2129188

RIT Capital Partners plc

REPORT & ACCOUNTS

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Contents

Company Registration Number 2129188

RIT Capital Partners: A Profile

OBJECTIVE

RIT Capital Partners ("RITCP") aims to deliver long-term capital growth for its investors.

INVESTMENT STRATEGY

RITCP looks for value internationally and has a strong bias towards quoted securities; it does not follow any rigid geographical or industrial asset allocation.

RITCP INVESTS IN:

- Quoted Securities

  RITCP aims to identify companies or sectors in the major world economies which offer particular value when judged against comparable opportunities internationally.

- Unquoted Holdings

  RITCP invests in unquoted holdings where they offer the prospects for particularly good returns; the bias is towards significant investments in relatively mature businesses.

- Specialist Funds

  RITCP will invest with third party managers where they offer specialist investment expertise in a geographical or industry sector which is not available from RITCP's own investment managers.

Portfolio Analysis

	% of Portfolio at 31 March 1998	Valuation at 31 March 1998 £ million	% of Portfolio at 31 March 1997	Valuation at 31 March 1997 £ million
ASSET CATEGORY				
Quoted Investments	70.5	568.8	70.0	458.1
Treasury (Liquidity)	9.7	78.4	0.3	1.9
Unquoted Investments	11.2	90.6	17.4	114.0
Specialist Funds	5.3	42.5	8.2	53.6
Property	3.3	26.3	4.1	26.6
Total	100.0	806.6	100.0	654.2
COUNTRY				
United Kingdom	32.7	263.7	32.2	210.8
United States	21.0	169.1	26.8	175.1
Germany	10.0	80.8	8.0	52.4
Canada	8.2	66.4	5.6	36.5
Italy	6.1	49.3	6.5	42.6
Japan	4.3	34.5	5.5	35.9
Switzerland	3.7	29.9	3.5	23.1
Sweden	3.5	28.1	–	–
France	3.1	25.0	3.8	24.6
Other	7.4	59.8	8.1	53.2
Total	100.0	806.6	100.0	654.2

Currency Exposure

(As a percentage of diluted net assets)

	31 March 1998 %	31 March 1997 %
Sterling	36.4	37.8
US Dollar	13.4	17.6
Deutsche Mark	11.1	8.8
Canadian Dollar	9.0	6.2
Italian Lire	7.0	7.2
Swiss Franc	4.1	3.9
Swedish Kroner	3.8	–
Norwegian Kroner	3.4	–
French Franc	3.4	3.9
Other	8.4	14.6
Total	100.0	100.0

Summary of Performance

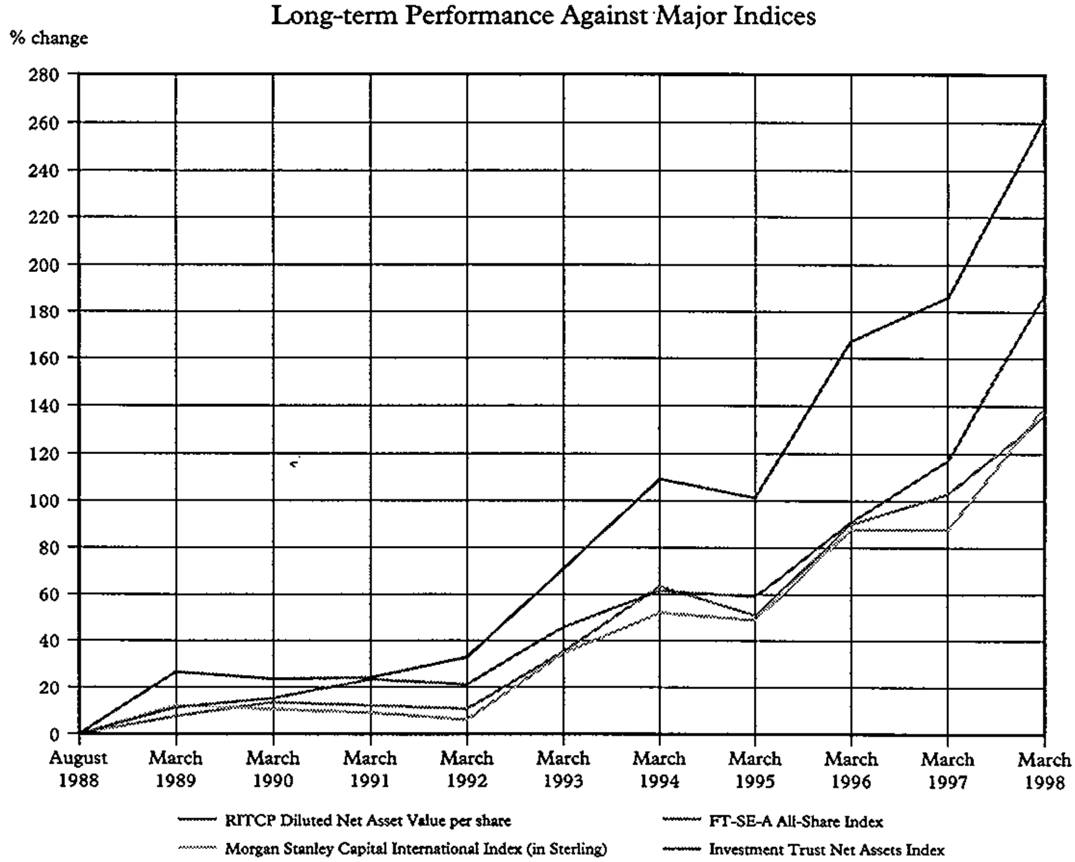
THIS YEAR'S PERFORMANCE
Year to 31 March 1998

RITCP's diluted net asset value per share	+26.6%
Morgan Stanley Capital International Index (in Sterling)	+27.7%
FT-SE-A All-Share Index	+32.5%
Investment Trust Net Assets Index	+16.2%

LONG-TERM PERFORMANCE
Since RITCP's formation in August 1988

RITCP's diluted net asset value per share	+262.4%
Morgan Stanley Capital International Index (in Sterling)	+139.8%
FT-SE-A All-Share Index	+187.7%
Investment Trust Net Assets Index	+136.0%

RIT Capital Partners
Long-term Performance Against Major Indices



Chairman's Statement

INVESTMENT STRATEGY AND PERFORMANCE

In the year under review the major world stock markets, in which RITCP's investments are concentrated, have performed strongly, despite the economic upheavals experienced by a number of countries in the Far East. Markets have been pushed to historically high levels by the weight of liquidity and, in some cases, appear to have run ahead of the fundamental yardsticks of valuation.

In these circumstances, the risk of investment has risen significantly and the defensive merits of a stock selection strategy become particularly relevant. RITCP therefore continues to seek individual investment opportunities rather than exposure to stock markets in general. At the year end, RITCP's effective exposure to stock markets accounted for about three-quarters of its total net assets and its borrowings were largely deployed in cash or cash equivalents (mainly Treasury Bills and Stock).

The year that ended 31 March 1998 was a rewarding one for your Company, with the fully diluted net asset value per share rising from 303.5 pence to 384.1 pence, an increase of 26.6% for the period. By comparison the Morgan Stanley Capital International Index (in Sterling), the FT-SE-A All-Share Index and the Investment Trust Net Assets Index rose by 27.7%, 32.5%, and 16.2% respectively.

It is now nearly ten years since RITCP was created in its present form. During this period RITCP has out-performed all these indices by a considerable margin, with an increase in capital value of 262.4%, compared with increases of 139.8%, 187.7% and 136.0% respectively for the indices mentioned above.

The diluted net asset value at 31 May, announced in early June, was 416.9 pence per share.

INVESTMENT PORTFOLIO

Although by far the greater part of the investment portfolio remains invested in quoted securities, RITCP differs from most other investment trusts in that the balance of the portfolio is held in unquoted investments, specialist funds and property. We believe that this approach provides shareholders with access to opportunities which are not normally available to investors.

The asset allocation within the portfolio is set out in the table on page 2 which shows that, at the year end, 71% of the portfolio was invested in quoted equities, 10% in Treasury Bills and Stock, 11% in unquoted investments, 5% in specialist funds and 3% in property.

It may be of interest for shareholders to hear of developments on two of our largest quoted investments, where our involvement began when they were both unquoted companies.

Our largest investment is in Fonorola, a Canadian telecommunications company, which we were instrumental in establishing and which went public in 1993. However, we retained our shares at that stage and the company has continued to perform strongly. In September 1997 we sold a proportion of our holding to recoup the majority of our original cost. In April this year the share price increased further as a result of a takeover bid from a competitor, and our remaining shareholding at 31 May was valued at £92 million compared with our effective net cost of £5.4 million.

Another significant investment is Getty Images, where we were one of the founder investors, subscribing £3.8 million for a 20% stake, at the inception of the company in 1995. Since then Getty has built a highly successful business (through the acquisition of photographic archives) which provides photos and film to publishers, broadcasters and advertisers. We sold about half of RITCP's holding when the company went public in 1996, realising £7.3 million; the value of the balance of the holding has since increased to £18.8 million at the year end, representing a return of nearly seven times our original cost over three years.

UNQUOTED INVESTMENTS

At 31 March 1998, RITCP's investments in unquoted companies were valued at £90.6 million, or 11% of the portfolio, compared with £114 million or 17% at the previous year end. As a result of competitive conditions and high valuations in this area, we have been reluctant to become involved in new transactions during the period under review.

This part of the portfolio continues to be concentrated in a relatively small number of holdings, of which the five described on pages 11 to 13 account for £64 million, or nearly three-quarters of RITCP's unquoted investments.

SHARE BUY-BACK

Shareholders may be aware that from April of next year, it will be possible for companies to buy back their own shares for cancellation without the present adverse tax consequences. The cost to RITCP of buying back its own shares is currently prohibitive as we would incur advance corporation tax ("ACT") on the difference between the original "issue" price of RITCP shares (£1) and the buy-back price. From April 1999 your Company will be able to repurchase its own shares without incurring ACT.

We welcome this development, believing that it is in shareholders' interests for an investment trust to have the ability to repurchase its shares. Buying back shares at a discount to the underlying net asset value boosts the net asset value per share for shareholders and should reduce the discount further. This is a concept with which we are familiar: when RITCP was created in 1988, a significant part of its original capital was made up of Convertible Unsecured Loan Stock, most of which has since been bought back, as a substitute for repurchasing ordinary shares.

You will note from the Directors' Report on page 16 that we are seeking shareholders' approval at the AGM for permission to repurchase up to 15% of RITCP's shares over the following twelve months, the maximum allowed under the rules of the Stock Exchange. If you are also a holder of RITCP's Loan Stock you will also find enclosed with this Report a document which seeks your permission to the change in RITCP's Articles required before the Company can buy back its shares.

FUND MANAGEMENT

RITCP is a self-managed company which seeks to diversify the management of its portfolio by complementing the skills available to us. In particular, Nils Taube and his colleagues have helped us to achieve the excellent results not only of this year but also in the years since the creation of RITCP in its present form in 1988.

Recently we have formed an association with an investment manager, James Findlay, who achieved an outstanding record over the last nine years when he was manager of the Foreign & Colonial US Smaller Companies Investment Trust with a compound return of 28% in dollar terms. James Findlay, together with his partner, Charles Park, have agreed to invest $30 million on behalf of RITCP in small to medium sized US companies, their particular area of expertise. This amount is included within the "quoted investments" part of RITCP's portfolio.

We hope that this arrangement can serve in future as a pattern for attracting some outstanding investment management talent where we can offer some form of "proprietary" relationship, building on the principle that an investment in RITCP should allow shareholders access to opportunities not normally available to investors.

RESULTS AND DIVIDENDS

Shareholders may now be familiar with the "Statement of Total Return" which appears on page 27, introduced last year in line with new recommended accounting practices. This shows the satisfactory position of a total return before tax for the year under review of £157.7 million, compared with £35.6 million for the previous year.

We are proposing to pay a dividend of 2 pence per share, compared with last year's payment of 1.82 pence, an increase of 10%, in line with our stated intention of increasing the annual dividend modestly each year. If approved at the forthcoming Annual General Meeting the dividend will be paid on 10 July 1998 to shareholders on the register at 19 June 1998.

SAVINGS SCHEME

In late 1996 we launched our Savings Scheme which enables individual investors, including existing shareholders, to buy RITCP shares in a convenient and efficient way and which has attracted nearly 700 investors. If you would like a copy of the relevant brochure please contact the Scheme Administrator at the address given opposite page 48.

THE BOARD

I am pleased to report to shareholders that Mikael Breuer-Weil, who has been responsible for managing my family's investment portfolio since 1994, and who has acted as my alternate, has agreed to join the Board of RITCP as a non-executive director.

I would like, on your behalf, to thank all those who have contributed to this year's results. We look forward to addressing the opportunities the current year will bring, with some caution, conscious of the high valuations placed on equity markets in many parts of the world.

Rothschild

Rothschild — 9 June 1998

Investment Portfolio

at 31 March 1998

Investment Holdings	Country	Description	Value of Investment £ million	% of Portfolio
QUOTED INVESTMENTS				
Fonorola	Canada	Telecommunications	56.4	7.00
Cologne Re	Germany	Re-insurance	21.6	2.68
Munich Re	Germany	Re-insurance	19.6	2.43
Getty Images	USA	Stock Photography	18.8	2.34
Nestlé	Switzerland	Food Manufacturing	17.1	2.12
Bayerische Vereinsbank	Germany	Banking	15.3	1.90
IFI	Italy	Investment Holding	14.5	1.79
Deutsche Telekom	Germany	Telecommunications	14.1	1.75
Investor	Sweden	Industrial Holding	13.4	1.66
Roche Holding	Switzerland	Chemicals/Pharmaceuticals	12.8	1.58
Rolls-Royce	UK	Aerospace	12.3	1.52
BNP	France	Banking	12.2	1.51
Williams	UK	Fire Protection/Security	12.0	1.48
Great Universal Stores	UK	Retailing	11.7	1.45
Cable & Wireless	UK	Telecommunications	11.2	1.39
Bank Austria	Austria	Banking	11.1	1.38
Astra	Sweden	Pharmaceuticals	11.1	1.38
Amvescap	UK	Investment Management	10.9	1.35
Alleanza	Italy	Life Insurance	10.6	1.32
Saga Petroleum	Norway	Natural Gas	10.6	1.32
Cable & Wireless Communications	UK	Telecommunications	10.2	1.27
B.A.T Industries	UK	Tobacco/Financial Services	9.5	1.18
London Merchant Securities	UK	Property Development	9.0	1.12
Mediobanca	Italy	Banking	8.7	1.08
SPS Technologies	USA	Precision Fasteners	8.5	1.06
Generali	Italy	Composite Insurance	8.3	1.02
W H Smith	UK	Retailing	8.1	1.00
AGF	France	Composite Insurance	8.1	1.00
Tokio Marine & Fire	Japan	Non-Life Insurance	8.0	0.99
NCR	USA	Electronic Equipment	7.9	0.97
Rio Tinto	Australia	Mining	7.9	0.97
Westminster Health Care	UK	Nursing Homes	7.6	0.95
Energis	UK	Telecommunications	7.5	0.93
Telecom Italia	Italy	Telecommunications	7.2	0.90
Commerzbank	Germany	Banking	6.9	0.86
Ballard Power Systems	Canada	Energy	6.7	0.84
Technitrol	USA	Electronic Equipment	6.5	0.80
Novo Nordisk	Denmark	Pharmaceuticals	6.3	0.78
Home Counties Newspapers	UK	Publishing	6.1	0.76
LucasVarity	UK	Automotive/Aerospace Components	6.0	0.75
Racal Electronic	UK	Datacommunications	5.8	0.72
Coca-Cola Amatil	Australia	International Soft Drink Distribution	5.6	0.70
St Joe	USA	Forestry/Paper	5.4	0.67
Nomura Securities	Japan	Stockbrokers	4.9	0.61
Fosters Brewing	Australia	Brewing	4.9	0.61
Manpower	USA	Employment Services	4.8	0.60
Gaumont	France	Leisure	4.7	0.59
Mitsui Marine	Japan	Non-Life Insurance	4.6	0.57
Union Pacific	USA	Road & Rail Transport	4.5	0.55
49 Other Quoted Investments			51.3	6.32
Total Quoted Investments			568.8	70.52

Investment Portfolio *continued*

at 31 March 1998

Investment Holdings	Country	Description	Value of Investment £ million	% of Portfolio
TREASURY (LIQUIDITY)				
Treasury Floating Rate 1999	UK	Treasury Stock	40.6	5.03
Treasury Bills	USA	Treasury Bills	37.8	4.69
Total Treasury			**78.4**	**9.72**
UNQUOTED INVESTMENTS				
Cellcom	UK	Cellular Telephones	20.0	2.48
The Economist Newspaper	UK	Publishing	13.1	1.63
Invicta Leisure	UK	Leisure Development	12.3	1.53
Richbell Information debt	USA	Holding Company	10.1	1.26
H-G Holdings	USA	Expense Cost Management	8.6	1.07
Eurotunnel	UK	Transport	7.7	0.95
Cine-UK	UK	Multiplex Cinemas	6.4	0.79
Power Measurement	Canada	Power Measurement Devices	3.2	0.39
Discovery Zone	USA	Leisure	3.0	0.38
11 Other Unquoted Investments			6.2	0.75
Total Unquoted Investments			**90.6**	**11.23**
SPECIALIST FUNDS				
Tinicum Partners	USA	Arbitrage and Distressed Securities	12.8	1.59
Sc Fundamental	USA	Equities and Special Situations	4.5	0.56
Sandler 21st Century	USA	Unquoted Telecommunications	4.3	0.54
Jupiter Partners	USA	Corporate Acquisitions	4.0	0.49
Sandler Mezzanine Partners	USA	Unquoted Telecommunications	2.7	0.34
New Century Holdings	Eastern Europe	Russian and East European Equities & Sovereign debt	2.5	0.32
Boston Ventures	USA	Unquoted Telecommunications	2.4	0.30
11 Other Specialist Funds			9.3	1.13
Total Specialist Funds			**42.5**	**5.27**
PROPERTY				
Spencer House and other properties in St James's Place, London			26.3	3.26
Total Investments			**806.6**	**100.00**

Review of Principal Investments

QUOTED INVESTMENTS

At 31 March 1998 RITCP held £568.8 million of quoted investments amounting to 70.5% of the portfolio. Details of the ten largest holdings in the quoted portfolio are set out below.

Fonorola **Valuation at 31 March 1998: £56.4 million (Cost: £11.6 million)**

RITCP has an interest of 16.5% in Fonorola, a Canadian telecommunications company which RITCP was instrumental in establishing and which went public in September 1993. This investment was acquired over a period of time at a cost of £13.3 million. In September 1997, about an eighth of RITCP's interest was sold, recouping the majority of the original cost, resulting in an effective net cost of £5.4 million.

The company was established in 1989 to take advantage of de-regulation in the Canadian telecommunications market. Since its creation the company has achieved rapid growth in sales with revenues in 1997 of C$400 million, an increase of 45% on the previous year.

In April 1998 one of Fonorola's competitors, Callnet, made an unsolicited offer to acquire Fonorola for C$60 a share. The shares have since traded above this level and the company has rejected the offer as being inadequate.

Fonorola has recently announced the expansion of its presence in the US voice and data communications market. The company now owns, or has agreed to acquire, over 23,000 kilometres of fibre-optic network in Canada and the US.

RITCP's investment in Fonorola is now held at the market price, which at 31 May valued RITCP's holding at £92 million.

Cologne Re **Valuation at 31 March 1998: £21.6 million (Cost: £10.1 million)**

Cologne Re is Germany's second largest re-insurance company in which General Re has a majority shareholding. General Re is one of the USA's most successful re-insurance companies and the combination of these two companies constitutes, in effect, the second largest re-insurance grouping in the world. The ultimate consolidation of both entities is anticipated. Cologne Re has made a preliminary announcement of its results for the year to 31 December 1997 showing post-tax profits of DM190 million compared with DM166 million for the previous year.

Munich Re **Valuation at 31 March 1998: £19.6 million (Cost: £6.2 million)**

Munich Re remains the world's largest re-insurance company and is active in 150 countries, deriving approximately 50% of its business from Germany and 25% from the rest of Europe. Its product range comprises all types of re-insurance with the main emphasis on fire, vehicle and life insurance divisions.

The increase in the number of global natural catastrophes has contributed to some smaller reinsurers being forced out of the market, resulting in higher premiums for those companies which remain.

Munich Re has a consistent record in terms of growth in premium income and dividends. The company is considered to be conservative in terms of reporting its results and in the calculation of its asset value. In addition, it has recently begun to reorganise some of its investment participations bringing to light some previously hidden shareholder value.

Getty Images **Valuation at 31 March 1998: £18.8 million**
(Cost: £1.9 million)

RITCP was one of the original investors when this company was formed in 1995 and retains a 4.7% interest. Getty Images is one of the leading international providers of visual content to a range of professional users of images, including advertising and design agencies, publishers and broadcasters. Getty's strategy has been to consolidate the leading businesses and collections and to make the visual content available for digital search, selection and delivery. In 1998 the company merged with PhotoDisc, a leading company in the field of digital stock photography products and electronic delivery of images.

In July 1996 the company was floated on the US NASDAQ market at $10 a share, 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 the balance is now included in the quoted section of the portfolio.

Nestlé **Valuation at 31 March 1998: £17.1 million**
(Cost: £10.4 million)

The company has a number of strong brand names including Nestlé, Nescafé, Perrier and Libby's and is the world's largest food manufacturer with operations in over a hundred countries. Nestlé also owns 26% of L'Oréal, the world's leading cosmetics producer. In the year to 31 December 1997, the company's profits increased by 17.6% to SF4 billion.

Bayerische Vereinsbank **Valuation at 31 March 1998: £15.3 million**
(Cost: £12.2 million)

The merger of Bayerische Hypotheken-und Wechsel-Bank with Bayerische Vereinsbank was announced in July last year and, following the approval of their respective shareholders, the banks will merge in the second half of 1998 to create a new banking institution, Bayerische Hypo-und Vereinsbank AG. The combined entity will be one of the largest banks in Germany and will also be a major player in Europe where it will be one of the leaders in the mortgage market. As an added attraction the bank has a large investment portfolio which includes substantial holdings in Allianz and Munich Re. We anticipate that the proposed merger will create shareholder value through the potential to realise significant cost savings by branch closures and an increased focus on core activities.

IFI **Valuation at 31 March 1998: £14.5 million**
(Cost: £5.4 million)

IFI is the holding company for the Agnelli family's interest in FIAT, a number of financial and industrial companies and Juventus, the football team. RITCP has had an interest in IFI for two years and the holding has appreciated in value to become one of RITCP's largest investments. IFI is seen as offering a good investment proxy for corporate Italy as a whole and the underlying value of its portfolio of holdings is considered to be significantly in excess of its current market value. There is also a possibility that FIAT might become involved in the current wave of consolidation amongst car manufacturers.

Deutsche Telekom **Valuation at 31 March 1998: £14.1 million**
(Cost: £13.0 million)

Deutsche Telekom is the principal German telecommunications operator, in which the German State owns a 74% stake. The profits after tax for the year ended 31 December 1997 increased from DM1.8 billion to DM3.3 billion.

Investor **Valuation at 31 March 1998: £13.4 million**
(Cost: £13.1 million)

Investor AB is Sweden's largest industrial holding company and, over the past twenty five years, its average total annual return to shareholders has exceeded 20%. In addition to having significant shareholdings in Astra, Incentive, Scania and Ericsson, Investor also owns 100% of Saab AB. The shares trade at a discount to their asset value and the company benefits from an exemption from tax on its capital gains.

Recently, Percy Barnevik, one of Europe's best known businessmen, has become Chairman and is in the process of refocusing the company's core investments. Experience suggests that companies in the process of transition can often offer attractive investment opportunities.

Roche Holding **Valuation at 31 March 1998: £12.8 million**
(Cost: £9.9 million)

Roche is a major Swiss pharmaceutical company which is a world leader in the field of diagnostics and is also involved in the production of vitamins. The increase in the average age of the population of the developed world, together with the soaring costs of healthcare, suggest that diagnostics offer the prospect for reduced expenditure and improved efficiency in the delivery of healthcare. The company is considered to be prudently managed and conservatively valued.

UNQUOTED INVESTMENTS

The valuations of unquoted investments are reviewed twice a year by a valuation committee of non-executive Directors, the latest review being as at 31 March 1998. 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 revalued 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.

The five largest investments summarised below account for about £64 million or approximately three-quarters of RITCP's unquoted investments.

Cellcom **Valuation at 31 March 1998: £20.0 million**
(Cost: £4.9 million)

RITCP has a 46% interest in Cellcom which is a cellular telephone service provider. Cellcom's original business was in the UK where it has about 107,000 subscribers. In November 1996 the company acquired an additional interest of 30% in a French cellular service provider, CMC, bringing its holding to 65%. CMC has experienced rapid growth, bringing its subscriber base to about 200,000.

Despite increasingly competitive conditions in the UK market, pre-tax profits for the year to March 1998 are expected to exceed £9 million compared with £8.7 million for the previous year.

At the year end, the valuation of RITCP's holding was reduced by £3.2 million to £20 million to take account of the increased competition in the UK market. During the period under review RITCP received dividends of £1.6 million from Cellcom.

The Economist Newspaper **Valuation at 31 March 1998: £13.1 million (Cost: £1.5 million)**

RITCP has an interest of 4.5% in this company which publishes The Economist magazine as well as a number of other specialist publications. It is also involved in supplying business information and owns a freehold office building in St James's, London.

In the year to 31 March 1997 the company made profits before tax of £26.7 million, an increase of 11% on the figure for the previous year.

In 1995 the company acquired the leading US publication, The Journal of Commerce (together with a number of specialist magazines) for $115 million, funded by its own cash reserves and borrowings.

RITCP continues to apply the company's auditors' "indicative share valuation" to its own holding.

Invicta Leisure **Valuation at 31 March 1998: £12.3 million (Cost: £12.3 million)**

Invicta is involved in the acquisition, development and management of tennis and health centres and golf courses. It owns and operates three large scale tennis and health centres in Brighton, Manchester and Southampton and three golf courses in Chelsfield, Mapledurham and Mentmore; a further tennis centre is due to open later this year in Sunderland. The company is also actively researching several potential sites throughout the country. RITCP has recently agreed to invest an additional £4 million to finance new developments of which £0.5 million had been drawn down by the year end.

Richbell Information Services **Valuation at 31 March 1998: £10.1 million (Cost: £19.8 million)**

In April 1996 RITCP invested in a Loan Note issued by Richbell, a shareholder in H-G Holdings, which was secured on Richbell's holding of shares in H-G Holdings. In view of the reduction in RITCP's valuation of H-G Holdings last year we considered it prudent to reduce the valuation of this Loan Note at that stage.

RITCP has become involved in litigation concerning this investment and the related interest in H-G Holdings. For further information shareholders should refer to note 28 on page 45.

At 31 March 1998 the valuation of the Loan Note was reduced by a further £1 million.

H-G Holdings **Valuation at 31 March 1998: £8.6 million (Cost: £10.7 million)**

RITCP has an effective equity interest of 21% in H-G Holdings which operates a number of related businesses involved in fuel payment credit cards, expense management systems and sales force automation services.

RITCP's original investment was in the UK operation, Harpur Group, which provided fuelcard and fleet management services to operators of corporate car fleets. In 1995 Harpur merged with a US company, Gelco Payment Systems, to form H-G Holdings. Gelco provides information and payment processing of employee expenses to US corporations which employ large mobile sales forces.

In December 1995 RITCP received a distribution of £12.7 million, representing a return of a significant part of the original investment, made in March 1994 at a cost of £16.5 million.

Last year the valuation of RITCP's holding was reduced to reflect the fact that the company's performance was below expectations and to reflect the existence of certain obligations in respect of inter-company liabilities of Harpur at the time of the merger with Gelco in 1995. The performance of the company has since improved significantly.

In January 1998 Harpur Group was sold for $186 million plus a possible additional consideration of up to $20 million. The proceeds of the sale were used to repay the majority of H-G's borrowings.

The principal business within H-G is now Gelco in the US which is performing strongly, having produced EBITDA (earnings before interest, tax, depreciation and amortisation) of $15.3 million in 1997.

Other than in respect of currency movements the year end valuation of RITCP's interest in H-G remains unchanged.

SPECIALIST FUNDS

Tinicum Partners — **Valuation at 31 March 1998: £12.8 million (Cost: £3.2 million)**

RITCP originally made a £3.2 million investment in Tinicum in August 1989 and the increase in valuation represents the growth in this initial investment. The fund, now split into two associated partnerships, concentrates on merger arbitrage and investment in distressed securities.

PROPERTY

Spencer House and other properties in St James's Place, London — **Valuation at 31 March 1998: £26.3 million (Cost: £24.3 million)**

The properties are at 12, 13, 15 and 27 St James's Place and were professionally valued by Jones Lang Wootton as at 31 March 1998.

Spencer House, 27 St James's Place, 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. J. Rothschild 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. Spencer House is open to the public for guided tours on most Sundays.

RITCP operates a banqueting business for private and corporate clients which is based in the main State Rooms.

RITCP 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 rental from these properties is £270,000.

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

Board of Directors

The present Directors, all of whom, with the exception of Lord Rothschild and Duncan Budge, are non-executive, are:

The Lord Rothschild, GBE
Aged 62, is Chairman of RIT Capital Partners plc and is also the non-executive Chairman of Value Realisation Trust plc and President of St James's Place Capital plc.

Charles Bailey◊*‡
Aged 64, is also a director of General Oriental Investments Limited, Antofagasta Holdings plc and Atrium Cockell Underwriting Limited.

Mikael Breuer-Weil
Aged 34, is a non-executive director of Value Realisation Trust plc. He has been the principal investment adviser to Lord Rothschild's family interests since 1994. 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.

Duncan Budge
Aged 42, was appointed a Director and Chief Operating Officer of the Company in August 1995. He has been a director of J. Rothschild Capital Management Limited since 1988 and also represents the Company on the Boards of a number of RITCP's investments.

Andrew Knight
Aged 58, is a director of News Corporation Limited. He was previously a director of Home Counties Newspapers Holdings plc until its recent acquisition by Eastern Counties Newspapers. He is a former Editor of The Economist and served as Chief Executive of the Telegraph group and Chairman of News International.

Baron Philippe Lambert◊*‡
Aged 68, is President of the Board of Global Asset Management (Schweiz) AG and was President of Banque Bruxelles Lambert (Suisse) SA until April 1997.

Jean Pigozzi◊
Aged 46, is a private investor.

◊ Member of the Audit Committee
* Member of the Remuneration and Conflicts Committee
‡ Member of the Valuation Committee

Directors' Report

The Directors present their Report and Accounts for the Company, covering the year ended 31 March 1998.

STATUS OF COMPANY

The Company is registered as a public company and is an investment company under the Companies Act 1985. 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 1997. Such approval is expected to be granted for the year ended 31 March 1998. 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.

RESULTS AND DIVIDENDS

RITCP made a total return after taxation of £156.4 million during the year ended 31 March 1998.

The Board recommends the payment of a dividend of 2.0p per share payable on 10 July 1998 to shareholders on the register at 19 June 1998. This dividend will absorb £3.6 million of distributable reserves.

The movements on capital reserve and consolidated revenue reserve are shown on pages 42 and 43 respectively.

NET ASSET VALUE

The undiluted net asset value of one ordinary share at 31 March 1998 was 401.0p. The diluted net asset value of one ordinary share, after allowing for conversion of the outstanding loan stock at par, was 384.1p. The basis of calculation of the undiluted net asset value and diluted net asset value per share is set out in note 9 on page 36.

REVIEW OF BUSINESS

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

The fixed asset investments were valued at 31 March 1998 at £806.6 million. An analysis of these investments is contained in note 10 on page 36.

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

The portfolio does not meet the full Personal Equity Plan requirement of being at least 50% invested in EU equities (including UK equities). However, the portfolio currently meets the necessary criteria to qualify as a "non-qualifying" investment trust and it is the Directors' intention to continue to conduct the Company's affairs to satisfy this requirement.

To comply with Stock Exchange classification as an investment company no one investment may amount to more than 20% of the consolidated gross assets of the RITCP group at the time that it is made.

SHARE CAPITAL AND PURCHASE OF OWN SHARES

Details of the authorised and issued share capital appear in note 20 on page 42 of the accounts. During the year a further 119,209 ordinary shares were issued following conversion of £119,209 2.5% convertible unsecured loan stock 2000.

It is proposed to seek shareholders' approval at the forthcoming Annual General Meeting to permit the Company to purchase its own shares. RITCP is an investment company within the meaning of Section 266 of the Companies Act 1985. As such it is prohibited from making a distribution of its capital profits. This would, in effect, prevent the Company from purchasing its own shares since a repurchase of shares is required to be made out of distributable profits. The Company, like most investment trusts, has insignificant distributable reserves as a result of the obligation for an investment trust to pay out the majority of its income in dividends every year.

However, we have been advised that it would be possible for the Company to notify the Registrar of Companies that it wishes to revoke its election to be treated as an investment company for the purposes of the Companies Act. In addition, the Company would also amend Article 118 of its Articles of Association which, *inter alia*, prevents any distribution out of the Company's capital reserve. Therefore, having revoked its status under the Companies Act, there would be nothing to prevent the Company from using its capital reserve to purchase its own shares.

We have been advised that changing its status in this way would not prevent the Stock Exchange from continuing to classify the Company as an "investment company". Nor would it prejudice the Company's ability to preserve its investment trust status under the Taxes Act which allows the Company to make capital gains free from tax. The relevant tax legislation does not prohibit the Company from making a distribution out of its capital reserve by way of a purchase of its own shares.

Accordingly a resolution will be proposed at the forthcoming Annual General Meeting to amend the Company's Articles of Association by inserting a new Article 8(A) to read as follows:

8(A) Purchase of own shares

"Subject to the provisions of the Statutes, the Company may purchase, or may enter into a contract under which it will or may purchase, any of its own shares of any class (including any redeemable shares) but so that if there shall be in issue any shares convertible into equity share capital of the company of the class proposed to be purchased, then the Company shall not purchase or enter into a contract under which it will or may purchase, such equity shares unless either:

(a) the terms of issue of such convertible shares include provisions permitting the Company to purchase its own equity shares; or

(b) the purchase, or the contract, has first been approved by an Extraordinary Resolution passed at a separate meeting of the holders of such convertible shares."

In addition, minor amendments will be necessary to Articles 114 and 118 to allow the capital reserve account to be used for distributions (other than dividends). Following the passing of this resolution the Company will seek power at the Annual General Meeting to purchase up to a maximum of 27,161,040 ordinary shares at a price that is not less than £1 per share and not more than 5% above the average middle-market quotations for the preceding five business days. This number represents 14.99% of the present issued share capital. The Directors do not intend to use this authority prior to April 1999 when the abolition of advance corporation tax will enable the Company to purchase its own shares in a tax efficient way. The authority being sought would last until 30 September 1999 or until the date of the next annual general meeting, whichever is the earlier.

Shareholders should be aware that approval of an identical resolution will be sought at a Separate General Meeting of the holders of the Company's convertible stock to be held at 11.00 a.m. on 9 July 1998 prior to the Annual General Meeting. The consent of the stock holders is required before the resolution can be proposed at the Annual General Meeting.

PRINCIPAL SHAREHOLDERS

The Directors are aware of the interests as at 31 May 1998, 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
The Prudential Corporation group of companies	11,294,384	6.23
Legal & General Investment Management Limited	9,166,873	5.03
The Equitable Life Assurance Society	8,733,444	4.81
AMP Asset Management Plc and connected interests	7,658,084	4.23

Other than the interests of Lord Rothschild, representing 10.60% of the ordinary share capital of the Company at 31 May 1998 (as set out on page 23), the Directors are not aware of any other disclosable interest representing 3% or more of the shares of the Company.

DIRECTORS

The present Directors, all of whom are non-executive other than Lord Rothschild and Duncan Budge who are executive, were directors throughout the year. Mikael Breuer-Weil was appointed a director on 1 May 1998. The Directors are listed on page 14.

Pursuant to the Articles of Association, Charles Bailey and Jean Pigozzi will retire by rotation from the Board at the Annual General Meeting and will be proposed for re-election at that meeting. Mikael Breuer-Weil, having been appointed since the last Annual General Meeting, will relinquish his office at the Annual General Meeting and will be proposed for election at that meeting.

DIRECTORS' INTERESTS

The interests of the Directors, at 31 March 1998, in the share and loan capital of the Company are given in the Report of the Remuneration Committee. Between the end of the year and the date of this Report, there were no changes in the Directors' interests as set out on page 23.

Lord Rothschild and Duncan Budge are directors of J. Rothschild Capital Management Limited ("JRCM"), a subsidiary of the Company, which provides the services described in "Management and Administration" on page 19.

Except as stated above, or within the Report of the Remuneration Committee, 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 Stock Exchange Listing Agreement.

Details of the Directors' service agreements are also given in the Report of the Remuneration Committee on page 24.

CONVERTIBLE STOCK

Up to 31 March 1998 the Company had purchased for cancellation £72,993,495 convertible stock at an average price of £125.02 per £100 nominal, of which £1,110,055 was purchased in the year at an average price of £262.52 per £100 nominal. During August 1997 £119,209 convertible stock was converted into 119,209 ordinary shares. The amount of convertible stock remaining in issue at 31 March 1998 was £10,812,106.

POLITICAL CONTRIBUTIONS AND CHARITABLE DONATIONS

During the year ended 31 March 1998, the Company made no charitable donations or political contributions.

CORPORATE GOVERNANCE

The Directors consider that they have complied throughout the year with all aspects of the Code of Best Practice ("the Code") published by the Committee on the Financial Aspects of Corporate Governance.

The report by the auditors, Price Waterhouse, on this statement is on page 26.

The Board of Directors, which currently consists of two executive and five non-executive Directors, meets regularly during the year. The non-executive Directors are considered to be of sufficient calibre and number to be able to exercise significant independent judgement on the strategy and financial planning of the Group.

The Board of Directors is responsible for the Group's system of internal financial control. Such systems 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 financial control within an established framework applicable throughout the Group.

The Board has reviewed the effectiveness of the systems of internal financial control in operation during the financial period through the monitoring processes set out below.

The Group's key internal financial control and monitoring procedures include the following:

Control environment

The Group has established an organisational structure which allocates defined levels of authority and reporting responsibility in respect of the financial and taxation affairs of the Group to a small number of senior executives. In addition, the Executive Committee, which consists of certain Directors and senior executives, meets 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 Committee as appropriate.

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. Accounting duties are segregated to an extent commensurate with the size of the Group's organisation and business environment.

Monitoring system

On behalf of the Board, the Audit Committee, which comprises three non-executive Directors, reviews the effectiveness of these systems. The Committee meets regularly to receive reports arising from the external audit process and to review issues arising therefrom with management. The Committee also monitors the adequacy of the Group's accounting policies and financial reporting and discusses the results of the external audit of the Group's accounts with the auditors.

There is also a Remuneration and Conflicts Committee, the operation and constitution of which are described in the Report of the Remuneration Committee on page 21.

After making enquiries, the Directors consider that the Company and the Group have adequate resources to continue to operate for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

YEAR 2000 COMPLIANCE

The possible repercussions of the Millennium issue are fully appreciated by the Company both in respect of its own systems and those of its external suppliers. Although the servicing of the Company's computer related requirements is mainly outsourced, it is involved in the detailed plan which has been undertaken to ensure, as far as is possible, that the potential problems of the Year 2000 do not affect either internal functions or those provided by third party suppliers. The situation is under constant review and it is anticipated that the project will be substantially completed by the end of 1998. It is not anticipated that significant expenditure will be incurred by the Company to meet the necessary requirements.

CREDITORS PAYMENT POLICY

The Group does not follow a specific code of practice in relation to the payment of its suppliers. The Group's policy is to agree with all its suppliers the terms of payment and conditions of business at the outset of its business transactions and, subject to the terms and conditions being met by the supplier, make payment promptly on those terms. The effect of the Group's payment policy is that its trade creditors (which include rent, administrative services and investment transactions) at the financial year end represented 27 days' purchases.

MANAGEMENT AND ADMINISTRATION

The investment management and administration functions are undertaken by JRCM. That company has entered into a Services Agreement dated 3 June 1996 with Nils Taube Limited which provides the services of Nils Taube and his investment team in respect of the investment management of a significant part of RITCP's investment portfolio. The value at 31 March 1998 of this part of the investment portfolio, comprised mainly of quoted equities, was £538 million.

Under that agreement, Nils Taube Limited is entitled to a fee of 1/60% per month of the value of the relevant funds under management. The agreement is terminable on six months' notice or, in any event, automatically in the event of the winding up of RITCP. In addition, there are provisions for the automatic termination of the agreement should Nils Taube Limited be unable to provide the services of Nils Taube for a period of three months.

The majority of the remainder of RITCP's investment portfolio is managed by the directors of JRCM.

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

SPECIAL BUSINESS AT ANNUAL GENERAL MEETING

Although the Company's Articles of Association provide that all unissued shares shall be at the disposal of the Directors, Section 80 of the Companies Act 1985 requires that the authority of the Directors to allot relevant securities shall be subject to the approval of shareholders in general meeting. Accordingly, shareholders are being asked at the forthcoming Annual General Meeting to renew, for a period of one year, the Directors' authorisation to allot the Company's unissued shares up to a nominal amount of £60,398,132 which is less than a third of the issued equity share capital of the Company at the date of this report. The Directors have no present intention of allotting shares pursuant to this authority. It is necessary to make a change to Article 11 of the Company's Articles of Association so that the annual resolution authorising the Directors to allot shares under Section 80 can specify different nominal amounts each year without having to amend the Articles each year. The amount specified for the current year follows the ABI guidelines.

The Directors also seek the renewal of the usual authority to enable them, during the period expiring on the date of the 1999 Annual General Meeting, to allot not more than 5% (which would correspond to 9,059,719 shares) of the issued shares as at 31 March 1998 for cash other than by way of rights. It is the intention of the Directors, under such authority, not to allot shares at less than their attributable net asset value.

Following a detailed review of the Company's Articles of Association, it is also necessary to make a further amendment to them. The Company was initially formed in 1987 and its business was created from a reconstruction of J. Rothschild Holdings plc. At that time it was necessary to restrict transfers of the Company's shares by US persons. This restriction no longer applies and the Articles of Association therefore require amending by deleting Article 39. A special resolution will be proposed at the forthcoming Annual General Meeting to implement this alteration.

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 profit or loss of the Company and the Group for that period. 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.

AUDITORS

The Auditors, Price Waterhouse, have indicated their willingness to continue in office and a resolution that they be re-appointed will be proposed at the forthcoming Annual General Meeting.

By Order of the Board
J. Rothschild Capital Management Limited
Secretary 9 June 1998

Report of the Remuneration Committee

THE COMMITTEE

The Committee comprises myself as Chairman and Baron Philippe Lambert, who is also a non-executive Director. Lord Rothschild and Duncan Budge liaise closely with the Committee, although they do not take part in any decisions relating to their own terms and conditions of employment.

The Committee determines the remuneration packages of individual executive Directors. 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 Committee is also responsible for the operation of long-term incentive schemes.

REMUNERATION POLICY

The Company complied in the year under review with the provisions relating to Remuneration Committees incorporated in Section A of the best practice provisions annexed to the London Stock Exchange Listing Rules.

The 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. In setting policy and making decisions, the Committee gives full consideration to the best practice provisions set out in Section B annexed to the London Stock Exchange Listing Rules.

DIRECTORS' REMUNERATION

Total Directors' remuneration for the year ended 31 March 1998 is shown below, with comparative figures for the previous year.

	Year Ended 31 March 1998 £	Year Ended 31 March 1997 £
Aggregate emoluments	**285,029**	252,319
Company pension contributions to money purchase schemes	**6,250**	4,571
	291,279	256,890
Increase in amount accrued under long-term incentive scheme	**447,090**	84,826
	738,369	341,716

In the year under review, no gains were made by Directors on the exercise of options over the Company's shares (the Directors do not hold share options of the Company), no compensation was paid on loss of office and no sums were paid to third parties for Directors' services. Retirement benefits are accruing to Lord Rothschild under a money purchase arrangement and to Duncan Budge under a defined benefit scheme.

The total emoluments of Duncan Budge, the highest paid director in the year, including an amount of £447,090 accrued under a long-term incentive scheme, were £598,886 (year ended 31 March 1997 – £214,393, including an amount accrued under a long-term incentive scheme of £84,826). Under his defined benefit pension scheme, he would have been entitled to receive an annual pension of £36,151 on retirement based on service to the end of the year and assuming he left service on that date (31 March 1997 – £29,476). The transfer value of the increase in accrued pension during the year was £63,885.

Basic Salary, Benefits and Bonus

Basic salaries for the executive Directors are reviewed annually by the Committee and the last review was at 31 March 1998. The salary of Lord Rothschild remains unchanged at £300,000 per annum. In the light of his commitments to the National Heritage Memorial Fund during the year, he waived £250,000 of that salary in the year ended 31 March 1998. The salary of Duncan Budge increased from £130,000 per annum to £136,500 per annum at 1 April 1998.

Although there is no formal bonus scheme, the executive Directors may participate, from time to time, in bonus payments at the discretion of the Committee.

A bonus of £6,500, representing 5% of annual salary, was paid to Duncan Budge in the year under review. Executive Directors are provided with the use of cars, pension and death in service arrangements, health care insurance and with other benefits in line with normal company practice.

Details of Directors' emoluments are given in the table below with comparatives, for the year ended 31 March 1997, if different, shown in brackets below:

Director	Salaries, Bonuses and Fees £	Pension and Death in Service £	Other Benefits £	Total Emoluments £
The Lord Rothschild	50,000	6,330	17,946	74,276
	(36,561)	(4,574)	(11,506)	(52,641)
Duncan Budge	136,500	16,457	15,296	168,253
	(115,149)	(14,459)	(14,641)	(144,249)
Charles Bailey	15,000	–	–	15,000
Anthony Bloom	3,750	–	–	3,750
	(15,000)	–	–	(15,000)
Andrew Knight	15,000	–	–	15,000
Baron Philippe Lambert	15,000	–	–	15,000
Jean Pigozzi	–	–	–	–
	235,250	**22,787**	**33,242**	**291,279**

Notes:

i) for a proportion of the previous year Lord Rothschild was paid by St James's Place Capital plc, the then parent company of JRCM, as part of its cost of managing RITCP. Anthony Bloom did not seek re-election at the Annual General Meeting in July 1997 and his fees are therefore only in respect of that proportion of the year in which he served as a director.

ii) other benefits comprise company car, fuel, private health care and telephone.

iii) pension contributions comprise the amount contributed to Lord Rothschild's money purchase arrangement, and for Duncan Budge, the amount contributed to the defined benefit arrangement.

iv) no termination payments were made to Directors in the year under review.

v) total emoluments less pension contributions in the year were £268,779.

vi) the emoluments for the year ended 31 March 1998 shown above for Duncan Budge exclude an amount of £447,090 (year ended 31 March 1997 -£84,826) being the increase in the amount accrued under a long-term incentive scheme.

vii) Jean Pigozzi waived his fee in the years ended 31 March 1998 and 31 March 1997.

Share Incentives and Share Interests

Long-term incentive arrangements for two Directors were approved by shareholders on 10 July 1996, as they constituted related party transactions under Stock Exchange rules. Under his participation in a Share Appreciation Rights plan, Duncan Budge is entitled, at a time of his choice between the third and tenth anniversary of his appointment (18 August 1995), to a bonus calculated by reference to a notional number of the Company's shares (529,100). The amount payable will reflect the increase, since the date of his appointment, in the Company's share price multiplied by the notional number of shares, and is conditional on any increase in the share price exceeding the increase in the Retail Prices Index for the three year period ending on the third anniversary of his appointment. During the year ended 31 March 1998, the middle-market price of a RITCP share increased from 242.5p to 327p. It is intended that the bonus will become payable in whole or in part at the Company's discretion should he leave JRCM's employment voluntarily in the three year period ending on the third anniversary of his appointment. Should he leave 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.

Shareholders also approved an arrangement for Anthony Bloom, who was a non-executive director until July 1997, in relation to the introduction of unquoted investment opportunities for consideration by JRCM in relation to its management of the Company's portfolio. Under the arrangement, Mr Bloom is required to offer JRCM (as manager of the Company) first refusal of all potentially suitable unquoted investments which could represent an opportunity to invest a minimum of £1 million in each case. Mr Bloom is remunerated under the arrangement by a participation in the form of a fee of 7.5% of any realised gain attributable to those of the Company's investments which are introduced, developed and monitored by him, in excess of an annual hurdle of 10% compounded annually. The fee is calculated by reference to net gains only on investments introduced by Mr Bloom. In approving the original arrangements, the Directors of the Company agreed that they should apply retrospectively to investments introduced by Mr Bloom and made by the Company whilst the arrangements were in course of negotiation. The arrangements make provision for Mr Bloom to have the opportunity to invest personally (or for interests associated with him to co-invest) in parallel with the Company subject to approval by this Committee.

The interests of the Directors at 31 March 1998 in the shares and convertible stock of the Company are shown below with comparatives as at 1 April 1997 (where different) shown in brackets.

	Ordinary shares of £1 each			Convertible Stock		
Director	**Beneficial**	**Non-Beneficial**	**% of Share Capital**	**Beneficial**	**Non-Beneficial**	**% of Loan Stock**
The Lord Rothschild	13,177,252 (9,598,984)	6,033,740 (2,415,556)	10.60	£3,518,984	£604,668	38.14
Charles Bailey	3,000	– (55,500)	–	–	–	–
Duncan Budge	50,139	–	0.03	–	–	–
Andrew Knight	–	–	–	–	–	–
Baron Philippe Lambert	75,000 (100,000)	–	0.04	–	–	–
Jean Pigozzi	41,010	–	0.02	–	–	–

Included in the total of 13,177,252 shares of the Company owned beneficially by Lord Rothschild are 53,184 shares (31 March 1997 - 138,184) held by the RITCP Pension & Life Assurance Scheme in which Lord Rothschild has a beneficial interest.

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

PENSIONS AND DEATH IN SERVICE

The Committee's policy 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, but within an agreed cost framework: currently 7.5% of basic salary for those under 40 years and 12.5% for those aged 40 years or over. Lord Rothschild and Duncan Budge are members of the RITCP Pension & Life Assurance Scheme, (the "RITCP Scheme"). Within the RITCP Scheme, money purchase arrangements have been set up for Lord Rothschild, to which JRCM has contributed throughout the year under review. Contributions are based on basic salary only and on his salary after taking into account the waiver that was in force. Duncan Budge is a defined benefit member of the RITCP Scheme for which the annual contribution rate is currently 12.5%. Death in service benefits, comprising a lump sum of four times salary and a spouse's pension, are provided through that scheme.

No pension or death in service provision is made for the non-executive Directors.

SERVICE AGREEMENTS

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

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. The basic annual fee is £15,000, which the Committee believe to be in line with current market practice. Mr Jean Pigozzi has waived his right to receive £15,000 in respect of the year ended 31 March 1998.

C H Bailey — 9 June 1998

Report of the Auditors

TO THE MEMBERS OF RIT CAPITAL PARTNERS plc

We have audited the financial statements on pages 27 to 45, and the additional disclosures on pages 21 to 24 relating to the remuneration of the Directors specified for our review by the London Stock Exchange, which have been prepared under the historical cost convention, as modified by the revaluation of fixed asset investments other than subsidiary undertakings, and the accounting policies set out on pages 32 and 33.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 20 the Company's Directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF 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. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and the Group as at 31 March 1998 and of the total return and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse

Chartered Accountants
and Registered Auditors
9 June 1998

Southwark Towers
32 London Bridge Street
London SE1 9SY

Report of the Auditors *continued*

TO THE DIRECTORS ON CORPORATE GOVERNANCE MATTERS

In addition to our audit of the financial statements we have reviewed your statement on pages 18 and 19 concerning the Group's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and the adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v), if not otherwise disclosed.

BASIS OF OPINION

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or corporate governance procedures nor on the ability of the Group to continue in operational existence.

OPINION

In our opinion, your statements on internal financial controls and on going concern on pages 18 and 19 have provided the disclosures required by the Listing Rules referred to above and are consistent with the information which came to our attention as a result of our audit work on the financial statements.

In our opinion, based on enquiry of certain Directors and officers of the Company and examination of relevant documents, your statement on page 18 appropriately reflects the Group's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Price Waterhouse

Price Waterhouse

Chartered Accountants
9 June 1998

Southwark Towers
32 London Bridge Street
London SE1 9SY

Consolidated Statement of Total Return
(Incorporating the revenue account)
for the year ended 31 March 1998

	Note	Revenue £'000	Capital £'000	Total £'000
Gains on investments		–	156,471	156,471
Dealing losses		(3,566)	–	(3,566)
Investment income	1	17,025	–	17,025
Other income		900	–	900
Administrative expenses	2	(4,120)	–	(4,120)
Investment management fee	3	(1,139)	–	(1,139)
Premium on redemption of convertible stock		–	(1,798)	(1,798)
Currency translation of US Dollar loan notes		–	1,778	1,778
Currency translation of Yen borrowings		–	2,866	2,866
Other capital items		–	(3,134)	(3,134)
Net return before finance costs and taxation		9,100	156,183	165,283
Interest payable and similar charges	4	(7,612)	–	(7,612)
Return on ordinary activities before taxation		1,488	156,183	157,671
Taxation on ordinary activities	6	(96)	(1,174)	(1,270)
Return on ordinary activities after taxation attributable to equity shareholders		1,392	155,009	156,401
Dividends	7	(3,624)	–	(3,624)
Transfer (from)/to reserves		(2,232)	155,009	152,777
Return per ordinary share	8			
Basic		0.8p	85.6p	86.4p
Fully diluted		–	80.6p	81.5p
Net asset value per ordinary share	9			
Basic				401.0p
Fully diluted				384.1p

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 period.

Movements on reserves are set out in notes 21 and 22 on pages 42 and 43.

The notes on pages 32 to 45 form part of these accounts.

Consolidated Statement of Total Return
(Incorporating the revenue account)
for the year ended 31 March 1997

	Note	Revenue £'000	Capital £'000	Total £'000
Gains on investments		–	15,057	15,057
Dealing profits		3,728	–	3,728
Investment income	1	16,950	–	16,950
Other income		358	–	358
Administrative expenses	2	(3,067)	–	(3,067)
Investment management fee	3	(904)	2,613	1,709
Premium on redemption of convertible stock		–	(6,577)	(6,577)
Currency translation of US Dollar loan notes		–	6,912	6,912
Currency translation of Yen borrowings		–	7,897	7,897
Other capital items		–	545	545
Net return before finance costs and taxation		17,065	26,447	43,512
Interest payable and similar charges	4	(7,907)	–	(7,907)
Return on ordinary activities before taxation		9,158	26,447	35,605
Taxation on ordinary activities	6	(3,026)	854	(2,172)
Return on ordinary activities after taxation attributable to equity shareholders		6,132	27,301	33,433
Dividends	7	(3,296)	–	(3,296)
Transfer to reserves		2,836	27,301	30,137
Return per ordinary share	8			
Basic		3.4p	15.1p	18.5p
Fully diluted		3.3p	13.9p	17.2p
Net asset value per ordinary share	9			
Basic				317.0p
Fully diluted				303.5p

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.

Other than the acquisition of J. Rothschild Capital Management Limited on 18 July 1996, no operations were acquired or discontinued in the period.

Movements on reserves are set out in notes 21 and 22 on pages 42 and 43.

The notes on pages 32 to 45 form part of these accounts.

Consolidated Balance Sheet

	Note	31 March 1998 £'000	31 March 1997 £'000
FIXED ASSETS			
Investments	10	**806,610**	651,168
Tangible fixed assets	12	**287**	–
		806,897	651,168
CURRENT ASSETS			
Debtors	13	**87,342**	52,447
Dealing investments	14	**26**	2,907
Cash at bank		**30,040**	37,412
		117,408	92,766
CREDITORS			
Amounts falling due within one year:			
Proposed dividend	7	**(3,624)**	(3,296)
Bank loans and overdrafts		**(30,623)**	(2,854)
Other creditors and accruals	15	**(57,707)**	(24,259)
		(91,954)	(30,409)
Net current assets		**25,454**	62,357
Total assets less current liabilities		**832,351**	713,525
CREDITORS			
Amounts falling due after more than one year:			
Bank loans	16	**–**	(31,973)
Convertible stock	17	**(10,812)**	(12,041)
US Dollar loan notes	18	**(89,291)**	(90,977)
Provisions for liabilities and charges	19	**(5,573)**	(4,572)
		726,675	573,962
CAPITAL AND RESERVES			
Called up share capital	20	**181,194**	181,075
Capital reserve – realised	21	**356,220**	303,496
Capital reserve – unrealised	21	**184,657**	82,372
Revenue reserve	22	**4,604**	7,019
EQUITY SHAREHOLDERS' FUNDS		**726,675**	573,962

The accounts were approved by the Board of Directors on 9 June 1998 and are signed on the Board's behalf by:

Rothschild
Rothschild

Rothschild, *Director*

Duncan Budge

Duncan Budge, *Director*

The notes on pages 32 to 45 form part of these accounts.

Balance Sheet of the Parent Company

	Note	31 March 1998 £'000	31 March 1997 £'000
FIXED ASSETS			
Investments	10	**781,989**	626,060
Investments in subsidiary undertakings	11		
– shares		**32,342**	32,354
– loans		**4,563**	7,677
		818,894	666,091
CURRENT ASSETS			
Debtors	13	**90,030**	57,397
Cash at bank		**26,002**	29,324
		116,032	86,721
CREDITORS			
Amounts falling due within one year:			
Proposed dividend	7	**(3,624)**	(3,296)
Bank loans and overdrafts		**(30,623)**	(806)
Other creditors and accruals	15	**(78,727)**	(46,505)
		(112,974)	(50,607)
Net current assets		**3,058**	36,114
Total assets less current liabilities		**821,952**	702,205
CREDITORS			
Amounts falling due after more than one year:			
Bank loans	16	**–**	(31,973)
Convertible stock	17	**(10,812)**	(12,041)
US Dollar loan notes	18	**(89,291)**	(90,977)
Provisions for liabilities and charges	19	**(4,164)**	(4,572)
		717,685	562,642
CAPITAL AND RESERVES			
Called up share capital	20	**181,194**	181,075
Capital reserve – realised	21	**346,490**	292,674
Capital reserve – unrealised	21	**183,950**	80,790
Revenue reserve	22	**6,051**	8,103
EQUITY SHAREHOLDERS' FUNDS		**717,685**	562,642

The accounts were approved by the Board of Directors on 9 June 1998 and are signed on the Board's behalf by:

Rothschild, *Director*

Duncan Budge, *Director*

The notes on pages 32 to 45 form part of these accounts.

Consolidated Cash Flow Statement

	Note	Year Ended 31 March 1998 £'000	Year Ended 31 March 1997 £'000
Cash flow from operating activities	24	**5,060**	15,095
Servicing of finance			
Bank and loan interest paid		**(709)**	(853)
Interest on convertible stock		**(280)**	(435)
Interest on US Dollar loan notes		**(6,650)**	(6,969)
Net cash outflow from servicing of finance		**(7639)**	(8,257)
Taxation			
UK tax paid		**(686)**	(2,515)
Overseas tax paid		**(478)**	(1,218)
Net cash outflow from taxation		**(1,164)**	(3,733)
Financial investment			
Purchase of investments		**(164,427)**	(293,729)
Sale of investments		**266,517**	271,037
Net cash inflow/(outflow) from financial investment		**102,090**	(22,692)
Capital expenditure			
Purchase of fixed assets		**(403)**	–
Sale of fixed assets		**41**	–
Net cash outflow from capital expenditure		**(362)**	–
Acquisitions and disposals			
Payment of deferred consideration	25	**(16,460)**	–
Purchase of subsidiary undertaking		**–**	(11,970)
Net cash outflow from acquisitions and disposals		**(16,460)**	(11,970)
Equity dividends paid		**(3,296)**	(2,985)
Net cash inflow/(outflow) before management of liquid resources and financing	27	**78,229**	(34,542)
Management of liquid resources			
Purchase of Treasury Bills/Stock		**(496,802)**	(397,306)
Sale of Treasury Bills/Stock		**415,447**	475,486
Net cash (outflow)/inflow from management of liquid resources	27	**(81,355)**	78,180
Financing			
Purchase of convertible stock		**(2,908)**	(11,463)
Net cash outflow from financing	27	**(2,908)**	(11,463)
(Decrease)/increase in cash in the year	27	**(6,034)**	32,175

The notes on pages 32 to 45 form part of these accounts.

Group Accounting Policies

The principal accounting policies of the Group are set out below:

BASIS OF CONSOLIDATION

The consolidated accounts deal with the results of the Company and its subsidiary undertakings for the year ended 31 March 1998. The comparative figures for the year ended 31 March 1997 include the results of JRCM from its acquisition on 18 July 1996.

ACCOUNTING CONVENTION

The accounts are prepared under the historical cost convention, modified to include the revaluation of investments. The accounts have been prepared in accordance with applicable accounting standards and the Company has adopted the recommendations of the Statement of Recommended Practice on Financial Statements of Investment Trust Companies ("SORP") except as set out below.

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.
- The fee payable by JRCM to Nils Taube Limited (as RITCP's principal investment adviser) is considered to be an indirect cost and is therefore charged to the revenue account.
- The Company had in force during the year an incentive arrangement for Anthony Bloom, formerly a non-executive Director of RITCP. The arrangement provides that the fee payable to him is based entirely on the increase in the values of certain unquoted investments. The cost of this incentive arrangement is considered to be a direct cost of enhancing the value of these investments and is therefore charged to capital reserve.
- The Company has also in force long-term incentive arrangements for Duncan Budge, a Director of RITCP and its Chief Operating Officer, and for other senior executives, whereby they receive additional remuneration based entirely on any increase in the Company's share price subject to a hurdle. The costs of these arrangements derive principally from the capital performance of the Company and consequently the Directors consider it appropriate to charge the costs of these arrangements in their entirety to capital reserve. This is a departure from the guidelines set out in the SORP.

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.

INVESTMENTS

Fixed asset investments are included in the balance sheet at market value in the case of listed investments and at Directors' valuation in the case of unlisted investments. 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 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.

Dividend income is credited to the revenue account on an ex-dividend basis. Interest is credited on an accruals basis.

Current asset investments held by the dealing subsidiary undertaking, including futures, options and other derivative instruments, are stated in the balance sheet at the lower of cost and market value. Profits and losses on realisations and provisions for diminution in value are included in revenue return before taxation.

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.

DEFERRED TAXATION

Deferred taxation is provided in respect of timing differences of a material amount which are expected to result in a taxation liability in a future period.

CONVERTIBLE STOCK

In accordance with Financial Reporting Standard 4 the convertible stock is included within balance sheet liabilities. The interest cost of the convertible stock has been charged in arriving at return on ordinary activities before taxation. Premiums and discounts on the redemption of the convertible stock are substantially determined by reference to the value of the investment portfolio and therefore are taken to capital reserve.

PENSIONS

J. Rothschild Capital Management Limited is a participating employer in a non-contributory funded, defined benefit retirement scheme, that is currently closed to new members and the assets of which are held in a trustee administered fund. Pension costs are assessed in accordance with the advice of an independent qualified actuary using the projected unit method. Surpluses or deficits arising from experience adjustments and the effects of changes in actuarial assumptions are amortised as an even percentage of the pensionable payroll over the expected remaining working lives of the participating employees.

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.

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
(including related tax credits)

	Year Ended 31 March 1998 £'000	Year Ended 31 March 1997 £'000
Investment income from listed investments	**10,109**	11,709
Investment income from unlisted investments	**2,426**	2,445
Income from Treasury Bills	**1,875**	1,700
Investment income from investment properties	**800**	552
Interest receivable	**1,815**	544
	17,025	16,950

2 ADMINISTRATIVE EXPENSES

	Year Ended 31 March 1998 £'000	Year Ended 31 March 1997 £'000
Auditors' remuneration – audit fee	**87**	70
Auditors' remuneration – other fees	**12**	8
Depreciation	**75**	–
Administration expenses reimbursed to J. Rothschild Administration Limited	**219**	1,408
Directors' emoluments	**256**	212
Other expenses	**3,471**	1,369
	4,120	3,067

Of the total audit fee, £75,000 (31 March 1997 – £60,000) relates to the audit of the parent company's consolidated accounts. Other expenses for the year ended 31 March 1998 include £635,000 of costs which are recharged to third parties. These recharges are included in other income and income from investment properties in accordance with accounting practice.

Prior to 1 June 1997, the Company's administrative requirements were provided by J. Rothschild Administration Limited, a wholly-owned subsidiary of St James's Place Capital plc, under an agreement which was terminated on 31 May 1997. Administrative services are now provided by JRCM and are included in "other expenses".

3 INVESTMENT MANAGEMENT FEE

The investment management and administration functions are undertaken by JRCM. That company has entered into a Services Agreement dated 3 June 1996 with Nils Taube Limited which provides the services of Nils Taube and his investment team in respect of the investment management of a significant part of RITCP's investment portfolio. The value at 31 March 1998 of this part of the investment portfolio, comprised mainly of quoted equities, was £538 million.

Under that agreement, Nils Taube Limited is entitled to a fee of 1/60% per month of the value of the relevant funds under management. The agreement is terminable on six months' notice or, in any event, automatically in the event of the winding up of RITCP. In addition, there are provisions for the automatic termination of the agreement should Nils Taube Limited be unable to provide the services of Nils Taube for a period of three months.

The majority of the remainder of RITCP's investment portfolio is managed by the directors of JRCM.

4 INTEREST PAYABLE AND SIMILAR CHARGES

	Group and Company	
	Year Ended 31 March 1998 £'000	Year Ended 31 March 1997 £'000
Repayable within 5 years, not by instalments		
Bank loans	**713**	815
Interest on US Dollar loan notes	**6,619**	6,657
Interest on convertible stock	**280**	435
	7,612	7,907

5 EMPLOYEE COSTS

	Year Ended 31 March 1998 £'000	Year Ended 31 March 1997 £'000
Staff costs		
Wages and salaries	**1,780**	311
Social security costs	**194**	51
Other pension costs	**92**	26
	2,066	388
	Number	Number
Average number of persons employed by the Group during the period (excluding non-executive Directors)	**39**	6

Included in the number of employees for the year ended 31 March 1998 are eighteen individuals who are employed in respect of the banqueting business of Spencer House and the related security function.

Information concerning Directors' emoluments is shown in the Report of the Remuneration Committee on pages 21 and 22.

6 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	Year Ended 31 March 1998 £'000	Year Ended 31 March 1997 £'000
United Kingdom taxation		
Corporation tax (credit)/charge based on the profit for the year	**(1,471)**	325
Adjustment in respect of prior years	**154**	–
Deferred tax	**(468)**	873
Taxation attributable to UK dividends received	**1,109**	943
Overseas taxation		
Taxation attributable to overseas income	**772**	885
	96	3,026

The charge for corporation tax for the year is based on a rate of 31% (1997 – 33%). If tax had been provided on a full deferral basis the charge for the year would not have been significantly different. The Group's effective tax rate of 6.5% differs from the UK corporation tax rate of 31% for 1998 primarily due to the receipt of tax-free foreign income dividends ("FIDs") and the receipt of UK franked investment income which carries a tax credit at the lower rate of 20%.

7 DIVIDENDS

	1998 Pence per Share	1997 Pence per Share	1998 £'000	1997 £'000
Proposed final dividend (Payable 10 July 1998)	2.00	1.82	3,624	3,296

8 RETURN PER ORDINARY SHARE

The return per share for the period ended 31 March 1998 is based on the revenue return after tax of £1.4 million and the capital return after tax of £155.0 million, and the weighted average number of ordinary shares in issue during the period of 181.1 million.

The fully diluted return per share for the period ended 31 March 1998 is based on the revenue return after tax of £1.7 million, the capital return after tax of £155.0 million, and the weighted average fully diluted number of ordinary shares in issue during the period of 192.4 million. The fully diluted return per share based on the revenue return after tax exceeds the undiluted return per share and, in accordance with standard accounting practice, is not disclosed.

9 DILUTED NET ASSETS

	31 March 1998 £'000	31 March 1997 £'000
Net assets per consolidated balance sheet	726,675	573,962
Unrealised dealing gains (net of taxation)	–	63
Effect of conversion of loan stock	10,812	12,041
Diluted net assets	737,487	586,066

The calculation of the diluted net asset value per share is based on the assumption that all convertible stock was converted at the balance sheet date.

The fully diluted number of shares at 31 March 1998 was 192.0 million.

10 FIXED ASSET INVESTMENTS

	1998		1997	
	Group £'000	Company £'000	Group £'000	Company £'000
Listed investments at market value				
Listed in UK	133,053	133,053	116,743	116,743
Listed overseas	435,795	435,795	340,295	340,295
Treasury Stock and Bills	78,406	78,406	–	–
Unlisted investments at Directors' valuation	159,356	134,735	194,130	169,022
	806,610	781,989	651,168	626,060

10 FIXED ASSET INVESTMENTS *continued*

Movements in fixed asset investments are shown below:

	Quoted £'000	Treasury Stock and Bills £'000	Unquoted and Property £'000	Specialist Funds £'000	Total £'000
Cost at 31 March 1997	409,508	–	133,965	37,272	580,745
Unrealised appreciation at 31 March 1997	47,530	–	6,558	16,335	70,423
Valuation at 31 March 1997	457,038	–	140,523	53,607	651,168
Reclassifications	4,497	–	(4,497)	–	–
Additions	194,351	496,802	5,132	5,219	701,504
Disposals	(209,999)	(417,881)	(16,118)	(20,112)	(664,110)
Increase/(decrease) in unrealised appreciation	122,961	(515)	(8,171)	3,773	118,048
Valuation at 31 March 1998	**568,848**	**78,406**	**116,869**	**42,487**	**806,610**
Cost at 31 March 1998	416,054	78,921	113,387	25,565	633,927
Unrealised appreciation/(depreciation) at 31 March 1998	152,794	(515)	3,482	16,922	172,683

The investment properties were professionally valued as at 31 March 1998 at open market value on an existing use basis by Jones Lang Wootton, Chartered Surveyors.

Since RITCP was founded in August 1988 provision has been made for diminution in value of certain investments. The total provisions as at 31 March 1998 are shown below:

	Original Cost £'000	Provision £'000	31 March 1998 Net Book Value £'000	31 March 1997 Net Book Value £'000
Centaur Communications	3,292	2,133	1,159	1,159
Gfi Statordyne	1,755	1,755	Nil	1,340
GPA	2,534	2,534	Nil	Nil
H-G Holdings	10,709	2,104	8,605	8,776
Innovative Plastic Products	829	829	Nil	Nil
Kilnstop	1,912	1,477	435	1,159
Richbell Information Services	19,767	9,630	10,137	12,400
Rickel Home Centers	4,964	4,964	Nil	3,604

During the year ended 31 March 1998, including the effect of currency movements, there were upward valuations of unquoted investments totalling £4.5 million and reductions in value totalling £12.7 million.

10 FIXED ASSET INVESTMENTS *continued*

Details of investments in which the Group had an interest of 10% or more at 31 March 1998 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				
Fonorola	Common Stock	10.3	96,646	4,189
(incorporated in Canada)	Class A Non Voting	93.0		
Home Counties Newspapers	Ordinary Shares of 25p	13.5	5,416	1,861
Insignia Solutions	Common Stock	16.8	6,284	(6,365)
Unlisted Investments				
Cellcom	Ordinary Shares of 10p	45.6	3,114	5,213
H-G Holdings (see note)	A Ordinary Shares of $0.01	20.5	(36,284)	(9,373)
(incorporated in USA)	B Ordinary Shares of $0.01	21.1		
Invicta Leisure	Ordinary Shares of £1	48.2	5,799	(584)
	Preference Shares of £1	99.7		
Partnership Interests				
RR Capital Partners (formed under the laws of New York, USA)	Partnership Interest	19.3	19,392	4,637
Tinicum Partners (formed under the laws of New York, USA)	Partnership Interest	18.5	48,961	10,202

Unless otherwise stated, all investments are incorporated in the UK.

Note: The information shown above in respect of H-G Holdings relates to its financial year ended 31 December 1997. As at 31 March 1998, the aggregate capital and reserves of H-G Holdings amounted to £42.4 million (after taking account of the profit arising on the sale of the Harpur Group). The loss for the year includes an exceptional write-off of £13 million in respect of certain debts due from related parties.

In addition to the above, the Group had a holding of 3% or more at 31 March 1998 in the following investments:

	Class of Share Capital	% Held
Listed Investments		
Fuel Technology	Common Stock	8.3
Getty Images	Common Stock	4.7
London Merchant Securities	Deferred Ordinary Shares	5.1
Unlisted Investments		
The Economist Newspaper	Ordinary Shares of 5p	5.0

11 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	£'000
Cost at 31 March 1997	40,518
Disposals	(3,037)
Exchange movement in year	(98)
Cost at 31 March 1998	**37,383**
Provision at 31 March 1997	487
Movement in year	(9)
Provision at 31 March 1998	**478**

At 31 March 1998 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.

Name	Issued Share Capital
Investment Holding	
RIT Capital Partners Associates Limited	£2 divided into 2 Ordinary Shares of £1 each
RIT Capital Partners Media Inc (incorporated in USA)	US$1.05 divided into 105 shares of 1 cent each
Atlantic and General Investment Trust Limited	£19,999,104 divided into 19,999,104 Ordinary Shares of £1 each
Investment Management	
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 Ordinary Shares of £1 each (held by a subsidiary)

12 TANGIBLE FIXED ASSETS

	Cost £'000	Depreciation £'000	Net Book Value £'000
Plant, equipment and vehicles			
At 31 March 1997	–	–	–
Additions	403	–	403
Disposals	(49)	8	(41)
Charged to profit and loss account	–	(75)	(75)
At 31 March 1998	**354**	**(67)**	**287**

13 DEBTORS

	1998 Group £'000	1998 Company £'000	1997 Group £'000	1997 Company £'000
Debtors for securities sold	80,549	80,314	46,989	45,204
Other debtors	3,808	3,678	1,314	1,200
Prepayments and accrued income	1,160	842	2,865	2,767
Tax receivable	1,825	1,645	1,279	4,167
Group undertakings	–	3,551	–	4,059
	87,342	90,030	52,447	57,397

14 DEALING AND OTHER CURRENT ASSET INVESTMENTS

	1998 Group £'000	1998 Company £'000	1997 Group £'000	1997 Company £'000
Listed investments	26	–	1,024	–
Unlisted investments	–	–	1,883	–
	26	–	2,907	–

The market value of the listed investments at 31 March 1998 was £26,000 (31 March 1997 – £3.0 million). If the investments had been realised at their market values, no tax would have been payable (31 March 1997 – £31,000).

15 OTHER CREDITORS AND ACCRUALS

	1998 Group £'000	1998 Company £'000	1997 Group £'000	1997 Company £'000
Creditors for securities purchased	53,144	52,788	2,724	2,724
Accruals and deferred income	4,238	3,106	4,043	3,161
Other creditors	217	124	1,032	879
Taxation	108	–	–	–
Deferred consideration	–	–	16,460	16,460
Group undertakings	–	22,709	–	23,281
	57,707	78,727	24,259	46,505

16 BANK LOANS: FALLING DUE AFTER MORE THAN ONE YEAR

	1998 Group £'000	1998 Company £'000	1997 Group £'000	1997 Company £'000
Yen loans repayable between 2-5 years not by instalments	–	–	31,973	31,973

17 2.5 PER CENT CONVERTIBLE UNSECURED LOAN STOCK 2000

	£'000
At 31 March 1997	12,041
Purchased during the year and subsequently cancelled	(1,110)
Converted into ordinary shares	(119)
At 31 March 1998	**10,812**

Holders of convertible stock may convert to ordinary shares on the basis of £1 in nominal amount of ordinary shares for £1 in nominal amount of stock in August 1998 or 1999. If the convertible stock is not otherwise purchased, redeemed or converted, it is redeemable at par on 31 March 2000.

18 US DOLLAR LOAN NOTES

The Company has US$150 million of loan notes in issue. Interest on the notes is fixed at 7.26% per annum. The notes are repayable in May 2001.

19 PROVISIONS FOR LIABILITIES AND CHARGES

	Group		
	Deferred Taxation £'000	**Other £'000**	**Total £'000**
At 31 March 1997	766	3,806	4,572
Transfer from creditors	–	481	481
(Credit)/charge to capital reserve	(298)	1,286	988
Deferred tax credit	(468)	–	(468)
At 31 March 1998	**–**	**5,573**	**5,573**

	Company		
	Deferred Taxation £'000	**Other £'000**	**Total £'000**
At 31 March 1997	766	3,806	4,572
(Credit)/charge to capital reserve	(298)	358	60
Deferred tax credit	(468)	–	(468)
At 31 March 1998	**–**	**4,164**	**4,164**

The Group has made provisions in respect of all material deferred tax liabilities. 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.

20 SHARE CAPITAL

	1998 £'000	1997 £'000
Authorised		
320 million Ordinary Shares of £1 each	320,000	320,000
Allotted, issued and fully paid		
181.194 million Ordinary Shares of £1 each	181,194	181,075

During the year 119,209 ordinary shares of £1 were issued on conversion of £119,209 convertible stock. The authorised share capital of the Company is 320 million £1 shares, of which 10.812 million are reserved for the satisfaction of the conversion rights of the convertible stock.

21 CAPITAL RESERVE

	1998		1997	
	Group £'000	Company £'000	Group £'000	Company £'000
At 31 March 1997	385,868	373,464	360,070	339,358
Realised gains on disposal of investments	38,423	38,423	32,418	32,418
Movement on revaluation of investments held at the year end	118,048	118,535	(17,361)	(10,790)
Premium on redemption of convertible stock	(1,798)	(1,798)	(6,577)	(6,577)
Movement on management fee	–	–	2,613	709
Currency translation of US Dollar loan notes	1,778	1,778	6,912	6,912
Currency translation of Yen borrowings	2,866	2,866	7,897	7,897
Loss on liquidation of subsidiary	–	–	(1,503)	–
Taxation	(1,174)	(481)	854	1,429
Other capital items	(3,134)	(2,347)	545	2,108
At 31 March 1998	540,877	530,440	385,868	373,464

The balance on capital reserve at the end of the year can be further analysed as:

Realised gains/(losses)				
Listed investments	245,497	236,056	185,249	175,808
Unlisted investments	169,950	161,498	166,728	158,276
Other items	(59,227)	(51,064)	(48,481)	(41,410)
	356,220	346,490	303,496	292,674
Unrealised gains/(losses)				
Listed investments	152,797	152,797	47,529	47,529
Unlisted investments	19,886	19,279	22,894	21,799
Other items	11,974	11,874	11,949	11,462
	184,657	183,950	82,372	80,790
	540,877	530,440	385,868	373,464

22 REVENUE RESERVE

	1998 Group £'000	1998 Company £'000	1997 Group £'000	1997 Company £'000
At 31 March 1997	7,019	8,103	2,680	6,876
Retained (deficit)/profit for the year	(2,232)	(2,052)	2,836	1,227
Other movements	(183)	–	1,503	–
At 31 March 1998	4,604	6,051	7,019	8,103

The Group's capital reserve includes an amount of £6.3 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.

23 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Year Ended 31 March 1998 £'000	Year Ended 31 March 1997 £'000
Revenue return	1,392	6,132
Dividends	(3,624)	(3,296)
	(2,232)	2,836
Total capital gains and losses	155,009	27,301
Share capital issued upon conversion of stock	119	159
Other movements	(183)	–
Net addition to shareholders' funds	152,713	30,296
Opening shareholders' funds	573,962	543,666
Closing shareholders' funds	726,675	573,962

24 RECONCILIATION OF REVENUE RETURN BEFORE FINANCE COSTS AND TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	Year Ended 31 March 1998 £'000	Year Ended 31 March 1997 £'000
Revenue return before finance costs and taxation	9,100	17,065
(Increase)/decrease in other debtors	(3,457)	919
Decrease/(increase) in prepayments and accrued income	1,705	(280)
Increase in accruals and deferred income	503	419
Decrease in other creditors	(815)	(505)
Net decrease/(increase) in dealing assets	998	(2,809)
Other movements	(1,865)	1,229
Tax on franked investment income included in income from UK companies	(1,109)	(943)
Net cash inflow from operating activities	5,060	15,095

25 DEFERRED CONSIDERATION

In July 1997 the Company paid £16.5 million to Value Realisation Trust plc, being the deferred consideration in respect of the purchase of J. Rothschild Capital Management Limited from St James's Place Capital plc.

26 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	Year Ended 31 March 1998 £'000	Year Ended 31 March 1997 £'000
(Decrease)/increase in cash in the year	**(6,034)**	32,175
Cash outflow/(inflow) from increase/(decrease) in liquid resources	**81,355**	(78,180)
Cash outflow from decrease in debt	**2,908**	11,463
Change in net debt resulting from cash flows	**78,229**	(34,542)
Premium on redemption of convertible stock	**(1,798)**	(6,577)
Convertible stock converted into ordinary shares	**119**	159
Currency translation of US Dollar loan notes	**1,778**	6,912
Amortisation of loan note issue costs	**(92)**	(92)
Currency translation of term loans	**2,866**	7,897
Currency translation of Treasury Bills	**(4,832)**	(1,512)
Movement in net debt in year	**76,270**	(27,755)
Net debt at 31 March 1997	**(98,550)**	(70,795)
Net debt at 31 March 1998	**(22,280)**	(98,550)

27 ANALYSIS OF NET DEBT

	31 March 1997 £'000	Cash flow £'000	Other Non-cash changes £'000	**31 March 1998 £'000**
Net cash				
Cash at bank and in hand	37,412	(7,372)	–	**30,040**
Bank loans and overdrafts	(2,854)	1,338	(29,107)	**(30,623)**
	34,558	(6,034)	(29,107)	**(583)**
Liquid resources				
Treasury Stock and Bills	1,883	81,355	(4,832)	**78,406**
Debt				
Convertible loan stock	(12,041)	2,908	(1,679)	**(10,812)**
US Dollar loan notes	(90,977)	–	1,686	**(89,291)**
Loans due after more than one year	(31,973)	–	31,973	**–**
	(134,991)	2,908	31,980	**(100,103)**
Net debt	(98,550)	78,229	(1,959)	**(22,280)**

28 CONTINGENCIES, GUARANTEES AND FINANCIAL COMMITMENTS

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

	1998		1997	
	Group £'000	**Company £'000**	Group £'000	Company £'000
Underwriting commitments	–	–	1,345	–
Commitments to provide additional funds to investees	21,823	21,823	15,674	15,674
Guarantees and letters of comfort to third parties	1,150	1,150	1,150	1,150
	22,973	22,973	18,169	16,824

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 by the Company's wholly-owned subsidiary, Atlantic and General Investment Trust Limited, to RIS. The claim against all of the defendants is for approximately $240 million as compensation for RIS being deprived of certain shareholders' rights.

Based upon legal advice received, the Directors are of the view that these proceedings are without merit and are taking steps to have the proceedings dismissed at an early stage, failing which they will vigorously defend the same. Accordingly, the Directors believe that these proceedings will not have a material effect on the financial position of the Company.

29 PENSION COMMITMENTS

J. Rothschild Capital Management Limited has pension commitments in respect of its participation in the RITCP Scheme (as described on pages 24 and 33), a defined benefit scheme, in respect of certain of its employees. JRCM contributes to the scheme at the rate of 7.5% of salaries of members aged under 40 years and 12.5% of salaries of members aged 40 and over.

Shareholder Information

ANALYSIS OF ORDINARY SHAREHOLDERS

As at 31 March 1998 the Company's ordinary share capital was held as follows:

	Holders	%	Shares held	%
ANALYSIS BY CATEGORY				
Individuals	9,350	81.67	19,832,661	10.94
Insurance Companies	7	0.06	2,191,964	1.21
Banks and Nominees	1,534	13.40	135,076,180	74.55
Investment Trusts	72	0.63	1,270,241	0.70
Pension Funds	23	0.20	739,317	0.41
Other Corporate Bodies	463	4.04	22,084,036	12.19
Total	**11,449**	**100.00**	**181,194,399**	**100.00**

	Holders	%	Shares held	%
ANALYSIS BY NUMBER OF SHARES				
1 — 499	3,013	26.32	706,073	0.39
500 — 999	2,005	17.51	1,450,783	0.80
1,000 — 1,999	2,335	20.39	3,342,536	1.84
2,000 — 2,999	1,302	11.37	3,117,336	1.72
3,000 — 3,999	737	6.44	2,514,583	1.39
4,000 — 4,999	483	4.22	2,103,636	1.16
5,000 — 9,999	838	7.32	5,648,184	3.12
10,000 — 24,999	408	3.56	6,012,637	3.32
25,000 — 49,999	105	0.92	3,575,337	1.97
50,000 — 99,999	79	0.69	5,456,945	3.01
100,000 and above	144	1.26	147,266,349	81.28
Total	**11,449**	**100.00**	**181,194,399**	**100.00**

FINANCIAL CALENDAR

Announcement of final results for the year ended 31 March 1998	4 June 1998
Annual General Meeting	9 July 1998
Payment of dividend on Ordinary Shares Final dividend of 2.00p	10 July 1998 to shareholders on the register at 19 June 1998

Annual General Meeting

NOTICE OF 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 Thursday 9 July 1998 at 11.05 a.m. or as soon thereafter as the preceding Separate General Meeting shall have ended or have been adjourned. 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

Resolution 1

To receive the Directors' Report and Accounts for the year ended 31 March 1998.

Resolution 2

To declare a final dividend.

Resolution 3

(a) To elect Mikael Breuer-Weil as a Director.

(b) To re-elect as a Director the following:

(i) Charles Bailey

(ii) Jean Pigozzi.

Resolution 4

To re-appoint Price Waterhouse as the auditors of the Company.

Resolution 5

To authorise the Directors to determine the remuneration of the auditors.

SPECIAL BUSINESS

As special business, to consider and, if thought fit, pass the following resolutions which will be proposed as Special Resolutions:

Resolution 6

THAT the Articles of Association be amended as follows:—

(a) by the deletion in Article 11(A) of the words "£55,000,000 in nominal amount" and by the substitution therefor of the words "the prescribed amount"; and

(b) by the insertion in Article 11(D) of a new paragraph (ii) as follows:

"'prescribed amount' means, for any period for which authority conferred upon the Directors by Article 11(A) is renewed or extended, the amount specified in the relevant resolution and the nominal amount of any securities shall be taken to be, in the case of rights to subscribe for or to convert any securities into shares of the Company, the nominal amount of such shares which may be allotted pursuant to such rights;"

and by renumbering paragraph (ii) as paragraph (iii).

Resolution 7

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 1999 and 30 September 1999; AND THAT such authority shall for that period relate to relevant securities up to an aggregate nominal amount of £60,398,132.

Resolution 8

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 1999 and 30 September 1999.

Resolution 9

THAT the Articles of Association be amended as follows:

(a) by the insertion of new Article 8(A):

"8(A) Purchase of own shares

Subject to the provisions of the Statutes, the Company may purchase, or may enter into a contract under which it will or may purchase, any of its own shares of any class (including any redeemable shares) but so that if there shall be in issue any shares convertible into equity share capital of the Company of the class proposed to be purchased, then the Company shall not purchase or enter into a contract under which it will or may purchase, such equity shares unless either:

(a) the terms of issue of such convertible shares include provisions permitting the Company to purchase its own equity shares; or

(b) the purchase, or the contract, has first been approved by an Extraordinary Resolution passed at a separate meeting of the holders of such convertible shares."

(b) by the deletion of the penultimate sentence of Article 114 and by the substitution therefor of the following words:

"The Capital Reserve and all monies in the nature of an accretion to capital assets or otherwise shall not be treated as profits available for the payment of dividends on the shares of the Company but shall remain available for the payment of distributions (other than dividends)."

(c) by the deletion of the existing Article 118 and the substitution therefor of the following:

"No dividend shall be paid otherwise than out of profits available for distribution under the provisions of the Statutes. Any surplus over the book value derived from the sale or realisation of any capital asset and any other sums representing capital profits within the meaning of the Act or other accretions to capital assets, including in particular any sums resulting from the writing up of the book values of any capital assets, shall not be available for dividend but shall be available for other distributions (not being dividends)."

Resolution 10

THAT conditionally on the passing of the above Resolution 9 the Company be authorised to purchase up to an aggregate of 27,161,040 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; and

(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 1999 (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).

Resolution 11

THAT the Articles of Association be amended by the deletion of Article 39. For the avoidance of doubt, none of the other Articles shall be renumbered and Article 39 shall remain blank.

By order of the Board
J. Rothschild Capital Management Limited
Secretary

27 St James's Place
London SW1A 1NR

15 June 1998

NOTES

Any member entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company. Appointment of a proxy will not preclude a member from attending the meeting and voting in person. A proxy card is enclosed.

Copies of the following documents will be available for inspection at the registered office of the Company and at the offices of Linklaters & Paines, One Silk Street, London EC2Y 8HQ during normal business hours on any weekday (Saturdays and Bank Holidays excepted) until 9 July 1998 and at the place of the meeting from 10.45 a.m. until its conclusion:

The Company's Memorandum and Articles of Association

The Convertible Unsecured Loan Stock Trust Deed

Advisers

SECRETARY AND REGISTERED OFFICE
J. Rothschild Capital Management Limited
(a wholly-owned subsidiary of RITCP)
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London SE1 9SY

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Linklaters & Paines
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Registrar's Department
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