 140,249 |

The notes on pages 39 to 60 form part of these accounts.

# Consolidated Statement of Total Return

(INCORPORATING THE REVENUE ACCOUNT)

| Restated for the year ended 31 March 2004 | Note | Revenue £'000 | Capital £'000 | Total £'000 |
|---|---|---|---|---|
| Gains on investments | | — | 292,697 | 292,697 |
| Dealing losses | | (7,205) | — | (7,205) |
| Investment income | 1 | 17,078 | — | 17,078 |
| Other income | | 406 | — | 406 |
| Administrative expenses | 2 | (6,410) | — | (6,410) |
| Investment management fees | 4 | (3,893) | (2,366) | (6,259) |
| Other capital items | 21 | — | 19,494 | 19,494 |
| **Net (loss)/return before finance costs and taxation** | | (24) | 309,825 | 309,801 |
| Interest payable and similar charges | 5 | (2,527) | — | (2,527) |
| Other finance costs | 29 | (196) | — | (196) |
| **(Loss)/return on ordinary activities before taxation** | | (2,747) | 309,825 | 307,078 |
| Taxation on ordinary activities | 6 | (527) | 671 | 144 |
| **(Loss)/return on ordinary activities after taxation attributable to equity shareholders** | | (3,274) | 310,496 | 307,222 |
| Dividend | 7 | (4,862) | — | (4,862) |
| **Transfer (from)/to reserves** | | (8,136) | 310,496 | 302,360 |
| **(Loss)/return per ordinary share** | 8 | (2.1p) | 198.0p | 195.9p |
| **Net asset value per ordinary share** | 9 | | | 621.8p |

The revenue column of this statement is the consolidated profit and loss account of the Group.
All revenue and capital items in the above statement derive from continuing operations.
No operations were acquired or discontinued in the year.
Movements on reserves are set out in notes 21 and 22 on pages 52 and 53.

# Consolidated Statement of Total Recognised Gains and Losses

| Restated for the year ended 31 March 2004 | Note | £'000 |
|---|---|---|
| Return on ordinary activities after taxation | | 307,222 |
| Actuarial gain on pension scheme | 29 | 1,616 |
| Movement on deferred tax relating to actuarial gain | 29 | (524) |
| Exchange movements arising on consolidation | | 772 |
| **Total recognised gains and losses** | | 309,086 |

The notes on pages 39 to 60 form part of these accounts.

# Consolidated Balance Sheet

| | Note | 31 March 2005 £'000 | Restated 31 March 2004 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 10 | 1,127,346 | 978,819 |
| Tangible fixed assets | 12 | 214 | 239 |
| | | 1,127,560 | 979,058 |
| **Current assets** | | | |
| Debtors | 13 | 41,622 | 30,048 |
| Dealing investments | 15 | — | 2,400 |
| Cash at bank | | 70,416 | 92,193 |
| | | 112,038 | 124,641 |
| **Creditors: amounts falling due within one year** | | | |
| Securities sold short | | (7,879) | (6,080) |
| Creditors and accruals | 16 | (16,176) | (21,905) |
| Proposed dividend | 7 | (4,842) | (4,862) |
| Bank loans and overdrafts | | (7,829) | (1,880) |
| | | (36,726) | (34,727) |
| Net current assets | | 75,312 | 89,914 |
| Total assets less current liabilities | | 1,202,872 | 1,068,972 |
| **Creditors: amounts falling due after more than one year** | | | |
| Bank loans | 17 | (79,304) | (81,516) |
| **Provisions for liabilities and charges** | 18 | (14,738) | (9,706) |
| **Net assets excluding pension asset/(liability)** | | 1,108,830 | 977,750 |
| **Pension asset/(liability)** | 29 | 514 | (2,361) |
| **Net assets including pension asset/(liability)** | | 1,109,344 | 975,389 |
| **Capital and reserves** | | | |
| Called up share capital | 19 | 156,178 | 156,848 |
| Capital redemption reserve | 20 | 33,978 | 33,308 |
| Capital reserve – realised | 21 | 757,544 | 622,869 |
| Capital reserve – unrealised | 21 | 157,578 | 147,407 |
| Revenue reserve | 22 | 3,932 | 14,914 |
| **Equity shareholders' funds** | | 1,109,210 | 975,346 |
| **Equity minority interests** | 11 | 134 | 43 |
| **Capital employed** | | 1,109,344 | 975,389 |

The accounts were approved by the Board of Directors on 26 May 2005 and are signed on the Board's behalf by:

Rothschild

**Rothschild**
Director

Duncan Budge

**Duncan Budge**
Director

The notes on pages 39 to 60 form part of these accounts.

# Balance Sheet of the Parent Company

| | Note | 31 March 2005 £'000 | 31 March 2004 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 10 | 1,070,180 | 935,334 |
| Investments in subsidiary undertakings | 11 | | |
| – shares | | 36,466 | 36,600 |
| – loans | | 2,646 | 2,720 |
| | | 1,109,292 | 974,654 |
| **Current assets** | | | |
| Debtors | 13 | 66,037 | 43,202 |
| Cash at bank | | 53,230 | 72,911 |
| | | 119,267 | 116,113 |
| **Creditors: amounts falling due within one year** | | | |
| Creditors and accruals | 16 | (40,306) | (32,389) |
| Proposed dividend | 7 | (4,842) | (4,862) |
| Bank loans and overdrafts | | (7,829) | (1,880) |
| | | (52,977) | (39,131) |
| **Net current assets** | | 66,290 | 76,982 |
| **Total assets less current liabilities** | | 1,175,582 | 1,051,636 |
| **Creditors: amounts falling due after more than one year** | | | |
| Bank loans | 17 | (79,304) | (81,516) |
| **Provisions for liabilities and charges** | 18 | (14,488) | (9,406) |
| | | 1,081,790 | 960,714 |
| **Capital and reserves** | | | |
| Called up share capital | 19 | 156,178 | 156,848 |
| Capital redemption reserve | 20 | 33,978 | 33,308 |
| Capital reserve – realised | 21 | 736,098 | 617,169 |
| Capital reserve – unrealised | 21 | 152,525 | 146,563 |
| Revenue reserve | 22 | 3,011 | 6,826 |
| **Equity shareholders' funds** | | 1,081,790 | 960,714 |

The accounts were approved by the Board of Directors on 26 May 2005 and are signed on the Board's behalf by:

**Rothschild**
Director

**Duncan Budge**
Director

The notes on pages 39 to 60 form part of these accounts.

# Consolidated Cash Flow Statement

| | Note | Year ended 31 March 2005 £'000 | Year ended 31 March 2004 £'000 |
|---|---|---|---|
| **Cash (outflow)/inflow from operating activities** | 24 | (3,731) | 19,412 |
| **Servicing of finance** | | | |
| Bank and loan interest paid | | (3,285) | (2,546) |
| **Net cash outflow from servicing of finance** | | (3,285) | (2,546) |
| **Taxation** | | | |
| UK tax received | | — | 1,613 |
| Overseas tax paid | | (860) | (993) |
| **Net cash (outflow)/inflow from taxation** | | (860) | 620 |
| **Financial investment** | | | |
| Purchase of investments | | (569,539) | (495,927) |
| Sale of investments | | 621,509 | 439,563 |
| **Net cash inflow/(outflow) from financial investment** | | 51,970 | (56,364) |
| **Capital expenditure** | | | |
| Purchase of fixed assets | | (81) | (240) |
| Sale of fixed assets | | 19 | 53 |
| **Net cash outflow from capital expenditure** | | (62) | (187) |
| **Equity dividend paid** | | (4,862) | (4,862) |
| **Net cash inflow/(outflow) before management of liquid resources and financing** | | 39,170 | (43,927) |
| **Management of liquid resources** | | | |
| Purchase of government securities | | (418,085) | (225,510) |
| Sale of government securities | | 354,775 | 290,378 |
| **Net cash (outflow)/inflow from management of liquid resources** | | (63,310) | 64,868 |
| **Financing** | | | |
| Buy-back of ordinary shares | | (3,677) | — |
| Increase in term loan | | — | 81,500 |
| Minority interests | | 91 | 43 |
| **Net cash (outflow)/inflow from financing** | | (3,586) | 81,543 |
| **(Decrease)/increase in cash in the year** | 26 | (27,726) | 102,484 |

The notes on pages 39 to 60 form part of these accounts.

# Group Accounting Policies

## Basis of Consolidation
The consolidated accounts deal with the results of the Company and its subsidiary undertakings for the year ended 31 March 2005.

## Accounting Convention
The accounts are prepared under the historical cost convention, modified to include the revaluation of investments other than subsidiary undertakings. The accounts have been prepared in accordance with the Companies Act 1985 and applicable accounting standards, and the Group has adopted the recommendations of the Statement of Recommended Practice on Financial Statements of Investment Trust Companies (2003).

## Change in Accounting Policy
The Group has changed its accounting policy in order to adopt in full Financial Reporting Standard 17, Retirement Benefits. This change has given rise to the restatement of the prior year figures as described in note 22.

## Investment Income
Dividend income is credited to the revenue account on an ex-dividend basis. Interest is credited on an accruals basis. In accordance with Financial Reporting Standard 16, Current Taxation, UK dividend income is shown at the amount receivable without any attributable tax credit. Overseas dividend income is shown gross of withholding tax.

## Expenses
All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account except as listed below:

- Expenses are charged to capital reserve where a direct connection with the maintenance or enhancement of the value of the investments can be demonstrated. Expenses are charged to revenue where there is an indirect connection.
- Investment management fees are considered to be indirect costs and are therefore charged to the revenue account. Performance fees are charged to capital reserve as they derive from the capital performance of the investments.
- The Group has in force certain incentive arrangements whereby fees payable are based entirely on the increase in the values of certain unquoted investments. The cost of these incentive arrangements is considered to be a direct cost of enhancing the value of these investments and is therefore charged to capital reserve.
- The Group has in force long-term incentive arrangements for Lord Rothschild and Duncan Budge, both executive Directors of RITCP, and for other senior executives, whereby they receive additional remuneration based entirely on any increase in the Company's share price subject to a performance condition. The primary objective of the Company is to deliver long-term capital growth for its investors. The costs of these arrangements derive principally from the capital performance of the Group and consequently the Directors consider it appropriate to charge the costs of these arrangements in their entirety to capital reserve.
- The Group has an Executive Bonus Plan for Lord Rothschild and Duncan Budge, whereby they receive a bonus calculated by reference to the Company's three-year moving average outperformance over three key total return indices. The amount of the bonus depends principally on the capital performance of the Group and therefore the Directors consider it appropriate to charge the whole of the bonus to capital reserve.

## Finance Costs
Finance costs are accounted for on an accruals basis and in accordance with the provisions of Financial Reporting Standard 4, Capital Instruments. Since these costs are considered to be an indirect cost of maintaining the value of the investments they are charged in full to the revenue account.

## Fixed Asset Investments

Fixed asset investments are included in the balance sheet at mid-market value in the case of listed investments and at Directors' valuation in the case of unlisted investments. The principal methods used by the Directors to value unlisted investments are set out in the Review of Principal Investments on page 11. Investment properties are included at open market value on an existing use basis. A valuation of properties is undertaken by independent professionally qualified valuers every year and reviewed every half year. In accordance with SSAP19, Accounting for Investment Properties, depreciation is not provided on investment properties. This is a departure from the requirements of the Companies Act concerning depreciation of fixed assets. However, these properties are not held for consumption but for investment and the Directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the accounts to give a true and fair view. Depreciation is only one of the many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified. Subsidiary undertakings are valued at cost.

In accordance with the normal practice for investment trust companies, profits and losses on the realisation and revaluation of fixed asset investments are taken to capital reserve. Costs incurred in connection with abortive fixed asset investment transactions are also taken to capital reserve.

## Dealing Investments

Current asset investments held by the dealing subsidiary undertaking, including futures, options and other derivative instruments, are stated in the balance sheet at market value. The movements in the fair value of trading positions are included in the revenue account. The Companies Act 1985 requires that such assets be stated at the lower of cost or net realisable value and that, if revalued, certain movements in the fair value of trading positions be taken to a revaluation reserve. In so far as the adopted treatment of trading positions represents a departure from current statutory requirements, the Directors consider this necessary for the financial statements to show a true and fair view. This departure, which is consistent with industry practice, increased dealing profits in the statement of total return for the year ended 31 March 2004 by £1.5 million and increased net assets in the consolidated balance sheet by £1.5 million. There was no effect on either dealing profits or net assets for the year ended 31 March 2005. The departure has no effect on the net asset value per share published on a monthly basis and calculated in accordance with industry guidelines.

## Tangible Fixed Assets

Tangible fixed assets are shown at cost less depreciation. Depreciation is provided on all tangible fixed assets. It is calculated by the Group on a straight line basis by reference to original cost, estimated useful life and residual value. The period of estimated useful life for this purpose is between three and four years.

## Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the balance sheet date. Gains and losses on translating fixed asset investments are taken to capital reserve together with gains and losses arising on foreign currency transactions and borrowings to the extent that such gains and losses arise from transactions and borrowings which are hedging investments denominated in foreign currencies.

All other gains and losses are dealt with in the revenue account.

## Taxation

In view of the Company's status as an investment trust, and its intention to continue meeting the conditions required to obtain approval for the foreseeable future, the Company has not provided current or deferred tax on any capital gains or losses arising on the revaluation or disposal of investments.

## Deferred Taxation

In accordance with Financial Reporting Standard 19, Deferred Tax, deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise, based on current tax rates and on laws enacted by the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax is measured on a non-discounted basis.

## Pensions

J. Rothschild Capital Management Limited is a participating employer in a non-contributory funded, defined benefit retirement scheme, which is currently closed to new members and the assets of which are held in a trustee administered fund.

The Group has adopted Financial Reporting Standard 17, Retirement Benefits, in full during the year. For the defined benefit retirement scheme, the cost of benefits accruing during the year in respect of current and past service is charged against revenue. The expected return on the scheme's assets, and the increase in the present value of the scheme's liabilities arising from the passage of time, are included in "other finance income". Actuarial gains and losses are recognised in the "consolidated statement of total recognised gains and losses". Amounts charged in respect of defined contribution schemes represent the contributions payable in the year.

## Capital Reserve

The following are accounted for in the realised capital reserve:

- gains and losses on the realisation of investments
- realised exchange differences of a capital nature
- expenses, together with the related taxation effect, charged to this reserve in accordance with the above policies
- realised gains and losses on transactions undertaken to hedge an exposure of a capital nature
- cost of purchasing ordinary shares for cancellation.

The following are accounted for in the unrealised capital reserve:

- increases and decreases in the valuation of investments held at the year end
- unrealised exchange differences of a capital nature
- unrealised gains and losses on transactions undertaken to hedge an exposure of a capital nature.

# Notes to the Accounts

## 1 Investment Income

| | Year ended 31 March 2005 £'000 | Year ended 31 March 2004 £'000 |
|---|---|---|
| Income from listed investments: | | |
| Dividends | 7,096 | 5,943 |
| Interest | 4,437 | 3,957 |
| Income from unlisted investments: | | |
| Dividends | 1,534 | 1,448 |
| Interest | 4,452 | 4,052 |
| Income from investment properties | 1,049 | 984 |
| Interest receivable | 2,270 | 694 |
| | 20,838 | 17,078 |

## 2 Administrative Expenses

Administrative expenses include the following:

| | Year ended 31 March 2005 £'000 | Restated Year ended 31 March 2004 £'000 |
|---|---|---|
| Staff costs (see note 3 below) | 3,905 | 4,115 |
| Auditors' remuneration – audit fees | 123 | 90 |
| Auditors' remuneration – other fees | 4 | 81 |
| Depreciation | 103 | 107 |

Administrative expenses for the year ended 31 March 2005 include £956,000 (31 March 2004: £978,000) of property and staff related costs which are recharged to third parties. These recharges are included in "other income" and "income from investment properties" in accordance with accounting practice. The net administrative expenses for the year ended 31 March 2005 are £5,747,000 (31 March 2004: £5,432,000). Of the total audit fee, £105,000 (31 March 2004: £80,000) relates to the audit of the parent company's consolidated accounts. Other fees paid to the auditors were in respect of accounting services and reporting on related party matters.

## 3 Staff Costs

| | Year ended 31 March 2005 £'000 | Restated Year ended 31 March 2004 £'000 |
|---|---|---|
| Wages and salaries | 2,897 | 3,102 |
| Social security costs | 350 | 374 |
| Other pension costs | 658 | 639 |
| | 3,905 | 4,115 |

The above figures include Directors' emoluments, details of which are shown in the Directors' Remuneration Report on pages 27 to 32. They exclude the movement in the provision for the Group's long-term incentive plan and the amounts payable under the Executive Bonus Plan which are charged to capital reserve.

The average number of employees during the year was 49 (31 March 2004: 49). Included in this figure are 20 people employed in respect of the banqueting business of Spencer House and the related security function (31 March 2004: 20).

## 4 Investment Management Fees

Details of the current investment managers who operate segregated accounts are shown in the Directors' Report on page 17.

## 5 Interest Payable and Similar Charges

| | Group and Company | |
|---|---|---|
| | **Year ended 31 March 2005 £'000** | Year ended 31 March 2004 £'000 |
| **Repayable within 5 years, not by instalments** | | |
| Bank loans | 3,285 | 2,527 |

## 6 Taxation on Ordinary Activities

| | Year ended 31 March 2005 | | |
|---|---|---|---|
| | **Revenue £'000** | **Capital £'000** | **Total £'000** |
| UK corporation tax (credit)/charge | (211) | 371 | 160 |
| Adjustment in respect of prior years | (79) | 138 | 59 |
| Overseas taxation | 723 | 161 | 884 |
| Double taxation relief | — | (161) | (161) |
| Current tax charge | 433 | 509 | 942 |
| Deferred tax credit | (1,275) | (1,702) | (2,977) |
| Adjustment in respect of prior years | (16) | — | (16) |
| **Taxation credit on ordinary activities** | (858) | (1,193) | (2,051) |

| | Restated Year ended 31 March 2004 | | |
|---|---|---|---|
| | Revenue £'000 | Capital £'000 | Total £'000 |
| UK corporation tax (credit)/charge | (213) | 434 | 221 |
| Adjustment in respect of prior years | (2) | (52) | (54) |
| Overseas taxation | 658 | 220 | 878 |
| Double taxation relief | — | (138) | (138) |
| Current tax charge | 443 | 464 | 907 |
| Deferred tax charge/(credit) | 84 | (1,121) | (1,037) |
| Adjustment in respect of prior years | — | (14) | (14) |
| Taxation charge/(credit) on ordinary activities | 527 | (671) | (144) |

The deferred tax charge/(credit) in both the current and prior year relate to the origination and reversal of timing differences.

## 6 Taxation on Ordinary Activities (continued)

The tax charge for the year differs from the standard rate of corporation tax in the UK of 30% (31 March 2004: 30%). The differences are explained below:

| | Year ended 31 March 2005 | | Restated Year ended 31 March 2004 | |
|---|---|---|---|---|
| | Revenue £'000 | Capital £'000 | Revenue £'000 | Capital £'000 |
| (Loss)/return on ordinary activities before tax | (6,272) | 147,330 | (2,747) | 309,825 |
| (Loss)/return on ordinary activities before tax at the standard rate of 30% | (1,882) | 44,199 | (824) | 92,948 |
| Effect of: | | | | |
| Capital items exempt from corporation tax | — | (42,797) | — | (90,856) |
| UK dividend income not taxable | (679) | — | (508) | — |
| Double tax relief not available | 508 | — | 459 | 82 |
| Expenses not deductible for tax purposes | 136 | 172 | 190 | 261 |
| Non-taxable income | (3) | — | (12) | — |
| Losses brought forward | (26) | — | — | — |
| Losses not utilised | 2,918 | 1,329 | 1,412 | 1,577 |
| Prior year (credit)/charge | (79) | 138 | (2) | (52) |
| Capital allowances | 23 | — | (20) | — |
| Tax relief on pension contributions | (408) | — | (215) | — |
| Timing differences on income | (76) | — | (42) | — |
| Timing differences on expenses | 1 | 1,673 | 6 | 1,869 |
| Timing differences on offshore funds | — | (3,814) | — | (5,666) |
| Other | — | (391) | (1) | 301 |
| Current tax charge | 433 | 509 | 443 | 464 |
| Deferred tax (credit)/charge | (1,291) | (1,702) | 84 | (1,135) |
| **Taxation on ordinary activities** | (858) | (1,193) | 527 | (671) |

## 7 Dividend

| | 2005 Pence per share | 2004 Pence per share | 2005 £'000 | 2004 £'000 |
|---|---|---|---|---|
| Proposed final dividend (payable 20 July 2005) | 3.1 | 3.1 | 4,842 | 4,862 |

## 8 (Loss)/Return per Ordinary Share

The loss per share for the year ended 31 March 2005 is based on the revenue loss after tax of £5.4 million (31 March 2004: £3.3 million) and the capital return after tax of £148.5 million (31 March 2004: £310.5 million) and the weighted average number of ordinary shares in issue during the year of 156.4 million (31 March 2004: 156.8 million).

## 9 Net Asset Value per Ordinary Share

The net asset value per share at 31 March 2005 is based on the net assets attributable to ordinary shareholders of £1,109.2 million (31 March 2004: £975.3 million) and the number of ordinary shares in issue at 31 March 2005 of 156.2 million (31 March 2004: 156.8 million).

## 10 Fixed Asset Investments

| | 31 March 2005 Group £'000 | 31 March 2005 Company £'000 | 31 March 2004 Group £'000 | 31 March 2004 Company £'000 |
|---|---|---|---|---|
| **Listed investments at market value** | | | | |
| Listed in UK | 111,230 | 111,230 | 55,935 | 55,935 |
| Listed overseas | 523,517 | 508,206 | 441,287 | 431,069 |
| Government securities and other liquidity | 113,048 | 113,048 | 47,422 | 47,422 |
| | 747,795 | 732,484 | 544,644 | 534,426 |
| Unlisted investments at Directors' valuation | 379,551 | 337,696 | 434,175 | 400,908 |
| | 1,127,346 | 1,070,180 | 978,819 | 935,334 |

Unlisted investments comprise unquoted investments, property, hedge funds, long equity funds and private equity partnerships.

**Investment movements:**

| Group | Quoted £'000 | Unquoted and property £'000 | Funds and partnerships £'000 | Other securities £'000 | Total £'000 |
|---|---|---|---|---|---|
| Cost at 31 March 2004 | 404,864 | 194,480 | 186,579 | 47,652 | 833,575 |
| Appreciation/(depreciation) at 31 March 2004 | 92,358 | 40,641 | 12,475 | (230) | 145,244 |
| Valuation at 31 March 2004 | 497,222 | 235,121 | 199,054 | 47,422 | 978,819 |
| Reclassifications | 96,619 | (96,619) | — | — | — |
| Additions | 474,659 | 30,175 | 57,278 | 418,084 | 980,196 |
| Disposals | (519,286) | (28,884) | (63,270) | (351,765) | (963,205) |
| Revaluation | 85,533 | 24,162 | 22,534 | (693) | 131,536 |
| **Valuation at 31 March 2005** | **634,747** | **163,955** | **215,596** | **113,048** | **1,127,346** |
| **Cost at 31 March 2005** | **493,272** | **173,500** | **190,175** | **113,741** | **970,688** |
| **Appreciation/(depreciation) at 31 March 2005** | **141,475** | **(9,545)** | **25,421** | **(693)** | **156,658** |

Investment properties were valued at 31 March 2005 by Jones Lang LaSalle in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors on the basis of open market value.

Funds and partnerships comprise hedge funds, long equity funds and private equity partnerships. Other securities comprise government securities and investments in money market funds.

## 10 Fixed Asset Investments (continued)

| | Company | | | | |
|---|---|---|---|---|---|
| | Quoted £'000 | Unquoted and property £'000 | Funds and partnerships £'000 | Other securities £'000 | Total £'000 |
| Cost at 31 March 2004 | 394,862 | 170,360 | 178,360 | 47,652 | 791,234 |
| Appreciation/(depreciation) at 31 March 2004 | 92,142 | 60,256 | (8,068) | (230) | 144,100 |
| Valuation at 31 March 2004 | 487,004 | 230,616 | 170,292 | 47,422 | 935,334 |
| Reclassifications | 96,619 | (96,619) | — | — | — |
| Additions | 474,659 | 30,175 | 41,275 | 418,084 | 964,193 |
| Disposals | (519,286) | (24,531) | (55,830) | (351,765) | (951,412) |
| Revaluation | 80,440 | 24,284 | 18,034 | (693) | 122,065 |
| **Valuation at 31 March 2005** | **619,436** | **163,925** | **173,771** | **113,048** | **1,070,180** |
| **Cost at 31 March 2005** | **483,271** | **153,733** | **167,016** | **113,741** | **917,761** |
| **Appreciation/(depreciation) at 31 March 2005** | **136,165** | **10,192** | **6,755** | **(693)** | **152,419** |

**Unquoted investments:**

During the year ended 31 March 2005, including the effect of currency movements, there were upward valuations of unquoted investments totalling £27.9 million (31 March 2004: £80.8 million) and reductions in value totalling £3.7 million (31 March 2004: £14.2 million). The reductions in value included the following writedown:

| Investment | Original cost £'000 | Valuation at 31 March 2004 £'000 | Additions £'000 | Downward revaluation £'000 | **Valuation at 31 March 2005 £'000** |
|---|---|---|---|---|---|
| Orthoworld | 5,538 | 5,538 | — | (2,938) | **2,600** |

## 10 Fixed Asset Investments (continued)

Details of investments in which the Group had an interest of 10% or more at 31 March 2005 of the nominal value of the allotted shares of any class, or of the net assets, are as follows:

| | Class of share capital | % Held | Aggregate capital and reserves £'000 | Profit/(loss) after tax £'000 |
|---|---|---|---|---|
| **Listed Investments** | | | | |
| Blueheath | Ordinary Shares | 18.6 | 11,580 | (6,227) |
| iUnits S&P/TSX Capped Energy Index Fund (Canadian Energy ETF) (formed under the laws of Ontario, Canada) | Units | 16.7 | 77,865 | 20,017 |
| PayPoint | Ordinary Shares | 13.5 | 10,753 | 6,020 |
| **Unlisted Investments** | | | | |
| Atticus International (incorporated in the British Virgin Islands) | Class A Common Shares | 60.5 | 104,033 | 20,763 |
| Brant Point (incorporated in Bermuda) | Class A Shares | 20.1 | 74,659 | 9,424 |
| Cycladic Catalyst (incorporated in the Cayman Islands) | Founders A Shares | 100.0 | 55,728 | 6,087 |
| FVP Offshore III (incorporated in Bermuda) | Preference Shares | 14.1 | 8,514 | 621 |
| H-G Holdings (incorporated in the USA) | A Ordinary Shares | 20.5 | 17,085 | 722 |
| | B Ordinary Shares | 21.1 | | |
| MessageLabs Group | A Preferred Shares | 48.0 | 8,908 | (2,704) |
| MGt | Ordinary Shares | 13.3 | 2,385 | 768 |
| Orthoworld | Ordinary Shares | 43.0 | 5,498 | (72) |
| Power Measurement (incorporated in the USA) | Common Shares | 32.9 | 25,770 | 2,832 |
| Sofaer Capital Asian Hedge (formed under the laws of the Cayman Islands) | Shares | 24.7 | 41,321 | 3,329 |
| Vibration Technology | B Ordinary Shares | 26.6 | 1,414 | (1,390) |
| | D Ordinary Shares | 18.7 | | |

Unless otherwise stated, all of the above companies are incorporated in the UK. The Group also owns 37.5% of the ordinary share capital of UK Specialist Hospitals Limited: this company was recently incorporated and has not yet produced its financial statements.

| | % Held | Aggregate capital and reserves £'000 | Profit/(loss) after tax £'000 |
|---|---|---|---|
| **Partnership Interests** | | | |
| Blumberg Capital I (formed under the laws of Delaware, USA) | 56.6 | 8,769 | (458) |
| RR Capital Partners (formed under the laws of New York, USA) | 17.0 | 38,218 | 6,438 |
| Sandler Capital Partners V (formed under the laws of Delaware, USA) | 10.3 | 74,642 | 19,438 |
| SCI Asian Ventures (formed under the laws of the British Virgin Islands) | 100.0 | 4,380 | (543) |
| Tinicum Capital Partners (formed under the laws of Delaware, USA) | 96.2 | 2,678 | 753 |
| Tinicum Partners (formed under the laws of New York, USA) | 23.3 | 48,675 | 10,167 |
| 21st Century Communications (formed under the laws of Delaware, USA) | 47.3 | 2,717 | 226 |

## 10 Fixed Asset Investments (continued)

In addition, the Group had a holding of 3% or more at 31 March 2005 in the following investments:

| | Class of share capital | % Held |
|---|---|---|
| **Listed Investments** | | |
| Champps Entertainment | Common Stock | 4.7 |
| Corac Group | Ordinary Shares | 5.8 |
| Fuel Technology | Common Stock | 5.3 |
| Galahad Gold | Ordinary Shares | 4.9 |
| Gladstone Pacific Nickel | Ordinary Shares | 3.3 |
| Insignia Solutions | Common Stock | 4.8 |
| Jackspeed | Ordinary Shares | 3.9 |
| Venture Production | Ordinary Shares | 3.6 |
| Xantrex Technology | Common Shares | 7.8 |
| **Unlisted Investments** | | |
| The Economist Newspaper | Ordinary Shares | 5.0 |
| Esporta Group | B Ordinary Shares | 6.3 |
| Robin Hood Holdings | Ordinary Shares | 7.3 |

The Directors do not consider that any of the fixed asset investments fall within the definition of associated or subsidiary undertakings as the Group does not exercise significant influence over their operating and financial policies.

## 11 Investments in Subsidiary Undertakings

| | £'000 |
|---|---|
| Cost at 31 March 2004 | 39,320 |
| Exchange movement in year | (208) |
| **Cost at 31 March 2005** | **39,112** |

At 31 March 2005 the Company held investments in the following principal subsidiary undertakings which, unless otherwise stated, are wholly-owned, incorporated or registered in the UK, share the same accounting reference date as the Company and operate principally in their country of incorporation. The voting share capital, unless otherwise stated, is held directly by the Company. The Company owns 99% of the issued share capital of FPSH Coinvestment Fund II, LLC ("FPSH") which has a 31 December accounting reference date. The minority interests in the consolidated balance sheet relate to the 1% of FPSH not held by the Company. The movement in the minority interests comprises 1% of the profit accruing to FPSH.

| Name | Issued share capital |
|---|---|
| **Investment Holding** | |
| Atlantic and General Investment Trust Limited | £19,999,104 divided into 19,999,104 Ordinary Shares of £1 each |
| FPSH Coinvestment Fund II, LLC (formed under the laws of Delaware, USA) | US$8,000,000 divided into 10 Shares of US$0.01 par value |
| RIT Capital Partners Associates Limited | £2 divided into 2 Ordinary Shares of £1 each |
| **Administration and Services** | |
| J. Rothschild Capital Management Limited | £6,250,001 divided into 6,250,000 Ordinary Shares of £1 each and one Special Share of £1 held by The J. Rothschild Name Company Limited |
| **Investment Dealing** | |
| RIT Capital Partners Securities Limited | £200,000 divided into 200,000 Ordinary Shares of £1 each (held by a subsidiary) |

## 12 Tangible Fixed Assets

| Group | Cost £'000 | Depreciation £'000 | Net book value £'000 |
|---|---|---|---|
| **Plant, equipment and vehicles** | | | |
| At 31 March 2004 | 640 | (401) | 239 |
| Additions | 81 | — | 81 |
| Disposals | (47) | 44 | (3) |
| Charged to revenue account | — | (103) | (103) |
| **At 31 March 2005** | **674** | **(460)** | **214** |

## 13 Debtors

| | 31 March 2005 | | Restated 31 March 2004 | |
|---|---|---|---|---|
| | **Group £'000** | **Company £'000** | Group £'000 | Company £'000 |
| Debtors for securities sold | **20,026** | **20,002** | 13,630 | 13,602 |
| Other debtors | **2,191** | **1,520** | 1,497 | 1,106 |
| Prepayments and accrued income | **10,174** | **10,025** | 8,601 | 6,929 |
| Tax receivable | **26** | **184** | 107 | 210 |
| Deferred taxation (see note 14 below) | **9,205** | **7,314** | 6,213 | 6,172 |
| Group undertakings | **—** | **26,992** | — | 15,183 |
| | **41,622** | **66,037** | 30,048 | 43,202 |

Included in prepayments and accrued income is £8.1 million falling due after more than one year (31 March 2004: £6.1 million).

## 14 Deferred Tax Asset

The movement on deferred tax during the year is shown below:

| | Year ended 31 March 2005 | | Restated Year ended 31 March 2004 | |
|---|---|---|---|---|
| | **Group £'000** | **Company £'000** | Group £'000 | Company £'000 |
| Balance at start of year | **6,213** | **6,172** | 5,162 | 5,102 |
| Credit to capital reserve | **1,701** | **638** | 1,135 | 1,135 |
| Credit/(charge) to revenue reserve | **1,291** | **504** | (84) | (65) |
| **Balance at end of year** | **9,205** | **7,314** | 6,213 | 6,172 |
| Analysis of deferred tax asset: | | | | |
| Unutilised tax losses | **12,542** | **9,021** | 8,551 | 8,551 |
| Deferred management fees | **710** | **710** | 81 | 81 |
| Long-term incentive plan | **2,558** | **2,558** | 1,620 | 1,620 |
| Pension contributions | **772** | **—** | — | — |
| Other timing differences | **(3)** | **(3)** | 67 | 67 |
| Unrealised profit on offshore funds | **(6,750)** | **(4,268)** | (3,449) | (3,449) |
| Accelerated capital allowances | **(624)** | **(704)** | (657) | (698) |
| **Balance at end of year** | **9,205** | **7,314** | 6,213 | 6,172 |

Tax has been provided in respect of the accumulated reserves of overseas subsidiary undertakings only to the extent that the Group anticipates that the relevant profits will be remitted to the UK in the form of taxable dividends, or to the extent that a UK corporation tax liability may arise under the controlled foreign companies legislation.

The Group has revenue tax losses of £41.8 million (31 March 2004: £40.3 million) which are available for offset against future taxable profits (including profits on offshore hedge funds). The unrealised profits on such funds amounted to £22.5 million as at 31 March 2005 (31 March 2004: £11.5 million).

## 15 Dealing Investments

| | 31 March 2005 | | 31 March 2004 | |
|---|---|---|---|---|
| | **Group £'000** | **Company £'000** | Group £'000 | Company £'000 |
| Unlisted investments | **—** | **—** | 2,400 | — |

## 16 Creditors and Accruals

| | 31 March 2005 | | 31 March 2004 | |
|---|---|---|---|---|
| | **Group £'000** | **Company £'000** | Group £'000 | Company £'000 |
| Creditors for securities purchased | **7,596** | **7,101** | 14,740 | 14,186 |
| Accruals and deferred income | **8,483** | **4,194** | 6,356 | 4,817 |
| Other creditors | **97** | **39** | 809 | 108 |
| Group undertakings | **—** | **28,972** | — | 13,278 |
| | **16,176** | **40,306** | 21,905 | 32,389 |

## 17 Bank Loans Falling Due After More Than One Year

| | 31 March 2005 | | 31 March 2004 | |
|---|---|---|---|---|
| | **Group £'000** | **Company £'000** | Group £'000 | Company £'000 |
| Unsecured US Dollar loan repayable between 2-5 years not by instalments | **79,304** | **79,304** | 81,516 | 81,516 |

## 18 Provisions for Liabilities and Charges

**Group**

| | 31 March 2004 £'000 | Additional provision £'000 | Amounts reversed £'000 | Amounts utilised £'000 | **31 March 2005 £'000** |
|---|---|---|---|---|---|
| Nature of provision: | | | | | |
| Indemnity | 2,000 | 150 | — | (150) | **2,000** |
| Investments | 1,005 | 2,408 | (144) | (306) | **2,963** |
| Litigation | 1,000 | 560 | — | (560) | **1,000** |
| Property | 300 | — | (50) | — | **250** |
| Long-term incentive plan | 5,401 | 3,210 | — | (86) | **8,525** |
| | 9,706 | 6,328 | (194) | (1,102) | **14,738** |

**Company**

| | 31 March 2004 £'000 | Additional provision £'000 | Amounts reversed £'000 | Amounts utilised £'000 | **31 March 2005 £'000** |
|---|---|---|---|---|---|
| Nature of provision: | | | | | |
| Indemnity | 2,000 | 150 | — | (150) | **2,000** |
| Investments | 1,005 | 2,408 | (144) | (306) | **2,963** |
| Litigation | 1,000 | 560 | — | (560) | **1,000** |
| Long-term incentive plan | 5,401 | 3,210 | — | (86) | **8,525** |
| | 9,406 | 6,328 | (144) | (1,102) | **14,488** |

## 18 Provisions for Liabilities and Charges (continued)

### Indemnity Provision

In 1991 the Company acquired an investment in Newmont Mining and at the same time effected a disposal of its indirect interest in Cavenham Forest Industries Inc ("CFI"). As part of these arrangements the Company indemnified the purchaser of CFI against certain ongoing costs being incurred by that company. The relevant indemnified costs are expected to be incurred between 2005 and 2027 and the indemnity provision has been based on the Company's share of the projected costs.

### Investment Provision

The Company owns several investments which were acquired under arrangements whereby part of the profit eventually realised on their disposal would be paid to certain third parties. The provision has been computed by reference to the carrying value of the underlying investments.

### Litigation

As mentioned in note 28, litigation proceedings are in process against the Company relating to its investment in H-G Holdings Inc. A provision of £1 million has been recognised for the estimated legal costs of defending the action which are likely to be incurred over the next one or two years.

### Property

The Group has a short leasehold interest in a property which is being sub-let to a third party. The net income receivable is less than the annual outgoings and, based on a professional valuation, the Group has recognised a provision of £250,000 as at 31 March 2005 (31 March 2004: £300,000).

### Long-term Incentive Plan

This provision represents amounts accrued under a long-term incentive arrangement structured in the form of a Share Appreciation Rights Plan ("SAR"). In accordance with the rules of the plan, certain Directors and employees are entitled to a bonus calculated by reference to a notional number of shares in the Company. The bonus amount payable would be equal to the increase, since the date of grant of the relevant SARs, in the Company's share price multiplied by the notional number of shares, provided the relevant performance conditions are met; the provision also includes the corresponding employer's national insurance liability. The SAR can be exercised between the third and tenth anniversaries of the date of grant. The provision can be analysed by reference to the date of grant of the relevant SARs as set out below

| | 31 March 2005 £'000 | 31 March 2004 £'000 |
|---|---|---|
| **Date of grant** | | |
| 30 March 1999 | 4,724 | 3,140 |
| 22 March 2000 | 1,342 | 725 |
| 22 March 2001 | — | 21 |
| 22 March 2002 | 110 | 100 |
| 26 March 2003 | 1,871 | 1,164 |
| 31 March 2003 | 247 | 156 |
| 12 August 2003 | 178 | 94 |
| 25 March 2004 | 42 | 1 |
| 30 March 2005 | 11 | — |
| | 8,525 | 5,401 |

## 19 Share Capital

| | 31 March 2005 £'000 | 31 March 2004 £'000 |
|---|---|---|
| **Authorised** | | |
| 320 million Ordinary Shares of £1 each | 320,000 | 320,000 |
| **Allotted, issued and fully paid** | | |
| 156,178,167 Ordinary Shares of £1 each (31 March 2004: 156,848,167) | 156,178 | 156,848 |

During the year the Company purchased 670,000 Ordinary Shares for cancellation, representing 0.4% of share capital.

## 20 Capital Redemption Reserve

| | Year ended 31 March 2005 | | Year ended 31 March 2004 | |
|---|---|---|---|---|
| | Group £'000 | Company £'000 | Group £'000 | Company £'000 |
| Balance at start of year | 33,308 | 33,308 | 33,308 | 33,308 |
| Movement during the year | 670 | 670 | — | — |
| **Balance at end of year** | 33,978 | 33,978 | 33,308 | 33,308 |

## 21 Capital Reserve

| | Year ended 31 March 2005 | | Year ended 31 March 2004 | |
|---|---|---|---|---|
| | Group £'000 | Company £'000 | Group £'000 | Company £'000 |
| Balance at start of year | 770,276 | 763,732 | 459,780 | 462,558 |
| Realised gains on disposal of investments | 16,305 | 6,614 | 87,487 | 80,163 |
| Movement on revaluation of investments held at the year end | 131,536 | 122,065 | 205,210 | 203,875 |
| Performance fees | (5,347) | (5,347) | (2,366) | (2,366) |
| Other capital items | 4,836 | 4,592 | 19,494 | 18,060 |
| Taxation | 1,193 | 644 | 671 | 1,442 |
| Total capital return | 148,523 | 128,568 | 310,496 | 301,174 |
| Cost of share buy-backs | (3,677) | (3,677) | — | — |
| **Balance at end of year** | 915,122 | 888,623 | 770,276 | 763,732 |

Other capital items include profits arising on forward currency contracts, exchange movements and movements on provisions. The balance on capital reserve at the end of the year can be further analysed as:

| | 31 March 2005 | | 31 March 2004 | |
|---|---|---|---|---|
| | Group £'000 | Company £'000 | Group £'000 | Company £'000 |
| **Realised gains/(losses)** | | | | |
| Listed investments | 645,539 | 636,088 | 544,349 | 534,898 |
| Unlisted investments | 245,167 | 231,210 | 210,560 | 212,780 |
| Other items | (133,162) | (131,200) | (132,040) | (130,509) |
| | 757,544 | 736,098 | 622,869 | 617,169 |
| **Unrealised gains** | | | | |
| Listed investments | 140,782 | 135,472 | 92,128 | 91,912 |
| Unlisted investments | 15,876 | 16,947 | 53,116 | 52,188 |
| Other items | 920 | 106 | 2,163 | 2,463 |
| | 157,578 | 152,525 | 147,407 | 146,563 |
| **Balance at end of year** | 915,122 | 888,623 | 770,276 | 763,732 |

## 22 Revenue Reserve

| | Year ended 31 March 2005 | | Restated Year ended 31 March 2004 | |
|---|---|---|---|---|
| | Group £'000 | Company £'000 | Group £'000 | Company £'000 |
| Balance at start of year | | | | |
| As previously reported | 17,038 | 6,826 | 24,769 | 9,268 |
| Prior year adjustment (see note 29) | (2,124) | — | (3,583) | — |
| Restated balance at start of year | 14,914 | 6,826 | 21,186 | 9,268 |
| Retained loss for the year | (10,256) | (3,815) | (8,136) | (2,442) |
| Other movements | (726) | — | 1,864 | — |
| **Balance at end of year** | 3,932 | 3,011 | 14,914 | 6,826 |

The balance at the end of the year comprises:

| | 31 March 2005 | | Restated 31 March 2004 | |
|---|---|---|---|---|
| | Group £'000 | Company £'000 | Group £'000 | Company £'000 |
| Revenue reserve excluding pension asset/(liability) | 3,418 | 3,011 | 17,275 | 6,826 |
| Pension reserve | 514 | — | (2,361) | — |
| **Revenue reserve** | 3,932 | 3,011 | 14,914 | 6,826 |

The prior year adjustment relates to the change in accounting policy to adopt the requirements of Financial Reporting Standard 17, Retirement Benefits. The impact of this change is to increase the net revenue loss after tax for the year ended 31 March 2005 by £0.6 million (31 March 2004: £0.4 million decrease), and to decrease the other recognised gains and losses for the year ended 31 March 2005 by £0.7 million (31 March 2004: £1.1 million increase). The other movements are analysed in the Consolidated Statement of Total Recognised Gains and Losses.

The Group's capital reserve includes an amount of £16.9 million which could be paid by way of a dividend to the Company and this amount would augment the distributable revenue reserves of the Company. As permitted by Section 230 of the Companies Act 1985, the Company has not published a separate profit and loss account. The Company's revenue return after tax amounted to £1.0 million (31 March 2004: £2.4 million).

## 23 Reconciliation of Movement in Shareholders' Funds

| | Year ended 31 March 2005 £'000 | Restated Year ended 31 March 2004 £'000 |
|---|---|---|
| Shareholders' funds at start of year | | |
| As previously reported | 977,470 | 674,705 |
| Prior year adjustment (see note 29) | (2,124) | (3,583) |
| Restated shareholders' funds at start of year | 975,346 | 671,122 |
| Revenue loss | (5,414) | (3,274) |
| Dividend | (4,842) | (4,862) |
| | (10,256) | (8,136) |
| Total capital return | 148,523 | 310,496 |
| Actuarial (loss)/gain on pension scheme net of deferred tax | (674) | 1,092 |
| Exchange movements arising on consolidation | (52) | 772 |
| Cost of share buy-backs | (3,677) | — |
| Net increase in shareholders' funds | 133,864 | 304,224 |
| **Shareholders' funds at end of year** | 1,109,210 | 975,346 |

## 24 Reconciliation of Revenue Return Before Finance Costs and Taxation to Cash Inflow from Operating Activities

| | Year ended 31 March 2005 £'000 | Restated Year ended 31 March 2004 £'000 |
|---|---|---|
| Net revenue loss before finance costs and taxation | (3,013) | (24) |
| (Increase)/decrease in other debtors | (694) | 129 |
| Increase in prepayments and accrued income | (1,573) | (4,117) |
| Increase in accruals and deferred income | 2,127 | 4,509 |
| (Decrease)/increase in other creditors | (712) | 732 |
| Net decrease in dealing assets | 4,140 | 4,253 |
| Other movements | (4,006) | 13,930 |
| **Cash (outflow)/inflow from operating activities** | (3,731) | 19,412 |

Other movements comprise foreign exchange movements and movements on provisions.

## 25 Reconciliation of Net Cash Flow to Movement in Net Funds

| | Year ended 31 March 2005 £'000 | Year ended 31 March 2004 £'000 |
|---|---|---|
| (Decrease)/increase in cash in the year | (27,726) | 102,484 |
| Cash outflow/(inflow) from movement in liquid resources | 63,310 | (64,868) |
| Cash inflow from increase in debt | — | (81,500) |
| **Change in net funds resulting from cash flows** | 35,584 | (43,884) |
| Non-cash movement in government securities and other liquidity | 2,316 | (5,040) |
| Currency translation of US Dollar loan | 2,235 | — |
| Amortisation of loan arrangement fee | (23) | (16) |
| **Movement in net funds in year** | 40,112 | (48,940) |
| Net funds at start of year | 56,219 | 105,159 |
| **Net funds at end of year** | 96,331 | 56,219 |

## 26 Analysis of Net Funds

| | 31 March 2004 £'000 | Cash flow £'000 | Other non-cash changes £'000 | 31 March 2005 £'000 |
|---|---|---|---|---|
| **Net cash** | | | | |
| Cash at bank and in hand | 92,193 | (21,777) | — | 70,416 |
| Bank loans and overdrafts | (1,880) | (5,949) | — | (7,829) |
| | 90,313 | (27,726) | — | 62,587 |
| **Liquid resources** | | | | |
| Government securities and other liquidity | 47,422 | 63,310 | 2,316 | 113,048 |
| **Debt** | | | | |
| US Dollar loan | (81,516) | — | 2,212 | (79,304) |
| **Net funds** | 56,219 | 35,584 | 4,528 | 96,331 |

## 27 Derivatives and Other Financial Instruments

An explanation of the Group's objectives, policies and strategies for the role of derivatives and other financial instruments in creating and changing the risks of the Group in its activities can be found on pages 19 and 20. With the exception of the analysis of currency exposure, the disclosures below exclude short-term debtors and creditors.

### Currency exposure

A significant proportion of the Group's net assets is denominated in currencies other than Sterling. The currency exposure of the Group's net monetary assets, including investments, at the year end is shown below:

| Currency | 31 March 2005 £'000 | 31 March 2004 £'000 |
|---|---|---|
| Japanese Yen | 103,910 | 176,127 |
| Euro | 93,961 | 97,603 |
| US Dollar | 83,992 | 193,135 |
| Taiwan Dollar | 74,325 | 1,694 |
| Singapore Dollar | 73,271 | 532 |
| Swiss Franc | 65,496 | 50,191 |
| Other | 110,268 | 65,647 |
| | 605,223 | 584,929 |

The amounts shown above take into account the effect of forward currency contracts and other derivatives entered into to manage the currency exposure. At 31 March 2005 the Group has financial assets totalling £7.8 million relating to amounts receivable on forward currency contracts: £2.3 million with a settlement date of 14 June 2005 and £5.5 million with a settlement date of 25 July 2005. The Group also has financial liabilities totalling £3.6 million relating to amounts payable on forward currency contracts: £1.2 million with a settlement date of 17 May 2005 and £2.4 million with a settlement date of 14 June 2005. At 31 March 2004 the Group had financial assets totalling £6.6 million which related to amounts receivable on forward currency contracts: £0.3 million with a settlement date of 17 May 2004; £0.5 million with a settlement date of 11 June 2004 and £5.8 million with a settlement date of 22 July 2004.

### Interest rate risk profile of financial assets

The interest rate profile of the financial assets of the Group at the year end are shown below:

| | 31 March 2005 | | | |
|---|---|---|---|---|
| Currency | Floating rate financial assets £'000 | Fixed rate financial assets £'000 | Other financial assets £'000 | Total £'000 |
| US Dollar | 31,264 | 67,960 | 464,645 | 563,869 |
| Euro | 27,743 | 40,925 | 187,366 | 256,034 |
| Sterling | 20,047 | 23,772 | 168,779 | 212,598 |
| Yen | 3,106 | — | 46,840 | 49,946 |
| Canadian Dollar | 15 | — | 32,388 | 32,403 |
| Swiss Franc | 442 | — | 18,218 | 18,660 |
| Other | 2,654 | — | 61,598 | 64,252 |
| | 85,271 | 132,657 | 979,834 | 1,197,762 |

The floating rate financial assets comprise short-term deposits, current accounts and investments in money market funds.

The US Dollar fixed rate financial assets include £53.3 million of US Treasury Bills earning interest of 2.25% per annum until April 2006, and £14.4 million of loan notes; £11.0 million earning interest of 2% per annum until December 2028 and £3.4 million earning interest at LIBOR plus 2.5% per annum until 31 December 2007. The balance comprises £0.2 million of preference shares accruing a dividend of 0.9% per annum until April 2009.

The Euro denominated fixed rate financial assets mainly comprise £39.9 million of German Government Bonds; £19.4 million earning interest of 5% per annum until February 2006 and £20.5 million earning interest of 5% per annum until May 2005. They also include £1.0 million of zero coupon corporate bonds.

## 27 Derivatives and Other Financial Instruments (continued)

The Sterling fixed rate financial assets include £5.1 million of UK Treasury Stock; £2.7 million earning interest of 8.5% per annum until December 2005 and £2.4 million earning interest of 9.5% per annum until April 2005. They also include a secured loan note of £9.0 million earning interest of 12.5% per annum until December 2007, and an unsecured loan note of £14.9 million (valued at £3.7 million) earning interest of 10% per annum until December 2012. A further loan note of £1.9 million is included, earning interest of 10% per annum and is redeemable in tranches on various dates between June 2006 and June 2010. The balance comprises £4.0 million of convertible shares accruing a dividend of 8% per annum.

Other financial assets comprise equity shares, other instruments and property which neither pay interest nor have a maturity date.

| | 31 March 2004 | | | |
|---|---|---|---|---|
| Currency | Floating rate financial assets £'000 | Fixed rate financial assets £'000 | Other financial assets £'000 | Total £'000 |
| US Dollar | 45,671 | 11,673 | 442,655 | 499,999 |
| Sterling | 18,288 | 52,477 | 140,485 | 211,250 |
| Japanese Yen | 31,784 | — | 116,914 | 148,698 |
| Euro | 7,328 | 3,666 | 114,274 | 125,268 |
| Canadian Dollar | 103 | — | 31,636 | 31,739 |
| Swiss Franc | 245 | — | 12,058 | 12,303 |
| Other | 386 | — | 41,369 | 41,755 |
| | 103,805 | 67,816 | 899,391 | 1,071,012 |

The floating rate financial assets comprised short-term deposits, current accounts and investments in money market funds.

The US Dollar fixed rate financial assets included £9.9 million of loan notes earning interest of 2% per annum until December 2028 and £0.6 million of convertible stock earning income of 12.25% per annum until November 2009. The balance of the US Dollar fixed rate financial assets comprised corporate bonds, which were in default.

The Sterling fixed rate financial assets included £32.1 million of UK Treasury Stock; £21.0 million earning interest at 5% per annum until June 2004 and £11.1 million earning interest at 6.75% per annum until November 2004. They also included a secured loan note of £9.0 million earning interest of 12.5% per annum until December 2007, and an unsecured loan note of £14.9 million earning interest at 10% per annum until December 2012. Also included were £6.4 million of discounted subordinated bonds earning interest of 10% per annum. The bonds were due for redemption on the earlier of 24 June 2011 and the date on which the company's senior bank debt is repaid. The balance of the Sterling denominated fixed rate financial assets comprised a loan of £0.8 million earning interest at 8% per annum and a loan of £0.3 million earning interest at 20% per annum.

The Euro denominated fixed rate financial assets comprised German Government Bonds earning interest at 4.25% per annum until November 2004.

Other financial assets comprised equity shares, other instruments and property which neither paid interest nor had a maturity date.

### Interest rate risk profile of financial liabilities

The Group has a US Dollar loan with a Sterling value of £79.3 million at 31 March 2005 (31 March 2004: £81.5 million). The loan is repayable in July 2008 and interest is charged on the loan at 3.93% per annum.

### Fair values of financial assets and financial liabilities

All of the financial assets of the Group are held at fair value, on the same basis as at 31 March 2004. It has been assumed that the fair values of the financial liabilities at the year end are approximately the same as the book values due to their short maturities.

## 28 Contingencies, Guarantees and Financial Commitments

Contingencies, guarantees and financial commitments which have not been provided for are as follows:

| | 31 March 2005 | | 31 March 2004 | |
|---|---|---|---|---|
| | Group £'000 | Company £'000 | Group £'000 | Company £'000 |
| Commitments to provide additional funds (principally private equity partnerships) | 71,298 | 71,298 | 49,372 | 49,372 |

In November 1997 proceedings were issued in the New York Courts against a total of ten defendants, including the Company, by Richbell Information Services Inc. ("RIS") and certain connected entities. The proceedings relate to the Company's investment in H-G Holdings Inc. and a loan made to RIS by the Company's wholly-owned subsidiary, Atlantic and General Investment Trust Limited ("AGIT"). The claim against all of the defendants was for approximately US$240 million. On 15 March 2002 the New York Court dismissed the proceedings in their entirety at their initial stage for failure to state a claim upon which relief could be granted. On 1 April 2002 the plaintiffs filed an appeal against that dismissal. On 23 September 2003 the New York Appellate Court affirmed the dismissal of the proceedings as to thirty causes of action included in the claim and as to AGIT. The New York Appellate Court reinstated three of the causes of action as to seven of the defendants, including the Company, and referred the matter back to the New York Court for further proceedings with respect to those three causes of action.

Based upon legal advice received, the Directors do not believe that the proceedings will have a material effect on the financial position of the Company.

## 29 Pension Commitments

### Pension Scheme

J. Rothschild Capital Management Limited has pension commitments in respect of its participation in the RITCP Scheme. The Scheme has two parts: a defined benefit section which is closed to new members and money purchase arrangements which have been set up for Lord Rothschild. The last actuarial valuation of the defined benefit section of the RITCP Scheme was carried out as at 1 January 2002 and the report was produced using the projected unit method of funding using the following main assumptions:

| | Annual compound rate |
|---|---|
| Investment return | 6.50% |
| Rate of increase in salaries | 3.50% |
| Rate of increase in payment of all pensions | 4.00% |
| Inflation assumption | 2.00% |

Appropriate demographic assumptions have also been used.

At 1 January 2002 the market value of assets of the Scheme was £5.188 million. Based on the assumptions set out above for determining the Scheme's liabilities as at 1 January 2002, the funding level of the Scheme as at this date was 82% (allowing for projected future salary increases for current active members). Following the actuarial valuation the Company agreed to make lump sum contributions to the Scheme totalling £1 million over the period to April 2003.

A current funding level valuation considers whether the assets would have been sufficient at the valuation date to cover liabilities arising in respect of pensions in payment, preserved benefits for members whose pensionable service has ceased and accrued benefits for members in pensionable service, based on pensionable service to, and pensionable earnings at, the date of valuation including revaluation on the statutory basis. Based on the current funding level methodology and financial assumptions set out above, the funding level of the plan as at 1 January 2002 was 91%, a deficiency of £0.499 million. This is a measure of solvency that compares the assets of the Scheme with the actuarial value of the liabilities in respect of benefits that would arise if all of the members were to leave the Scheme at the valuation date.

The formal actuarial valuation of the Scheme as at 1 January 2005 is currently being carried out.

## 29 Pension Commitments (continued)

### Pension Contributions

| | Year ended 31 March 2005 £'000 | Year ended 31 March 2004 £'000 |
|---|---|---|
| Defined benefit scheme | | |
| – annual contributions | 532 | 717 |
| – special contribution | 3,400 | — |
| Money purchase scheme | 68 | 68 |
| Personal pension schemes | 181 | 180 |
| | 4,181 | 965 |

The employer contribution rate to the Scheme during the year ended 31 March 2005 was 35% of pensionable salaries. An additional contribution of £0.25 million was made in June 2004. A special contribution of £3.4 million was made in March 2005 to extinguish the deficit in the pension scheme, which otherwise would have been deducted from the Group's net asset value in accordance with Financial Reporting Standard 17, Retirement Benefits ("FRS17"). The funding rate in respect of the money purchase arrangements was 20% of pensionable salary. No changes have been made to these funding rates to date.

The employer contribution rate to the Scheme during the year ended 31 March 2004 was 35% of pensionable salaries. An additional contribution of £0.4 million was made in April 2003. The funding rate in respect of the money purchase arrangements was 20% of pensionable salary.

Since the defined benefit scheme is closed to new entrants, the service cost as a percentage of pensionable salary, calculated using the projected unit method, would be expected to increase as the current membership approaches retirement.

### Financial Reporting Standard 17, Retirement Benefits

The Group has adopted FRS17 in full during the year. The adoption of this standard has resulted in a prior year adjustment as set out in note 22; the adjustment includes the reversal of the provision of £0.3 million made in 2004 in accordance with Statement of Standard Accounting Practice 24, Accounting for Pension Costs, and the related deferred tax of £0.1 million.

In accordance with the requirements of FRS17 this note discloses the main financial assumptions made in valuing the liabilities of the defined benefit scheme and the fair value of the assets held. The full actuarial valuation of the scheme which was carried out as at 1 January 2002 was updated to 31 March 2005 by a qualified independent actuary.

The main financial assumptions are shown in the following table:

| | At 31 March 2005 | At 31 March 2004 | At 31 March 2003 |
|---|---|---|---|
| Discount rate | 5.40% | 5.50% | 5.50% |
| Rate of increase in salaries | 4.25% | 3.25% | 3.75% |
| Rate of increase in payment of all pensions | 4.00% | 4.00% | 4.00% |
| Inflation assumption | 2.90% | 2.75% | 2.25% |

## 29 Pension Commitments (continued)

The fair value of the assets held by the defined benefit scheme, the long-term expected rate of return on each class of assets and the value of the scheme's liabilities assessed on the assumptions described above are shown in the following table:

| | Long-term rate of return expected at 31 March 2005 | Value at 31 March 2005 £'000 | Long-term rate of return expected at 31 March 2004 | Value at 31 March 2004 £'000 | Long-term rate of return expected at 31 March 2003 | Value at 31 March 2003 £'000 |
|---|---|---|---|---|---|---|
| Equities | 9.00% | 4,978 | 8.80% | 4,580 | 7.30% | 4,628 |
| Alternative investments | 9.00% | 2,489 | 9.00% | 1,849 | — | — |
| Corporate bonds | 5.25% | 126 | 5.50% | 118 | 5.50% | 106 |
| Cash | 4.00% | 3,493 | 3.50% | 343 | 3.80% | 71 |
| Total market value of assets | | 11,086 | | 6,890 | | 4,805 |
| Present value of the scheme's liabilities | | (10,352) | | (10,263) | | (9,924) |
| Surplus/(deficit) in the scheme | | 734 | | (3,373) | | (5,119) |
| Related deferred tax (liability)/asset | | (220) | | 1,012 | | 1,536 |
| **Net pension asset/(liability)** | | 514 | | (2,361) | | (3,583) |

The fair value of the assets of the defined contribution section of the Scheme, representing investments providing money purchase benefits, together with the related liabilities, have both been excluded from the figures disclosed above. As at 31 March 2005, these assets and liabilities amounted to £7.068 million (31 March 2004: £6.433 million).

The additional disclosures required by FRS17 are set out below:

| | Year ended 31 March 2005 £'000 | Year ended 31 March 2004 £'000 |
|---|---|---|
| **Analysis of amount charged to revenue account in respect of the defined benefit scheme:** | | |
| Employer's current service cost | 409 | 391 |
| Past service cost recognition | — | — |
| **Total operating charge** | 409 | 391 |
| **Analysis of amount credited/(charged) to other finance income:** | | |
| Expected return on scheme assets | 602 | 368 |
| Interest on pension liabilities | (576) | (564) |
| **Net return credited/(charged) to other finance income** | 26 | (196) |
| **Analysis of amount recognised in the consolidated statement of total recognised gains and losses:** | | |
| Actual return less expected return on scheme assets | 12 | 1,119 |
| Experience gains arising on scheme liabilities | 705 | 164 |
| Changes in assumptions underlying the scheme liabilities | (159) | 333 |
| **Actuarial gain recognised in the consolidated statement of total recognised gains and losses** | 558 | 1,616 |

## 29 Pension Commitments (continued)

| | Year ended 31 March 2005 £'000 | Year ended 31 March 2004 £'000 |
|---|---|---|
| Movement in pension scheme surplus/(deficit) | | |
| Deficit in the scheme at start of year | (3,373) | (5,119) |
| Movement in the year: | | |
| Employer's current service cost | (409) | (391) |
| Employer's contributions | 3,932 | 717 |
| Other finance income/(deficit) | 26 | (196) |
| Actuarial gain | 558 | 1,616 |
| **Surplus/(deficit) in the scheme at end of year** | 734 | (3,373) |

**The analysis of experience gains and losses is as follows:**

| | Year ended 31 March 2005 % | Year ended 31 March 2005 £'000 | Year ended 31 March 2004 % | Year ended 31 March 2004 £'000 | Year ended 31 March 2003 % | Year ended 31 March 2003 £'000 |
|---|---|---|---|---|---|---|
| Actual return less expected return on scheme assets | | 12 | | 1,119 | | (1,893) |
| Percentage of scheme assets at 31 March | 0% | | 16% | | (39%) | |
| Experience gains/(losses) on scheme liabilities | | 705 | | 164 | | (263) |
| Percentage of scheme liabilities at 31 March | 7% | | 2% | | (3%) | |
| Total gain/(loss) recognised in consolidated statement of total recognised gains and losses | | 558 | | 1,616 | | (3,074) |
| Percentage of scheme liabilities at 31 March | 5% | | 16% | | (31%) | |

## 30 Related Party Transactions

Advantage has been taken of the exemption in Financial Reporting Standard 8, Related Parties, not to disclose any transactions or balances between group entities that have been eliminated on consolidation. Other related party transactions are disclosed on pages 17 and 18 of the Directors' Report.

# Historical Information

| | Diluted net assets £'000 | Diluted net assets per share p | Mid-market share price p | Discount % | Total return/(loss) per share p | Dividend per share p |
|---|---|---|---|---|---|---|
| 2 August 1988 | 280,522 | 105.9 | 81.5 | 23.0 | n/a | n/a |
| 31 March 1989 | 344,356 | 134.2 | 114.0 | 15.1 | 29.3 | 1.65 |
| 31 March 1990 | 333,996 | 131.0 | 97.0 | 26.0 | (2.5) | 2.64 |
| 31 March 1991 | 317,985 | 131.7 | 92.0 | 30.1 | 0.7 | 2.44 |
| 31 March 1992 | 305,502 | 140.7 | 85.2 | 39.4 | 6.6 | 1.15 |
| 31 March 1993 | 385,884 | 181.1 | 117.0 | 35.4 | 40.5 | 1.15 |
| 31 March 1994 | 468,567 | 221.6 | 171.0 | 22.8 | 41.5 | 1.51 |
| 31 March 1995 | 450,170 | 213.4 | 174.0 | 18.5 | (8.1) | 1.58 |
| 31 March 1996 | 560,752 | 283.2 | 223.0 | 21.3 | 63.3 | 1.65 |
| 31 March 1997 | 586,066 | 303.5 | 242.5 | 20.1 | 17.2 | 1.82 |
| 31 March 1998 | 737,487 | 384.1 | 327.0 | 14.9 | 81.5 | 2.00 |
| 31 March 1999 | 759,674 | 398.6 | 341.0 | 14.5 | 14.6 | 2.20 |
| 31 March 2000 | 811,386 | 509.0 | 439.0 | 13.8 | 100.2 | 3.10 |
| 31 March 2001 | 759,774 | 484.3 | 436.5 | 9.9 | (28.8) | 3.10 |
| 31 March 2002 | 758,275 | 483.4 | 424.5 | 12.2 | 2.2 | 3.10 |
| 31 March 2003 | 674,705 | 430.2 | 371.5 | 13.6 | (50.2) | 3.10 |
| 31 March 2004 | 975,346 | 621.8 | 577.5 | 7.1 | 195.9 | 3.10 |
| **31 March 2005** | **1,109,210** | **710.2** | **694.0** | **2.3** | **91.5** | **3.10** |

**Notes:**

1. Prior to 31 March 2000, the diluted net assets were arrived at on the assumption that all convertible stock was converted at the balance sheet date.
2. The total return per share is the fully diluted return per share, based on the total returns after tax and the weighted average fully diluted number of ordinary shares in issue during each period. Where the fully diluted return per share exceeded the undiluted return per share the latter figure has been shown in accordance with standard accounting practice.
3. The Company commenced its business as an approved investment trust on 3 August 1988, following the listing of its share capital on the London Stock Exchange.
4. The figures for the year ended 31 March 2004 have been restated following the adoption of FRS17, Retirement Benefits.

# Shareholder Information

## Analysis of Ordinary Shareholders

As at 31 March 2005 the Company's ordinary share capital was held as follows:

| | Holders | % | Shares held | % |
|---|---|---|---|---|
| **Analysis by category** | | | | |
| Individuals | 9,430 | 68.95 | 18,400,715 | 11.78 |
| Insurance companies | 61 | 0.45 | 1,487,692 | 0.95 |
| Banks and nominees | 3,483 | 25.48 | 126,096,295 | 80.74 |
| Investment trusts | 61 | 0.45 | 6,835,606 | 4.38 |
| Pension funds | 14 | 0.10 | 113,537 | 0.07 |
| Other corporate bodies | 627 | 4.57 | 3,244,322 | 2.08 |
| **Totals** | **13,676** | **100.00** | **156,178,167** | **100.00** |

| | Holders | % | Shares held | % |
|---|---|---|---|---|
| **Analysis by numbers of shares** | | | | |
| 1 – 499 | 3,063 | 22.40 | 760,299 | 0.48 |
| 500 – 999 | 2,676 | 19.57 | 1,953,083 | 1.25 |
| 1,000 – 1,999 | 3,479 | 25.45 | 4,823,191 | 3.09 |
| 2,000 – 2,999 | 1,641 | 12.00 | 3,874,766 | 2.48 |
| 3,000 – 3,999 | 802 | 5.87 | 2,710,178 | 1.73 |
| 4,000 – 4,999 | 474 | 3.46 | 2,069,128 | 1.32 |
| 5,000 – 9,999 | 821 | 6.00 | 5,450,401 | 3.49 |
| 10,000 –24,999 | 395 | 2.89 | 5,794,812 | 3.72 |
| 25,000 –49,999 | 102 | 0.74 | 3,615,230 | 2.32 |
| 50,000 –99,999 | 91 | 0.66 | 6,312,542 | 4.04 |
| 100,000 and above | 132 | 0.96 | 118,814,537 | 76.08 |
| **Totals** | **13,676** | **100.00** | **156,178,167** | **100.00** |

# Financial Calendar

| | |
|---|---|
| Announcement of final results for the year ended 31 March 2005 | 26 May 2005 |
| Annual General Meeting | 14 July 2005 |
| Payment of dividend on ordinary shares<br>Final dividend of 3.1 pence | 20 July 2005 to shareholders on<br>the register at 17 June 2005 |

# Annual General Meeting

Notice is hereby given that the Annual General Meeting of RIT Capital Partners PLC will be held at The Royal Automobile Club, 89 Pall Mall, London, SW1Y 5HS on 14 July 2005 at 11.00 a.m. Gentlemen attending are requested to wear a jacket and tie in order to comply with the rules of The Royal Automobile Club. The meeting will be held for the following purposes:

## Ordinary Business

As ordinary business, to consider and, if thought fit, pass the following resolutions, each of which is proposed as an ordinary resolution:

1. To approve the Directors' Report and Accounts for the year ended 31 March 2005;
2. To approve the Report on Directors' Remuneration for the year ended 31 March 2005;
3. To declare a final dividend of 3.1p per ordinary share;
4. To re-elect Charles Bailey, who has attained the age of 70, as a Director;
5. To re-elect Duncan Budge, who retires by rotation, as a Director;
6. To re-elect Andrew Knight, who retires by rotation, as a Director;
7. To re-elect Baron Lambert, who has served for more than nine years, as a Director;
8. To re-elect James Leigh-Pemberton, who was appointed as a Director since the Company's annual general meeting held in 2004;
9. To re-elect Michael Marks, who was appointed as a Director since the Company's annual general meeting held in 2004;
10. To re-elect Nathaniel Rothschild, who was appointed as a Director since the Company's annual general meeting held in 2004; and
11. To reappoint PricewaterhouseCoopers LLP as auditors and to authorise the Directors to determine their remuneration.

## Special Business

To consider and, if thought fit, pass the following resolutions, which will be proposed as Special Resolutions:

12. THAT the authority conferred upon the Directors by Article 11(A) of the Company's Articles of Association (authority to allot, and to make offers or agreements to allot, relevant securities) be hereby extended for the period ending on whichever is the earlier of the date of the Company's Annual General Meeting in 2006 and 30 September 2006; AND THAT such authority shall for that period relate to relevant securities up to an aggregate nominal amount of £52,059,389.
13. THAT the power conferred upon the Directors by Article 11(B) of the Company's Articles of Association (power to allot, or make offers or agreements to allot, equity securities as if Section 89(1) of the Companies Act 1985 did not apply to such allotment) be hereby renewed for the period ending on whichever is the earlier of the date of the Company's Annual General Meeting in 2006 and 30 September 2006.
14. THAT the Company be authorised to purchase up to an aggregate of 23,411,107 ordinary shares of £1 each of the Company (or such a number of ordinary shares as represents 14.99% of the Company's issued capital at the date of the Meeting, whichever is less) at a price (exclusive of expenses) which is:

    (a) not less than £1 per share;

    (b) not more than 5% above the arithmetical average of the middle-market quotations (as derived from the Daily Official List of the London Stock Exchange) for the five business days preceding any such purchase;

    AND THAT the authority conferred by this Resolution shall expire on 30 September 2006 (except in relation to the purchase of shares the contract for which was concluded before such date and which might be executed wholly or partly after such date).

15. THAT the objects clause of the Memorandum of Association of the Company be amended by the addition of a new clause (W) and the renumbering of the existing Clauses (W) and (X) as (X) and (Y) as set out in the copy of the revised Memorandum of Association produced to the Meeting and signed by the Chairman of the Meeting.
16. THAT Article 141 of the Articles of Association of the Company be amended so that it reads in the manner set out in the copy of the revised Articles of Association produced to the Meeting and signed by the Chairman of the Meeting.
17. THAT the Articles of Association of the Company (other than Article 141) be amended so that they read in the manner set out in the copy of the revised Articles of Association produced to the Meeting and signed by the Chairman of the Meeting.
18. THAT Article 78 of the Articles of Association of the Company be amended as set out in the Explanatory Notes appended to this Notice on pages 66 to 68.

By order of the Board

**J. Rothschild Capital Management Limited**
Secretary

*Registered office:*
27 St James's Place
London SW1A 1NR
26 May 2005

Copies of the amended Memorandum and Articles of Association of the Company, together with copies of the directors' service contracts with the Company and the Register of Director's Interests are available for inspection by any person at the Company's registered office and at the offices of Linklaters, One Silk Street, London EC2Y 8HQ during normal business hours on any weekday (Saturdays and Bank Holidays excepted) until 14 July 2005 and will be available at the place of the AGM from 15 minutes prior to and during the AGM.

## Notes

1. A member entitled to attend and vote is entitled to appoint a proxy (or proxies) to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
2. A form of proxy is enclosed. The appointment of a proxy will not prevent a member from subsequently attending and voting at the meeting in person.
3. To be effective the instrument appointing a proxy, and any power of attorney or other authority under which it is executed (or a duly certified copy of any such power or authority), must either be (a) deposited at the Company's registered office not less than 48 hours before the time for holding the meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting) for the taking of the poll at which it is to be used, or (b) lodged using the CREST Proxy Voting Service.
4. Entitlement to attend and vote at the meeting, and the number of votes which may be cast thereat, will be determined by reference to the Company's register of members at 12th day of July at 11.00 a.m. or, if the meeting is adjourned, not more than 48 hours before the time fixed for the adjourned meeting (as the case may be).
5. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting services provider(s), who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The Message, regardless of whether it constitutes the appointment of proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 3RA50) by the latest time for receipt of proxy appointments specified in Note 3 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

   CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

   The company may treat as invalid a CREST Proxy Instruction in the circumstances set out in the Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

# Explanatory Notes

## Resolution 1 – Report and Accounts

The Directors of the Company are required by company law to present the accounts, the Directors' report and the auditors' report on the accounts to the meeting.

## Resolution 2 – Directors' Remuneration Report

The Directors' Remuneration Report Regulations 2003 (which amended the Companies Act 1985) require that the Report on Directors' Remuneration (the Report) be put to a vote by shareholders. The Report is set out on pages 27 to 32 of the Annual Report and Accounts.

## Resolution 3 – Dividend

A final dividend can only be paid after the shareholders at a General Meeting have approved it. A final dividend of 3.1 pence per ordinary share is proposed.

## Resolutions 4 to 10 – Re-election of directors

As a result of changes to the Combined Code following the Higgs Report, any director who has agreed to do so (eg in his original letter of appointment) will retire at the AGM (and not be eligible for re-election), and otherwise all directors will have to stand for re-election every 3 years, but will be eligible for re-election.

Duncan Budge and Andrew Knight retire by rotation and seek re-election by the shareholders.

James Leigh-Pemberton, Michael Marks and Nathaniel Rothschild were each appointed as Directors since the last Annual General Meeting and, under the Articles of Association, are required to retire and seek re-election by the shareholders.

Special notice is given with respect to the retirement and re-election of Charles Bailey, who has attained the age of 70, and Baron Lambert who has served for more than nine years as a Director.

## Resolution 11 – Reappointment and remuneration of the auditors

Company law requires RIT Capital Partners plc, at each general meeting at which accounts are laid, to appoint auditors who will remain in office until the next general meeting at which accounts are laid. The Board, having accepted the recommendation of the audit committee, propose that PricewaterhouseCoopers LLP be reappointed as the Company's auditors.

## Resolution 12 – Renewal of Directors' authority to allot shares

This resolution (which will be proposed as a special resolution and requires the approval of three quarters of the votes cast at the meeting) will, if approved, allow the Directors to allot ordinary shares in RIT Capital Partners plc (other than subscriber shares or shares allotted in accordance with an employee share scheme). This authority will last until the next Annual General Meeting or, if earlier, 30 September 2006.

The maximum amount that can be allotted under this authority is £52,059,389.

## Resolution 13 – Disapplication of pre-emption rights

This resolution (a special resolution) will renew the Directors' authority to allot shares for cash, free from the pre-emption restrictions set out in the Companies Act 1985. This authority will expire at the end of the Annual General Meeting in 2006 (or on 30 September 2006 if earlier).

The Directors intend to observe the institutional guidelines in respect of allotment of shares for cash. These presently require that the annual authority should not exceed 5% of the issued share capital and that no more than 7.5% of the issued ordinary share capital should be allotted for cash on a non pre-emptive basis in any rolling three-year period.

## Resolution 14 – Purchase of own shares

This resolution will be proposed as a special resolution and will allow RIT Capital Partners plc to make market purchases of up to 23,411,107 of its own ordinary shares (or such a number of ordinary shares as represents 14.99% of the Company's issued capital at the date of the meeting, whichever is less) at prices not less than £1 per share and not more than five per cent above the average of the middle market quotations as derived from the London Stock Exchange Daily Official List for the five business days preceding such a purchase.

The Companies (Acquisition of Own Shares)(Treasury Shares) Regulations 2003 (the "Regulations") came into force on 1 December 2003. The Regulations permit companies to hold any of their own shares which they have purchased as Treasury Shares as an alternative to cancelling them. Accordingly, if the Company were to purchase any of its own shares under the authority conferred by this resolution, the Directors may consider holding them as Treasury Shares or the Directors may cancel the shares. Such a decision will be made by the Directors at the time of purchase on the basis of the Company's and shareholders' best interests.

The Directors currently have no intention to exercise the authority conferred in this resolution and will only purchase shares after taking account of the overall financial position of the Company and if the effect will be to increase net asset value per share and is in the best interests of shareholders as a whole.

## Resolutions 15 to 17 – Amendment to the Articles and Memorandum of Association

The memorandum and articles of association need to be brought up to date with current corporate guidelines and new legislation. A copy of the proposed new Articles and Memorandum of Association shall be available for inspection as stated in the Notice.

## Resolutions 15 and 16 – Indemnity Amendment to the Articles and Memorandum of Association

These resolutions will amend the Articles and Memorandum of Association to update the terms of the indemnities, which will be out of date once the Companies (Audit, Investigations and Community Enterprise) Act 2004 comes into force, and to take advantage of the new provisions relating to the funding of defence costs. Under the Companies Act 2004, the Company is permitted to indemnify its directors against any liability incurred by a director to any person (other than to RIT Capital Partners plc or any associated company) in connection with any negligence, default, breach of duty or breach of trust, by means of a qualifying third party indemnity provision. This was previously prohibited under Section 310 CA 1985 under which a company was only able to fund a director's defence costs once final judgment in his or her favour had been reached.

The indemnity may now cover both the legal and financial costs of any adverse judgment, but cannot include the legal costs of the unsuccessful defence of criminal proceedings, fines imposed in criminal proceedings and penalties imposed by regulatory bodies such as the Financial Services Authority. RIT Capital Partners plc will be permitted to pay directors' defence costs as they are incurred, even if the action is brought by the Company itself. Individual directors would still be liable to repay their defence costs to the extent funded by RIT Capital Partners plc if their defence is unsuccessful. In addition and as part of this change, the powers of the Company to take out insurance for the protection of its Directors have been made more specific.

## Resolution 17 – General Amendments to the Articles of Association

This resolution changes the Articles of Association in order to bring RIT Capital Partners plc in line with current corporate governance best practice and new legislation. The legislation taken into account in updating the Articles of Association is:

- The Uncertificated Securities Regulations 2001
- Companies (Acquisition of Own Shares)(Treasury Shares) Regulations 2003 and Financial Services and Markets Act 2000
- Companies (Audit, Investigations and Community Enterprise) Act 2004

The material changes and their effect are explained below:

- Treasury Shares
  There is no longer a requirement to cancel treasury shares and companies may now hold these shares. To avoid the articles being inconsistent with statute, it is desirable for them to refer to treasury shares, and to mention that the company cannot exercise rights (voting, quorum, dividends etc.) in respect of them.
- CREST proxy voting
  In early 2003 the CREST Proxy Voting Services was introduced. This service allows members of CREST to appoint proxies electronically.
- Voting – Demand for a poll
  Section 373 of the Companies Act 1985 allows a company to specify that any five members can demand a poll, Article 59(b) has been changed accordingly.

## Resolution 18 – Amendment to Article 78 of the Articles of Association

Article 78 stipulates the limit of aggregate fees that may be paid annually to the Company's non-executive directors. The limit is currently £200,000 and it is proposed that this be increased to £300,000 to provide additional flexibility to appoint additional directors or increase directors' fees in future.

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