

Contents

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Company Registration Number 3183415



St James's Place
Capital plc

REPORT & ACCOUNTS

December

— 1996 —

Chairman's Statement

The key features of the nine month period to 31 December 1996 covered by this Report were:

(i) The reconstruction of SJPC ("the Reconstruction") which took effect in August 1996 and (ii) the very strong trading performances of the two life assurance groups in which SJPC has participating interests, J. Rothschild Assurance Holdings plc ("JRAH") and Life Assurance Holding Corporation Limited ("LAHC").

The strength of these performances is reflected in the fact that the continuing activities of SJPC have produced profits after tax for the nine month period of £25.1 million, compared with the profit after tax on those operations for the twelve month period ended 31 March 1996 of £11.4 million.

Shareholders will also be aware that, at the time of the preliminary announcement, your Directors announced that the Boards of SJPC and JRAH had reached agreement on proposals under which SJPC would acquire all of the issued share capital of JRAH which it does not already own ("the Proposals").

The Reconstruction

As described above, under the Reconstruction, a portfolio of investments valued at approximately £128 million (on 23 August 1996) was demerged from SJPC into a new listed investment trust, Value Realisation Trust plc ("VRT"). In addition, following announcement of the Reconstruction, SJPC sold J. Rothschild Capital Management Limited ("JRCM"), its wholly-owned subsidiary responsible for the management of RIT Capital Partners plc ("RITCP"), to RITCP. This left within SJPC the core financial services interests in JRAH, LAHC and Global Asset Management Limited ("GAM"), together with its interests in J. Rothschild Investment Management Limited ("JRIML") and IFM Holdings Limited ("IFM") and approximately £27 million of liquid assets to cover potential further investment in its interests.

The presentation of these results is complicated by two factors. First, as SJPC has changed its year end from 31 March to 31 December, the results cover a period of nine months. Second, as the Reconstruction only took effect on 23 August 1996, these results have to include as "discontinued activities" the results of JRCM and the activities taken over by VRT for the period up to that date, as well as the results relating to the "continuing activities". As far as it is possible to do so, we have distinguished the results of the discontinued and continuing activities in the financial statements and accompanying notes.

J. Rothschild Assurance Holdings

Last year's Joint Chairmen's Statement referred to the sharp recovery of new business in the final quarter of 1995 and the fact that this trend had continued in the first three months of 1996.

Business continued to be strong throughout calendar year 1996. New regular premiums (which JRAH has always described as the key element in the healthy development of a life assurance company) at £52.4 million were 40% up on 1995; single premiums at £341.9 million were up 42% and total new business (using the common yardstick of new regular premiums plus one-tenth of single premiums) was up 41%. In order to compare these figures with the figures for the whole industry which are issued by the Association of British Insurers ("ABI"), it is necessary to remove unit trust and PEP sales, as well as business sold by JRAH's Dublin

Chairman's Statement *continued*

subsidiary, as these classes of business are not included in the ABI figures. On this basis, JRAH's new regular premiums were up 39%, compared with 19% for the industry, and its single premiums were up 41%, compared with 34% for the industry. Its total new business was up 39%, compared with 24% for the industry as a whole.

The total new business produced by JRAH for 1996 in the UK (using the common yardstick referred to above), was markedly higher than that announced by National Mutual and United Assurance, 67% higher than that announced by Britannic Assurance and over twice that announced by London and Manchester. It is also interesting to note that JRAH's new business was 75% of the level announced by AXA Equity & Law and Commercial Union in the UK and approximately 60% of that announced by Scottish Amicable and Abbey Life.

In the first quarter of 1997, sales of regular premium policies have grown strongly, with single premium business also showing an increase on the first quarter of 1996.

The J. Rothschild Partnership

The crucial decision made when JRAH was launched was that its products would be sold in the UK only by its own marketing arm, The J. Rothschild Partnership.

While not a partnership in the legal sense, the name "Partnership" reflects the fact that its members have a common interest in maintaining high standards, as well as the fact that they see themselves as effectively working in partnership with their clients to secure the clients' long-term financial future.

A great advantage of making the company's products available only through members of The J. Rothschild Partnership is that the company has full control over the quality of anyone recommending a J. Rothschild Assurance product. To qualify to join the Partnership, a person has to have a proven track record and would normally have a minimum of three years' experience in financial services. On average, members of the Partnership have eleven years' experience and the directors of JRAH believe that the average production level of the members of the Partnership is more than twice as high as that of the average company representative in the industry.

The size of the Partnership grew from 700 to 763 during the year ended 31 December 1996.

Most of the business of J. Rothschild International Assurance ("JRIA"), the Dublin based international arm of JRAH, presently comes from The J. Rothschild Partnership, but in the course of 1996 a general agent was appointed in Italy and other distribution arrangements were entered into with a local financial institution to cover certain countries in South America. A manager was also appointed to solicit business from brokers in Europe and other international markets.

Financial Results

In the twelve months to 31 December 1996, JRAH's profits after tax were £23.0 million (owing to the complexities of tax for a life assurance company, it is JRAH's post-tax profits which provide the most meaningful measure of its performance). £8.5 million of this amount represented an exceptional profit arising from the effect on JRAH's embedded value at the previous year end (31 December 1995) of a change in the assumptions on the level of withdrawals on single premium investment bonds. This change in the assumptions was made in light of actual and market experience.

Chairman's Statement *continued*

In the nine months to 31 December 1996, JRAH contributed £11.0 million to SJPC's post-tax profits, of which £4.6 million represented SJPC's share of the exceptional profit described above. This compares with SJPC's share of JRAH's post-tax profits, for the year to 31 March 1996, of £5.5 million. While JRAH's contribution to SJPC's profits for the year ended March 1996 was flattered by the decision to reduce the rate at which JRAH discounts future profits for the purpose of calculating embedded value, shareholders should be aware that, conversely, JRAH's profitability would have been greater if the change in assumptions on the level of withdrawals on single premium bonds had been made in respect of 1995, instead of the accounting period under review.

Funds under management increased from £1.4 billion at 31 March 1996 to £1.7 billion at 31 December 1996.

Outlook

The Directors of SJPC feel that JRAH is well placed to take advantage of current developments in the UK life assurance industry.

It is clear there has recently been a sharp reduction in the number of sales representatives in the industry and this, together with the closing down of the new business functions of a number of companies, is leading to a consolidation of the industry. The Directors believe that a comparison of sales of J. Rothschild Assurance products by members of The J. Rothschild Partnership and industry sales figures since the inception of JRAH shows that high quality, focused distribution, coupled with a strong brand name, not only provides the potential for considerable growth in favourable market conditions but also resilience in more adverse circumstances. In addition, they believe that JRAH's emphasis on the importance of building up a relationship of personal trust between financial adviser and client will continue to be a key factor in JRAH's future growth.

The Directors believe that the ability to offer share options in SJPC, following implementation of the Proposals, will put JRAH in a particularly strong position to motivate existing members of The J. Rothschild Partnership and to continue to attract high quality, experienced financial advisers in the future.

In the longer term, the emerging political consensus that the state must reduce its role in the field of pensions and long-term care should result in a significant expansion in private sector provision, in which well-managed life assurance companies are likely to be major participants. At the same time, the move away from final salary to money purchase pension schemes and the growth of personal pensions means that unit-linked assurance companies are well positioned to compete for pension business.

Life Assurance Holding Corporation

LAHC, in which SJPC holds 31.25% of the ordinary shares, was created at the end of 1994 in association with New York Life and other institutions, to play an active role in the restructuring of the UK life assurance industry.

During the nine month period to 31 December 1996, LAHC made its third acquisition, the UK long-term business of Combined Life Assurance. A key to LAHC's financial success, which makes it possible for LAHC to make attractive offers and still achieve good profits, is its focus on acquisitions and efficiency without the conflicting priority of maintaining a significant new business capability. In this LAHC is almost unique and as a result of its focus can integrate rapidly and cost effectively the administration of newly acquired companies into its own systems.

Chairman's Statement *continued*

Windsor Life, LAHC's operating subsidiary, announced further increases in payouts to With-Profits policyholders. Over the past four years payouts to With-Profits policyholders have increased on average by more than 40%, very much against the industry trend. This provides illustration of the positive effects obtainable from clearer focus, tight expense control and investment expertise.

One of Windsor Life's unit-linked funds was awarded First Place in the Micropal One Year UK Individual Pension Fund Survey (Larger Group category).

Financial Results

In the twelve months to 31 December 1996, LAHC's profits after tax were £30.5 million, compared with £32.4 million for the year to 31 December 1995.

LAHC benefited from strong financial results in the nine month period contributing £9.0 million to SJPC's post-tax profits (compared with its contribution of £10.1 million for the twelve month period to 31 March 1996). This highly satisfactory result flowed from a number of factors. In addition to the normal unwinding of the discount rate (i.e. the "return" on the embedded value), the most important factors were the impact of the acquisition during the period, reductions in handling costs per policy flowing from the integration of earlier acquisitions and the benefit of improved persistency on the portfolio.

Outlook

It is widely accepted that the restructuring of the life assurance industry still has a long way to go.

While there are now a number of large life assurance companies and other financial groups seeking to make sizeable acquisitions of life companies, the Directors of SJPC believe that LAHC's distinct business of efficiently running off closed portfolios of life business can be achieved in a number of different ways: (i) by acquiring a life company and closing it to new business, usually arranging for its sales and marketing operations to be acquired by another life company; (ii) by taking over a closed block of business from a mutual or proprietary life company that wishes to continue in business, in exchange for a purchase price which represents additional capital for that company; or (iii) by acting as the catalyst to the merging of the new business operations of one company with another, while LAHC itself takes over part of the portfolio of past business, thereby providing new capital for the merged operation.

LAHC is in discussions relating to a number of possible transactions of these kinds.

Global Asset Management

In the nine months to 31 December 1996, GAM, in which SJPC holds 29.7% of the share capital, contributed £3.5 million to SJPC's pre-tax profits (£3.2 million post-tax). This compares with a pre-tax contribution of £5.0 million for the year to 31 March 1996 (£4.4 million post-tax).

Although GAM initially catered for private investors to whom it offers discretionary portfolio management as well as a wide range of specialist funds, since 1993, it has devoted resources to building a significant business with institutional investors (including J. Rothschild International Assurance), which now forms a complementary business activity to GAM's private investor-based business.

Chairman's Statement *continued*

GAM's funds under management were \$9 billion (£5.3 billion) at 31 December 1996.

J. Rothschild Investment Management

JRIML is a wholly-owned subsidiary of SJPC (except for the special share held by The J. Rothschild Name Company Limited) and was originally the entity responsible for managing the in-house proprietary portfolios of SJPC and its associated companies. Since the Reconstruction last year, JRIML no longer manages investments for RITCP and SJPC itself no longer has a portfolio to manage, but JRIML is continuing to manage substantial and growing funds (about £1.2 billion at 31 December 1996) for companies within the JRAH Group, as well as some third-party funds, including those of VRT.

JRIML no longer directly employs its own investment personnel and has for some time retained Nils Taube, a former director of the SJPC Group, and his associates to advise on investment management. Nils Taube and his associates provide services to JRIML for a participation in its income, based on percentages of various fees receivable, which in the nine months to 31 December 1996 amounted in aggregate to £1.2 million. In the nine months to 31 December 1996 JRIML's income (net of the fund managers' participation described above) was £1.5 million with associated costs of approximately £0.6 million.

Since JRAH as a matter of policy contracts out its investment management to firms that are not controlled within the group, it is likely that Nils Taube and his associates will in due course take control of JRIML's investment business (but not its name). As a result they would, in future, receive the whole of JRIML's income and be responsible for all associated costs. SJPC would, however, retain an interest by receiving a share of the profits generated on this investment business, in place of JRIML's direct entitlement to fees.

IFM Holdings

IFM, the specialist fund manager, in which SJPC had retained a 25% interest, had another disappointing year and it was decided to close down its operations. However, as the investment was written off in last year's accounts and some loan stock was repaid to SJPC by IFM during the current period, the result was a small credit to the profit and loss account for the period under review of £0.4 million.

Administrative Expenses

Following the Reconstruction last year, the expenses of SJPC (leaving aside costs of the Reconstruction of some £1.8 million which had already been provided for in the previous year's accounts) reduced significantly from just over £3.0 million for continuing activities, in the twelve month period to 31 March 1996, to £1.6 million for the nine month period to 31 December 1996.

Dividends

The Directors of SJPC have declared a dividend of 1.125 pence in respect of existing SJPC shares (but not the new SJPC shares to be issued to acquire the outstanding interests in JRAH) for the nine month period ended 31 December 1996. If approved at the Annual General Meeting, to be held on 23 May 1997, the dividend will be paid on 26 May 1997 to shareholders on the register on 25 April 1997. In the absence of unforeseen circumstances, it is intended that a total dividend of not less than 1.5 pence be payable in respect of the twelve months to 31 December 1997, with an interim dividend payable in September 1997 and a final dividend payable in April 1998. It is intended that dividends on SJPC shares will normally be paid in each September and April thereafter.

Chairman's Statement *continued*

The Proposals

Terms of the Transaction

It was announced earlier this month that the boards of SJPC and JRAH had reached agreement on the terms of Proposals under which the SJPC Group would acquire all the issued share capital of JRAH which it did not already own (other than the special share held by The J. Rothschild Name Company Limited).

Implementation of the Proposals is conditional, *inter alia*, on the approval by shareholders of both SJPC and JRAH and sanction by the Court of the Scheme of Arrangement which will be used to effect the Proposals.

If the Proposals are approved, SJPC will issue new SJPC Shares to holders of JRAH Ordinary Shares on the basis of **1.75 new SJPC Shares for each JRAH Ordinary Share**. On the assumption that all the outstanding options over JRAH Ordinary Shares are exercised in due course, this exchange rate would result in the issue of approximately 105.6 million new SJPC Shares. In addition, SJPC would issue approximately 43.3 million new SJPC Shares to acquire 32.1 million JRAH Convertible Preference Shares.

The total number of new SJPC Shares to be issued as a result of these Proposals, including those shares to be issued in respect of the outstanding options, would have a value of some £185.1 million (calculated using the closing middle market price of SJPC Shares of 125.5 pence on 8 April 1997 and deducting the proposed dividend of 1.125 pence per share) and would account for approximately 34.7% of SJPC's fully diluted share capital following implementation of the Proposals.

Rationale

The Proposals represent the **logical conclusion of SJPC's evolution into a pure financial services group with a focus on life assurance**. As stated at the time of the Reconstruction, your Directors believe that, given management's particular expertise in life assurance and the likely opportunities in that area, shareholder value is best served by continuing to concentrate on the successful growth of its life assurance activities.

In particular, those Directors of SJPC who are deemed to be independent of JRAH (The Viscount Weir, Lord Rothschild, Maurice Hatch, Derek Netherton and William Wellesley), and who will therefore participate in recommending the proposals to SJPC's shareholders, believe that **JRAH's strong position in retail financial services provides considerable potential for expansion in market share and growth in profits**. They believe that the Proposals will enable JRAH to achieve its full potential because they will result in:

- **Improved incentivisation of JRAH's salesforce.** Effective incentivisation is of critical importance to the JRAH Group's ability to continue to motivate existing members of The J. Rothschild Partnership and to recruit experienced financial advisers in the future. Since JRAH's formation in mid-1991, options over some 22.6 million Ordinary Shares in JRAH have been granted to members of The J. Rothschild Partnership and employees of the JRAH Group. The introduction of further option schemes will form an important part of JRAH's future strategy. Under the Proposals, both the existing options over JRAH Ordinary Shares and new options to be granted will, in due course, be exercisable into SJPC Shares. The Independent Directors believe that the resulting tangible value of existing and future option schemes will provide a real incentive for the future growth of JRAH.

Chairman's Statement *continued*

- **Simplification of arrangements governing the management of JRAH.** Currently, under the agreement governing the relationship between the shareholders in JRAH, there are a number of key decisions which require the unanimous agreement of SJPC, Scottish Amicable Life Assurance Society ("SALAS") and one or more of the Founders (Sir Mark Weinberg, Michael Wilson and Keith Carby). The Independent Directors believe that this complicates the management of JRAH and could limit its ability to realise its full potential. They therefore consider that the future growth of JRAH will be facilitated by the Proposals, which, if agreed, would result in JRAH becoming a wholly-owned subsidiary of SJPC, with the managements of JRAH and SJPC being effectively unified and a number of JRAH directors being appointed to the SJPC Board.
- **Clarification of JRAH's capital structure.** The current capital structure of JRAH, while appropriate during its initial development, is highly complex and may inhibit its future growth, especially at a time when there is much corporate activity in the life assurance sector. With SJPC's full ownership of JRAH, the complexity of JRAH's capital structure will cease to be of relevance and JRAH, and hence SJPC, will be more easily understood by investors and stock market analysts.

For these reasons, the Independent Directors believe that **JRAH will achieve more rapid growth as a result of these Proposals, to the benefit of SJPC's shareholders**, both through SJPC's existing investment in JRAH and its greater exposure to the business of the company following this transaction.

On the basis of the results of SJPC and JRAH for the nine months ended 31 December 1996, the Independent Directors believe it likely that the Proposals will have a dilutive effect on SJPC's earnings per share in the shorter term. (The basis of this opinion is that the earnings per share and adjusted earnings per share of SJPC for the nine months ended 31 December 1996, as set out on page 41, would have been reduced if it is assumed that the Proposals had been implemented on 1 April 1996. This statement should not, however, be interpreted to mean that SJPC's earnings per share will necessarily in the future be greater or lesser than for the nine months ended 31 December 1996.) Nevertheless, given JRAH's significant potential for growth, the Independent Directors believe that the proposed transaction will be to the benefit of SJPC's shareholders.

Board of SJPC

On completion of the Proposals, Michael Wilson, who is Chief Executive of JRAH, will join the Board of SJPC in an executive capacity. In addition, Dennis Stevenson and Roy Nicolson (the managing director of SALAS), both of whom are non-executive directors of JRAH, will join the Board of SJPC as non-executive Directors. I will continue as executive Chairman of SJPC and The Viscount Weir, Derek Netherton and Anthony Loehnis will remain as Directors.

Lord Rothschild will become the President of SJPC, although he will be retiring from the Board in light of his other commitments. William Wellesley will resign from the Board of SJPC on completion of the transaction, and Maurice Hatch has indicated his intention to retire after serving a further year. An appropriate non-executive director will be sought to replace Maurice Hatch on his retirement.

Chairman's Statement *continued*

I am sure shareholders would wish to join me in thanking Lord Rothschild warmly for everything he has done for this Group which he effectively founded in 1979 and of which he was Chairman (and more recently Joint Chairman) until 1996. The fact that SJPC has consistently delivered very attractive returns for its shareholders during this period is a mark of his success. William Wellesley will also be leaving the Board after the completion of the Scheme of Arrangement and I would like to thank him for the pivotal role he has played in handling both these Proposals and the Reconstruction last year.

* * * * *

It remains only to thank all of our staff, on behalf of the shareholders and the Board, for their efforts in the course of a period which saw the implementation of considerable changes within the Group and which imposed considerable pressures. The current Proposals represent the logical conclusion of SJPC's objective, set some six years ago, of evolving into a pure financial services group with a focus on life assurance and our target now will be one of seeking ambitious growth within this sector.



Sir Mark Weinberg

25 April 1997

Board of Directors

The present Directors of the Company are:

Sir Mark Weinberg

Aged 65, is Chairman of St James's Place Capital and is also Chairman of J. Rothschild Assurance Holdings plc and Life Assurance Holding Corporation Limited. He has been Deputy Chairman of the Securities and Investments Board and was formerly a non-executive director of RIT Capital Partners plc.

The Lord Rothschild*

Aged 60, is Chairman of Value Realisation Trust plc and Chairman of RIT Capital Partners plc. In 1971 he became Chairman of Rothschild Investment Trust Limited, a predecessor company to St James's Place Capital.

The Viscount Weir*‡

Aged 63, is Chairman of The Weir Group plc and BICC plc and is a director of Canadian Pacific Limited. He joined the Board of a predecessor company of St James's Place Capital in 1982 on the merger of Rothschild Investment Trust Limited with The Great Northern Investment Trust PLC, of which he was Chairman. He was formerly a director of The Bank of England and British Steel Corporation.

Maurice Hatch DFC*‡

Aged 74, was formerly senior partner of Saffery Champness, Chartered Accountants. He is a director of Saga Group Limited and is a former member of the Board of the Securities and Futures Authority.

Anthony Loehnis CMG

Aged 61, is an executive Director of St James's Place Capital and is also a director of J. Rothschild Assurance Holdings plc and J. Rothschild International Assurance Holdings Limited, for which he is executive Chairman of its marketing arm J. Rothschild International Marketing Limited. He is a non-executive director of Life Assurance Holding Corporation Limited and was formerly a director of SG Warburg Group plc and an executive director of The Bank of England.

Derek Netherton*◇

Aged 52, is a non-executive director of J. Rothschild Assurance Holdings plc and NEXT PLC. He was formerly a director of J. Henry Schroder & Co. Limited.

William Wellesley

Aged 30, is an executive Director of St James's Place Capital and previously worked in the Corporate Finance department at J. Henry Schroder & Co. Limited. He is also a non-executive director of J. Rothschild Assurance Holdings plc and of Value Realisation Trust plc.

Directors' Report

The Directors present their Report & Accounts of the Company for the nine months to 31 December 1996.

RESULTS AND DIVIDENDS

SJPC made profits after taxation of £30.5 million during the period ended 31 December 1996.

No interim dividend was paid in the period. The Board recommends payment of a final dividend of 1.125 pence per share on 26 May 1997 to shareholders on the register at the close of business on 25 April 1997.

The consolidated profit and loss account and movements on reserves are shown on pages 26 and 54.

INCORPORATION OF THE COMPANY AND CHANGE OF NAME

The Company was incorporated on 1 April 1996 under the name of New SJPC Limited. On 3 June 1996 the name of the Company was changed to SJPC Newco plc and subsequently on 16 August 1996 the name was changed to St James's Place Capital plc. Pursuant to a Scheme of Arrangement sanctioned by the High Court under Section 425 of the Companies Act 1985, which became effective on 16 August 1996, shareholders of the previous St James's Place Capital plc received for every three ordinary 15 pence shares, one ordinary 10 pence share of Value Realisation Trust plc, 52.5 pence nominal of Value Realisation Trust plc 1.4% convertible unsecured loan stock 2006 and three (new) St James's Place Capital plc ordinary 15 pence shares.

STATUS OF COMPANY

The Company is registered as a public limited company under the Companies Act 1985. In the opinion of the Directors, the Company is not a close company within the meaning of the Income and Corporation Taxes Act 1988.

ACTIVITIES

The Company is a financial services holding company with interests in life assurance and fund management. A full review of the activities of the Group is given in the Chairman's Statement on pages 2 to 9.

SHARE CAPITAL AND PURCHASE OF OWN SHARES

On 23 August 1996, as part of the Reconstruction of SJPC the Company issued 279,909,357 ordinary shares of 15 pence each. This was in addition to the one ordinary share issued to the subscriber to the Memorandum and Articles on 1 April 1996 and the subsequent issue of one ordinary share on 28 May 1996.

Directors' Report *continued*

At an Extraordinary General Meeting held on 12 June 1996 the Company was given power to purchase up to 42,129,289 ordinary shares which represented 15% of the anticipated number of ordinary shares that would be issued. This power expires on 31 July 1997. No shares have been purchased in the period ended 31 December 1996 or up to the date of this Report.

A Resolution will be proposed at the Annual General Meeting to seek power to purchase up to a maximum of 41,986,403 shares, at a price which is not less than 15 pence per share and not more than 5% above the average middle market quotations for the preceding five business days. This represents 15% of the present issued share capital; if the issued share capital is less at the time of the Annual General Meeting by reason of purchases, the maximum will be 15% of that issued capital. The authority now sought would last until 31 July 1998. It is not the present intention of the Directors to exercise this authority and, in any event, the Directors do not intend to purchase shares at more than their attributable net asset value.

AUTHORITY TO ALLOT RELEVANT SECURITIES

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 year, the Directors' authorisation to allot the Company's unissued shares up to a nominal amount of £13,995,467 (the Section 80 amount which represents 93,303,119 ordinary shares) 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.

PRE-EMPTION RIGHTS

Section 89 of the Companies Act 1985 contains pre-emption rules by which, unless the shareholders determine otherwise by special resolution, ordinary shares to be issued for cash must first be offered to shareholders in proportion to their existing holdings. In practice, it is desirable to modify these pre-emption rules to a limited extent, for example so as to allow rights issues to existing shareholders in the conventional form (rather than the form which would be required by the Act) and to avoid infringement of overseas securities laws where some shareholders are resident overseas.

At present, the Directors have power under the Company's Articles of Association to allot ordinary shares otherwise than in accordance with these pre-emption rules. Such power expires on the date of the Annual General Meeting in 1997 or 31 July 1997 whichever is the earlier. At the Annual General Meeting, a Special Resolution will be proposed to renew this power for a period to expire on the date of the 1998 Annual General Meeting, provided that any ordinary shares allotted for cash pursuant to such power are limited to £2,099,320 (the Section 89 amount) being less than 5% of the Company's issued share capital (which would correspond to 13,995,467 ordinary shares). The Directors will also conform with the guidelines of institutional investors, whereby any shares allotted for cash (other than by way of a rights issue) will not exceed 7.5% of the Company's issued share capital in any three-year period. The Directors have no present intention of allotting shares pursuant to this authority.

Directors' Report *continued*

PRINCIPAL SHAREHOLDERS

The Directors are aware of the interests of the following companies, or the groups of which they are a member as at 15 April 1997, in 3% or more of the ordinary issued share capital of the Company: interests of Schroders plc and their subsidiaries, 32,487,430 shares (11.61%); Prudential Corporation group of companies, 20,350,787 shares (7.27%); Royal & Sun Alliance Insurance Group, 13,654,900 shares (4.88%) and Legal & General Investment Management Limited, 9,341,273 shares (3.34%). Other than the interests of Lord Rothschild, representing 4.10% of the ordinary issued share capital of the Company as set out on page 21, the Directors are not aware of any other interest representing 3% or more of the shares of the Company.

DIRECTORS

The present Directors, who, with the exception of W V Wellesley, were all appointed on 30 May 1996, are listed on page 10. W V Wellesley was appointed on 11 April 1996 together with D F Connon, S R Sanders and D N Wood all three of whom resigned as directors on 24 June 1996.

Pursuant to the Articles of Association, all the Directors will relinquish their office at the Annual General Meeting and all will be proposed for election at that meeting.

In order to comply with best modern practice SJPC is proposing to delete the provision in the Articles whereby an executive chairman or managing director is not required to retire by rotation. A Special Resolution to this end is shown in the Notice of Annual General Meeting as Resolution 9. As a result all the Directors would henceforth be required to retire in rotation.

DIRECTORS' INTERESTS

The interests of the Directors, at 31 December 1996, in the share capital of the Company are given in the Report of the Remuneration Committee.

Between the end of the period and the date of this Report there were no changes in the Directors' interests as set out on pages 20 and 21 except as reported in the Report of the Remuneration Committee on page 21.

Except as stated in 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 London Stock Exchange Listing Agreement.

Details of the Directors' service agreements are also given in the Report of the Remuneration Committee on page 22.

DIRECTORS' AND OFFICERS' INSURANCE

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Directors' Report *continued*

- 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;
- 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors consider that, in preparing the financial statements on pages 26 to 60, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed. The financial statements have been prepared on a going concern basis.

CORPORATE GOVERNANCE

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

The report by the auditors, Price Waterhouse, on this statement is on page 25.

The Board of Directors, which currently consists of three executive and four 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 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 organisation 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 executives, meets weekly to discuss matters of importance to the Group.

Directors' Report *continued*

The Group's investments in its associated undertakings are monitored through representation on the boards of those associates. Matters of significance in relation to the associated undertakings are reported at meetings of the Board or the Executive Committee as appropriate.

Risk management

The identification of major business risks, including those which might affect the Group's investments in associated undertakings, 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 comprehensive 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. Financial information on the associated undertakings is received regularly through the Group's representation on those boards and reviewed by the Group's Board.

The Group maintains written 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 Committee and Conflicts Committee, the operation and constitution of which are described in the Report of the Remuneration Committee on page 17.

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.

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.

Directors' Report *continued*

CHARITABLE DONATIONS AND POLITICAL CONTRIBUTIONS

During the period ended 31 December 1996, the Group made charitable donations totalling £18,000. A list of charitable donations made will be available at the Annual General Meeting, together with a report which will outline the basis on which priorities for donations are established. The Group made no political donations during the period.

EMPLOYEES

Details of employee costs and the average number of employees during the period to 31 December 1996 are shown in note 8 on page 39.

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
S R Sanders

Secretary

25 April 1997

Report of the Remuneration Committee

THE COMMITTEE

At the beginning of the period under review, the former SJPC had a Remuneration Committee comprised of myself as Chairman, Lord Rees-Mogg and Maurice Hatch, all of whom were non-executive Directors of the Company. Anthony Loehnis served on the Committee until 8 May 1996.

At a Board meeting held by SJPC on 26 September 1996 a Remuneration Committee was appointed, comprising myself as Chairman and Maurice Hatch, both non-executive Directors of SJPC. The terms of reference of the predecessor committee were adopted. The Company Secretary is the Secretary of the Remuneration Committee.

The Joint Chairmen of the former SJPC, Lord Rothschild and Sir Mark Weinberg, liaised closely with the Committee, although they did not take part in any Committee discussions or any decisions relating to their own terms and conditions of employment. Sir Mark Weinberg, in his capacity as sole Chairman of SJPC, follows that precedent.

The Committee determines the remuneration package 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, usually acting through the Executive Committee. The Remuneration Committee also supervised the operation of the former SJPC's executive share option schemes until their termination at the time of the Reconstruction and considers requests from Directors and employees for permission to deal in the Company's shares.

Since the end of the period under review, Anthony Loehnis has accepted appointment as an executive Director, effective from 1 April 1997 and thus his remuneration will be reviewed, as appropriate, by this Committee in respect of the year to 31 December 1997.

REMUNERATION POLICY

SJPC and the former SJPC complied during the period with the provisions relating to Remuneration Committees as recommended by the Report of the Study Group on Directors' Remuneration, chaired by Sir Richard Greenbury, and now 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 would aim to encourage and reward performance and to benefit shareholders. In setting policy and making decisions, the Committee has taken into account the best practice provisions set out in Section B annexed to the London Stock Exchange Listing Rules.

Report of the Remuneration Committee *continued*

DIRECTORS' REMUNERATION

Total Directors' remuneration for the nine months ended 31 December 1996 is shown below, with comparative figures for the year ended 31 March 1996:

	Nine months ended 31 December 1996	Year ended 31 March 1996
	<u>£</u>	<u>£</u>
Fees to non-executive Directors	151,591	152,500
Salaries to executive Directors	315,736	521,811
Bonus to executive Director	150,000	-
Pension and death in service benefits	30,534	65,531
Other benefits	<u>17,577</u>	<u>40,147</u>
Total	<u>665,438</u>	<u>779,989</u>

The total emoluments of the highest paid UK Director in the period were £252,646 (£343,702 for the year ended 31 March 1996).

(i) Basic Salary, Benefits and Bonus

Basic salaries for the executive Directors are reviewed annually by the Committee and the last review was 31 March 1997. No increases in basic salaries were made at 31 March 1996 or at 31 March 1997. 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. In the period ended 31 December 1996, a bonus of £150,000 was paid to one executive Director. Executive Directors except for Anthony Loehnis are provided with the use of cars, with health care insurance and with other benefits in line with normal Company practice.

Report of the Remuneration Committee *continued*

Details of the Directors' emoluments for the nine months ended 31 December 1996 are given in the table below (with the comparative figures for the year ended 31 March 1996 shown underneath in brackets):

Name	Salaries, Bonus and Fees <u>£</u>	Pension and Death in Service <u>£</u>	Other Benefits <u>£</u>	Total Emoluments <u>£</u>
Sir Mark Weinberg	225,000 <u>(300,000)</u>	22,812 <u>(37,490)</u>	4,834 <u>(6,212)</u>	252,646 <u>(343,702)</u>
The Lord Rothschild	18,674 <u>(50,000)</u>	1,894 <u>(9,274)</u>	4,456 <u>(14,845)</u>	25,024 <u>(74,119)</u>
Maurice Hatch	11,250 <u>(15,000)</u>	— —	— —	11,250 <u>(15,000)</u>
Anthony Loehnis	67,500 <u>(62,500)</u>	— —	— —	67,500 <u>(62,500)</u>
Derek Netherton	26,250 <u>(682)</u>	— —	— —	26,250 <u>(682)</u>
The Viscount Weir	19,204 <u>(35,000)</u>	— —	— —	19,204 <u>(35,000)</u>
William Wellesley	225,585 <u>(22,727)</u>	5,828 <u>(1,929)</u>	8,287 <u>(2,525)</u>	239,700 <u>(27,181)</u>
The Hon. Clive Gibson	5,966 <u>(71,667)</u>	— <u>(9,958)</u>	— <u>(8,744)</u>	5,966 <u>(90,369)</u>
The Lord Rees-Mogg	5,966 <u>(15,000)</u>	— —	— —	5,966 <u>(15,000)</u>
Nathaniel de Rothschild	5,966 <u>(15,000)</u>	— —	— —	5,966 <u>(15,000)</u>
Andrew Stafford-Deitsch	5,966 <u>(86,735)</u>	— <u>(6,880)</u>	— <u>(7,821)</u>	5,966 <u>(101,436)</u>

Notes:

- i) All of the above directors served on the boards of SJPC or the former SJPC or both during the reporting period. Emoluments from SJPC were payable only from 23 August 1996. Emoluments received prior to that date were from the former SJPC.
- ii) D F Connon, S R Sanders and D N Wood, who served on the Boards of SJPC prior to its listing and the former SJPC after its de-listing, did not receive emoluments in respect of their duties as Directors.
- iii) Lord Rothschild received emoluments from the former SJPC as executive Joint Chairman. During that time, in light of his ongoing commitment to the National Heritage Memorial Fund, he waived £250,000 annually of his salary of £300,000. Emoluments from SJPC comprise non-executive Director's fees, which were payable from 23 August 1996.
- iv) £133,650 of Sir Mark Weinberg's remuneration during the period was charged to J. Rothschild Assurance Holdings and £28,549 to Life Assurance Holding Corporation.
- v) The remuneration shown for William Wellesley includes a bonus payment of £150,000.
- vi) Other benefits comprise company car, fuel, private health care and telephone.
- vii) Pension and death in service costs represent the amount contributed to each Director's money purchase arrangement and the cost of life assurance as calculated by the insurer.
- viii) No termination payments were made to Directors in the period under review.
- ix) Total emoluments less pension contributions in the period ended 31 December 1996 were £634,904.

Report of the Remuneration Committee *continued*

(ii) Share Incentives and Share Interests

The Remuneration Committee of SJPC has not approved any new long-term incentive arrangements for the two Directors who were executive Directors throughout the period under review. Its policy is to make arrangements which are appropriate to the long-term involvement and motivation of the individuals. Sir Mark Weinberg has an interest in shares of J. Rothschild Assurance Holdings plc (see page 21).

The former SJPC operated an Inland Revenue approved 1993 Executive Share Option Scheme and options over the Company's shares continued to be held under the 1990 Executive Share Option Scheme, which was also approved by the Inland Revenue. Under both schemes options were granted at no cost to the recipients. The Committee approved grants under the 1993 scheme, which were subject to a performance condition based on the percentage increase in the net asset value per share, in any three consecutive years, being equal to or greater than the percentage increase in the Retail Prices Index over the same three years. The only Director of the former SJPC with an option to subscribe shares under the 1993 Scheme was William Wellesley and this option lapsed unexercised. Clive Gibson and Andrew Stafford-Deitsch held options, granted to them under the 1990 Scheme when they were executive Directors, until 5 June 1996 when the options were exercised. The resulting shares allotted to them were sold on 12 June 1996.

Details of the options held by Directors and any movements during the period are as follows:

Director	Options Held at 1 April 1996	Options Granted During the Period	Options Exercised or Lapsed During the Period	Exercise Price (pence)	Date from which Exercisable	Expiry Date	Options Held at 31 December 1996
Clive Gibson	1,633,579	—	1,633,579	48.97	10 August 1995	9 August 2002	—
Andrew Stafford-Deitsch	1,633,579	—	1,633,579	48.97	10 August 1995	9 August 2002	—
William Wellesley	119,565	—	119,565	115.00	12 June 1998	11 June 2005	—

Notes:

- i) The options held by William Wellesley lapsed unexercised following the Reconstruction on 23 August 1996.
- ii) Clive Gibson and Andrew Stafford-Deitsch exercised their options on 5 June 1996 when the middle market price of the ordinary shares of the former SJPC was 129 pence. The price range of the ordinary shares of the former SJPC during the period from 1 April 1996 to 22 August 1996 was 109 pence to 130 pence and for SJPC for the period 23 August 1996 to 31 December 1996 was 86.5 pence to 98.5 pence. The middle market price of the ordinary shares of SJPC was 98.5 pence at 31 December 1996.
- iii) The options held by Clive Gibson and Andrew Stafford-Deitsch were granted under the terms of the 1990 Executive Share Option Scheme. As a result of the reconstruction in October 1993, which involved a capital reduction, those options were exchanged for options over shares in the new parent company. The exchange, including the method of calculating the adjusted number of shares over which options were held and the option price, was approved by the Inland Revenue and reported upon by the auditors as fair and reasonable. One of the consequences of the exchange following the 1993 reconstruction was that the performance condition, which had been satisfied up to October 1993, ceased to have effect.
- iv) Clive Gibson and Andrew Stafford-Deitsch ceased to be executive Directors prior to the period under review; under the rules of the 1990 Executive Share Option Scheme they were permitted to continue to hold the options whilst remaining directors of a Group company.
- v) No options were outstanding at 31 December 1996 and no options have been granted since that time.

The other interests of the Directors in the share capital of SJPC are given below. The comparative figures for the former SJPC, if different, at 1 April 1996 or date of appointment, are given underneath in brackets.

Report of the Remuneration Committee *continued*

Director	Ordinary Shares of 15 pence each	
	Beneficial	Non-Beneficial
Sir Mark Weinberg	150,000	2,000
The Lord Rothschild	7,380,420	7,106,373
	(21,458,578)	(8,502,193)
The Viscount Weir	3,745	-
Maurice Hatch	10,000	979,392
		(1,975,212)
Anthony Loehnis	10,000	-
Derek Netherton	-	-
William Wellesley	86	-

Included in the total of 7,380,420 shares of SJPC at 31 December 1996 owned beneficially by Lord Rothschild are 396,905 shares held by the J. Rothschild Administration Limited Pension & Life Assurance Scheme in which Lord Rothschild has a beneficial interest.

At 31 December 1996 Sir Mark Weinberg had a beneficial interest in 5,400,000 ordinary shares of one penny each, a non-beneficial interest in 600,000 ordinary shares of one penny each and a beneficial interest in 826,400 1996 zero dividend convertible redeemable preference shares of JRAH ("Third Convertible Preference Shares"), in which the Group held a 51.02% ordinary share interest on an undiluted basis. In 1992, part of the proceeds of a rights issue by JRAH were invested in J. Rothschild International Assurance Holdings. Subsequent to the rights issue Sir Mark Weinberg and two other directors of JRAH granted a call option to J. Rothschild Holdings, an indirect subsidiary of SJPC, and Scottish Amicable Life Assurance Society, which in certain circumstances carried the right to purchase up to 840,000 of their existing ordinary shares at a price of one penny each. This option was called on 8 April 1997 leading to the purchase by J. Rothschild Holdings of 162,625 ordinary shares from Sir Mark Weinberg.

Between the end of the period and 21 April 1997 the following changes occurred in the Directors' interests as set out above. The beneficial interest of Lord Rothschild has reduced by 3,000,000 shares and the non-beneficial interest of Maurice Hatch has reduced by 636,387 shares.

(iii) Pensions and Death in Service Benefits

The policy of the Committee is to facilitate a range of pension arrangements for the executive Directors, which take account of their age, personal circumstances and arrangements already in force on joining the Company, but within an agreed cost framework, currently 7½% of basic salary for those aged under 40 years and 12½% for those aged 40 or over. Lord Rothschild is a member of the J. Rothschild Administration Limited Pension & Life Assurance Scheme, details of which are shown in note 33 to the accounts on page 58. Within this scheme, money purchase arrangements have been set up for him and to which contributions were made by the former SJPC until 30 April 1996 and from that date by J. Rothschild Capital Management Limited. Contributions are calculated on basic salary only and, in Lord Rothschild's case, on his salary taking into account the waiver currently in force.

Report of the Remuneration Committee *continued*

Contributions are made to personal pension plans for Sir Mark Weinberg and William Wellesley, based on the above noted contribution rates, subject to any ceiling imposed on contribution rates by the personal pension plan regulations. A major part of the 12½% of salary contribution rate in respect of Sir Mark Weinberg has been utilised in increasing his life assurance cover. In respect of the period under review there has been an underspend of £5,313 in respect of life assurance costs and pension contributions which will be applied for his benefit in the current year.

The Group has in place life assurance cover through the J. Rothschild Administration Limited Pension & Life Assurance Scheme to provide a lump sum of four times salary and a contingent spouse's or dependant's pension in the event of an executive Director's death. Different arrangements relate to William Wellesley, who has lump sum cover of six times salary and no spouse's or dependant's pension. To the extent that this provision relates to salary above the level of the earnings cap, the benefit is provided through the J. Rothschild Administration Limited Supplementary Death Benefit Scheme and the benefits give rise to a charge to tax for the Directors concerned.

The costs for pension and death in service arrangements for the individual executive Directors in the period ended 31 December 1996 are shown on page 19. No pension or death in service provision is made for Anthony Loehnis.

SERVICE AGREEMENTS

No action was necessary in connection with the Greenbury recommendation that service agreements should be reduced to one year's notice, as it has been the Committee's policy not to grant notice periods in excess of one year. The terms and conditions of the Directors' service agreements are reviewed as required.

Sir Mark Weinberg's contract with the former SJPC terminated on 9 August 1996. His contract with SJPC was entered into on substantially the same terms except that it will automatically terminate on his 70th birthday. It is capable of being terminated, without specific provision for compensation for early termination by, *inter alia*, either party giving the other not less than twelve months' written notice. It provides for an annual salary of £300,000 and benefits in kind, including life assurance, pension provision, private health insurance and a company car.

Lord Rothschild's service agreement with the former SJPC terminated at the end of April 1996 and he has been employed since that date, by J. Rothschild Capital Management Limited ("JRCM"), which ceased to be a member of the Group on 18 July 1996.

William Wellesley has an employment contract with J. Rothschild Administration Limited which will continue, *inter alia*, until terminated by either party giving not less than one month's prior written notice to the other. The salary is £100,000 per annum and benefits in kind including life assurance, pension provision, private health insurance and a company car are provided.

All of the Directors of SJPC, having been appointed prior to the first Annual General Meeting of the Company will stand for election at the Annual General Meeting. Other than Sir Mark Weinberg, whose service agreement had at the period end an unexpired term of eight months, none of the Directors has a service agreement.

Report of the Remuneration Committee *continued*

NON-EXECUTIVE DIRECTORS

The remuneration of the non-executive Directors is determined by the Board as a whole, acting through the Executive Committee, in accordance with the provisions of the Articles of Association. The basic annual fee of the former SJPC was £15,000 per annum. SJPC, to reflect its smaller size and reduced diversity of operations pays an amount of £10,000 per annum, both of which the Committee believe to be, or to have been, in line with current market practice. Additional fees are paid in respect of other duties performed which means that I receive £15,000 per annum from SJPC to take account of my work on board committees, as does Maurice Hatch.

The fees paid by SJPC to Anthony Loehnis as a non-executive Director in the period under review were £15,000. In addition he received a consultancy fee of £10,000 per annum from the Company and £15,000 per annum from JRAH and £50,000 per annum from JRIA.

Derek Netherton is paid £35,000 per annum as a Director and in respect of his work as one of SJPC's representatives on the board of JRAH.

The non-executive Directors do not have service contracts or benefits in kind arrangements and do not participate in any of the Group's pension arrangements, except in the case of Lord Rothschild who is a money purchase member of the J. Rothschild Administration Limited Pension & Life Assurance Scheme. That scheme is continuing to provide benefits for employees of JRCM, which ceased to be a member of the Group on 18 July 1996, until not later than 18 July 1997 by which date a new scheme will have been established for JRCM.

TERMINATION PAYMENTS

The Committee of the former SJPC and SJPC have not been required to decide the terms of any termination payments since their formation. In practice, it would ensure that poor performance was not rewarded and it would take into account, in determining the size of any award, a variety of factors including health, length of service, age and the Director's duty to mitigate his own loss.



The Viscount Weir

25 April 1997

Report of the Auditors

TO THE MEMBERS OF ST JAMES'S PLACE CAPITAL plc

We have audited the financial statements on pages 26 to 60, and the additional disclosures on pages 17 to 21 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 to 35.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on pages 13 and 14 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 December 1996 and of the profit and cash flows of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse

Chartered Accountants
and Registered Auditors
25 April 1997



Southwark Towers
32 London Bridge Street
London SE1 9SY

Report of the Auditors

TO THE DIRECTORS ON CORPORATE GOVERNANCE MATTERS

In addition to our audit of the financial statements we have reviewed your statements on pages 14 and 15 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 on pages 14 and 15 and on going concern on page 15, 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 14 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
25 April 1997



Southwark Towers
32 London Bridge Street
London SE1 9SY

Consolidated Profit and Loss Account

Nine months ended 31 December 1996

	Note	Continuing Activities £'000	Discontinued Activities £'000	Total £'000
Income from associated undertakings				
– JRAH	1	15,947	–	15,947
– LAHC		10,622	–	10,622
– GAM		3,507	–	3,507
	13	<u>30,076</u>	–	<u>30,076</u>
Profits on dealing investments		–	6,644	6,644
Profits on holding portfolio investments		–	1,064	1,064
Investment income	3	1,625	1,698	3,323
Fund management income	4	1,525	688	2,213
Other operating income		1,252	283	1,535
		<u>34,478</u>	<u>10,377</u>	<u>44,855</u>
Administrative expenses		<u>(1,559)</u>	<u>(1,108)</u>	<u>(2,667)</u>
		32,919	9,269	42,188
Costs of Reconstruction	6	(1,796)	(1,133)	(2,929)
Utilisation of restructuring provision	6	1,796	1,133	2,929
Release of restructuring provision	6	740	–	740
Exceptional provision for the acquisition of JRAH	6	<u>(460)</u>	<u>–</u>	<u>(460)</u>
Profit on ordinary activities before interest		33,199	9,269	42,468
Interest payable	5	<u>–</u>	<u>(178)</u>	<u>(178)</u>
Profit on ordinary activities before taxation	7	33,199	9,091	42,290
Taxation				
– JRAH	1	(4,972)	–	(4,972)
– LAHC		(1,595)	–	(1,595)
– GAM		(350)	–	(350)
– Other		<u>(1,178)</u>	<u>(3,697)</u>	<u>(4,875)</u>
	9	<u>(8,095)</u>	<u>(3,697)</u>	<u>(11,792)</u>
Profit on ordinary activities after taxation		<u>25,104</u>	<u>5,394</u>	30,498
Dividends	10			<u>(3,211)</u>
Retained profit for the period	24			<u>27,287</u>
				31 December 1996
				Pence
Earnings per share	11			11.0
Adjusted earnings per share	11			7.2
Dividends per share	10			1.125

Movements on reserves are set out in note 24 on page 54.

The notes and information on pages 32 to 60 form part of these accounts.

Consolidated Profit and Loss Account

Year ended 31 March 1996

	Note	Continuing Activities £'000	Discontinued Activities £'000	Total £'000
Income from associated undertakings				
– JRAH		6,757	–	6,757
– LAHC		12,040	–	12,040
– GAM		5,039	–	5,039
– Other		(6,457)	–	(6,457)
		<u>17,379</u>	–	<u>17,379</u>
Profits on dealing investments		–	10,255	10,255
Profits on holding portfolio investments		–	6,787	6,787
Investment income	3	63	6,479	6,542
Fund management income	4	2,085	13,669	15,754
Other operating income		429	–	429
		<u>19,956</u>	<u>37,190</u>	<u>57,146</u>
Administrative expenses		(3,032)	(3,490)	(6,522)
		<u>16,924</u>	<u>33,700</u>	<u>50,624</u>
Exceptional release of provision	6	2,729	–	2,729
Exceptional restructuring provision	6	(3,872)	–	(3,872)
		<u>15,781</u>	<u>33,700</u>	<u>49,481</u>
Profit on ordinary activities before interest		<u>15,781</u>	<u>33,700</u>	<u>49,481</u>
Interest payable	5	(239)	(1,590)	(1,829)
Profit on ordinary activities before taxation	7	<u>15,542</u>	<u>32,110</u>	<u>47,652</u>
Taxation				
– JRAH		(1,265)	–	(1,265)
– LAHC		(1,910)	–	(1,910)
– GAM		(661)	–	(661)
– Other		(304)	(6,005)	(6,309)
	9	<u>(4,140)</u>	<u>(6,005)</u>	<u>(10,145)</u>
Profit on ordinary activities after taxation		<u>11,402</u>	<u>26,105</u>	<u>37,507</u>
Dividends	10			(9,053)
Retained profit for the year				<u>28,454</u>
				31 March 1996 Pence
Earnings per share	11			13.7
Adjusted earnings per share	11			3.1
Dividends per share	10			3.3

The notes and information on pages 32 to 60 form part of these accounts.

Consolidated Balance Sheet

	Note	31 December 1996 £'000	31 March 1996 £'000
FIXED ASSETS			
Tangible assets	12	163	279
Investments in associated undertakings	13	142,878	107,271
Investment holding portfolio	15	-	26,537
Other investments		178	-
		<u>143,219</u>	<u>134,087</u>
CURRENT ASSETS			
Debtors	17	11,372	39,789
Current asset investments	18	17,786	84,875
Cash at bank and in hand		7,254	35,100
		<u>36,412</u>	<u>159,764</u>
CREDITORS			
Amounts falling due within one year:			
Bank loans and overdrafts		(4,691)	(2,610)
Creditors	19	(4,777)	(12,805)
Proposed dividend	10	(3,149)	(4,939)
		<u>(12,617)</u>	<u>(20,354)</u>
Net current assets		<u>23,795</u>	<u>139,410</u>
Total assets less current liabilities		<u>167,014</u>	<u>273,497</u>
CREDITORS			
Amounts falling due after one year:			
Bank loans	19	-	(10,000)
Provision for liabilities and charges	21	(4,008)	(3,299)
		<u>163,006</u>	<u>260,198</u>
CAPITAL AND RESERVES			
Called up share capital	23	41,986	41,160
Share premium	24	-	523
Other non-distributable reserve	24	2,289	-
Merger reserve	25	(158)	(158)
Revaluation reserve	24	-	5,408
Special reserve	24	-	8,700
Profit and loss account	24	118,889	204,565
EQUITY SHAREHOLDERS' FUNDS		<u>163,006</u>	<u>260,198</u>

On behalf of the Board
25 April 1997



William Wellesley, *Director*

The notes and information on pages 32 to 60 form part of these accounts.

Consolidated Statement of Total Recognised Gains and Losses

	Note	Period Ended 31 December 1996 £'000	Year Ended 31 March 1996 £'000
Profit for the financial period		30,498	37,507
Unrealised losses on holding portfolio investments		-	(1,388)
Currency translation movements	24	(1,202)	1,453
Adjustment in respect of change in valuation of JRAH	13	(831)	-
First quarter results of JRAH and LAHC	13	2,063	-
Other adjustments	13	410	(752)
Total recognised gains and losses relating to the period		<u>30,938</u>	<u>36,820</u>

Note of Historical Cost Profits and Losses

	Note	Period Ended 31 December 1996 £'000	Year Ended 31 March 1996 £'000
Reported profit on ordinary activities before taxation		42,290	47,652
Valuation surplus/(deficit) from previous years realised on holding portfolio sales	24	6,132	(5,236)
Historical cost profit on ordinary activities before taxation		<u>48,422</u>	<u>42,416</u>
Historical cost profit on ordinary activities after taxation and dividends		<u>33,419</u>	<u>23,218</u>

In addition to the discontinued activities reported within the profit on ordinary activities before taxation, the valuation surplus/(deficit) from previous years realised on holding portfolio sales relates solely to discontinued activities.

The notes and information on pages 32 to 60 form part of these accounts.

Balance Sheet of the Parent Company

	Note	31 December 1996 <u>£'000</u>
FIXED ASSETS		
Investment in subsidiary undertaking	16	<u>41,986</u>
CURRENT ASSETS		
Amounts due from subsidiary undertaking		10,000
CREDITORS		
Amounts falling due within one year:		
Proposed dividend	10	<u>(3,149)</u>
Net current assets		<u>6,851</u>
Total assets less current liabilities		<u>48,837</u>
 CAPITAL AND RESERVES		
Called up share capital	23	41,986
Profit and loss account	24	<u>6,851</u>
EQUITY SHAREHOLDERS' FUNDS		<u>48,837</u>

The Company was formed on 1 April 1996 with one ordinary share of 15 pence.

On behalf of the Board
25 April 1997

William Wellesley *William Wellesley*

William Wellesley, *Director*

The notes and information on pages 32 to 60 form part of these accounts.

Consolidated Cash Flow Statement

	Period Ended 31 December 1996 £'000	Year Ended 31 March 1996 £'000
Note		
OPERATING ACTIVITIES		
Continuing Activities		
Cash received from investments	821	-
Dividends received from GAM	3,118	3,546
Investment advisory fees received	915	2,204
Interest received	754	63
Other cash paid	<u>(3,149)</u>	<u>(2,452)</u>
27	2,459	3,361
Discontinued Activities	<u>(1,745)</u>	<u>4,532</u>
Net cash inflow from operating activities	<u>714</u>	<u>7,893</u>
SERVICING OF FINANCE		
Interest paid	(417)	(1,590)
Dividends paid	10 <u>(5,002)</u>	<u>(8,219)</u>
Net cash outflow from servicing of finance	<u>(5,419)</u>	<u>(9,809)</u>
TAXATION		
UK corporation tax paid	(2,485)	(3,252)
Overseas tax paid	<u>(98)</u>	<u>(343)</u>
Total tax paid	<u>(2,583)</u>	<u>(3,595)</u>
INVESTING ACTIVITIES		
Purchase of tangible fixed assets	12 (65)	(190)
Sale of tangible fixed assets	165	162
Purchase of holding portfolio investments	(30,248)	(3,438)
Sale of holding portfolio investments	15,091	51,312
Purchase of dealing and current asset investments	(10,467)	(111,215)
Sale of dealing and current asset investments	31,057	71,986
Sale of subsidiary undertakings	31 11,970	1,387
Repayment of term loans (term less than 5 years)	(10,000)	(15,357)
Investment in associated undertakings	13 <u>(14,949)</u>	<u>(842)</u>
Net cash outflow from investing activities	<u>(7,446)</u>	<u>(6,195)</u>
Net cash outflow before financing	<u>(14,734)</u>	<u>(11,706)</u>
FINANCING		
Issue of ordinary share capital	<u>(2,593)</u>	<u>(162)</u>
Net cash inflow from financing	(2,593)	(162)
Decrease in cash and cash equivalents	29 <u>(12,141)</u>	<u>(11,544)</u>
	<u>(14,734)</u>	<u>(11,706)</u>

The cash flows in respect of the purchase and sale of the holding portfolio and dealing and current asset investments together with the repayment of the term loan relate to discontinued activities. Interest paid in respect of discontinued activities in the period ended 31 December 1996 was £0.2 million.

The notes and information on pages 32 to 60 form part of these accounts.

Group Accounting Policies

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

BASIS OF PREPARATION

On 23 August 1996 pursuant to a Reconstruction approved by shareholders, the Company acquired on a share for share exchange the whole of the issued share capital of the former SJPC immediately after assets of £128.2 million, consisting of the investment holding and dealing portfolios, had been distributed to shareholders in the form of shares and convertible loan stock in Value Realisation Trust plc. In addition to the Reconstruction the former SJPC's fund management subsidiary, JRCM, was sold to RIT Capital Partners plc. No profit or loss or goodwill arose on the sale of JRCM. These disposed activities are treated as discontinued operations.

These consolidated accounts have been drawn up under the principles of merger accounting. The consolidated profit and loss account for the nine month period ended 31 December 1996 incorporates the consolidated results of the former SJPC for the period to 23 August 1996 and the consolidated results of the Company from that date. The comparative financial information relates to the former SJPC and covers the year ended 31 March 1996.

The taxation charge and investment income have been attributed between continuing and discontinued activities on the basis of the respective actual taxation charges and investment income arising in relation to these activities. All interest payable has been assumed to arise in relation to funding of the investment holding and dealing portfolios and is shown against discontinued activities.

The accounts for the period ended 31 March 1996 include the Group's share of the results of JRAH and LAHC for their accounting period ended 31 December 1995. Following the change of year end to the nine months ended 31 December 1996, the Group has included its share of the results of JRAH and LAHC for the nine months to 31 December 1996 (the share of the profits for the three months to 31 March 1996 is included in reserve movements — see note 24 to the accounts).

BASIS OF CONSOLIDATION

The results of JRAH in which the Group held a 51.02% ordinary share interest (as at 31 December 1996), on an undiluted basis, have been excluded from the consolidation because, under an agreement between the shareholders of JRAH, there are restrictions on the ability of the Group to exercise management control over JRAH. In accordance with the Companies Act requirements JRAH has been included within the Group accounts under the equity method of accounting.

ACCOUNTING CONVENTION

The accounts are prepared under the historical cost convention with the exception of the investment holding portfolio which was discontinued during the period and which is included at valuation and in accordance with applicable accounting standards.

ASSOCIATED UNDERTAKINGS

Associated undertakings are companies other than consolidated subsidiary undertakings in which the Group holds 20% or more of the equity share capital for the long term and over which the Group is in a position to exercise a significant influence.

Group Accounting Policies *continued*

The Group brings into the consolidated profit and loss account its share of the profits and losses of these undertakings and into the balance sheet the Group's share of the net assets. The latest available accounts are used, made up to the date of the consolidated accounts, other than in respect of GAM for which management accounts made up to 31 December 1996 have been used.

The principal accounting policies of the life assurance businesses in which SJPC has an interest, JRAH and LAHC, to the extent that they are additional to those adopted by the Group, are set out below:

BASIS OF PRESENTATION

The accounts are prepared on the basis of the accounting policies set out below. The group financial statements for JRAH, which consolidate the accounts of the company and its wholly-owned life assurance and non-assurance subsidiary undertakings, have been prepared in compliance with the special provisions of section 255A and Schedule 9A of the Companies Act 1985 relating to insurance groups.

The financial statements are prepared in accordance with applicable accounting standards and the recommendations contained within the statement of guidance issued by the Association of British Insurers in December 1995, as subsequently revised in December 1996.

PROFIT RECOGNITION

Profits from the long-term assurance business are determined on the embedded value basis which recognises as profit the statutory surplus arising in the period, determined by the appointed actuaries following their annual investigations, together with the increase in the present value of future surpluses expected to emerge from the business currently in force. After provision for taxation, the future profits are discounted.

The rate of discount per annum has been as follows:

	JRAH	LAHC
	%	%
31 December 1993	15.0	N/A
31 December 1994	15.0	13.0
31 December 1995	12.5	12.0
31 December 1996	12.5	12.0

The embedded value is determined in consultation with independent actuaries on an annual basis.

The statutory surplus arising in the period which is recognised in the long-term business technical account is required to be adjusted under the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 for certain items, including the deferral of acquisition costs and movements in certain reserves, to give the modified statutory surplus.

The excess of the embedded value profit arising in the period over the modified statutory surplus is reported separately within the long-term business technical account.

Group Accounting Policies *continued*

The embedded value profits are grossed up at the standard rates of corporation tax for the countries in which the subsidiaries are based. The post-tax excess of embedded value profit arising in the period is transferred to non-distributable reserves and will be treated as non-distributable until such time as it emerges as part of the surplus arising during subsequent years.

COMMISSION

Commission payable to agents in respect of business is expensed evenly over the course of the initial commission period. Commission is recognised on a basis consistent with that adopted in respect of premium recognition.

PREMIUMS

Premiums are credited to revenue in the period in which the associated liability is established. Reinsurance premiums are charged as they become payable.

CLAIMS

Claims are charged to revenue when they become due for payment or, in the case of death, when notification of death is received. Recoveries from risk reassurances are included in the same period as the relevant claims.

DEFERRED ACQUISITION COSTS

The costs of acquiring policies which are incurred in a financial year but relate to subsequent financial years are deferred and included as an asset within the balance sheet. Movements in that asset are shown in acquisition expenses in the technical account. The costs to be deferred are identified by an analysis of the company's acquisition expenses which are attributed to individual products. The period of deferral is determined by the anticipated future margins emerging from each product.

In all instances the deferred acquisition costs are calculated before tax with an appropriate charge or credit being made for deferred tax.

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INVESTMENTS

The investments which comprise the investment holding portfolio and other investments are included at market value in the case of listed securities and at Directors' valuation in the case of unlisted securities. Unrealised gains and losses are taken to revaluation reserve. Realised gains and losses are included in profit before taxation and are calculated as the difference between sale proceeds and historical cost for those investments purchased and sold in the same period and as the difference between sale proceeds and the previous period end market value or Directors' valuation for those investments held over a period end. This method of calculation is in accordance with Financial Reporting Standard 3.

The current asset investments, including futures, options and other derivative instruments, are stated in the balance sheet at the lower of cost and market value or Directors' valuation. Profits and losses on realisations and provisions for diminution in value are included in profit before taxation.

Group Accounting Policies *continued*

Dividends are credited to the profit and loss account at the time that the shares go ex-dividend. Interest is credited on an accruals basis.

GOODWILL

The Group's share of goodwill arising on the acquisition of the unit trust group in JRAH is held as an asset within the Group's investment in JRAH and amortised to profit and loss evenly over ten years. This goodwill arose in respect of the unit trust management companies purchased from the Group in 1991 as detailed in note 13. All other goodwill is written off to reserves on acquisition.

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 ten years.

INVESTMENT MANAGEMENT AND ADVISORY FEES

Investment management and advisory fees which are not determined by reference to investment performance are credited to profit and loss account on an accruals basis. Performance based fees are credited to profit and loss account on a receivable basis.

PENSIONS

The Group operates 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.

DEFERRED TAX

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

FOREIGN CURRENCIES

Assets and liabilities and trading results in foreign currencies are translated into sterling at the rates of exchange ruling at the end of the period.

The sterling effect of re-translating at period end rates of exchange the net assets of overseas subsidiaries and associated undertakings at the beginning of the year is dealt with through reserves. Translation differences on foreign currency borrowings which have been used to finance such foreign equity investments have been offset against the translation differences on these investments.

All other gains and losses are dealt with in profit on ordinary activities before taxation.

OPERATING LEASES

Payments under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

Notes to the Accounts

1 JRAH'S RESULTS

Included in SJPC's share of JRAH's post-tax profit for the nine months of £11.0 million is an amount of £4.6 million which should be excluded in considering the level of ongoing profit (£6.8 million pre-tax). See note 14 for further details.

2 SEGMENTAL ANALYSIS

An analysis of profit before taxation and the net assets of the Group's principal activities is set out below:

	Profit before Taxation	
	Period ended 31 December 1996 £'000	Year ended 31 March 1996 £'000
Continuing Activities		
Life Assurance		
Associated undertakings – JRAH	15,947	6,757
– LAHC	10,622	12,040
	<u>26,569</u>	<u>18,797</u>
Investment Management		
JRIML	1,525	2,085
Associated undertakings – GAM	3,507	5,039
– IFM	–	(7,071)
	<u>5,032</u>	<u>53</u>
Investment Banking	–	614
Income from liquidity retained by SJPC	1,625	63
Other operating income less interest payable	1,252	190
Administrative expenses	(1,559)	(3,032)
Exceptional item	280	(1,143)
Total Continuing Activities	<u>33,199</u>	<u>15,542</u>
Discontinued Activities		
JRCM	688	13,669
Investment and dealing portfolio	9,228	21,931
Other operating income	283	–
Administrative expenses	(1,108)	(3,490)
Total Discontinued Activities	<u>9,091</u>	<u>32,110</u>
Profit before Taxation	<u>42,290</u>	<u>47,652</u>

The contribution in respect of IFM was £0.4 million in the nine month period. Due to the fact that IFM is no longer an associated undertaking of SJPC, the amount is contained within other operating income (continuing activities).

Notes to the Accounts *continued*

2 SEGMENTAL ANALYSIS *continued*

	Net Assets	
	31 December 1996 £'000	31 March 1996 £'000
Life Assurance		
Associated undertakings – JRAH	83,835	64,487
– LAHC	47,468	33,348
	131,303	97,835
Investment Management		
JRIML	2,742	1,842
Associated undertaking – GAM	11,575	9,436
	14,317	11,278
Assets demerged into VRT (discontinued)	–	124,400
Other net assets	17,386	29,955
	163,006	263,468
Less: unrealised dealing gains (net of taxation)	–	(3,270)
Total Net Assets	163,006	260,198

Geographical Analysis: The Group operates principally from the United Kingdom.

Turnover: There is no meaningful definition of turnover for the Group.

3 INVESTMENT INCOME

	Period ended 31 December 1996 £'000	Year ended 31 March 1996 £'000
Continuing Activities		
Income from Treasury Bills and interest receivable	1,625	63
Discontinued Activities		
Income from fixed asset investments	1,301	2,555
Income from current asset investments	397	1,560
Investment income from listed investments	1,698	4,115
Interest receivable	–	2,364
	1,698	6,479
Investment Income	3,323	6,542

Within income from continuing activities, £0.9 million relates to income from current asset investments and £0.7 million to interest receivable.

Notes to the Accounts *continued*

4 FUND MANAGEMENT INCOME

	Period ended 31 December 1996 £'000	Year ended 31 March 1996 £'000
Continuing Activities		
Income from external funds	1,204	1,343
Internal income in respect of now demerged assets	321	742
	1,525	2,085
Discontinued Activities		
	688	13,669
Fund Management Income	2,213	15,754

The expenses associated with the management of the continuing element of the fund management business were £0.6 million for the nine month period.

The fund management income in respect of discontinued activities relates to income received for the management of RITCP.

5 INTEREST PAYABLE

	Period ended 31 December 1996 £'000	Year ended 31 March 1996 £'000
Interest payable on bank loans and overdrafts and wholly repayable within five years		
– Continuing Activities	–	239
– Discontinued Activities	178	1,590
	178	1,829

6 EXCEPTIONAL ITEMS

In the year ended 31 March 1996, an exceptional provision of £3.9 million was charged to the profit and loss account. This related to expenses, including staff redundancy costs and professional advisers' fees, incurred in, or in connection with, the Reconstruction. In the same period there was an exceptional credit of £2.7 million in respect of the release of a provision for historic liabilities which, in the opinion of the Directors, was no longer required.

In the period to 31 December 1996 £1.1 million of the 31 March 1996 exceptional provision has been utilised against administrative expenses incurred in relation to activities discontinued during the period and £1.8 million has been used against the exceptional costs of the Reconstruction. A further £0.3 million remains accrued in the balance sheet in respect of costs to be paid and the remaining £0.7 million has been released unused into the profit and loss account.

During the period an additional provision of £0.4 million has been established relating to expenses incurred in, or in connection with, the proposed acquisition of JRAH. Further costs are anticipated in relation to the JRAH acquisition but these will be accounted for as an adjustment to goodwill on completion of the acquisition.

Notes to the Accounts *continued*

7 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION IS AFTER CHARGING:

	Period ended 31 December 1996 £'000	Year ended 31 March 1996 £'000
Depreciation of tangible fixed assets	68	135
Auditors' remuneration – audit fee	104	140
Auditors' remuneration – other fees	–	283
Payments in respect of operating leases	519	643

Of the total audit fee, £50,000 (31 March 1996 – £50,000) relates to the audit of the parent company's consolidated accounts. This fee is borne by a subsidiary undertaking. The auditors' other fee remuneration in the year ended 31 March 1996 arose principally in connection with the Reconstruction.

8 EMPLOYEE COSTS

	Period ended 31 December 1996 £'000	Year ended 31 March 1996 £'000
Staff costs		
Wages and salaries	1,639	2,906
Social security costs	224	343
Other pension costs	117	222
	1,980	3,471
	Number	Number
Average number of persons employed by the Group during the period	50	67

Employee costs which related to continuing activities in the period were £1.1 million of which £0.9 million related to wages and salaries, £0.1 million to social security costs and £0.1 million to other pension costs.

Information concerning Directors' emoluments, shareholdings and options is shown in the Report of the Remuneration Committee on pages 17 to 23.

Notes to the Accounts *continued*

9 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	Period ended 31 December 1996 £'000	Year ended 31 March 1996 £'000
United Kingdom taxation		
Corporation tax		
–current year charge	2,919	8,272
–prior period charge/(credit)	–	(1,922)
Deferred tax charge/(credit)	1,907	(148)
Taxation attributable to UK dividends received	29	24
Double tax relief	(13)	(39)
	4,842	6,187
Overseas taxation		
Taxation attributable to overseas income	33	122
	4,875	6,309
Share of taxation of associated undertakings	6,917	3,836
Total charge to profit and loss account	11,792	10,145

Corporation tax for the period is calculated on the profit for the period at a rate of 33% (Year to 31 March 1996 – 33%). Deferred tax is provided at the rate of 33% (Year to 31 March 1996 – 33%). If tax had been provided on a full deferral basis the charge for the period would not have been significantly different.

Of the current period corporation and deferred tax charges £0.5 million and £0.7 million respectively relate to continuing activities. The share of taxation of associated undertakings also relates to continuing activities.

10 DIVIDENDS

	Period ended 31 December 1996 Pence per share	Year ended 31 March 1996 Pence per share	Period ended 31 December 1996 £'000	Year ended 31 March 1996 £'000
Interim dividend paid	–	1.5	–	4,113
Final dividend proposed	1.125	1.8	3,149	5,002
	1.125	3.3	3,149	9,115

Due to the exercise of options on 2 May 1996 and 5 June 1996, the final dividend for the year ended 31 March 1996 was payable on 3,467,158 additional shares. Since this dividend was not accrued at 31 March 1996 it is included in the current period's profit and loss account.

Notes to the Accounts *continued*

11 EARNINGS PER SHARE

Earnings per share are calculated on earnings of £30.5 million (Year ended 31 March 1996 – £37.5 million) and 278.1 million ordinary shares, the weighted average number of shares in issue during the period ended 31 December 1996 (Year ended 31 March 1996 – 274.2 million).

	Nine months ended 31 December 1996		Year ended 31 March 1996	
	£'000	Pence per share	£'000	Pence per share
Profit on ordinary activities after taxation	30,498	11.0	37,507	13.7
Adjustments				
Discontinued activities	(9,091)	(3.3)	(32,110)	(11.7)
Attributable taxation	<u>3,697</u>	<u>1.3</u>	<u>6,005</u>	<u>2.2</u>
	25,104	9.0	11,402	4.2
JRAH change in embedded value assumptions	(6,813)	(2.4)	(4,996)	(1.8)
Attributable taxation	2,248	0.8	1,649	0.6
Exceptional items	(280)	(0.1)	1,143	0.3
Attributable taxation	<u>(142)</u>	<u>(0.1)</u>	<u>(601)</u>	<u>(0.2)</u>
Adjusted Earnings	<u>20,117</u>	<u>7.2</u>	<u>8,597</u>	<u>3.1</u>

An alternative earnings per share figure has been presented to eliminate the effects of significant changes in the activities of the Group during the period and in order to show the earnings per share that is attributable to the continuing business of the Group. Additionally the assumptions originally adopted by JRAH, in its calculation of embedded value for surrender rates on single premium business have been reassessed in view of actual and market experience (as described further in note 14 on pages 46 and 47). The adjusted earnings per share figure eliminates the effect of these changes in assumption on the level of embedded value at the prior year end (31 December 1995). Likewise, the effect of the change in embedded value assumptions in the prior year, relating to the discount rate, has been eliminated in the adjusted earnings per share figure for that year.

Notes to the Accounts *continued*

12 TANGIBLE FIXED ASSETS

	Cost £'000	Depreciation £'000	Net Book Value £'000
Plant, equipment and vehicles			
At 31 March 1996	699	(420)	279
Charged to profit and loss account	-	(68)	(68)
Additions	65	-	65
Disposals	(281)	168	(113)
At 31 December 1996	483	(320)	163

13 ASSOCIATED UNDERTAKINGS

	JRAH £'000	LAHC £'000	GAM £'000	Total £'000
Carrying value (Group)				
At 31 March 1996	64,487	33,348	9,436	107,271
Change in basis of valuation	(831)	-	-	(831)
Revised carrying value at 31 March 1996	63,656	33,348	9,436	106,440
First quarter results of JRAH and LAHC	1,755	308	-	2,063
Additions during period	7,449	7,500	-	14,949
Currency movements	-	-	(1,018)	(1,018)
Share of post-tax results in period	10,975	9,027	3,157	23,159
Dividends	-	(3,125)	-	(3,125)
Other reserve movements	-	410	-	410
At 31 December 1996	83,835	47,468	11,575	142,878

The profits after taxation and the capital and reserves of LAHC and GAM are as follows:

	Year ended 31 December 1996 £'000	Year ended 31 December 1995 £'000
LAHC		
Profit after taxation for the year	30,474	32,416
Capital and reserves	153,150	106,676
	Period ended 31 December 1996 £'000	Year ended 31 March 1996 £'000
GAM		
Profit after taxation for the period	10,630	14,740
Capital and reserves	38,970	31,771

Notes to the Accounts *continued*

13 ASSOCIATED UNDERTAKINGS *continued*

SJPC's investment in JRAH has been equity accounted on the basis of audited accounts covering the year ended 31 December 1996. Included within the Group's investment of £83.8 million is £1.2 million in respect of the Group's share of goodwill arising in JRAH. This goodwill arose in respect of the unit trust management companies purchased from the Group in 1991. The Group's share of this goodwill is stated on a discounted basis. In the accounts of JRAH, goodwill is shown gross and is being amortised over its useful economic life which is considered to be ten years.

The value of SJPC's share of JRAH is now calculated as follows:

- SJPC's holding of First Convertible Preference Shares is assumed to be at their nominal value plus accrued interest to date;
- SJPC's holding of Third Convertible Preference Shares is assumed to be at cost; and
- SJPC's share of the excess of JRAH's net assets over the value of all the outstanding First and Third Convertible Preference Shares (valued consistently with the above assumptions) is calculated by reference to SJPC's percentage holding of ordinary shares in JRAH which would result following conversion of its Second Convertible Preference Shares (and assuming that all outstanding share options have been exercised).

In prior years SJPC's share was simply calculated as 66.67% of the net asset value of JRAH. This was on the basis that the Second Convertible Preference Shares would be redeemed at a value including accrued interest, rather than converted into ordinary shares in line with their rights, as currently assumed. On this basis the combined value of the First and Second Convertible Preference Shares would have exceeded JRAH's net assets, making it appropriate to account for the proportion of JRAH's net assets equal to SJPC's percentage holding of First and Second Convertible Preference Shares (66.67%). (For accounting purposes JRAH ordinary shares were therefore treated as having no value). This changed method of valuation shown in the above note is now felt to be more appropriate both in light of current circumstances and the actual rights of the Second Convertible Preference Shares.

The investment in LAHC has been equity accounted on the basis of audited accounts covering the year ended 31 December 1996. The carrying value is equal to 31.25% of LAHC's net assets after allowing for a management incentive scheme.

The consolidated profit and loss account of SJPC shows the results of JRAH and LAHC for the period 1 April 1996 to 31 December 1996. The results of JRAH and LAHC for the first quarter of the calendar year are shown as a movement in SJPC's reserves.

The investment in GAM has been equity accounted on the basis of management accounts covering the period ended 31 December 1996. The carrying value is equal to 29.7% of GAM's net assets.

Notes to the Accounts *continued*

14 J. ROTHSCHILD ASSURANCE HOLDINGS

A summary of the audited consolidated accounts of J. Rothschild Assurance Holdings plc at 31 December is set out below:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<u>1996</u>	<u>1995</u>
	<u>£'000</u>	<u>£'000</u>
Balance on the long-term business technical account after tax	19,962	9,510
Attributable taxation	<u>9,271</u>	<u>281</u>
Balance on the long-term business technical account before tax	29,233	9,791
Investment income	3,099	3,276
Investment expenses and charges	(1,064)	(1,724)
Other income	140,588	102,068
Other charges including value adjustments	<u>(138,590)</u>	<u>(103,302)</u>
Profit on ordinary activities before taxation	33,266	10,109
Taxation on profit on ordinary activities	<u>(10,243)</u>	<u>(1,888)</u>
Profit on ordinary activities after taxation for the financial year	23,023	8,221
Transfer to non-distributable reserves	(19,962)	(9,510)
Appropriation in respect of non-equity shares	<u>(13,700)</u>	<u>(12,215)</u>
Retained deficit for the financial year	<u>(10,639)</u>	<u>(13,504)</u>

Notes to the Accounts *continued*

14 J. ROTHSCHILD ASSURANCE HOLDINGS *continued*

CONSOLIDATED BALANCE SHEET OF JRAH

	<u>1996</u> £'000	<u>1995</u> £'000
ASSETS		
Intangible assets – Goodwill	5,863	7,034
Investments – Land and buildings	1,050	1,687
Other financial investments	42,121	30,806
	<u>43,171</u>	<u>32,493</u>
Value of long-term business in force	74,974	37,114
Assets held to cover linked liabilities	1,276,298	970,159
Debtors		
Debtors arising out of direct insurance operations	1,940	1,435
Debtors arising out of reinsurance operations	767	17,988
Other debtors	12,502	15,140
	<u>15,209</u>	<u>34,563</u>
Other assets		
Tangible assets		
Plant and machinery	1,137	1,354
Fixtures, fittings, tools and equipment	2,265	3,602
	<u>3,402</u>	<u>4,956</u>
Other assets – Cash at bank and in hand	23,294	22,669
Prepayments and accrued income		
Deferred acquisition costs	23,314	17,893
Other prepayments and accrued income	2,555	1,969
	<u>25,869</u>	<u>19,862</u>
Total assets	<u>1,468,080</u>	<u>1,128,850</u>
LIABILITIES		
Capital and reserves		
Called up share capital	95,284	83,284
Share premium account	34	33
Other reserves	121,508	89,514
Profit and loss account	(85,071)	(76,100)
	<u>131,755</u>	<u>96,731</u>
Technical provisions		
Long-term business provision		
–gross amount	15,314	15,909
–reinsurance amount	(4,266)	(1,580)
–net amount	<u>11,048</u>	<u>14,329</u>
Claims outstanding		
–gross amount	1,897	2,140
–reinsurance amount	(775)	(1,996)
–net amount	<u>1,122</u>	<u>144</u>
Technical provisions for linked liabilities		
–gross and net amount	1,276,298	970,159
Provisions for other risks and charges	6,880	4,106
Creditors		
Creditors arising out of direct insurance operations	2,572	3,070
Creditors arising out of reinsurance operations	–	446
Amounts owed to credit institutions	11,061	12,149
Other creditors including taxation and social security	21,037	23,150
	<u>34,670</u>	<u>38,815</u>
Accruals and deferred income	6,307	4,566
Total liabilities	<u>1,468,080</u>	<u>1,128,850</u>

Notes to the Accounts *continued*

14 J. ROTHSCHILD ASSURANCE HOLDINGS *continued*

NEW BUSINESS OF JRAH

	<u>1996</u> £'000	<u>1995</u> £'000
Gross new business		
Annualised regular (including life, pensions, PHI and PEPs)	52,449	37,455
Single (including life, pensions, PEPs and unit trusts)	<u>341,945</u>	<u>240,228</u>
	<u>394,394</u>	<u>277,683</u>
Gross premiums written		
Life	269,497	187,007
Pensions	93,092	71,500
PHI	<u>3,236</u>	<u>2,367</u>
	<u>365,825</u>	<u>260,874</u>
Profit after taxation		
Life	19,962	9,510
Non-life	<u>3,061</u>	<u>(1,289)</u>
	<u>23,023</u>	<u>8,221</u>

JRAH's total new business for the year ended 31 December 1996, as measured by the aggregate of new regular premiums plus 10% of single premiums, was £86.6 million (1995 - £61.5 million).

In order to compare JRAH's new business figures with the figures for the whole industry which are issued by the Association of British Insurers ("ABI"), it is necessary to remove unit trust and PEP sales, as well as business sold by J. Rothschild International Assurance, as these classes of business are not included in the ABI figures. On this basis, JRAH's new regular premiums were £40.0 million in 1996 (1995 - £28.8 million), with single premiums at £194.8 million (1995 - £138.6 million). Total new business, as measured above, was £59.5 million (1995 - £42.7 million).

ASSUMPTIONS IN CALCULATION OF EMBEDDED VALUE OF JRAH

The profits of JRAH after taxation, including those of the life companies on an embedded value basis, amount to £23.0 million (1995 - £8.2 million) and have been dealt with as shown in the consolidated profit and loss account on page 44. In each of the past two years there has been a change in a key assumption in the embedded value calculation affecting the magnitude of movement in the embedded value. The table below quantifies the effect of these changes in assumption, on the level of embedded value of the year end prior to the change:

	<u>1996</u> £'000	<u>1995</u> £'000
Unadjusted profit	14,509	3,200
Change in discount rate	-	5,021
Change in single premium surrender rates	<u>8,514</u>	<u>-</u>
Profit after taxation	<u>23,023</u>	<u>8,221</u>

Notes to the Accounts *continued*

14 J. ROTHSCHILD ASSURANCE HOLDINGS *continued*

The change in discount rate in 1995 from 15% to 12.5% brought it in line with discount rates in the industry. The single premium surrender rates initially adopted by the group have been reassessed in 1996 in view of actual and market experience. This resulted in an increase in post-tax profits of £8.5 million of which SJPC's share was £4.6 million.

JRAH's net assets, as at 31 December 1996, were £131.8 million including an amount of £91.6 million in respect of the value of its portfolio of existing business (i.e. its embedded value).

NEW BUSINESS PROFITABILITY OF JRAH

£20.0 million of the profit of £23.0 million shown above is in respect of JRAH's two life assurance subsidiaries, J. Rothschild Assurance and J. Rothschild International Assurance. This amount is analysed as follows:

	<u>£'000</u>
New business before expense overrun	14,249
Expense overrun	(6,100)
Change in single premium surrender rates in respect of prior year	8,514
Other items	<u>3,299</u>
	<u>19,962</u>

The other items primarily relate to the unwinding of the discount rate on in-force business and variations between the assumptions and the experience during the year, including variations due to taxation.

JRAH does not account for St. James's Place Unit Trust Group ("SJPUTG") on an embedded value basis, but if it were to do so, the net assets of JRAH would increase by £11.9 million to £143.7 million. This increase is due to the embedded value of SJPUTG being £17.8 million after tax of which only £5.9 million goodwill is already included in the JRAH accounts. In addition, on an embedded value basis, JRAH's value of new business before expense overrun would be £2.3 million higher at £16.5 million and profit after taxation would be £4.7 million higher at £27.7 million.

Notes to the Accounts *continued*

15 INVESTMENT HOLDING PORTFOLIO

	Group	
	31 December 1996 £'000	31 March 1996 £'000
Listed investments at market value		
Listed in London	–	4,107
Listed elsewhere	–	5,128
	–	9,235
Unlisted investments at Directors' valuation	–	17,302
	–	26,537
Movements		
At 31 March valuation	26,537	67,156
Surplus of valuation against cost	(5,408)	(1,561)
Historical cost at 31 March	21,129	65,595
Movements during the period		
–Purchases	40,878	10,952
–Transfers from current asset investments	82,851	–
–Sales	(29,592)	(55,418)
–Assets demerged from holding portfolio	(114,364)	–
–Assets reclassified as other investments	(902)	–
Historical cost carried forward	–	21,129
Surplus of valuation against cost	–	5,408
Valuation carried forward	–	26,537

16 INVESTMENT IN SUBSIDIARY UNDERTAKING

	Company
	31 December 1996 £'000
Additions at cost during period and at 31 December 1996	41,986

17 DEBTORS

	Group	
	31 December 1996 £'000	31 March 1996 £'000
Trade debtors	468	18,385
Other amounts due from associated undertakings		
–JRAH	5,357	4,454
–GAM	–	3,114
–LAHC	3,125	–
Other debtors	1,107	785
Prepayments and accrued income	1,315	13,051
	11,372	39,789

Included in amounts due from JRAH is an amount of £4.2 million (31 March 1996 – £3.2 million) falling due after more than one year.

Notes to the Accounts *continued*

18 CURRENT ASSET INVESTMENTS

	Group Market Value		Group Carrying Amount	
	31 December 1996 £'000	31 March 1996 £'000	31 December 1996 £'000	31 March 1996 £'000
Long positions				
Listed investments				
–Listed in London	–	6,329	–	5,320
–Listed elsewhere	–	66,981	–	64,243
	–	73,310	–	69,563
Unlisted investments	–	16,445	–	15,312
	–	89,755	–	84,875
UK Treasury Bills	17,786	–	17,786	–
	<u>17,786</u>	<u>89,755</u>	<u>17,786</u>	<u>84,875</u>

If the listed and unlisted investments had been realised at their market values no tax would have been payable (31 March 1996 – £1.6 million).

19 CREDITORS

	Group	
	31 December 1996 £'000	31 March 1996 £'000
Amounts falling due within one year		
Trade creditors	266	2,949
Taxation	2,314	3,788
Other tax and social security	84	152
Accruals and deferred income	2,113	5,916
	<u>4,777</u>	<u>12,805</u>
Amounts falling due after one year		
Unsecured bank loans repayable between two and five years	–	10,000

20 COMMITMENTS IN RESPECT OF OPERATING LEASES

	Group	
	31 December 1996 £'000	31 March 1996 £'000
Leases expiring in the period	22	35
Leases expiring 2–5 years	5	5
Leases expiring over 5 years	492	603
	<u>519</u>	<u>643</u>

Notes to the Accounts *continued*

21 PROVISIONS FOR LIABILITIES AND CHARGES

	Group		
	Deferred tax £'000	Other provisions £'000	Total £'000
At 31 March 1996	1,271	2,028	3,299
Deferred tax charge for the period	1,907	—	1,907
Transfer to corporation tax	(1,125)	—	(1,125)
Payments in period	—	(73)	(73)
At 31 December 1996	2,053	1,955	4,008

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 and associated 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.

22 RELATED PARTY TRANSACTIONS

J. Rothschild Investment Management Limited (“JRIML”)

(a) JRIML provides investment management services to the following clients under investment management agreements.

Client	Date of Agreement	Fee Basis	Fee credited to Profit and Loss Account in period £'000
J. Rothschild Administration Limited Pension & Life Assurance Scheme	19 January 1989	Waiver in force	—
Value Realisation Trust plc	3 June 1996	0.3% per annum of the value of the portfolio	130
J. Rothschild Assurance plc — Life and Pension managed funds	2 January 1996	0.35% per annum of the value of the portfolio	1,095
J. Rothschild International Assurance plc	11 January 1996	0.425% per annum of the value of the portfolio	146

Notes to the Accounts *continued*

22 RELATED PARTY TRANSACTIONS *continued*

J. Rothschild Investment Management Limited ("JRIML") *continued*

JRIML provides investment management services to the following clients under delegate investment management agreements.

<u>Client</u>	<u>Date of Agreement</u>	<u>Fee Basis</u>	<u>Fee credited to Profit and Loss Account in period £'000</u>
Global Asset Management Ltd: (Two funds)	30 September 1994	0.5% per annum of the net asset value of the funds	176
J. Rothschild Fund Managers Limited: St James's Place International Exempt Unit Trust	31 December 1991	0.67% per annum of the value of the portfolio of the Unit Trust	125
St James's Place Unit Trust Group Limited: St James's Place Greater European Progressive Unit Trust St James's Place Growth Unit Trust St James's Place International Unit Trust St James's Place North American and International Unit Trust St James's Place UK and General Unit Trust	6 December 1991	0.25% per annum of the value of the portfolio of the Unit Trusts	652

(b) JRIML provided investment advice in the period under a portfolio advisory agreement with Global Asset Management Limited in respect of a third party account. The agreement commenced on 11 April 1989 and the fees payable under the agreement were 50% of the fees paid to Global Asset Management Limited (which were 0.5% per annum of the value of the portfolios of the onshore funds and 1% per annum of the value of the portfolios of the offshore funds). The fees recognised in the profit and loss account in respect of this agreement amounted to £55,000. This agreement was terminated with effect from 31 December 1996.

Amounts due to JRIML from the above clients at 31 December 1996 were £35,973 due from Value Realisation Trust plc and £420,489 due from JRAH and its subsidiaries.

J. Rothschild Capital Management Limited ("JRCM")

JRCM was sold to RIT Capital Partners plc on 18 July 1996 for a consideration of £6.25 million equivalent to its net asset value at that date. Subsequent to the sale JRCM repaid £5.7 million of balances owing to SJPC Group companies.

JRCM provided, until 31 March 1997, under an investment management contract dated 28 June 1988 (and as subsequently amended), investment management services to RIT Capital Partners plc ("RITCP"). In its capacity as investment manager to RITCP the Group received a performance-related fee equal to 20% of the increase in RITCP's net asset value (including, for this purpose, dividends on the RITCP shares and interest on the convertible stock) in excess of a hurdle rate currently set at LIBOR, subject to a maximum of 9% and a minimum of 6%.

The fee is allocated between unrealised gains on unlisted investments, which are deferred until the gains on the investments are realised or the contract ends, and other gains. The profit and loss account of JRCM to 18 July 1996 included fees of £1.1 million which were deferred as at 31 March 1996 and which became payable when the relevant assets were realised.

Notes to the Accounts *continued*

22 RELATED PARTY TRANSACTIONS *continued*

J. Rothschild Administration Limited ("JRAdmin")

JRAdmin provides central administrative services including accommodation to companies within the Group and certain third parties.

Under an agreement dated 4 April 1995 JRAdmin provides accommodation at 27 St James's Place, London to J. Rothschild Assurance Holdings plc. The amount payable for rent, rates and services on a per annum basis is £144,682.

Under an agreement dated 16 November 1988, JRAdmin agreed to accept underleases of the building and adjoining garden of 27 St James's Place, London, granted by RITCP. The annual rental payable by JRAdmin is £1,150,000. Under an informal agreement JRAdmin and RITCP agreed that RITCP should take possession of certain parts of the premises including the "fine rooms", kitchens and garden to enable RITCP to carry on a private reception and banqueting business from such parts of the premises. The amount payable in the period by RITCP in respect of rent, rates and service charge for the premises amounted to £542,757, which is payable quarterly in advance.

In addition, under an agreement dated 6 June 1996, RITCP has leased back from JRAdmin, office space on the first, mezzanine and ground floors for an annual rent of £170,000 (including rates and service charge) payable quarterly in advance.

Under an operational services agreement, dated 3 June 1996, JRAdmin provides central administrative services to J. Rothschild Capital Management and RITCP. The amount charged to JRCM subsequent to its sale was £157,726 and the amount charged to RITCP in the nine months to 31 December 1996 was £869,035. The amount is invoiced and payable subsequent to 31 December 1996.

Notes to the Accounts *continued*

23 SHARE CAPITAL

Share Capital of the former SJPC

	Number	Nominal Value £'000
Authorised:		
At 31 March 1996 and 31 December 1996	400,000,000	60,000
Issued, Allotted and Fully Paid:		
At 31 March 1996	274,398,383	41,160
Allotted on the exercise of options	5,510,976	826
Reduced under the scheme of arrangement	(279,909,359)	(41,986)
Allotted following the scheme of arrangement	279,909,359	41,986
At 31 December 1996	279,909,359	41,986

During the period 1 April 1996 to 16 August 1996 the following share options were exercised:

Date of Grant	Number of Options	Exercise Price
29 August 1990	1,519,655	41.72p
2 August 1991	724,163	49.58p
10 August 1992	3,267,158	48.97p

All other options lapsed unexercised in the period. The total consideration received for shares allotted on the exercise of options was £2.6 million.

The former SJPC has also issued one Special Rights Redeemable Preference Share of £1 to The J. Rothschild Name Company Limited, an entity formed to protect the use of the name "J. Rothschild".

Share Capital of SJPC

	Number	Nominal Value £'000
Authorised:		
At 31 March 1996	-	-
Created on 1 April 1996	10,000	2
Created on 28 May 1996	359,990,000	53,998
At 31 December 1996	360,000,000	54,000
Issued, Allotted and Fully Paid:		
At 31 March 1996	-	-
Issued on 1 April 1996	1	-
Issued on 28 May 1996	1	-
Issued on 23 August 1996	279,909,357	41,986
At 31 December 1996	279,909,359	41,986

The share capital of SJPC was issued in exchange for the entire share capital of the former SJPC.

Notes to the Accounts *continued*

23 SHARE CAPITAL *continued*

By special resolution passed on 28 May 1996, the share capital of SJPC was increased by the creation of one Special Rights Redeemable Preference Share of £1. This share was issued to The J. Rothschild Name Company Limited.

24 OTHER RESERVES

The movements on reserves are summarised below:

	Other Non- Distributable Reserve £'000	Share Premium Account £'000	Revaluation Reserve £'000	Profit and Loss Account £'000
Group				
At 31 March 1996	-	523	5,408	204,565
Assets demerged from the Group	-	-	-	(128,235)
Shares issued during period	-	1,766	-	-
Transfer from special reserve	-	-	-	8,700
Reclassification due to demerger	2,289	(2,289)	-	-
Movements in investment holding portfolio:				
-Charged to profit and loss account	-	-	724	-
-Credited to profit and loss reserves	-	-	(6,132)	6,132
Currency translation and other movements	-	-	-	(1,202)
Retained profit for the period	-	-	-	27,287
Adjustment in respect of change in valuation of JRAH	-	-	-	(831)
First quarter results of JRAH and LAHC	-	-	-	2,063
Other reserve adjustments	-	-	-	410
At 31 December 1996	2,289	-	-	118,889
				Profit and Loss Account £'000
Company				
At 31 March 1996				-
Retained profit for the period				6,851
At 31 December 1996				6,851

Notes to the Accounts *continued*

24 OTHER RESERVES *continued*

The Group profit and loss reserves are analysed as follows:

	31 December	31 March
	1996	1996
	<u>£'000</u>	<u>£'000</u>
The Company	6,851	–
Subsidiary undertakings	65,904	179,088
Associated undertakings	<u>46,134</u>	<u>25,477</u>
	<u>118,889</u>	<u>204,565</u>

The profit and loss reserves attributable to associated undertakings are equity accounted reserves and are therefore non-distributable.

As permitted by Section 230 of the Companies Act 1985 the Company has not published a separate profit and loss account. The profit for the financial period dealt with in the accounts of the Company was £6.9 million.

25 MERGER RESERVE

The merger reserve arose following the acquisition by the former SJPC of the issued share capital of the company now known as SJPC 1990 plc. The former SJPC issued share capital of £188.0 million to acquire the shares of the company now known as SJPC 1990 plc and the shortfall of the capital and capital reserves acquired on merger (£0.2 million) has therefore been treated in the consolidated balance sheet as a negative reserve arising on merger.

26 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Period ended	Year ended
	31 December	31 March
	1996	1996
	<u>£'000</u>	<u>£'000</u>
Profit for the financial period	30,498	37,507
Dividends	<u>(3,211)</u>	<u>(9,053)</u>
	27,287	28,454
Unrealised losses on holding portfolio investments	–	(1,388)
Revaluation reserve deficit transferred to profit and loss account	724	–
Assets demerged from the Group	(128,235)	–
Goodwill and other movements	410	3,143
Adjustment in respect of change in valuation of JRAH	(831)	–
First quarter results of JRAH and LAHC	2,063	–
New share capital subscribed	2,592	161
Currency translation movements	<u>(1,202)</u>	<u>1,453</u>
Net (decrease)/increase in shareholders' funds	(97,192)	31,823
Opening shareholders' funds	<u>260,198</u>	<u>228,375</u>
Closing shareholders' funds	<u>163,006</u>	<u>260,198</u>

Notes to the Accounts *continued*

27 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Period ended 31 December 1996 £'000	Year ended 31 March 1996 £'000
Continuing activities		
Income before interest payable and taxation	33,199	15,781
Income from associated undertakings	(30,076)	(17,379)
Dividend received from GAM	3,118	3,546
Other non-cash items	(882)	(2,453)
Depreciation charges	68	135
Profit on sale of fixed assets	52	38
Decrease in trade debtors (other than for securities sold)	759	200
(Increase)/decrease in other debtors	(322)	46
(Increase)/decrease in prepayments and accrued income	(1,315)	234
(Decrease)/increase in trade creditors (other than for securities purchased)	(796)	1,809
Increase in accruals and deferred income	518	1,465
Decrease in other creditors	(68)	(61)
Cash outflow in respect of restructuring	(1,796)	—
Cash inflow from continuing activities	2,459	3,361
Discontinued activities	(1,745)	4,532
Net cash inflow from operating activities	714	7,893

28 ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS DURING THE YEAR

	<u>£'000</u>
At 31 March 1996	32,490
Net cash outflow	(12,141)
At 31 December 1996	<u>20,349</u>

29 CASH AND CASH EQUIVALENTS

	<u>31 December 1996 £'000</u>	<u>31 March 1996 £'000</u>	<u>Change £'000</u>
Cash at bank	7,254	35,100	(27,846)
UK Treasury Bills	17,786	—	17,786
Bank loans and overdrafts	(4,691)	(12,610)	7,919
	20,349	22,490	(2,141)
Bank loans with an original maturity of more than 3 months	—	10,000	(10,000)
	<u>20,349</u>	<u>32,490</u>	<u>(12,141)</u>

Notes to the Accounts *continued*

30 ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share Capital (including premium) £'000
Financing at 31 March 1996	41,683
Cash inflows from financing	<u>303</u>
Financing at 31 December 1996	<u>41,986</u>

31 CASH INFLOW IN RESPECT OF THE SALE OF SUBSIDIARY UNDERTAKINGS

The cash flow in respect of the period ended 31 December 1996 represents the consideration received in respect of the disposal of JRCM as shown below:

	£'000
Net Assets Disposed of	
Fixed assets	55
Debtors	14,593
Creditors	<u>(8,398)</u>
	<u>6,250</u>
Satisfied by	
Cash	<u>6,250</u>

In addition to the above, subsequent to its sale, JRCM repaid all amounts due to SJPC Group companies which, at the date of sale amounted to £5.7 million. This repayment together with the above consideration amounts to the £12.0 million shown in the cash flow statement.

There was no significant cash flow included within the cash flow statement attributable to JRCM prior to its disposal.

The cash inflow for the year ended 31 March 1996 represents the receipt of deferred consideration for subsidiary undertakings sold in the year ended 31 March 1992.

32 CONTINGENT LIABILITIES

The Company has provided financial comfort to bankers in respect of the borrowings of subsidiary undertakings which amounted to £4.7 million at 31 December 1996 (31 March 1996 - £12.6 million).

As previously disclosed, an officer and associated companies of SJPC were the subject of an action filed by certain investors in the Delaware Chancery Court on 16 May 1988 alleging, *inter alia*, violations of US securities laws in connection with the public offering of common stock in L.F. Rothschild Inc. in 1986 (the "Main Proceedings"). The claim is for unspecified compensatory damages.

Notes to the Accounts *continued*

32 CONTINGENT LIABILITIES *continued*

In 1995 the Directors received confirmation from the Delaware Chancery Court that the officer and associated companies were no longer named in the Main Proceedings and SJPC's only continuing involvement is by way of a claim for indemnity or contribution (pursuant to an underwriting agreement dated 13 March 1986) on the part of the SJPC associated companies in favour of the underwriters to the public offering who remain as defendants in the Main Proceedings. On 12 October 1995 the plaintiffs in the Main Proceedings filed a motion for class certification of the action in the Delaware Chancery Court.

The motion was argued on 4 February 1997 and the parties to the Main Proceedings are awaiting decision.

Based on legal advice received, the Directors are of the view that, if the motion for class certification is denied, it is unlikely that the Main Proceedings will be continued and that, if the motion for class certification is granted, the defendants to the Main Proceedings have strong defences available to them and that it is therefore improbable that the Main Proceedings will be successful. On the assumption that the Main Proceedings are not successful, exposure of the SJPC Group to liability arising from the Main Proceedings would be limited to claims for certain defence costs and would not have a significant effect on the financial position of the SJPC Group. However, should the Main Proceedings be successful, the total exposure of the SJPC Group to liability arising from the Main Proceedings by way of a claim for contribution may be material.

33 PENSION COMMITMENTS

The Group has pension commitments in respect of its defined benefit scheme.

The latest actuarial valuation was as at 18 July 1996. The most significant actuarial assumption was that the investment return would exceed the rate of salary increases by 4% per annum and exceed the rate of pension increases in payment by 6% per annum. At 18 July 1996, the scheme had assets valued at £17.9 million and an actuarial surplus of £3.0 million. On a Minimum Funding Requirement basis, which may be a more realistic estimate of the surplus, given the membership changes anticipated under the Scheme, the surplus is estimated at £4.6 million as at 31 January 1997, after allowing for a share of fund transfer payment for members transferring to the new pension scheme being established for J. Rothschild Capital Management Limited. The contribution rate, which was 7.5% of salaries of members aged under 40 years and 12.5% of salaries of members aged 40 and over, was reduced to zero from 1 December 1996, except in the case of members employed by J. Rothschild Capital Management Limited. During the period of its participation in the scheme, J. Rothschild Capital Management Limited will continue to contribute at the previously agreed rate in accordance with the terms of the sale and purchase agreement dated 3 June 1996 relating to that company. Other proposals are also being considered by the Company and the trustees of the pension scheme to reduce the surplus.

Notes to the Accounts *continued*

34 POST BALANCE SHEET EVENTS

The boards of SJPC and JRAH announced on 9 April 1997 that they reached agreement on proposals under which the SJPC Group would acquire all of the issued share capital of JRAH which it does not already own (excluding the special share held by The J. Rothschild Name Company Limited).

If the Proposals are approved, SJPC will issue new SJPC Shares to holders of JRAH Ordinary Shares on the basis of 1.75 new SJPC Shares for each JRAH Ordinary Share. On the assumption that all the outstanding options over JRAH Ordinary Shares are exercised in due course, this exchange rate would result in the issue of approximately 105.6 million new SJPC Shares. In addition, SJPC will issue approximately 43.3 million new SJPC Shares to acquire 32.1 million JRAH Convertible Preference Shares. The total number of new SJPC Shares to be issued as a result of these Proposals would have a value of some £185.1 million (calculated using the closing middle market price of SJPC Shares of 125.5 pence, on 8 April 1997, and deducting the proposed dividend of 1.125 pence per share) and would account for approximately 34.7% of SJPC's fully diluted share capital following implementation of the Proposals.

Principal Investments

at 31 December 1996

The following are the principal investments in which the Group held over 10% of a class of issued share capital at 31 December 1996.

<u>Company</u>	<u>Class of Share Capital</u>	<u>% Held</u>
Unlisted companies		
Investment Management		
Global Asset Management Limited (incorporated in Bermuda)	Shares of US\$1	29.7
Life Assurance		
Life Assurance Holding Corporation Limited	Shares of 1 penny	31.25

Both the above investments are held indirectly by the Company and have been dealt with in the consolidated accounts as associated undertakings and equity accounted.

LAHC is registered in England and Wales and operates principally in the United Kingdom.

Principal Subsidiary Undertakings

at 31 December 1996

Investment Holding

J. Rothschild Holdings plc

Investment Management

J. Rothschild Investment Management Limited*

Life Assurance

J. Rothschild Assurance Holdings plc

–Ordinary Shares of 1p each (51.02%)†

–Redeemable Convertible Preference Shares of £1 each (66.08%)

Central Administration

J. Rothschild Administration Limited

The Company owns indirectly 100% of the voting ordinary equity share capital of the above-named subsidiaries except where otherwise stated.

All of these companies are registered in England and Wales and operate principally in the United Kingdom.

All of these companies have been consolidated into the Group's accounts with the exception of JRAH which has been included within the Group's accounts under the equity method of accounting as described in the Group accounting policies on page 32.

*This company is a member of IMRO.

†Following the exercise of options over shares in JRAH the percentage holding has reduced to 47.9% as at 25 April 1997.

Shareholder Information

ANALYSIS OF ORDINARY SHAREHOLDERS

As at 31 December 1996 the Company's ordinary share capital was held as follows:

CATEGORY	<u>Number of Shareholders</u>	<u>%</u>	<u>Shares Held</u>	<u>%</u>
Individuals	8,387	83.39	30,054,251	10.74
Insurance Companies	38	0.38	10,930,241	3.91
Banks and Nominee Companies	1,243	12.36	226,588,617	80.95
Investment Trusts	81	0.81	6,023,590	2.15
Pension Funds	2	0.02	310,000	0.11
Other Corporate Bodies	306	3.04	6,002,660	2.14
Total	<u>10,057</u>	<u>100.00</u>	<u>279,909,359</u>	<u>100.00</u>

NUMBER OF SHARES	<u>Number of Shareholders</u>	<u>%</u>	<u>Shares Held</u>	<u>%</u>
1 – 500	1,432	14.24	351,939	0.12
501 – 1,000	1,288	12.81	916,342	0.33
1,001 – 2,000	2,048	20.36	2,766,361	0.99
2,001 – 3,000	1,465	14.57	3,477,838	1.24
3,001 – 4,000	918	9.13	3,086,574	1.10
4,001 – 5,000	560	5.57	2,449,923	0.88
5,001 – 10,000	1,202	11.95	7,987,408	2.85
10,001 – 25,000	672	6.68	9,545,639	3.41
25,001 – 50,000	178	1.77	5,981,996	2.14
50,001 – 100,000	90	0.89	5,819,369	2.08
100,001 and over	204	2.03	237,525,970	84.86
Total	<u>10,057</u>	<u>100.00</u>	<u>279,909,359</u>	<u>100.00</u>

FINANCIAL CALENDAR

Announcement of final results for period ended 31 December 1996	9 April 1997
Annual General Meeting	23 May 1997
Final dividend on Ordinary Shares of 1.125 pence	Payable 26 May 1997 to shareholders on the register on 25 April 1997

Annual General Meeting

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of St James's Place Capital plc will be held at The Royal Automobile Club, 89 Pall Mall, London SW1Y 5HS on Friday 23 May 1997 at 11.00 am or as soon thereafter as the Extraordinary General Meeting of the Company called for the same date at 10.55 am shall have been concluded or adjourned. The Meeting will be held for the following purposes:

ORDINARY BUSINESS

Resolution 1

To receive the Directors' Report and Accounts for the period ended 31 December 1996.

Resolution 2

To declare a final dividend.

Resolution 3

To elect as Directors the following:

Maurice Hatch
Anthony Loehnis
Derek Netherton
The Lord Rothschild
Sir Mark Weinberg
The Viscount Weir
William Wellesley

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

To consider and, if thought fit, pass the following Resolutions, all of which will be proposed as Special Resolutions.

Resolution 6

THAT the Company be hereby authorised to purchase up to an aggregate of 41,986,403 or if Resolution 2 to be proposed at the Extraordinary General Meeting of the Company convened for 10.55 am on 23 May 1997 (or at any adjournment thereof) shall become unconditional 60,032,085 Ordinary Shares of 15 pence each of the Company at a price (exclusive of expenses) which is:

- (a) not less than 15 pence 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 31 July 1998 (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).

Annual General Meeting *continued*

Resolution 7

THAT, subject to and conditional upon the increase of capital to be effected pursuant to Resolution 2 to be proposed at the Extraordinary General Meeting of the Company convened for 10.55 am on 23 May 1997 (or at any adjournment thereof) not becoming effective prior to 31 October 1997, the authority and power conferred on the Directors by paragraph (2) of Article 9 of the Company's Articles of Association be renewed for the period ending on the date of the Annual General Meeting in 1998 or on 31 July 1998, whichever is the earlier, and for such period the Section 80 amount shall be £13,995,467 but so that this Resolution shall not in any way affect or abrogate any other authority or power to allot or issue shares in force prior to the passing of this Resolution.

Resolution 8

THAT, subject to and conditional upon the increase of capital to be effected pursuant to Resolution 2 to be proposed at the Extraordinary General Meeting of the Company convened for 10.55 am on 23 May 1997 (or at any adjournment thereof) not becoming effective prior to 31 October 1997, the authority and power conferred on the Directors by paragraph (3) of Article 9 of the Company's Articles of Association be renewed for the period ending on the date of the Annual General Meeting in 1998 or on 31 July 1998, whichever is the earlier, and for such period the Section 89 amount shall be £2,099,320 but so that this Resolution shall not in any way affect or abrogate any other authority or power to allot or issue shares in force prior to the passing of this Resolution.

Resolution 9

THAT the provision in Article 81 whereby an executive chairman or managing director is not required to retire by rotation be deleted.

By Order of the Board
S R Sanders
Secretary

27 St James's Place
London SW1A 1NR

28 April 1997

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, Barrington House, 59-67 Gresham Street, London EC2V 7JA during usual business hours on any weekday (Saturdays and Bank Holidays excepted) until 23 May 1997 and at the place of the meeting from 10.45 am until its conclusion:

The service contracts of the Company's executive Directors
The Company's Memorandum and Articles of Association

Advisers

SECRETARY AND REGISTERED OFFICE

S R Sanders

27 St James's Place
London SW1A 1NR

AUDITORS

Price Waterhouse

Southwark Towers
32 London Bridge Street
London SE1 9SY

SOLICITORS

Linklaters & Paines

Barrington House
56-67 Gresham Street
London EC2V 7JA

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Bristol BS99 7NH

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