



ST. JAMES'S PLACE CAPITAL plc

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REPORT & ACCOUNTS

DECEMBER  
1998



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*Company Registration Number 3183415*

## Chairman's Statement

In its first full year of trading in its new form (following the acquisition of the outstanding capital of the J. Rothschild Assurance Group during 1997) St. James's Place Capital plc ("SJPC") achieved highly satisfactory increases in both new business and profits.

### **J. Rothschild Assurance Group (100% owned) ("JRA Group")**

For the year ended 31 December 1998 new regular premiums (£73.3 million) were up 15% on 1997, and single premiums (£575.0 million) up 27%. Total new business (on the accepted measure of new regular premiums plus 10% of single premiums) at £130.8 million, was up 20%. This compares with the average increase of 5% in total new business reported by the other 6 life assurance groups listed on the London Stock Exchange and results in a further increase in the Group's market share.

The increase in new business was reflected in a pleasing increase in life profits for the year as described later.

### ***The J. Rothschild Partnership***

Shareholders will be aware that within the UK the Group permits its products to be sold only by its own marketing arm, The J. Rothschild Partnership.

The great advantage of making the Group's products available only through members of The J. Rothschild Partnership is that the Group has full control over the quality of anyone recommending a J. Rothschild Assurance Marketing Group 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 (who are all self-employed) have more than twelve years' experience and we believe that the average production level of the members of the Partnership is more than twice that of the average company representative in the industry. This high productivity has important implications for our cost-efficiency. Tillinghast Towers Perrin's latest *Distribution Efficiency Survey* shows that J. Rothschild Assurance plc ("JRA") distribution expense ratio is 47% compared with the 79% ratio of the weighted average of life companies with direct sales forces in the Survey (and also, incidentally, lower than the 52% average of life companies distributing through IFAs).

The size of the Partnership grew by 10% from 813 to 891 during the year. The new business figures set out above reflect a significant increase in productivity per Partner.

### ***J. Rothschild International Assurance ("JRIA")***

Although it has a presence in Italy and certain countries in South America, most of the business of JRIA, the Dublin-based international arm of the Group, presently comes from The J. Rothschild Partnership. We feel the time has come to put our weight behind building up the international business with a view to matching, in the long term, the success achieved by J. Rothschild Assurance in the United Kingdom. We regard this as a major strategic step, the timing of which was dictated by our ability to secure the services of Paul Bradshaw as Chief Executive of JRIA to focus on the expansion of the non-Partner business. Paul Bradshaw, who has an outstanding record of setting up UK and international life assurance businesses, joined the Group at the beginning of February. Shareholders will be asked to approve the incentive arrangements whereby he will acquire a 5% interest in the non-Partner business of JRIA and his appointment to the SJPC Board at the forthcoming Annual General Meeting in May.

## Chairman's Statement *continued*

Figures for new business and funds under management for JRIA are included in those for the Group as a whole.

### ***Investment Management***

Since its inception the Group has sub-contracted its fund management to a select group of respected investment management firms, under close monitoring by the Group's Investment Committee, in the belief that in this way the Group offers its clients the best opportunity for obtaining consistent, superior investment performance over the longer term. This has been supported by experience to date. Some examples of performance over the seven years from launch to the end of 1998 are given in the paragraphs below.

The largest of the J. Rothschild Assurance Life Managed Funds was, at 31 December 1998, 2nd out of the 88 funds in its class for the seven year period, while the largest of its Pension Managed Funds was 1st in its class of 114. Contributions spread equally between the three Managed Funds that JRA launched in 1992 would have been in the top quartile amongst Life Funds and the top decile amongst Pension Funds over the same period.

An equal spread between the three Life Managed Funds grew at a compound rate of 11.81%, compared with 10.80% per annum for the median fund in the class. In the case of the Pension Funds, the equivalent growth was 15.51% per annum compared with 13.04% per annum for the median fund in the class (all figures based on an offer to offer basis; only funds open to new monies have been analysed; Source: *Standard & Poors Micropal*).

During the year the Investment Committee decided to change the managers of the various North American and Far Eastern funds and also to restructure the portfolio of unit trusts. From April 1999 all of the Far Eastern and North American funds will be managed by Cazenove Fund Management (who have an excellent track record in these areas). At the same time (and subject to unitholder consent) three of the unit trusts with international portfolios will be merged so that we will have only one International unit trust, managed by Taube Hodson Stonex Partners.

Following demand from The J. Rothschild Partnership and their clients, two new funds were successfully introduced to the life and pension range, with specialist investment teams chosen to manage the respective funds – 'Ethical' (Henderson Investors) and 'Tracker' (Barclays Global Investors). Corresponding unit trusts will be introduced in April 1999.

JRA Group funds under management at the end of 1998 were £3.1 billion, an increase of 31% over the figure of £2.4 billion at the end of 1997.

### **Financial Results**

1998 is the first year for which we have been able to present the full year's accounts in standard Insurance Group format and the figures should be much easier to follow this year and in the future. In this report, however, we still have complexities in the comparison of the current year's figures with those of the previous year. Because of the change in the Group's structure in mid-1997, the accounts produced for 1997 do not provide a meaningful comparison of SJPC's profitability and therefore pro forma results for the year to 31 December 1997 have also been presented, which set out the combined results of SJPC as if the JRA Group had been owned throughout the period.

## Chairman's Statement *continued*

The JRA Group reports to its shareholders on what is known as the embedded value basis. This takes into account the discounted value of future profits from business in force. During the year it became clear that the basis of calculation (in particular the 12½% rate of interest after tax at which future profits were discounted) was significantly out of line with the practice of most other life assurance holding companies. We therefore decided to review the basis of calculation, as shown in note 10, and most importantly to reduce the rate of discount to 10%. After taking into account the cost of maintaining a statutory solvency margin and of projecting unit-linked fund charges on a smoothed basis, this has given rise to a one-off item of profit of £5.4 million post-tax, as can be seen in note 9.

Following the revised guidance received during the year from the Financial Services Authority on the calculation of redress for Pension Transfers and Opt-outs, the Directors of J. Rothschild Assurance plc have increased the pension transfers and opt-out reserve to £11.4 million (1997: £8.0 million), which is included in the accounts. This reflects both the revised guidance and also the increased costs of compensation following recent falls in interest rates. No allowance has been made for any potential recoveries from professional indemnity insurance the Group carries.

The results show a positive trend in profits, reflecting the satisfactory growth in new business as well as the benefit of the good stockmarket performance over the year. Post-tax profits from the Group's life business rose to £40.2 million from the 1997 pro forma figure of £26.3 million.

Accounting convention means that we have to report unit trust profits on a more traditional cash flow basis. On this basis the unit trust business showed a post-tax profit of £3.5 million in 1998, so that combined life and unit trust profits were £43.7 million.

In the supplementary information at the end of this Report, we show the post-tax profits from unit trust business calculated instead on an embedded value basis comparable to that used for life business, which we believe gives a better measure of earnings. This shows profits from the unit trust business in 1998 as £15.9 million and combined life and unit trust post-tax profits for 1998 as £56.1 million, an increase of 45% over the comparative 1997 pro forma total of £38.6 million.

The contribution from Life Assurance Holding Corporation reflects the two successful acquisitions during the year, showing growth in pre-tax profits from £3.7 million in the year ended 31 December 1997 to £17.6 million for the year ended 31 December 1998. GAM made a pre-tax contribution of £4.7 million, compared with £5.2 million in 1997.

### **Dividend Policy and Final Dividend**

Although, 7 years after it commenced business, the JRA Group is now producing substantial profits on an embedded value basis, the conservative way in which statutory insurance reserves are calculated means that it is not yet able to pay dividends to SJPC. In the light of this, your Directors feel it is appropriate to adopt a policy of not increasing the dividends payable to shareholders for the time being. In due course, as the Group starts producing an increasing cash flow, it would be the intention to adopt a policy of paying increased dividends to shareholders. Until then, it is felt that the best way of creating value for shareholders is by concentrating on the growth in the value of the business itself.

## Chairman's Statement *continued*

If approved at the Annual General Meeting on 19 May 1999, a final dividend of 0.75p per share will be paid on 20 May 1999 to shareholders on the register at the close of business on 6 April 1999. This would make a total of 1.5p per share for the full financial year (unchanged from the previous year).

### **Life Assurance Holding Corporation (22.9% owned) ("LAHC")**

Shareholders will be aware that this company was formed by SJPC and New York Life (with the financial participation of a number of other institutions) at the end of 1994 to play a role in the restructuring of the UK life assurance industry.

During the year LAHC completed two purchases: Aegon Life (UK), with funds under management of £180 million, in January, and GAN Life (UK), with funds under management of £2.8 billion, in March. The purchase of GAN represented a step-change in the scale of the company's operations. The legal merger of these businesses with LAHC's operating subsidiary, Windsor Life, was successfully completed prior to the year end and this year's profits reflect the benefits of this.

While we share the belief of the management of LAHC that the restructuring of the UK life industry is far from complete and that there remains significant scope for the activities of the company, we made it clear in last year's statement that LAHC is not a core activity of SJPC. It is therefore likely that we will, when an appropriate opportunity presents itself in due course, sell our interest to a party willing to commit the capital required for the further expansion of the Company's business.

### **Global Asset Management (29.7% owned) ("GAM")**

GAM continues to expand its business in the retail and institutional investment management fields. Funds under management rose from US\$10.1 billion (£6.1 billion) at the end of 1997 to US\$13.0 billion (£7.6 billion) at 31 December 1998.

### **Community Affairs**

One of the precepts of the Group is a belief that a successful commercial organisation has a responsibility to apply some of its profits and energy for the benefit of the less fortunate members of society.

St. James's Place Capital plc has long been committed to charitable giving and was a founder member of the Percent Club. It has consistently made donations through a Charitable Trust for over a decade and during the last year the Charitable Trust contributed over £50,000 to various charitable causes.

At an early stage in its existence, the JRA Group similarly established a Charitable Trust – The J. Rothschild Assurance Foundation – which, since inception, has raised funds exclusively from individual members of the Partnership and employees. Virtually all Partners and employees actively contribute to the Foundation's fund raising activities and it is particularly pleasing that over 60% of them are now contributing to the Foundation through Deeds of Covenant. In 1998, The J. Rothschild Assurance Foundation made grants of some £150,000 to various causes around the UK in accordance with a theme of providing tangible support for pre-teen children suffering from physical or mental disabilities or life threatening diseases.

## Chairman's Statement *continued*

Following the merger of SJPC and the JRA Group, I promised last year that we would present shareholders with proposals to co-ordinate the Group's charitable contributions. These are included in the resolutions to be voted on at the Annual General Meeting. Essentially they provide for the assets of SJPC's Charitable Trust and of The J. Rothschild Assurance Foundation to be combined as well as the introduction of a matching facility, whereby the Company matches contributions by the Partnership and staff up to a limit set by shareholders, which this year is proposed to be £300,000.

### **Directors, Partners and Staff**

It is once again a pleasure to thank the members of The J. Rothschild Partnership for their enormous contribution to the success of the JRA Group, not only during 1998 but in preceding years. It is their strength and determination which has enabled us yet again to out-perform the industry.

Our staff have, as always, responded magnificently to the heavy demands placed upon them during another year of substantial growth in business. Staff at all levels continue to work long hours to sustain and develop the special culture within the Group. I would like to thank everyone at offices throughout the country and in Dublin for their commitment.

During the year Charles Bailey was appointed to the Board as a non-executive director and Martin Moule as Finance Director. As mentioned earlier, subject to the passing of resolutions at the Annual General Meeting, Paul Bradshaw will join the Board in May.

### **The Future**

As I mentioned earlier, we place great importance on the new plans to expand the international business of JRIA under Paul Bradshaw. Europe alone offers a number of markets as large or larger than those of the United Kingdom, which offers opportunities for our brand approach and expanded management skills, and we look forward to healthy development of this significant new thrust.

The UK life assurance industry is in the midst of a major period of change. Technology is making a significant impact on how certain services can be delivered to the consumer. At the same time, the regulatory structure introduced a decade ago has led to increased transparency, while the recent Green Paper on Stakeholders Pensions shows that the Government intends to prescribe a non-front end loaded charging structure for this form of business.

These developments have resulted in the entry of new players (such as retailers and supermarkets) into the field and in due course the Internet can also be expected to play an increasing role. They have also resulted in a great deal of consolidation and (to the benefit of LAHC) a significant number of smaller life companies have found that it was no longer economic for them to remain in the business.

Against this background, it may be helpful for me to explain to shareholders your Board's views on the challenges to and the opportunities for the JRA Group.

## Chairman's Statement *continued*

In our view, the three key drivers of the success of a life assurance group are efficient and cost-effective administration, good investment management and effective distribution.

From the start, J. Rothschild Assurance has contracted out its administration to Scottish Amicable (now part of the Prudential Group) and we will continue to work closely with them to ensure that our administration meets the increasingly demanding requirements of cost-efficiency resulting from the changing market place. I have already pointed out the contribution that the high productivity of the Partners makes to our cost efficiency.

I have also referred to the fact that the JRA Group contracts out investment management to a number of carefully monitored fund management groups and to the superior investment performance that this approach has so far produced.

Contracting out administration and investment management enables JRA to focus on what is by far the greatest determinant of the success of a life assurance group, which is distribution. Distribution in turn has three elements which will have differing weights in relation to different aspects of the market: *access* (the ability of the supplier to make contact with the consumer and the ability of the consumer to access the services of the supplier); *brand* (the extent to which the consumer will recognise and have confidence in the supplier); and *advice* (the extent to which the consumer will look to someone for advice and will have confidence and trust in the person giving that advice).

In relation to certain types of financial services (essentially relatively simple services where the customer does not perceive the need for advice), access and brand will be the critical elements and it is in respect of these types of product that the new providers will make significant inroads into the market. Supermarket counters, and ultimately the Internet, will give these types of supplier access to large numbers of buyers of these products. On the face of it, the distribution costs will be low by the traditional standards of the life assurance industry, although in due course the growth in the number of these suppliers is likely to push up marketing and advertising costs as rival suppliers compete for brand recognition.

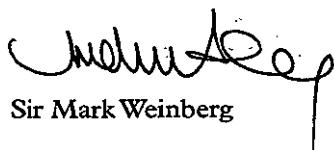
We believe that, for all but the simplest services and for all but the least sophisticated customers, advice will remain a key factor in the consumer's decision on where to place his or her business, what types of product to buy and indeed, since few people wake up in the morning determined to buy a life assurance or investment product that day, the resolve to make financial provision at all. The need to receive advice and encouragement to act from an individual in whom the potential client places personal trust is a basic human need which has characterised the more sophisticated part of the financial services industry for generations and which, we believe, is not going to be supplanted by smarter technology or impersonal telephone selling.

The strength of the JRA Group lies in the fact that the whole of its UK business comes through The J. Rothschild Partnership, whose members have long experience in financial services and who have built up strong advisory relationships with their clients, to whom they provide a highly personal service. It is our view that the technology-induced changes in distribution relating to the non-advisory part of the life assurance and investment business will have relatively little impact on our market, and that the sort of people whom the Partners look after will be prepared to pay a premium for personalised service and for advice in which they can place trust.

## Chairman's Statement *continued*

Another trend in the UK life assurance industry over recent years has been a move away from traditional front-loaded commissions on investment-based products. In the case of J. Rothschild Assurance, the Partners have adapted to this change. For example in 1998 some 90% of non-pension investment plans issued were on a single premium basis.

The Government's intention that the charging structure on Stakeholders Pensions and LISAs (long term ISAs) should be level-loaded will inevitably, we believe, result in the other policies which fall outside the Stakeholders/LISA regime (such as personal and executive pensions) adopting a similar charging structure and JRA's future strategies already incorporate this assumption. This will involve a process of adaptation for all life assurance companies. In our case, we have the benefit that our distribution consists entirely of experienced financial advisers who advise their clients on the use of our wide range of products (life and health protection policies, capital repayment plans, onshore and offshore investment bonds, unit trusts, ISAs and pension plans with a variety of optional benefits) and who have already shown their ability to adapt their working patterns and mix of business to meet changing conditions in the market place. Based on experience in the United States it should be possible for Partners to attract far larger volumes of contributions whether in the form of unit trusts or assured pensions.



Sir Mark Weinberg

16 April 1999

## President and Board of Directors

### **President:**

#### **The Lord Rothschild GBE**

Aged 62, is President of St. James's Place Capital plc and J. Rothschild Assurance Holdings plc. Lord Rothschild was appointed the Chairman of Rothschild Investment Trust Limited, the predecessor company to SJPC, in 1971 and resigned as a director of SJPC to become the President in June 1997. He is the Chairman of RIT Capital Partners plc and Value Realisation Trust plc and last year completed his term as Chairman of the National Heritage Memorial Fund and Heritage Lottery Fund.

Lord Rothschild is responsible for the management of Waddesdon Manor on behalf of the National Trust and plays a leading role in the philanthropic work of the Rothschild family's charitable foundation. He is co-founder of the Butrint Foundation, a charitable trust set up for the conservation of the archaeological site of Butrint in Albania and is actively involved with the creation of the Gilbert Collection Museum at Somerset House.

### **The present Directors of the Company are:**

#### **Sir Mark Weinberg**

Aged 67, is Chairman of St. James's Place Capital plc and Life Assurance Holding Corporation Limited and a director of Global Asset Management Limited. He is a member of the Compliance Committee of the SJPC Board and of the Investment Performance Monitoring Committee of the J. Rothschild Assurance Marketing Group. He chairs the Nomination Committee of the SJPC Board.

Sir Mark was appointed to the Board of J. Rothschild Holdings plc (then Charterhouse J. Rothschild plc), a predecessor company of SJPC in 1984 and served as a director until 1989. He rejoined the Board of the then SJPC in 1990, shortly before the formation of the JRA Group.

He was formerly Deputy Chairman of the Securities and Investments Board, the forerunner to the Financial Services Authority and, more recently, was Chairman of the Committee which reported to the Stock Exchange on Private Share Ownership.

#### **The Viscount Weir**

Aged 65, is the senior independent non-executive Director and is Chairman of the Remuneration Committee and a member of the Nomination and Audit Committees. He joined the Board of a predecessor company of SJPC in 1982, on the merger of Rothschild Investment Trust with the Great Northern Investment Trust, of which he was Chairman.

Lord Weir is Chairman of BICC plc and, until recently, was Chairman and a director of the Weir Group plc. He is a director of Canadian Pacific Limited and was formerly a director of The Bank of England, British Steel Corporation and other companies.

He is Chairman of the Trustees of the J. Rothschild Assurance plc Pension Scheme.

## President and Board of Directors *continued*

### **Charles Bailey**

Aged 64, was appointed to the SJPC Board as an independent non-executive Director in September 1998, and is a member of the Audit and Compliance Committees. Formerly a partner of Price Waterhouse, he left in 1987 and joined the board of RIT Capital Partners plc, the investment trust which was spun off from the Group in 1988. He worked with the late Sir James Goldsmith for many years and is a director of his company, General Oriental Investments Limited. He is also a director of Antofagasta Holdings plc, a company with mining, banking and manufacturing interests in Chile and of Atrium Underwriting plc, a recently listed Integrated Lloyd's Vehicle.

### **David Bellamy**

Aged 45, is the Group Operations Director and a director of J. Rothschild Assurance Holdings plc. He has worked in the insurance industry since 1973 and joined the Group in April 1991, prior to the launch of J. Rothschild Assurance plc, and was appointed to the board of that company in 1993 and to the Board of SJPC in September 1997, with specific responsibilities for SJPC's operational facilities. He is a member of the Compliance Committee of the SJPC Board.

### **Anthony Loehnis CMG**

Aged 63, is currently an executive director of SJPC and of J. Rothschild Assurance Holdings plc. As previously announced, he will be relinquishing his executive responsibilities and will become a non-executive Director in September 1999. He joined the then SJPC Board in July 1993 and is a member of the Compliance Committee, and of the Investment Performance Monitoring Committee of the J. Rothschild Assurance Marketing Group. He is a non-executive Director of Global Asset Management Limited.

Directorships external to the Group include Henderson Japanese Smaller Companies Trust PLC, The Knox D'Arcy Trust Plc, Alpha Bank London Limited, Tokyo-Mitsubishi International plc and AGCO Corporation (USA). Mr Loehnis was formerly a director of SG Warburg Group plc and was an executive Director of the Bank of England.

### **Martin Moule**

Aged 43, joined J. Rothschild Assurance plc as Finance Director in December 1997 and was appointed Finance Director of SJPC in December 1998. He has worked in life assurance since the mid 1970s and his experience includes a variety of roles in both the marketing and corporate areas of the life assurance and unit trust industries. He is a Fellow of the Institute of Actuaries.

### **Derek Netherton**

Aged 54, is an independent non-executive Director of SJPC, appointed in May 1996. He is Chairman of the Audit Committee and a member of the Remuneration Committee. He is a non-executive Director of Life Assurance Holding Corporation Limited. His non-executive directorships outside the Group include Next PLC and Plantation & General Investments plc and he is a member of the Committee of Management of the Schroder Exempt Property Unit Trust. He is a Fellow of the Institute of Actuaries and was formerly a director of J. Henry Schroder & Co Limited.

## President and Board of Directors *continued*

### **John Newman**

Aged 51, is the Sales Director of the Group and a director of J. Rothschild Assurance Holdings plc. He has worked in a sales capacity in financial services since 1972, initially with a large Canadian insurance company. He joined J. Rothschild Assurance plc on its formation in 1991 and was appointed an executive Director of SJPC in September 1997, with specific responsibilities for the production, growth and development of The J. Rothschild Partnership. He is a member of the Compliance Committee of the SJPC Board.

### **Roy Nicolson**

Aged 54, is classified as a non-independent, non-executive Director as he represents the interests of the Prudential Corporation. He joined the board of J. Rothschild Assurance Holdings plc in August 1991, representing Scottish Amicable, and was appointed to the board of SJPC in June 1997. Mr Nicolson is Chief Executive of Scottish Amicable Life and a director of Prudential Assurance Company Limited. He is a Fellow of the Institute of Actuaries.

### **Sir Dennis Stevenson CBE**

Aged 53, is an independent non-executive Director of SJPC, appointed in June 1997, who serves on the Remuneration, Nomination and Compliance Committees. He has been a non-executive Director of J. Rothschild Assurance Holdings plc since September 1991. He is also Chairman of AerFi Group plc (also known as GPA Group plc), Pearson plc and is Chairman of the Tate Gallery Foundation.

### **Senator Mario d'Urso**

Aged 58, is an independent non-executive Director of SJPC, appointed in March 1998. He is a Senator of the Italian Republic, Secretary to the Senate's Committee on Foreign Affairs, a member of the Committee on Treasury and Finance and, until his nomination in 1995 as Under-Secretary of Foreign Trade of the Dini Government, he was President of Lehman Brothers, Italy.

### **Mike Wilson**

Aged 55, is Chief Executive of SJPC, Chairman of St. James's Place Unit Trust Group Limited, Founder Director and Chief Executive of J. Rothschild Assurance plc and a member of the Compliance Committee of the SJPC Board. He has worked in the life assurance industry since 1963 and with Sir Mark Weinberg since 1968.

Mike Wilson is Chairman of the Mental Health Foundation.

# Directors' Report

The Directors present their Report & Accounts of the Company for the year ended 31 December 1998.

## RESULTS AND DIVIDENDS

SJPC made profits after taxation of £61.0 million during the year ended 31 December 1998.

An interim dividend of 0.75 pence per share was paid on 16 October 1998. The Board recommends payment of a final dividend of 0.75 pence per share on 20 May 1999 to shareholders on the register at the close of business on 6 April 1999.

The consolidated non-technical account on page 27 and the consolidated balance sheet on pages 29 and 30 show the state of affairs of the Group at 31 December 1998.

## 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 principal interests in life assurance and life assurance restructuring. In addition, it holds interests in a fund management company. A full review of the activities of the Group is given in the Chairman's Statement on pages 2 to 8.

## AUTHORITY TO PURCHASE OWN SHARES

The authority for the Company to purchase up to some 60 million shares, representing 15% of the issued share capital, expires at the Annual General Meeting on 19 May 1999. This authority was not used during the year. Shareholders will be asked to give a similar authority at the forthcoming Annual General Meeting, details of which are contained in the notice of meeting.

## PRINCIPAL SHAREHOLDERS

The Directors are aware of the interests of the following companies, or the groups of which they are a member as at 1 April 1999, in 3% or more of the ordinary issued share capital of the Company: Prudential Corporation group of companies, 114,784,696 shares (27.34%); Royal & Sun Alliance Insurance Group plc 16,727,700 shares (3.98%). The Directors are not aware of any other disclosable interests in the issued shares of the Company.

## DIRECTORS

The present Directors are listed on pages 9 to 11. On 6 March 1998 Senator Mario d'Urso was appointed to the Board, on 10 September 1998 Charles Bailey was appointed to the Board and on 16 December 1998 Martin Moule was appointed to the Board.

Pursuant to the Articles of Association, all the Directors appointed since the last Annual General Meeting will relinquish their office at the Annual General Meeting and all will be proposed for election at that meeting. The Directors retiring by rotation are Sir Mark Weinberg, Viscount Weir and Derek Netherton and all will be seeking re-election.

It is proposed to appoint Paul Bradshaw as an additional Director at the Annual General Meeting.

## Directors' Report *continued*

### **DIRECTORS' INTERESTS**

The interests of the Directors in the share capital of the Company, at 31 December 1998, and any changes between that date and the date of this Report, are given in the Report of the Remuneration Committee on pages 18 to 24.

Except as stated in the Report of the Remuneration Committee, no Director has, or has had during the year 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 23.

### **DIRECTORS' AND OFFICERS' INSURANCE**

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

### **CREDITORS' PAYMENT POLICY**

The payment of supplier invoices is made on the Group's behalf by JRA, a subsidiary company.

It is JRA's policy to pay creditors in accordance with the Confederation of British Industry ("CBI") Code of Practice on supplier payments. The Group's average number of days purchases outstanding in respect of trade creditors at 31 December 1998 was 28 days (1997:25 days).

### **CHARITABLE DONATIONS AND POLITICAL CONTRIBUTIONS**

During the year ended 31 December 1998, the Group contributed £50,000 to the SJPC Charitable Trust. A list of charitable donations made by this Trust will be available at the Annual General Meeting, together with a report which outlines the basis on which priorities for donations have been established. The Group made no political donations during the year.

### **MILLENNIUM**

The SJPC Group has had a programme in place for some time to ensure that all business areas are fully prepared with regard to the risks associated with the Millennium issue. Progress is reported regularly to the Group's Executive and the SJPC Board.

The majority of the Group's processing capability is outsourced so the programme has focused on the progress made by its key suppliers, including the Administration Centres, in ensuring that systems are ready for the century date change. For this reason the Group has not incurred material expenditure in addressing the Year 2000 issue and expects this to remain the case during 1999.

Monitoring of the Group's key suppliers indicates that in the main they have completed the corrective work and testing associated with their critical systems. The Group will continue to monitor such suppliers so that it is satisfied that any outstanding work is completed and that their Year 2000 programmes include business continuity measures for the period concerned.

The SJPC Board is satisfied with the progress made by GAM and LAHC.

## Directors' Report *continued*

### **ECONOMIC MONETARY UNION**

The Group has put in place the necessary systems to ensure that, to the extent that the euro affects its investments or its policy related business, it can conduct the transactions required.

The Group is currently reviewing its systems to assess the impact of the possible future adoption of the euro by the United Kingdom. The Directors believe that the total financial cost of preparation for the introduction of the euro will not be material to the Group.

### **EMPLOYEES**

Full details of the number of employees within the Group as at 31 December 1998 and the costs related to those employees are shown in note 14 on page 42.

The Group remains committed to all of its staff. The style of management and employment policies are designed to follow best practice, based on equal opportunities for everyone irrespective of sex, race, national origin, religion, colour, age, disability or marital status. The Group believes it is important that everyone is afforded the same opportunities.

The Group strives to create an environment in which staff can fulfil their full potential in the furtherance of their personal goals whilst making an important contribution to corporate objectives.

The Group aims to keep all employees closely involved with any major changes which may affect them and this is done via regular team meetings, briefings and other internal communications.

The Group strongly encourage financial involvement in the Group, which is achieved largely through a Save As You Earn Share Option Scheme into which over 70% of eligible staff contribute.

### **CONTRACTS OF SIGNIFICANCE**

Contracts of significance are detailed in note 37, Related Party Transactions.

### **AUDITORS**

Following the merger between Price Waterhouse and Coopers & Lybrand, PricewaterhouseCoopers were appointed to fill the casual vacancy that arose following Price Waterhouse's resignation as auditors. PricewaterhouseCoopers 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



H. J. Gladman

Secretary

16 April 1999

# Corporate Governance Report

## **CORPORATE GOVERNANCE**

SJPC is committed to the highest standards of corporate governance and it has continued to support and comply fully with the Code of Best Practice on the Financial Aspects of Corporate Governance as published by the Cadbury Committee.

## **COMPLIANCE WITH THE COMBINED CODE**

During the year under review the Stock Exchange adopted new Principles of Good Governance and a new Code of Best Practice. Except where indicated below, the Company has complied with the provisions set out in the Combined Code throughout the year.

## **BOARD OF DIRECTORS**

The Company applies the provisions of the Combined Code through the Board which meets regularly and has ready access to all relevant information required to enable effective independent decision making. In the furtherance of their duties, members of the Board may also seek to take independent advice, if necessary, at the Company's expense.

The Board currently consists of six executive and six non-executive Directors.

The primary responsibilities of the Board are to:

- ensure that the Group's operations are well managed;
- determine the overall strategy of the Group;
- implement appropriate corporate governance procedures;
- periodically review the results and operations of the Group;
- ensure that proper accounting records are maintained;
- safeguard the assets of the Group from fraud and other risks; and
- decide the Group's policy on charitable and political donations.

To aid the achievement of these objectives, a formal schedule of matters reserved for the Board, or any duly appointed committee, has been drawn up.

All Directors are subject to the retirement by rotation provisions set out in SJPC's Articles of Association. A resolution is to be proposed at the forthcoming Annual General Meeting to amend the relevant Articles to ensure that the retirement by rotation provisions comply with the requirements of the new Code. No service contracts exist for periods in excess of one year.

It is the responsibility of the Chairman to ensure the continued effectiveness of the Board of Directors and he liaises with the Chief Executive to make recommendations to the Board on Group strategy. The Chief Executive's responsibility is to manage the Group and implement the strategies adopted by the Board.

## **BOARD COMMITTEES**

The Board has formally constituted Audit, Nomination and Remuneration Committees, all of which comply with the provisions of the new Code.

Details of membership of these Committees can be found on pages 9 to 11.

## Corporate Governance Report *continued*

**The Audit Committee**, chaired by Derek Netherton, comprises solely non-executive Directors, all of whom are independent. It examines any matters relating to the financial affairs of the Group including reviews of the Company's annual accounts, internal control procedures, accounting policies, and compliance with accounting standards. Since the introduction of the new Code, the Committee also considers the independence, objectivity and cost effectiveness of the Group's auditors.

**The Remuneration Committee** comprises solely non-executive Directors, all of whom are independent. The Committee, chaired by The Viscount Weir, determines all aspects of the executive Directors' remuneration as well as their terms and conditions of employment. The Report of the Remuneration Committee is set out on pages 18 to 24.

Sir Mark Weinberg chairs **the Nomination Committee** which considers both appointments to the Board and the independence of any proposed new non-executive Directors. This Committee was established following the introduction of the Combined Code.

In addition, the Board has also elected to form a separate **Compliance Committee** made up of executive and non-executive Directors to deal explicitly with regulatory issues. The Committee's main responsibilities are:

- reviewing the adequacy and effectiveness of the compliance policies and procedures of the Group;
- monitoring the results of regulatory visits to the Group;
- making recommendations for changes in compliance related practices or procedures; and
- receiving reports on, and reviewing, the results of internal monitoring.

### RELATIONSHIPS WITH SHAREHOLDERS

The Board seeks to establish and maintain a dialogue with institutional shareholders. There is regular liaison with SJPC's brokers, Cazenove & Co, to facilitate meetings with investors and their representatives.

The Company's Annual General Meeting is held in London where members of the relevant committees of the Board are available to discuss matters arising. Where possible, timing and location of the meeting is designed to encourage the participation of small shareholders.

During the year in question the Company did not comply with the provisions outlined in the new Code in respect of Annual General Meeting notices and the level of proxy votes received. The Board intends, for the forthcoming and future Annual General Meetings, to send out notice of the meeting at least 20 working days beforehand. It will also indicate the level of proxies lodged on each resolution at the Annual General Meeting, along with the balance for and against each resolution.

# Corporate Governance Report *continued*

## **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:

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

The Directors have responsibility for ensuring that the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and 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 56, the Group 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.

## **INTERNAL CONTROL**

Pending further guidance on the scope of internal control reviews, the Group has followed the guidance issued by the London Stock Exchange in December 1998 and reported on internal financial control only.

The Board is vested with the responsibility for ensuring that the Group's system of internal financial control is designed to ensure effective and efficient operations, and compliance with all relevant laws and regulations.

In establishing the system of internal financial control the Directors have regard to the materiality of relevant risk, the likelihood of a loss being incurred and the costs of control. It follows therefore that any system of internal financial control can only provide reasonable but not absolute assurance against the risk of material misstatement or loss.

The effectiveness of the internal financial control system is reviewed annually by the Audit Committee, which also receives reports of reviews undertaken by internal audit. The Committee also receives reports from the Group's auditors, PricewaterhouseCoopers, which if identified, will include details of any significant internal financial control and compliance matters.

# Report of the Remuneration Committee

## THE COMMITTEE

At the beginning of the year under review, the Remuneration Committee comprised myself as Chairman, Maurice Hatch and Sir Dennis Stevenson. In May, Maurice Hatch resigned and the Board appointed Derek Netherton to the Remuneration Committee. The Company Secretary is the Secretary of the Remuneration Committee.

The Committee determines the remuneration packages of the executive Directors of the Company together with the overall supervision of the remuneration policy of the Group and the operation of the Executive Share Option and Bonus Schemes. Determination of the remuneration of the non-executive Directors, within the limits imposed by the Articles of Association, is the responsibility of the Board as a whole.

## REMUNERATION POLICY

At the beginning of the year SJPC complied with the best practice provisions on remuneration policy, service contracts and compensation as then annexed to the London Stock Exchange Listing Rules. A full review of those aspects was carried out following the publication by the Exchange during the year of the new Combined Code, which determined that SJPC has applied these new principles in relation to remuneration policy, service contracts and compensation throughout the year. New terms of reference for the Remuneration Committee were adopted by the Board to take into account any new provisions in the Combined Code.

The Committee aims to set executive remuneration at an appropriate level to attract, retain and motivate Directors of requisite calibre. To ensure that remuneration levels are competitive, without being excessive, the Remuneration Committee has access, as required, to professional advice and market data.

Remuneration for executive Directors comprises salary, annual discretionary bonus, participation in the Executive Share Option Scheme, pension contributions, car and other benefits including healthcare schemes.

Salaries are set within broad ranges around the median for similar positions in other life assurance groups of comparable size and operating structure, against which the performance and experience of each executive Director is reviewed annually. Other factors taken into account are SJPC's own performance compared with competitors, pay and conditions throughout the SJPC group and conditions in other companies of comparable size operating in other markets.

Bonus payments are made on the basis of SJPC's performance as measured against targets set for the year and agreed with the Remuneration Committee together with an assessment of individual performance during the year.

## Report of the Remuneration Committee *continued*

### DIRECTORS' REMUNERATION

Total Directors' remuneration for the year ended 31 December 1998 is shown below, with comparative figures for the year ended ended 31 December 1997:

|                                       | Year Ended<br>31 December<br>1998<br>£ | Year Ended<br>31 December<br>1997<br>£ |
|---------------------------------------|----------------------------------------|----------------------------------------|
| Fees to non-executive Directors       | 108,768                                | 77,945                                 |
| Salaries to executive Directors       | 993,204                                | 718,532                                |
| Bonuses to executive Directors        | 206,843                                | 366,148                                |
| Pension and death in service benefits | 126,108                                | 70,615                                 |
| Other benefits                        | 80,733                                 | 34,591                                 |
| Total                                 | <u>1,515,656</u>                       | <u>1,267,831</u>                       |

The substantial increase shown in the table above largely reflects the appointment of new Directors to the Board during 1998 and the fact that the comparative figures include the remuneration of previous Directors who held office for part of that year only.

The total emoluments of the highest paid UK Director in the year were £515,121 (£353,245 for the year ended 31 December 1997).

#### (i) Basic Salary, Benefits and Bonus

The Remuneration Committee carried out its formal review at 29 January 1999. At this last review the Committee approved the bonuses payable to the executive Directors for the year (as disclosed in the table on the next page) and reviewed the salary and bonus arrangements for 1999. With the exception of the salary of Martin Moule, which was increased from £140,000 to £150,000 with effect from 1 January 1999 in recognition of his appointment to the SJPC Board, it was decided to leave existing salary and bonus arrangements unchanged. The Committee will review these arrangements again at the mid year following receipt of a report from remuneration consultants who have been commissioned by the Committee to compare the benefits provided by the Group with those provided by other comparable companies.

For the year ended 31 December 1998, the bonuses approved by the Committee and paid to the executive Directors are disclosed in the table below. Executive Directors except for Anthony Loehnis are provided with the use of cars, with health care insurance and with other benefits in line with the normal practice of public quoted companies. Bonuses and other benefits are not pensionable.

## Report of the Remuneration Committee *continued*

| Name                 | Salaries<br>and Fees<br>£ | Bonuses<br>£ | Pension<br>and Death<br>In Service<br>£ | Other<br>Benefits<br>£ | 1998<br>Total<br>Emoluments<br>£ | 1997<br>Total<br>Emoluments<br>£ | 1997<br>Annualised<br>Emoluments<br>£ |
|----------------------|---------------------------|--------------|-----------------------------------------|------------------------|----------------------------------|----------------------------------|---------------------------------------|
| Sir Mark Weinberg    | 200,000                   | —            | 40,358                                  | 21,881                 | 262,239                          | 353,245                          | 353,245                               |
| Maurice Hatch        | 5,312                     | —            | —                                       | —                      | 5,312                            | 15,000                           | 15,000                                |
| Anthony Loehnis      | 100,000                   | —            | —                                       | —                      | 100,000                          | 100,000                          | 100,000                               |
| Derek Netherton      | 35,000                    | —            | —                                       | —                      | 35,000                           | 35,000                           | 35,000                                |
| The Viscount Weir    | 16,733                    | —            | —                                       | —                      | 16,733                           | 15,000                           | 15,000                                |
| David Bellamy        | 145,000                   | 36,250       | 17,520                                  | 14,807                 | 213,577                          | 91,638                           | 203,474                               |
| Senator Mario d'Urso | 20,531                    | —            | —                                       | —                      | 20,531                           | —                                | 15,000                                |
| Martin Moule         | 5,833                     | 35,000       | 663                                     | 947                    | 42,443                           | —                                | —                                     |
| John Newman          | 175,000                   | 43,750       | 29,750                                  | 25,008                 | 273,508                          | 116,984                          | 264,784                               |
| Roy Nicolson         | —                         | —            | —                                       | —                      | —                                | —                                | —                                     |
| Sir Dennis Stevenson | 25,000                    | —            | —                                       | —                      | 25,000                           | 12,945                           | 25,000                                |
| Michael Wilson       | 367,371                   | 91,843       | 37,817                                  | 18,090                 | 515,121                          | 342,741                          | 544,836                               |
| Charles Bailey       | 6,192                     | —            | —                                       | —                      | 6,192                            | —                                | —                                     |

### Notes:

- All of the above Directors served on the Board of SJPC during the reporting year. For Directors who were appointed during the year, the above represents remuneration for the period from the appointment date to 31 December 1998. For Directors who resigned during the year, the above represents remuneration from 1 January 1998 to the date of resignation. The annualised emoluments represent the salary, bonus, pension and other benefits that each of the Directors would have received had they held office throughout that year.
- Other benefits comprise entitlement to company cars or cash equivalent, fuel, private health care, critical illness cover and mobile telephone and are generally the amounts which are returned for taxation purposes.
- Pension and death in service costs represent the amount contributed to each Director's money purchase arrangement or paid to the Director in lieu of pension contributions, and the cost of life assurance.
- With effect from 31 August 1999, Anthony Loehnis will cease to be an executive Director of SJPC. He will remain on the Board of SJPC in a non-executive capacity.

### (ii) Share Incentives and Share Interests

SJPC operates two Share Option Schemes in which the executive Directors participate. All employees of SJPC, including the executive Directors, are eligible to enter into a Save as You Earn contract, under which they may acquire shares in the company at a price which will not be less than 80 per cent of the market price at the date of invitation to participate. In addition, the Group operates a discretionary share option scheme for executive Directors and senior employees under which options are granted at market value, according to levels of seniority within the management structure of the Group, such options being first exercisable in tranches between 4 and 6 years after the date of grant, subject to the achievement of certain individual and/or corporate targets relating to earnings growth.

## Report of the Remuneration Committee *continued*

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

### Executive Share Option Scheme

| Director        | Options held at 1 January 1998/date of appointment | Granted in year/since appointment | Options held at 31 December 1998 | Exercise price | Date from which exercisable | Expiry date                  |
|-----------------|----------------------------------------------------|-----------------------------------|----------------------------------|----------------|-----------------------------|------------------------------|
| David Bellamy   | 385,000                                            | —                                 | 385,000                          | 0.57p          | 1 Jan 1998 to 20 Oct 2000   | 24 April 2002 to 20 Oct 2003 |
|                 | 375,000                                            | —                                 | 375,000                          | £1.33          | 1 Jul 2001 to 1 Jul 2003    | 13 Jul 2007                  |
| Anthony Loehnis | 125,000                                            | —                                 | 125,000                          | £1.57          | 1 April 2001                | 18 Dec 2007                  |
| Martin Moule    | 200,000                                            | —                                 | 200,000                          | £1.49          | 1 Jan 2002 to 1 Jan 2004    | 8 Dec 2007                   |
|                 | —                                                  | 100,000                           | 100,000                          | £2.775         | 1 Jan 2003 to 1 Jan 2005    | 18 Dec 2008                  |
| John Newman     | 385,000                                            | —                                 | 385,000                          | 0.57p          | 1 Jan 1998 to 20 Oct 2000   | 24 April 2002 to 20 Oct 2003 |
|                 | 375,000                                            | —                                 | 375,000                          | £1.33          | 1 Jul 2001 to 1 Jul 2003    | 13 Jul 2007                  |

Notes:

- Martin Moule held share options on the date of his appointment as a director of the Company, being 16 December 1998.
- No options have either lapsed or been exercised during the year by Directors during their period in office.
- The exercise price corresponds with the share price on the date on which the options were granted. At 31 December 1998 the share price was £2.89½. The range of prices between 1 January 1998 and 31 December 1998 was £3.83 and £1.67½.
- In connection with the change from executive to non-executive Director with effect from 31 August 1999, Anthony Loehnis' options over 125,000 SJPC shares lapsed in part on 19 March 1999 so that 75,000 remain.

### SAYE Share Option Scheme

| Director       | Options held at 1 January 1998/date of appointment | Granted in year/since appointment | Options held at 31 December 1998 | Exercise price | Date from which exercisable | Expiry date |
|----------------|----------------------------------------------------|-----------------------------------|----------------------------------|----------------|-----------------------------|-------------|
| David Bellamy  | 16,121                                             | —                                 | 16,121                           | £1.07          | 1 Sept 2002                 | 1 Mar 2003  |
| Martin Moule   | 5,777                                              | —                                 | 5,777                            | £1.35          | 1 Mar 2001                  | 1 Sept 2001 |
|                | 911                                                | —                                 | 911                              | £2.14          | 7 Oct 2001                  | 7 Apr 2002  |
| John Newman    | 16,121                                             | —                                 | 16,121                           | £1.07          | 1 Sept 2002                 | 1 Mar 2003  |
| Michael Wilson | 16,121                                             | —                                 | 16,121                           | £1.07          | 1 Sept 2002                 | 1 Mar 2003  |

Notes:

- Martin Moule held SAYE share options on the date of his appointment as a Director of the Company, being 16 December 1998.
- No SAYE options have either lapsed or been exercised during the year by Directors during their period in office.

## Report of the Remuneration Committee *continued*

The interests of Directors in the share capital of SJPC as at beginning of the year or the date of their appointment, if later, and as at 31 December 1998 are given below.

| Director             | 31 December 1998<br>Ordinary Shares of<br>15 pence each |                | 31 December 1997/<br>date of appointment<br>Ordinary Shares of<br>15 pence each |                |
|----------------------|---------------------------------------------------------|----------------|---------------------------------------------------------------------------------|----------------|
|                      | Beneficial                                              | Non-Beneficial | Beneficial                                                                      | Non-Beneficial |
| Charles Bailey       | —                                                       | —              | —                                                                               | —              |
| David Bellamy        | 21,225                                                  | 238,100        | 271,225                                                                         | 83,100         |
| Senator Mario d'Urso | —                                                       | —              | —                                                                               | —              |
| Anthony Loehnis      | 10,000                                                  | —              | 10,000                                                                          | —              |
| Martin Moule         | 2,191                                                   | —              | 2,191                                                                           | —              |
| Derek Netherton      | —                                                       | —              | —                                                                               | —              |
| John Newman          | 186,000                                                 | 63,500         | 196,000                                                                         | 73,500         |
| Roy Nicolson         | —                                                       | —              | —                                                                               | —              |
| Sir Dennis Stevenson | —                                                       | 700,000        | —                                                                               | 1,400,000      |
| Sir Mark Weinberg    | 5,358,488                                               | 300,000        | 5,358,488                                                                       | 1,800,000      |
| The Viscount Weir    | 3,745                                                   | —              | 3,745                                                                           | —              |
| Michael Wilson       | 5,000,000                                               | 1,250,000      | 5,608,488                                                                       | 1,610,000      |

**Notes:**

- i) Martin Moule held shares on the date of his appointment as a Director of the Company, being 16 December 1998.
- ii) Maurice Hatch held 10,000 shares beneficially and 343,005 non-beneficially as at the beginning of the year and as at the date of his resignation on 8 May 1998.
- iii) The reduction in Sir Mark Weinberg's non-beneficial holding reflects the fact that he ceased to be a trustee of a number of settlements of which he was not a beneficiary.

Between 31 December 1998 and 14 April 1999 there have been no transactions in shares by Directors.

### (iii) Pensions and Death in Service Benefits

The provision of pension benefits for the executive Directors of SJPC is generally through employer contributions to the group personal pension plan with J. Rothschild Assurance plc. The contribution rate for executive Directors is generally 12.5% of salary. Individual arrangements are also facilitated by the Committee, contributions to such arrangements being determined by personal circumstances and arrangements already in force on joining the Group.

The costs for pension and death in service arrangements for the individual executive Directors during the year ended 31 December 1998 are shown on page 20. No pension or death in service provision is made for Anthony Loehnis.

The Remuneration Committee approved a payment in respect of Sir Mark Weinberg's life cover which was in excess of 12.5% of salary following the review of his service contract early in 1998.

The Remuneration Committee have agreed that executive Directors who accept the Group's invitation to transfer from the group personal pension plan to the newly opened money purchase section of the Group's occupational pension scheme will be entitled to employer contributions at the rate of 15% of salary for a period of 3 years.

## Report of the Remuneration Committee *continued*

### **SERVICE AGREEMENTS**

It is the Committee's policy that service agreements should not grant notice periods in excess of one year. The terms and conditions of the Directors' service agreements are reviewed regularly.

Sir Mark Weinberg's service agreement can be terminated, without specific provision for compensation for early termination by, *inter alia*, either party giving the other not less than twelve months' written notice. The agreement will automatically terminate on Sir Mark Weinberg's 70th birthday. The agreement, which requires Sir Mark Weinberg to devote 50% of his time to the affairs of SJPC, provides for an annual salary of £200,000 and benefits in kind, including life assurance, pension provision, private health insurance and a company car together with a chauffeur.

Michael Wilson's service agreement can be terminated, without specific provision for compensation for early termination by, *inter alia*, either party giving the other not less than twelve months' written notice. The agreement will automatically terminate on Michael Wilson's 60th birthday and provides for an annual salary of £367,371 and benefits in kind, including life assurance, participation in the discretionary bonus scheme, pension provision, private health insurance and a company car together with a chauffeur.

Anthony Loehnis's service agreement can be terminated, without specific provision for compensation for early termination by, *inter alia*, either party giving the other not less than three months' written notice and provides for an annual salary of £100,000. It has been agreed that the contract will terminate on 31 August 1999 whereupon Mr Loehnis will become a non-executive Director of the Company.

David Bellamy's service agreement can be terminated, without specific provision for compensation for early termination by, *inter alia*, either party giving the other not less than twelve months' written notice. The agreement will automatically terminate on David Bellamy's 60th birthday and provides for an annual salary of £145,000 and benefits in kind, including life assurance, participation in the discretionary bonus scheme, pension provision, private health insurance and a company car.

John Newman's service agreement can be terminated, without specific provision for compensation for early termination by, *inter alia*, either party giving the other not less than twelve months' written notice. The agreement will automatically terminate on John Newman's 60th birthday and provides for an annual salary of £175,000 and benefits in kind, including life assurance, participation in the discretionary bonus scheme, pension provision, private health insurance and a company car.

Martin Moule's service agreement can be terminated, without specific provision for compensation for early termination by, *inter alia*, either party giving the other not less than twelve months' written notice. The agreement will automatically terminate on Martin Moule's 60th birthday and provides for an annual salary of £150,000 and benefits in kind, including life assurance, participation in the discretionary bonus scheme, pension provision, private health insurance and a company car.

# Report of the Remuneration Committee *continued*

## **NON-EXECUTIVE DIRECTORS**

The remuneration of the non-executive Directors is determined by the Board as a whole, within the limits set by the provisions of the Articles of Association.

The basic annual fee is £15,000 per annum, which the Board believes to be in line with current market practice. Additional fees may be paid in respect of other duties performed. My fees were raised from £15,000 to £20,000 per annum from 1 September 1998 in recognition of my Board Committee responsibilities.

Derek Netherton is paid £35,000 per annum and Sir Dennis Stevenson is paid £25,000 per annum as Directors and in respect of their work on Board Committees and, in the case of Derek Netherton, as the SJPC representative on the Board of LAHC.

Roy Nicolson is not paid a fee in respect of his work as a Director of SJPC.

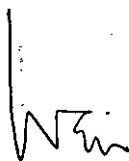
Senator d'Urso, who was appointed a non-executive Director on 6 March 1998 is paid at the rate of £25,000 per annum, which includes an amount of £10,000 in respect of his work for J. Rothschild International Assurance plc.

Charles Bailey, who was appointed a non-executive Director on 10 September 1998, is paid at the rate of £20,000 per annum.

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. The term of the appointment of the non-executive Directors has been amended recently to terminate on the date on which the non-executive Director is required to retire by rotation at which point the appointment will be reviewed.

## **TERMINATION PAYMENTS**

When considering any question of termination payments, the Remuneration Committee would ensure that poor performance was not rewarded and, in determining the size of any award, would take into account a number of factors including health, length of service, age, and the Director's legal duty to mitigate his own loss. It is the intention that service contracts for future directors will explicitly provide for the departing Director's obligation to mitigate loss in case of early termination with a broad aim to avoid rewarding poor performance while dealing fairly with cases where departure is not due to poor performance.



The Viscount Weir

16 April 1999

# Auditor's Report

## TO THE MEMBERS OF ST. JAMES'S PLACE CAPITAL plc

We have audited the financial statements on pages 26 to 56 which have been prepared in accordance with the accounting policies set out on pages 33 to 35.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report, including as described on page 17 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements.

We review whether the statement on pages 15 to 17 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's corporate governance procedures or its internal controls.

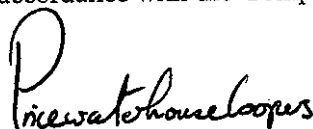
## BASIS OF AUDIT OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. 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 and the Group'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 1998 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Chartered Accountants and Registered Auditors  
16 April 1999

London

## Consolidated Long-Term Business Technical Account

|                                                                | Notes | Year Ended<br>31 December<br>1998<br>£'Million | 6 Months Ended<br>31 December<br>1997<br>£'Million |
|----------------------------------------------------------------|-------|------------------------------------------------|----------------------------------------------------|
| <b>Earned premiums, net of reinsurance</b>                     |       |                                                |                                                    |
| Gross premiums written                                         |       | 634.3                                          | 273.4                                              |
| Outward reinsurance premiums                                   |       | (24.0)                                         | (7.4)                                              |
|                                                                | 3     | 610.3                                          | 266.0                                              |
| Increase in value of long-term business<br>in force            |       | 58.2                                           | 24.0                                               |
| Investment income                                              | 4     | 207.1                                          | 161.4                                              |
| Unrealised gains on investments                                |       | 57.8                                           | —                                                  |
|                                                                |       | 933.4                                          | 451.4                                              |
| <b>Claims incurred, net of reinsurance</b>                     |       |                                                |                                                    |
| Claims paid                                                    |       |                                                |                                                    |
| – Gross amount                                                 |       | (155.4)                                        | (54.7)                                             |
| – Reinsurers' share                                            |       | 21.3                                           | 3.9                                                |
|                                                                |       | (134.1)                                        | (50.8)                                             |
| Change in the provision for claims                             |       |                                                |                                                    |
| – Gross amount                                                 |       | (1.0)                                          | (1.2)                                              |
| – Reinsurers' share                                            |       | 0.6                                            | (0.4)                                              |
|                                                                |       | (0.4)                                          | (1.6)                                              |
|                                                                | 5     | (134.5)                                        | (52.4)                                             |
| Changes in other technical provisions,<br>net of reinsurance   |       |                                                |                                                    |
| Long-term business provision, net of reinsurance               |       |                                                |                                                    |
| – Gross amount                                                 |       | (12.1)                                         | (11.6)                                             |
| – Reinsurers' share                                            |       | 4.0                                            | 2.0                                                |
|                                                                |       | (8.1)                                          | (9.6)                                              |
| Technical provisions for linked liabilities                    |       | (591.6)                                        | (260.6)                                            |
|                                                                |       | (599.7)                                        | (270.2)                                            |
| <b>Net operating expenses</b>                                  | 7     | (116.7)                                        | (43.7)                                             |
| <b>Investment expenses and charges</b>                         |       | (8.1)                                          | (6.0)                                              |
| <b>Unrealised losses on investments</b>                        |       | —                                              | (49.6)                                             |
| <b>Tax attributable to the long-term business</b>              | 8     | (34.2)                                         | (12.0)                                             |
|                                                                |       | (893.2)                                        | (433.9)                                            |
| <b>Balance on the long-term business<br/>technical account</b> |       | 40.2                                           | 17.5                                               |

The comparative figures are for a six month period since the long-term business activities only became wholly owned with effect from 26 June 1997.

The notes and information on pages 33 to 56 form part of these accounts.

## Consolidated Non-Technical Account

|                                                                            | Notes | Year Ended<br>31 December<br>1998<br>£'Million | Unaudited<br>Pro forma<br>Year ended<br>31 December<br>1997<br>£'Million | Year ended<br>31 December<br>1997<br>£'Million |
|----------------------------------------------------------------------------|-------|------------------------------------------------|--------------------------------------------------------------------------|------------------------------------------------|
| <b>Balance on the long-term business technical account</b>                 |       | <b>40.2</b>                                    | <b>26.3</b>                                                              | <b>17.5</b>                                    |
| Tax credit attributable to balance on long-term business technical account |       | <u>17.3</u>                                    | <u>11.9</u>                                                              | <u>7.9</u>                                     |
| Shareholders' pre-tax profit from long-term business (continuing)          |       | 57.5                                           | 38.2                                                                     | 25.4                                           |
| <b>Investment income</b>                                                   |       |                                                |                                                                          |                                                |
| Income from participating interests (continuing)                           | 19    | 22.3                                           | 8.9                                                                      | 17.0                                           |
| Income from other investments (continuing)                                 | 11    | 4.1                                            | 3.3                                                                      | 2.6                                            |
| <b>Investment expenses and charges (continuing)</b>                        |       | <b>(1.7)</b>                                   | <b>(0.8)</b>                                                             | <b>(1.2)</b>                                   |
| <b>Other income</b>                                                        |       |                                                |                                                                          |                                                |
| Continuing                                                                 | 12    | 21.8                                           | 16.4                                                                     | 9.4                                            |
| Discontinued                                                               | 12    | —                                              | —                                                                        | 2.2                                            |
| Exceptional items                                                          | 12    | —                                              | —                                                                        | 0.4                                            |
| <b>Other charges</b>                                                       |       |                                                |                                                                          |                                                |
| Continuing                                                                 |       | (17.7)                                         | (14.0)                                                                   | (8.5)                                          |
| Discontinued                                                               |       | —                                              | —                                                                        | (0.3)                                          |
| Exceptional items                                                          |       | —                                              | (0.2)                                                                    | —                                              |
| <b>Profit on ordinary activities before tax</b>                            | 13    | <b>86.3</b>                                    | <b>51.8</b>                                                              | <b>44.7</b>                                    |
| Continuing                                                                 |       | 86.3                                           | 51.8                                                                     | 44.7                                           |
| Discontinued                                                               |       | —                                              | —                                                                        | 2.3                                            |
|                                                                            |       | <u>86.3</u>                                    | <u>51.8</u>                                                              | <u>47.0</u>                                    |
| Tax on profit on ordinary activities                                       | 8     | (25.3)                                         | (14.9)                                                                   | (13.2)                                         |
| <b>Profit on ordinary activities after tax</b>                             |       | <b>61.0</b>                                    | <b>36.9</b>                                                              | <b>33.8</b>                                    |
| Dividends                                                                  | 15    | (6.2)                                          | (6.1)                                                                    | (6.1)                                          |
| <b>Retained profit for the year</b>                                        |       | <b>54.8</b>                                    | <b>30.8</b>                                                              | <b>27.7</b>                                    |
|                                                                            |       | <b>Pence</b>                                   | <b>Pence</b>                                                             | <b>Pence</b>                                   |
| Dividend per share                                                         | 15    | 1.5                                            | 1.5                                                                      | 1.5                                            |
| Earnings per share                                                         | 16    | 14.9                                           | 9.1                                                                      | 9.8                                            |
| Adjusted earnings per share                                                | 16    | 13.5                                           | 9.1                                                                      | 9.7                                            |
| Fully diluted earning per share                                            | 16    | 13.3                                           | 8.1                                                                      | 7.4                                            |
| Fully diluted adjusted earnings per share                                  | 16    | 12.1                                           | 8.1                                                                      | 7.3                                            |

The unaudited pro forma and actual 1997 earnings per share have been restated as detailed in note 16.

The notes and information on pages 33 to 56 form part of these accounts.

## Consolidated Statement of Total Recognised Gains and Losses

|                                                               | Year Ended<br>31 December<br>1998 | Unaudited<br>Pro forma<br>Year Ended<br>31 December<br>1997 | Year Ended<br>31 December<br>1997 |
|---------------------------------------------------------------|-----------------------------------|-------------------------------------------------------------|-----------------------------------|
|                                                               | £'Million                         | £'Million                                                   | £'Million                         |
| Profit for the financial year                                 | 61.0                              | 36.9                                                        | 33.8                              |
| Currency translation movements                                | (0.8)                             | —                                                           | 1.8                               |
| Total gains and losses recognised<br>since last Annual Report | <u>60.2</u>                       | <u>36.9</u>                                                 | <u>35.6</u>                       |

### Note of Historical Cost Profits and Losses

As there are no material differences between the results as described in the profit and loss account and the results on a historic cost basis, no note of historical cost profits and losses for the year is given.

The notes and information on pages 33 to 56 form part of these accounts.

## Consolidated Balance Sheet at 31 December

|                                                    | Notes | 1998<br>£'Million | 1997<br>£'Million |
|----------------------------------------------------|-------|-------------------|-------------------|
| <b>ASSETS</b>                                      |       |                   |                   |
| <b>Investments</b>                                 |       |                   |                   |
| Land and buildings                                 | 18    | 0.8               | 1.0               |
| Investments in participating interests             | 19    | 81.5              | 62.1              |
| Other financial investments                        |       |                   |                   |
| Debt securities and other fixed income securities  |       | 17.0              | 12.0              |
| Deposits with credit institutions                  |       | 76.6              | 70.8              |
| Other                                              |       | —                 | 0.2               |
| Deposits with ceding undertakings                  |       | 3.9               | 4.0               |
|                                                    |       | 179.8             | 150.1             |
| <b>Value of long-term business in force</b>        | 10    | 141.7             | 100.9             |
| <b>Assets held to cover linked liabilities</b>     | 20    | 2,383.8           | 1,792.9           |
| <b>Reinsurers' share of technical provisions</b>   |       |                   |                   |
| Long-term business provision                       |       | 12.2              | 8.2               |
| Claims outstanding                                 |       | 1.6               | 1.0               |
|                                                    |       | 13.8              | 9.2               |
| <b>Debtors</b>                                     |       |                   |                   |
| Debtors arising out of direct insurance operations |       | 4.4               | 2.2               |
| Other debtors                                      | 21    | 29.7              | 24.4              |
|                                                    |       | 34.1              | 26.6              |
| <b>Other assets</b>                                |       |                   |                   |
| Tangible assets                                    | 22    | 4.4               | 3.3               |
| Cash at bank and in hand                           |       | 28.7              | 14.1              |
|                                                    |       | 33.1              | 17.4              |
| <b>Prepayments and accrued income</b>              |       |                   |                   |
| Deferred acquisition costs                         |       | 26.9              | 29.8              |
| Other prepayments and accrued income               |       | 4.6               | 4.1               |
|                                                    |       | 31.5              | 33.9              |
| <b>Total assets</b>                                |       | 2,817.8           | 2,131.0           |

The notes and information on pages 33 to 56 form part of these accounts.

# Consolidated Balance Sheet at 31 December

|                                                        | Notes | 1998<br>£ Million | 1997<br>£ Million |
|--------------------------------------------------------|-------|-------------------|-------------------|
| <b>LIABILITIES</b>                                     |       |                   |                   |
| <b>Capital and reserves</b>                            |       |                   |                   |
| Called up share capital                                | 23    | 62.3              | 61.0              |
| Share premium account                                  | 24    | 0.1               | —                 |
| Shares to be issued                                    | 24    | 2.0               | 3.3               |
| Other reserves                                         | 24    | 82.4              | 42.2              |
| Profit and loss account                                | 24    | 144.6             | 130.8             |
| Shareholders' funds — equity interests                 |       | 291.4             | 237.3             |
| <b>Technical provisions</b>                            |       |                   |                   |
| Long-term business provision                           | 26    | 43.6              | 31.5              |
| Claims outstanding                                     |       | 4.7               | 3.7               |
|                                                        |       | 48.3              | 35.2              |
| <b>Technical provisions for linked liabilities</b>     |       | 2,383.8           | 1,792.9           |
| <b>Provisions for other risks and charges</b>          | 27    | 9.4               | 11.2              |
| <b>Creditors</b>                                       |       |                   |                   |
| Creditors arising out of direct insurance operations   |       | 5.2               | 3.4               |
| Amounts owed to credit institutions                    | 28    | 29.6              | 21.4              |
| Other creditors including taxation and social security | 29    | 33.0              | 17.4              |
| Proposed dividend                                      | 15    | 3.1               | 3.1               |
|                                                        |       | 70.9              | 45.3              |
| <b>Accruals and deferred income</b>                    |       | 14.0              | 9.1               |
| <b>Total liabilities</b>                               |       | 2,817.8           | 2,131.0           |

The financial statements on pages 26 to 56 were approved by the Board of Directors on 16 April 1999 and signed on its behalf by:



M S Wilson  
Director

The notes and information on pages 33 to 56 form part of these accounts.

## Balance Sheet of the Parent Company at 31 December

|                                                       | Notes | 1998<br>£'Million | 1997<br>£'Million |
|-------------------------------------------------------|-------|-------------------|-------------------|
| <b>Fixed assets</b>                                   |       |                   |                   |
| Investment in subsidiary undertakings                 | 17    | 66.8              | 66.8              |
| <b>Current assets</b>                                 |       |                   |                   |
| Amounts owed by group undertakings                    |       | 22.7              | 16.0              |
| Other debtors                                         |       | <u>0.9</u>        | <u>0.8</u>        |
|                                                       |       | 23.6              | 16.8              |
| <b>Creditors: amounts falling due within one year</b> |       |                   |                   |
| Amounts owed to group undertakings                    |       | (16.4)            | (9.5)             |
| Proposed dividend                                     | 15    | <u>(3.1)</u>      | <u>(3.1)</u>      |
|                                                       |       | (19.5)            | (12.6)            |
| <b>Net current assets</b>                             |       | <u>4.1</u>        | <u>4.2</u>        |
| <b>Total assets less current liabilities</b>          |       | <u>70.9</u>       | <u>71.0</u>       |
| <b>Capital and reserves</b>                           |       |                   |                   |
| Called up share capital                               | 23    | 62.3              | 61.0              |
| Shares to be issued                                   | 24    | 2.0               | 3.3               |
| Share premium account                                 | 24    | 0.1               | —                 |
| Profit and loss account                               | 24    | <u>6.5</u>        | <u>6.7</u>        |
|                                                       |       | <u>70.9</u>       | <u>71.0</u>       |

The financial statements on pages 26 to 56 were approved by the Board of Directors on 16 April 1999 and signed on its behalf by:



M S Wilson  
Director

The notes and information on pages 33 to 56 form part of these accounts.

## Consolidated Cash Flow Statement (excluding policyholder funds)

|                                                               | Notes | Year Ended<br>31 December<br>1998<br>£'Million | Year Ended<br>31 December<br>1997<br>£'Million |
|---------------------------------------------------------------|-------|------------------------------------------------|------------------------------------------------|
| <b>Net cash inflow/(outflow) from operating activities</b>    | 33    | 9.5                                            | (6.1)                                          |
| <b>Returns on investments and servicing of finance</b>        |       |                                                |                                                |
| Interest received                                             |       | 4.1                                            | 4.1                                            |
| Interest paid                                                 |       | (1.7)                                          | (0.7)                                          |
|                                                               |       | 2.4                                            | 3.4                                            |
| <b>Taxation</b>                                               |       |                                                |                                                |
| Corporation tax paid                                          |       | (2.1)                                          | (2.7)                                          |
| <b>Capital expenditure and financial investment</b>           |       |                                                |                                                |
| Purchase of tangible fixed assets                             |       | (3.0)                                          | (0.5)                                          |
| Sale of fixed assets                                          |       | 0.3                                            | 0.5                                            |
|                                                               |       | (2.7)                                          | —                                              |
| <b>Acquisitions and disposals</b>                             |       |                                                |                                                |
| Cash acquired with subsidiary                                 |       | —                                              | 5.7                                            |
| Investment in associate undertakings                          |       | (6.0)                                          | —                                              |
|                                                               |       | (6.0)                                          | 5.7                                            |
| <b>Equity dividends paid</b>                                  |       | (6.2)                                          | (6.1)                                          |
| <b>Cash flow before use of liquid resources and financing</b> |       | (5.1)                                          | (5.8)                                          |
| <b>Management of liquid resources</b>                         |       |                                                |                                                |
| Sale of government securities                                 |       | —                                              | 18.0                                           |
| Sale of holding portfolio investments                         |       | 0.4                                            | —                                              |
| Purchase of dealing and current asset investments             |       | —                                              | (20.0)                                         |
|                                                               |       | 0.4                                            | (2.0)                                          |
| <b>Financing</b>                                              |       |                                                |                                                |
| Capital element of finance lease rental payments              |       | (1.0)                                          | (0.4)                                          |
| Repayment of mortgage                                         |       | (0.5)                                          | —                                              |
| New loan                                                      |       | 6.0                                            | 7.0                                            |
| Issue of ordinary share capital                               |       | 0.1                                            | —                                              |
|                                                               |       | 4.6                                            | 6.6                                            |
| <b>Decrease in cash in the year</b>                           |       | (0.1)                                          | (1.2)                                          |

The notes and information on pages 33 to 56 form part of these accounts.

# Notes to the Accounts

## 1. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared on the basis of the accounting policies set out below. The group financial statements of the Company and its wholly owned life insurance and non insurance subsidiary undertakings, have been prepared in accordance with the provisions of section 255A of, and the special provisions relating to insurance groups of Schedule 9A to, the Companies Act 1985 and with the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business ("ABI SORP") dated December 1998. The Company's financial statements have been prepared in accordance with Section 226 of, and Schedule 4 to, the Companies Act 1985 adopting the exemption of omitting the profit and loss account conferred by Section 230 of that Act.

The financial statements have been prepared in accordance with applicable accounting standards.

The financial statements include an unaudited pro forma column within the comparative results which sets out the aggregate results of the enlarged SJPC Group as if the acquisition of JRAH had occurred at 1 January 1997.

### **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 subsidiary companies' Appointed Actuaries following their annual investigations, together with the change in the present value of future surpluses expected to emerge from the business currently in force. 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.

The embedded value profits are initially calculated at the post-tax level and are grossed up on the basis that they will be taxed in the UK at the underlying rate of tax. 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.

### **Associated undertakings**

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

Associated undertakings are accounted for using the equity method of accounting.

## Notes to the Accounts *continued*

### **Premiums**

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

### **Commission**

Commission payable to agents in respect of business issued 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.

### **Investment income and expenses**

Investment income and expenses includes dividends, interest, gains and losses on the realisation of investments and related expenses. Dividends are included as investment income on the date that shares become quoted ex-dividend and are grossed up for applicable tax credits. Interest and expenses are included on an accruals basis. Realised gains and losses on investments are calculated as the difference between net sales proceeds and the original cost in the case of investments purchased during the year and otherwise as the difference between net sales proceeds and the previous valuation. Policyholder fund investment income and expenses are dealt with through the technical account. Net rental income is recorded when due.

### **Claims**

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

### **Deferred acquisition costs**

Those costs of acquiring new insurance contracts are amortised against margins in the future revenues of the insurance contracts, to the extent that the amounts are recoverable out of the margins. This deferred acquisition cost is included as an asset within the balance sheet. Movements in that asset are shown in acquisition expenses in the technical account.

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

### **Investments**

Investments comprise listed securities, units in collective investment schemes, deposits, property and the investment holding portfolio.

Listed investments are included at mid-market value, units in collective investment schemes at published bid prices and deposits are included at cost. Property is included at current market value and unlisted investments are included at Directors' valuation.

All realised and unrealised gains and losses on investments held within the long-term business fund are dealt with in the technical account. Realised gains and losses on all other investments are included in the non-technical account.

## Notes to the Accounts *continued*

### Foreign currencies

Assets and liabilities of subsidiaries in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year and the results of foreign subsidiaries are translated at the average rate of exchange for the year. Differences on exchange arising from the re-translating of the opening net investment in subsidiary companies, and from the translation of the results of those companies at average rate, are taken to reserves. All other foreign exchange differences are taken to the profit and loss account in the year in which they arise.

### Tangible fixed assets

The cost of fixed assets is their purchase cost, together with any incidental cost of acquisition. Depreciation is calculated so as to write off the cost, or value, of tangible fixed assets less their estimated residual values, over the expected useful economic lives of the assets concerned as follows:

|                           | % per annum      |
|---------------------------|------------------|
| On a straight line basis: |                  |
| Computers                 | 33 $\frac{1}{3}$ |
| Fixtures and fittings     | 20               |
| Office equipment          | 20               |
| Motor vehicles            | 25               |

### Leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Finance leases, which transfer to the group substantially all the benefits and risks of ownership of an asset, are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

### Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability will crystallise.

### Pensions

The JRA Group operates a defined contribution group personal pension plan for the majority of its employees, the costs of which are charged in the year in which they arise.

There is also an occupational scheme which has two sections; a defined benefit section (now closed to new entrants) and a defined contribution section (opened to new members in December 1998). The pensions costs for the defined benefit section are assessed in accordance with the advice of an independent qualified actuary using the Projected Unit method. The costs of the defined contribution section are charged in the year in which they arise. Surpluses or deficits arising from experience adjustments or changes in actuarial assumptions are amortised over the working lives of the participating employees.

## Notes to the Accounts *continued*

### 2. SEGMENTAL ANALYSIS

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

#### Turnover — geographical split by origin

|                | Year Ended<br>31 December<br>1998 | Unaudited<br>Pro forma<br>Year Ended<br>31 December<br>1997 | 6 Months<br>Ended<br>31 December<br>1997 |
|----------------|-----------------------------------|-------------------------------------------------------------|------------------------------------------|
|                | £' Million                        | £' Million                                                  | £' Million                               |
| United Kingdom | 462.5                             | 371.4                                                       | 198.2                                    |
| Ireland        | 171.8                             | 122.8                                                       | 75.2                                     |
|                | <u>634.3</u>                      | <u>494.2</u>                                                | <u>273.4</u>                             |

Premiums by class of business, with the exception of the unaudited pro forma figures, are shown in note 3.

#### Profit on ordinary activities before tax

|                                             | Year Ended<br>31 December<br>1998 | Unaudited<br>Pro forma<br>Year Ended<br>31 December<br>1997 | Year Ended<br>31 December<br>1997 |
|---------------------------------------------|-----------------------------------|-------------------------------------------------------------|-----------------------------------|
|                                             | £' Million                        | £' Million                                                  | £' Million                        |
| Life assurance (continuing)                 |                                   |                                                             |                                   |
| — Associated undertakings                   | 17.6                              | 3.7                                                         | 11.8                              |
| — JRAH as subsidiary                        | 57.5                              | 38.2                                                        | 25.4                              |
| Investment management                       |                                   |                                                             |                                   |
| — GAM (continuing)                          | 4.7                               | 5.2                                                         | 5.2                               |
| — Other (discontinued)                      | —                                 | —                                                           | 1.9                               |
| Unit trust (continuing)                     | 5.0                               | 3.8                                                         | 2.8                               |
| Other                                       |                                   |                                                             |                                   |
| — continuing                                | 1.5                               | 0.9                                                         | (0.5)                             |
| — discontinued                              | —                                 | —                                                           | 0.4                               |
| Profit on ordinary activities<br>before tax | <u>86.3</u>                       | <u>51.8</u>                                                 | <u>47.0</u>                       |

There is no appropriate segmental analysis of profit by geographical split.

#### Net assets

|                       | 31 December<br>1998 | 31 December<br>1997 |
|-----------------------|---------------------|---------------------|
|                       | £' Million          | £' Million          |
| Life assurance        |                     |                     |
| JRAH (subsidiary)     | 188.1               | 147.8               |
| LAHC (associate)      | 66.9                | 48.0                |
| Investment management |                     |                     |
| GAM (associate)       | 15.2                | 14.1                |
| Unit trust            | 2.0                 | 2.9                 |
| Other net assets      | <u>19.2</u>         | <u>24.5</u>         |
| Group net assets      | <u>291.4</u>        | <u>237.3</u>        |

There is no appropriate segmental analysis of net assets by geographical split.

The net asset value per share at 31 December 1998, calculated on the number of shares in issue at that date, was 70.2 pence.

## Notes to the Accounts *continued*

### 3. PREMIUMS WRITTEN

Premiums written comprise:

|                                                | Year Ended<br>31 December<br>1998 | 6 Months<br>Ended<br>31 December<br>1997 |
|------------------------------------------------|-----------------------------------|------------------------------------------|
|                                                | £' Million                        | £' Million                               |
| <b>Life business</b>                           |                                   |                                          |
| Single premiums                                | 379.2                             | 174.3                                    |
| Regular premiums                               | 62.2                              | 26.1                                     |
| Reinsurances — Risk                            | (9.5)                             | (4.1)                                    |
| — Financial                                    | (7.5)                             | (1.0)                                    |
|                                                | <u>424.4</u>                      | <u>195.3</u>                             |
| <b>Pension business</b>                        |                                   |                                          |
| Single premiums                                | 93.8                              | 31.7                                     |
| Regular premiums                               | 93.6                              | 39.3                                     |
| Reinsurances — Risk                            | (1.5)                             | (0.6)                                    |
| — Financial                                    | (4.0)                             | (1.0)                                    |
|                                                | <u>181.9</u>                      | <u>69.4</u>                              |
| <b>Permanent health insurance</b>              |                                   |                                          |
| Regular premiums                               | 5.5                               | 2.0                                      |
| Reinsurances — Risk                            | (1.5)                             | (0.6)                                    |
| — Financial                                    | —                                 | (0.1)                                    |
|                                                | <u>4.0</u>                        | <u>1.3</u>                               |
| <b>Total net premiums</b>                      | <u>610.3</u>                      | <u>266.0</u>                             |
| <b>Gross premiums comprise:</b>                |                                   |                                          |
| Individual business                            | 568.8                             | 259.5                                    |
| Group contracts                                | 65.5                              | 13.9                                     |
| Total gross premiums                           | <u>634.3</u>                      | <u>273.4</u>                             |
| <b>Gross new annualised premiums comprise:</b> |                                   |                                          |
| Life — regular premiums                        | 23.9                              | 11.0                                     |
| Life — single premiums                         | 379.2                             | 174.3                                    |
| Pension — regular premiums                     | 32.3                              | 16.4                                     |
| Pensions — single premiums                     | 93.8                              | 31.7                                     |
| Permanent health                               | 1.0                               | 0.6                                      |
|                                                | <u>530.2</u>                      | <u>234.0</u>                             |

The group writes only direct insurance and has no material business other than the underwriting of unit linked contracts.

## Notes to the Accounts *continued*

### 4. INVESTMENT INCOME

#### Long-term business technical account

|                                         | Year Ended<br>31 December<br>1998 | 6 Months<br>Ended<br>31 December<br>1997 |
|-----------------------------------------|-----------------------------------|------------------------------------------|
|                                         | £' Million                        | £' Million                               |
| Income from listed investments          | 74.6                              | 20.7                                     |
| Income from other investments           | 3.5                               | 6.6                                      |
| Gains on the realisation of investments | 129.0                             | 134.1                                    |
|                                         | <u>207.1</u>                      | <u>161.4</u>                             |

The income shown in the technical account represents the whole of the investment income arising in the group's life companies. The investment income shown in the non-technical account arises from non-life companies.

### 5. CLAIMS

The aggregate claims incurred are as follows:

|                       | Year Ended<br>31 December<br>1998 | 6 Months<br>Ended<br>31 December<br>1997 |
|-----------------------|-----------------------------------|------------------------------------------|
|                       | £' Million                        | £' Million                               |
| Deaths                | 14.2                              | 7.5                                      |
| Surrenders            | 135.5                             | 47.5                                     |
| PHI                   | 5.0                               | 0.3                                      |
| Maturities            | 1.7                               | 0.6                                      |
|                       | <u>156.4</u>                      | <u>55.9</u>                              |
| Reinsurances — Risk   | (8.3)                             | (2.7)                                    |
| — Financial           | (13.6)                            | (0.8)                                    |
| Total claims incurred | <u>134.5</u>                      | <u>52.4</u>                              |

Surrenders include encashment of single premium plans.

### 6. FINANCIAL REINSURANCE

The Group has financial reinsurance arrangements with Swiss Re (UK) and the Munich Reinsurance Company.

Claims recovered and premiums paid are included in the technical account and have been deducted from premiums and claims respectively.

Under these arrangements a proportion of the future margins are to be paid to the reinsurers up to a maximum of the current deficit account of £14.4 million (1997: £12.2 million). The amount of the deficit account has been deducted in the calculation of the deferred acquisition costs and the embedded value.

## Notes to the Accounts *continued*

### 7. NET OPERATING EXPENSES

|                                      | Year Ended<br>31 December<br>1998 | 6 Months<br>Ended<br>31 December<br>1997 |
|--------------------------------------|-----------------------------------|------------------------------------------|
|                                      | £' Million                        | £' Million                               |
| Acquisition costs                    | 40.8                              | 16.0                                     |
| Acquisition commission               | 43.6                              | 18.3                                     |
| Change in deferred acquisition costs | 2.9                               | (3.3)                                    |
| Acquisition costs incurred           | 87.3                              | 31.0                                     |
| Administrative expenses              | 21.8                              | 9.1                                      |
| Renewal commission                   | 7.6                               | 3.6                                      |
|                                      | <u>116.7</u>                      | <u>43.7</u>                              |

### 8. TAXATION

#### Long-term business technical account

|                                                    | Year Ended<br>31 December<br>1998 | 6 Months<br>Ended<br>31 December<br>1997 |
|----------------------------------------------------|-----------------------------------|------------------------------------------|
|                                                    | £' Million                        | £' Million                               |
| UK Corporation tax                                 |                                   |                                          |
| — current year charge                              | 17.2                              | 2.7                                      |
| — prior period charge                              | (3.0)                             | (0.1)                                    |
| Overseas taxes                                     | 1.0                               | 0.2                                      |
| Tax attributable to franked investment income      | 2.3                               | 1.3                                      |
| Deferred tax on the deferred acquisition asset     | (0.7)                             | 0.4                                      |
| Notional tax on the increase in the value in force | 17.4                              | 7.5                                      |
|                                                    | <u>34.2</u>                       | <u>12.0</u>                              |

#### Non-technical account

|                                                                                    | Year Ended<br>31 December<br>1998 | Year Ended<br>31 December<br>1997 |
|------------------------------------------------------------------------------------|-----------------------------------|-----------------------------------|
|                                                                                    | £' Million                        | £' Million                        |
| UK Corporation tax                                                                 |                                   |                                   |
| — current year charge                                                              | 2.5                               | 2.1                               |
| — prior year charge                                                                | (0.2)                             | (0.6)                             |
| Deferred tax charge                                                                | (0.6)                             | (0.5)                             |
| Overseas taxes                                                                     | —                                 | 0.1                               |
| <b>Taxation attributable to the balance on the<br/>long-term technical account</b> |                                   |                                   |
| Deferred tax on the deferred acquisition asset                                     | (0.7)                             | 0.4                               |
| Notional tax on the increase in the value of in force                              | 17.4                              | 7.5                               |
| Other                                                                              | 0.6                               | —                                 |
| <b>Share of taxation of associated undertakings</b>                                |                                   |                                   |
| JRAH (first half of year)                                                          | —                                 | 2.5                               |
| LAHC                                                                               | 5.3                               | 0.9                               |
| GAM                                                                                | 1.0                               | 0.8                               |
|                                                                                    | <u>25.3</u>                       | <u>13.2</u>                       |

## Notes to the Accounts *continued*

### 8. TAXATION (continued)

UK Corporation tax for the year is calculated on the profit for the year at a rate of 31% (1997: 31.5%). Deferred taxation is provided at the rate of 31% (1997: 31.5%). The notional tax on the increase in the value of long term business in force, has been calculated by applying an underlying tax rate of 30% (1997: 31%) after adjusting for the deferred taxation on the deferred acquisition costs.

All of the current year tax charge relates to continuing activities.

### 9. PROFIT FROM LIFE BUSINESS

The financial assumptions used to calculate the embedded value were revised in 1998 to reflect current and anticipated investment conditions. The table below shows the effect of this change, which has been calculated assuming that the change was made as at 1 January 1998.

|                                 | Year Ended<br>31 December<br>1998 | Pro forma<br>Year Ended<br>31 December<br>1997 |
|---------------------------------|-----------------------------------|------------------------------------------------|
|                                 | £ Million                         | £ Million                                      |
| Basic operating profit          | 34.8                              | 26.3                                           |
| Change in financial assumptions | 5.4                               | —                                              |
|                                 | <u>40.2</u>                       | <u>26.3</u>                                    |

The principal embedded value assumptions used are detail in Note 10.

A more detailed analysis of the life business, together with JRAH's unit trust business is provided in the supplementary information on page 57.

### 10. EMBEDDED VALUE ASSUMPTIONS

The principal economic assumptions used were as follows:

|                             | Year Ended<br>31 December<br>1998 | Pro forma<br>Year Ended<br>31 December<br>1997 |
|-----------------------------|-----------------------------------|------------------------------------------------|
| Risk discount rate          | 10.0%                             | 12.5%                                          |
| Future investment returns:  |                                   |                                                |
| — Fixed interest            | 6.0%                              | 7.0%                                           |
| — Unit-linked funds:        |                                   |                                                |
| — Capital growth            | 5.75%                             | 7.5%                                           |
| — Dividend income           | 2.5%                              | 2.275%                                         |
| — Total                     | 8.25%                             | 9.775%                                         |
| Expense inflation           | 5.0%                              | 5.5%                                           |
| Indexation of capital gains | 3.5%                              | 3.75%                                          |
| Investment smoothing        | Yes                               | No                                             |
| Cost of solvency capital    | Yes                               | No                                             |

All assets have been valued at market value;

For the purposes of projecting future unit growth in the embedded value calculation, unit linked funds have been valued on a smoothed basis;

The value of new business has been calculated using actual acquisition costs;

## Notes to the Accounts *continued*

### 10. EMBEDDED VALUE ASSUMPTIONS (continued)

Mortality and morbidity assumptions have been set by reference to the Company's own experience, published industry data and the rates charged by the Company's reinsurers;

Lapse experience is derived where possible from the Company's own experience, or otherwise from external industry experience;

In projecting future surpluses, allowance has been made for the cost of maintaining a statutory solvency margin on the business in force;

Maintenance expenses have been set to be in line with the costs charged by the Company's third party administrators, together with an allowance for the Company's own direct maintenance costs; and

All experience assumptions are reviewed annually.

### 11. INVESTMENT INCOME

#### Non-technical account

|                     | Year Ended<br>31 December<br>1998 | Year Ended<br>31 December<br>1997 |
|---------------------|-----------------------------------|-----------------------------------|
|                     | £ Million                         | £ Million                         |
| Continuing:         |                                   |                                   |
| Interest receivable | 4.1                               | 2.6                               |
|                     | <u>4.1</u>                        | <u>2.6</u>                        |

### 12. OTHER INCOME

|                                | Year Ended<br>31 December<br>1998 | Year Ended<br>31 December<br>1997 |
|--------------------------------|-----------------------------------|-----------------------------------|
|                                | £ Million                         | £ Million                         |
| Continuing:                    |                                   |                                   |
| Management fees                | 16.4                              | 6.6                               |
| Other operating income         | 4.7                               | 2.6                               |
| Rental income                  | 0.7                               | 0.2                               |
|                                | <u>21.8</u>                       | <u>9.4</u>                        |
| Discontinued:                  |                                   |                                   |
| Fund management income         | —                                 | 2.2                               |
|                                | <u>—</u>                          | <u>2.2</u>                        |
| Exceptional items:             |                                   |                                   |
| Sale of subsidiary undertaking | —                                 | 0.4                               |
|                                | <u>—</u>                          | <u>0.4</u>                        |

## Notes to the Accounts *continued*

### 13. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION IS AFTER CHARGING/(CREDITING):

|                                           | Year Ended<br>31 December<br>1998 | Year Ended<br>31 December<br>1997 |
|-------------------------------------------|-----------------------------------|-----------------------------------|
|                                           | £' Million                        | £' Million                        |
| Depreciation charged during the year      |                                   |                                   |
| Tangible assets                           | 1.1                               | 0.5                               |
| Tangible assets held under finance leases | 0.6                               | 0.3                               |
| Auditor's remuneration                    |                                   |                                   |
| Audit services                            | 0.3                               | 0.2                               |
| Non-audit services                        | 0.1                               | 0.1                               |
| Hire of assets under operating leases     |                                   |                                   |
| Office equipment                          | 0.3                               | 0.1                               |
| Property leases                           | 4.2                               | 2.9                               |
| Interest payable on loans                 | 1.7                               | 1.2                               |
| Operating lease income                    | <u>(2.3)</u>                      | <u>(2.0)</u>                      |

Of the total audit fee, £50,000 (1997: £50,000) relates to the audit of the parent Company's consolidated accounts. This fee is paid by another Group company.

Remuneration paid to the auditors for non-audit services includes taxation advice, control reviews at third party administrators and small ad-hoc assignments.

### 14. EMPLOYEE COSTS

|                                                                 | Year Ended<br>31 December<br>1998 | Year Ended<br>31 December<br>1997 |
|-----------------------------------------------------------------|-----------------------------------|-----------------------------------|
|                                                                 | £' Million                        | £' Million                        |
| Wages and salaries                                              | 11.5                              | 6.1                               |
| Social security costs                                           | 1.2                               | 0.6                               |
| Other pension costs                                             | <u>1.0</u>                        | <u>0.4</u>                        |
|                                                                 | <u>13.7</u>                       | <u>7.1</u>                        |
| Average number of persons employed by the Group during the year | <u>310</u>                        | <u>281</u>                        |

The significant increase in staff costs results from including only 6 months of the enlarged Group in 1997, following the change in the SJPC Group structure during 1997.

Information concerning Directors' emoluments, shareholdings and options is shown within the Report of the Remuneration Committee on pages 18 to 24.

### 15. DIVIDENDS

|                         | Year Ended<br>31 December<br>1998 | Year Ended<br>31 December<br>1997 | Year Ended<br>31 December<br>1998 | Year Ended<br>31 December<br>1997 |
|-------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
|                         | Pence<br>per share                | Pence<br>per share                | £' Million                        | £' Million                        |
| Interim dividend paid   | 0.75                              | 0.75                              | 3.1                               | 3.0                               |
| Final dividend proposed | <u>0.75</u>                       | <u>0.75</u>                       | <u>3.1</u>                        | <u>3.1</u>                        |
|                         | <u>1.50</u>                       | <u>1.50</u>                       | <u>6.2</u>                        | <u>6.1</u>                        |

The proposed dividend of 0.75p per share is payable on 20 May 1999 to those shareholders on the register on 6 April 1999.

## Notes to the Accounts *continued*

### 16. EARNINGS PER SHARE

|                                            | Year Ended<br>31 December<br>1998 | Restated<br>Pro forma<br>Year Ended<br>31 December<br>1997 | Restated<br>Year Ended<br>31 December<br>1997 |
|--------------------------------------------|-----------------------------------|------------------------------------------------------------|-----------------------------------------------|
|                                            | Pence per share                   | Pence per share                                            | Pence per share                               |
| Profit on ordinary activities<br>after tax | 14.9                              | 9.1                                                        | 9.8                                           |
| Adjustments:                               |                                   |                                                            |                                               |
| Discontinued activities                    | —                                 | (0.1)                                                      | (0.1)                                         |
| Change in financial assumptions            | (1.4)                             | —                                                          | —                                             |
| Exceptional items                          | —                                 | 0.1                                                        | —                                             |
| Adjusted earnings                          | 13.5                              | 9.1                                                        | 9.7                                           |
| Fully diluted                              | 13.3                              | 8.1                                                        | 7.4                                           |
| Adjusted fully diluted                     | 12.1                              | 8.1                                                        | 7.3                                           |

The above table sets out earnings per share, adjusted earnings per share and their fully diluted counterparts. Adjusted earnings per share figures have been presented to eliminate the effect of significant changes to the composition of the Group (being the discontinued activities and the changes in embedded value financial assumptions).

The earnings per share has been calculated using the profit on ordinary activities after tax of £61.0 million (1997: £33.8 million). The adjusted earnings per share has been calculated using an adjusted profit after tax of £55.6 million (1997: £33.4 million).

The basic earnings per share for 1997 has been adjusted to exclude those options outstanding (included in the shares to be issued reserve) that arose on 26 June 1997 following the acquisition of the remaining share capital of JRAH which was not already owned. In accordance with FRS 14 – Earnings per Share, these options are contingent upon future events and are therefore excluded from the basic earnings per share calculation and are included in the diluted earnings per share calculation. The effect of the restatement on the basic earnings per share for 1997 has been to increase it from the previously reported 9.5p per share to 9.8p per share and the pro forma 8.6p per share to 9.1p per share. The diluted earnings per share figure previously reported in 1997 has also been restated from 8.8p per share to 7.4p per share. The diluted earnings per share figure previously reported in 1997 pro forma results is unaffected.

The weighted average number of shares in issue for the year ended 31 December 1998 was 410.7 million (31 December 1997 344.5 million – restated).

The fully diluted earnings per share takes account of options over 48.2 million shares including the share options outstanding at the time of the JRAH acquisition (1997: 52.8 million).

### 17. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

|                                             | Company<br>31 December<br>1998 |
|---------------------------------------------|--------------------------------|
|                                             | £' Million                     |
| At 1 January 1998 and 31 December 1998      | 66.8                           |
| Principal investments are shown on page 56. |                                |

## Notes to the Accounts *continued*

### 18. INVESTMENTS – LAND AND BUILDINGS

The freehold property was valued as at 31 December 1998 by Doherty Baines, Chartered Surveyors, on an open market basis for existing use, taking into account the costs of outstanding repairs, in accordance with the Practice Statements contained in the RICS Appraisal and Valuation Manual published by the Royal Institution of Chartered Surveyors. This valuation resulted in a write down of the value by £0.2 million.

The Directors do not believe the value of the building to have changed significantly since this valuation.

### 19. INVESTMENTS IN PARTICIPATING INTERESTS

Interests in associated undertakings comprise:

|                                  | LAHC<br>£' Million | GAM<br>£' Million | Total<br>£' Million |
|----------------------------------|--------------------|-------------------|---------------------|
| <b>Carrying Value</b>            |                    |                   |                     |
| At 1 January 1998                | 48.0               | 14.1              | 62.1                |
| Share of pre-tax results in year | 17.6               | 4.7               | 22.3                |
| Share of tax in year             | (5.3)              | (1.0)             | (6.3)               |
| Dividends                        | —                  | (2.6)             | (2.6)               |
| New capital                      | 6.0                | —                 | 6.0                 |
| As at 31 December 1998           | <u>66.3</u>        | <u>15.2</u>       | <u>81.5</u>         |

|                                    | Year Ended<br>31 December<br>1998<br>£' Million | Year Ended<br>31 December<br>1997<br>£' Million |
|------------------------------------|-------------------------------------------------|-------------------------------------------------|
| <b>LAHC</b>                        |                                                 |                                                 |
| Profit after taxation for the year | <u>79.8</u>                                     | <u>9.1</u>                                      |
| Capital and reserves               | <u>292.1</u>                                    | <u>152.3</u>                                    |

The investment in LAHC has been equity accounted on the basis of audited accounts covering the year ended 31 December 1998. The carrying value is equal to 22.9% (1997: 31.25%) of LAHC's net assets after allowing for a management incentive scheme.

|                                    | Year Ended<br>31 December<br>1998<br>£' Million | Year Ended<br>31 December<br>1997<br>£' Million |
|------------------------------------|-------------------------------------------------|-------------------------------------------------|
| <b>GAM</b>                         |                                                 |                                                 |
| Profit after taxation for the year | <u>12.6</u>                                     | <u>14.7</u>                                     |
| Capital and reserves               | <u>51.1</u>                                     | <u>47.6</u>                                     |

The investment in GAM has been equity accounted on the basis of management accounts covering the period to 31 December 1998. The carrying value is equal to 29.7% (1997: 29.7%) of GAM's net assets.

## Notes to the Accounts *continued*

### 20. ASSETS HELD TO COVER LINKED LIABILITIES

Assets held to cover linked liabilities comprise the following:

|                                 | 31 December<br>1998 | 31 December<br>1997 |
|---------------------------------|---------------------|---------------------|
|                                 | £ Million           | £ Million           |
| <b>Market Value</b>             |                     |                     |
| Government securities           | 387.8               | 241.5               |
| Other fixed interest securities | 22.8                | 32.6                |
| Ordinary shares                 | 1,529.2             | 966.0               |
| Collective investment schemes   | 236.2               | 371.5               |
| Deposits                        | 197.2               | 172.9               |
| Other                           | 10.6                | 8.4                 |
|                                 | <u>2,383.8</u>      | <u>1,792.9</u>      |
| Historic cost                   | <u>2,205.2</u>      | <u>1,672.1</u>      |

### 21. OTHER DEBTORS

|                             | 31 December<br>1998 | 31 December<br>1997 |
|-----------------------------|---------------------|---------------------|
|                             | £ Million           | £ Million           |
| Dealing debtors             | 2.3                 | 1.4                 |
| Stock of units              | 0.4                 | 0.3                 |
| Taxation recoverable        | 3.7                 | 3.0                 |
| Amounts due from associates | —                   | 2.3                 |
| Other debtors               | 23.3                | 17.4                |
|                             | <u>29.7</u>         | <u>24.4</u>         |

The stock represents units held by St. James's Place Unit Trust Group Limited, a subsidiary undertaking, in the unit trusts for which it is the manager. The units are held as trading stock and not for investment purposes.

### 22. TANGIBLE ASSETS

|                       | Fixtures,<br>Fittings,<br>Computers<br>and Office<br>Equipment | Motor<br>Vehicles | Total       |
|-----------------------|----------------------------------------------------------------|-------------------|-------------|
|                       | £ Million                                                      | £ Million         | £ Million   |
| <b>Cost</b>           |                                                                |                   |             |
| At 1 January 1998     | 10.8                                                           | 2.7               | 13.5        |
| Additions             | 1.9                                                            | 1.1               | 3.0         |
| Disposals             | —                                                              | (0.8)             | (0.8)       |
| At 31 December 1998   | <u>12.7</u>                                                    | <u>3.0</u>        | <u>15.7</u> |
| <b>Depreciation</b>   |                                                                |                   |             |
| At 1 January 1998     | 9.0                                                            | 1.2               | 10.2        |
| Charge for the year   | 1.1                                                            | 0.6               | 1.7         |
| Disposals             | —                                                              | (0.6)             | (0.6)       |
| At 31 December 1998   | <u>10.1</u>                                                    | <u>1.2</u>        | <u>11.3</u> |
| <b>Net book value</b> |                                                                |                   |             |
| At 31 December 1997   | <u>1.8</u>                                                     | <u>1.5</u>        | <u>3.3</u>  |
| At 31 December 1998   | <u>2.6</u>                                                     | <u>1.8</u>        | <u>4.4</u>  |

The net book value of tangible fixed assets includes an amount of £Nil in respect of assets held under finance leases (1997: £1.5 million).

## Notes to the Accounts *continued*

### 23. SHARE CAPITAL

|                                        | <u>Number</u>      | <u>Nominal value</u><br>£' Million |
|----------------------------------------|--------------------|------------------------------------|
| <b>Authorised</b>                      |                    |                                    |
| <b>Ordinary shares at 15p each</b>     |                    |                                    |
| At 1 January 1998 and 31 December 1998 | <u>605,000,000</u> | <u>90.8</u>                        |

In addition, the authorised share capital includes one Special Rights Redeemable Preference Share of £1.

|                                        | <u>Number</u>      | <u>Nominal value</u><br>£' Million |
|----------------------------------------|--------------------|------------------------------------|
| <b>Issued, Allotted and Fully Paid</b> |                    |                                    |
| <b>Ordinary shares at 15p each</b>     |                    |                                    |
| At 1 January 1998                      | 406,810,346        | 61.0                               |
| Exercise of options                    | <u>8,401,388</u>   | <u>1.3</u>                         |
| At 31 December 1998                    | <u>415,211,734</u> | <u>62.3</u>                        |

In addition, the Company has 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". This share may be redeemed at par by the Shareholder at any time by giving notice to the Company.

#### Share Options

On the acquisition of the remaining share capital of JRAH, SJPC agreed to issue further shares, up to a maximum of 25.8 million, to satisfy the exercise of options held over JRAH shares at the time of acquisition. A reserve for shares to be issued was established in recognition of the commitment and 13.6 million shares have still to be issued from this reserve.

During the year options over 6.8 million shares have been granted at a range of prices between 177.0 p and 290½p. In addition during November 1998 options over some 6.7 million SJPC shares, previously issued to members of The J. Rothschild Partnership and a small number of employees at prices ranging between £2.83 and £3.53 ½ were surrendered and new options over the same number of shares were issued to the relevant individuals at £2.73½.

Options outstanding under the new share option schemes at 31 December 1998 now amount to 34.6 million.

### 24. RESERVES

#### Group

|                                             | <u>Shares to be<br/>Issued<br/>Reserve</u> | <u>Share<br/>Premium<br/>Account</u> | <u>Profit and<br/>Loss Account</u> |
|---------------------------------------------|--------------------------------------------|--------------------------------------|------------------------------------|
|                                             | £' Million                                 | £' Million                           | £' Million                         |
| At 1 January 1998                           | 3.3                                        | —                                    | 130.8                              |
| Release of reserve on issue<br>of shares    | (1.3)                                      | —                                    | —                                  |
| Exercise of options                         | —                                          | 0.1                                  | —                                  |
| Retained profit for year                    | —                                          | —                                    | 54.8                               |
| Transfer to embedded value reserve          | —                                          | —                                    | (40.2)                             |
| Currency translation and other<br>movements | —                                          | —                                    | (0.8)                              |
| At 31 December 1998                         | <u>2.0</u>                                 | <u>0.1</u>                           | <u>144.6</u>                       |

## Notes to the Accounts *continued*

### 24. RESERVES (continued)

The shares to be issued reserve was established on the acquisition of JRAH to account for the share options in that company that were unexercised at the acquisition date. The movement in the reserve during the year occurred on the exercise of these options.

#### Other reserves

|                                          | Arising on<br>Acquisition<br>of JRAH | Representing<br>Embedded<br>Value | Merger<br>Reserve | Other Non-<br>Distributable<br>Reserves | Total       |
|------------------------------------------|--------------------------------------|-----------------------------------|-------------------|-----------------------------------------|-------------|
|                                          | £' Million                           | £' Million                        | £' Million        | £' Million                              | £' Million  |
| At 1 January 1998                        | 22.5                                 | 17.5                              | (0.1)             | 2.3                                     | 42.2        |
| Transfer from profit<br>and loss account | —                                    | 40.2                              | —                 | —                                       | 40.2        |
| At 31 December<br>1998                   | <u>22.5</u>                          | <u>57.7</u>                       | <u>(0.1)</u>      | <u>2.3</u>                              | <u>82.4</u> |

#### Acquisition reserve

The accounting for the acquisition of JRAH fell within Section 131 of the Companies Act 1985 and therefore no share premium account was required. However, the acquisition reserve arose on consolidation and represents the excess of the SJPC share price, on the date JRAH was acquired, over the nominal value of those shares issued. The goodwill on the acquisition was written off against this reserve.

#### Embedded value reserve

The embedded value reserve represents the increase in the embedded value of the two life companies since their date of acquisition and will remain as non-distributable until such time as it emerges as part of the statutory surplus arising during subsequent years.

#### 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 million to acquire the shares of the company now known as SJPC 1990 plc and the shortfall of the capital and reserves acquired on the merger (£0.1 million) was treated in the consolidated balance sheet as a negative reserve arising on merger.

#### Other non-distributable reserves

The reserve arose as a result of reclassification from the share premium account on the reconstruction of the former SJPC in 1996 and the transfer of assets to Value Realisation Trust plc.

## Notes to the Accounts *continued*

### 24. RESERVES (continued)

| <u>Company</u>                        | <u>Shares to be<br/>Issued<br/>Reserve</u> | <u>Share<br/>Premium<br/>Account</u> | <u>Profit and<br/>Loss Account</u> |
|---------------------------------------|--------------------------------------------|--------------------------------------|------------------------------------|
|                                       | <u>£' Million</u>                          | <u>£' Million</u>                    | <u>£' Million</u>                  |
| At 1 January 1998                     | 3.3                                        | —                                    | 6.7                                |
| Release of reserve on issue of shares | (1.3)                                      | —                                    | —                                  |
| Exercise of options                   | —                                          | 0.1                                  | —                                  |
| Retained loss for year                | —                                          | —                                    | (0.2)                              |
| At 31 December 1998                   | <u>2.0</u>                                 | <u>0.1</u>                           | <u>6.5</u>                         |

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 year dealt with in the accounts of the Company was £6.0 million (1997: £6.0 million).

The distributable reserves of the Company were £6.5 million (1997: £6.7 million). It is the Group's policy to retain distributable reserves within the subsidiary operating companies to support the underlying business.

### 25. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

|                                     | <u>Year Ended<br/>31 December<br/>1998</u> | <u>Year Ended<br/>31 December<br/>1997</u> |
|-------------------------------------|--------------------------------------------|--------------------------------------------|
|                                     | <u>£' Million</u>                          | <u>£' Million</u>                          |
| Profit for the year                 | 61.0                                       | 33.8                                       |
| Dividends                           | (6.2)                                      | (6.1)                                      |
|                                     | 54.8                                       | 27.7                                       |
| Goodwill                            | —                                          | (150.4)                                    |
| New share capital subscribed        | 0.1                                        | 166.9                                      |
| Shares to be issued at market value | —                                          | 28.3                                       |
| Currency translation movements      | (0.8)                                      | 1.8                                        |
| Net addition to shareholders' funds | 54.1                                       | 74.3                                       |
| Opening shareholders' funds         | 237.3                                      | 163.0                                      |
| Closing shareholders' funds         | <u>291.4</u>                               | <u>237.3</u>                               |

### 26. LONG-TERM BUSINESS

The long-term business provision is determined by the Appointed Actuaries following their annual investigations of the long-term business.

#### **Non-linked policies**

For non-linked policies, the reserves are calculated using the net premium valuation method. The assumed rate of interest is 3.5% for life business. Mortality rates are based on recognised mortality tables suitably adjusted to reflect actual experience. Morbidity rates are derived from the rates charged by reinsurers and industry experience.

## Notes to the Accounts *continued*

### 26. LONG-TERM BUSINESS (continued)

#### Linked policies

For unit linked policies the long-term provision consists of sterling reserves designed to cover any future cash flows without recourse to additional capital. The cash flows are projected assuming:

- unit growth rates between 4% and 7% per annum depending on the tax status and territory of the contract;
- a projection of current expenses assuming inflation at between 3% and 4% again depending on territory; and
- mortality and morbidity costs are derived from actual rates charged by reinsurers and industry experience.

The resulting cash flows are discounted at a rate of interest between 3.5% and 4.3% to calculate the sterling reserve.

### 27. PROVISIONS FOR OTHER RISKS AND CHARGES

|                                       | Deferred<br>tax | Other<br>provisions | Total     |
|---------------------------------------|-----------------|---------------------|-----------|
|                                       | £'Million       | £'Million           | £'Million |
| At 1 January 1998                     | 8.8             | 2.4                 | 11.2      |
| Movement for the year                 | —               | (0.5)               | (0.5)     |
| Deferred taxation charge for the year |                 |                     |           |
| — Long-term technical account         | (0.7)           | —                   | (0.7)     |
| — Other                               | (0.6)           | —                   | (0.6)     |
| At 31 December 1998                   | 7.5             | 1.9                 | 9.4       |

Other provisions represent a provision for costs associated with litigation in progress in the United States, details of which are set out in note 30.

The year end deferred tax provision is analysed as follows:

|                                 | 31 December<br>1998 | 31 December<br>1997 |
|---------------------------------|---------------------|---------------------|
|                                 | £' Million          | £' Million          |
| Deferred acquisition cost asset | 6.6                 | 7.3                 |
| Short-term timing differences   | 0.9                 | 1.5                 |
|                                 | 7.5                 | 8.8                 |

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.

## Notes to the Accounts *continued*

### 28. AMOUNTS OWED TO CREDIT INSTITUTIONS

|                                  | 31 December<br>1998 | 31 December<br>1997 |
|----------------------------------|---------------------|---------------------|
|                                  | £' Million          | £' Million          |
| Bank overdraft                   | 29.6                | 19.9                |
| Mortgage                         | —                   | 0.5                 |
| Obligations under finance leases | —                   | 1.0                 |
|                                  | <u>29.6</u>         | <u>21.4</u>         |

#### Bank overdraft

The bank overdraft is unsecured, repayable on demand, and is subject to normal commercial overdraft rates of interest.

#### Mortgage

The mortgage was repaid in full during the year and the charge over the property was released.

#### Finance leases

All obligations under finance leases fall due as follows:

|                            | 31 December<br>1998 | 31 December<br>1997 |
|----------------------------|---------------------|---------------------|
|                            | £' Million          | £' Million          |
| Within one year            | —                   | 0.1                 |
| Between one and five years | —                   | 0.9                 |
|                            | <u>—</u>            | <u>1.0</u>          |

All obligations were settled in full during the year.

### 29. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

|                   | 31 December<br>1998 | 31 December<br>1997 |
|-------------------|---------------------|---------------------|
|                   | £' Million          | £' Million          |
| Trade creditors   | 3.2                 | 1.5                 |
| Dealing creditors | 2.9                 | 1.6                 |
| Corporation tax   | 24.9                | 12.2                |
| Other creditors   | 2.0                 | 2.1                 |
|                   | <u>33.0</u>         | <u>17.4</u>         |

## Notes to the Accounts *continued*

### 30. CONTINGENT LIABILITY

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 law 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.

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. In October 1995, the plaintiffs in the Main Proceedings filed a motion for class certification of the action.

In September 1997, the court granted the motion in part and certified a class consisting of L. F. Rothschild Inc shareholders that purchased common stock in the offering. The Court excluded purchasers of L. F. Rothschild Inc stock in the secondary market from the class. On 5 January 1998, the defendants in the Main Proceedings filed a motion for summary judgement on the grounds that the claims are barred by the statute of limitations. The motion was granted on 25 November 1998. An appeal from the decision dismissing the Main Proceedings is pending, all argument has been scheduled for 11 May 1999.

Based on the legal advice received, the Directors are still of the view that if the appeal against summary judgement is successful, 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 liabilities arising from the Main Proceedings by way of a claim for contribution may be material.

## Notes to the Accounts *continued*

### 31. PENSIONS ARRANGEMENTS

There are two pensions arrangements within the Group.

A defined contribution group personal pension plan is operated for employees of J. Rothschild Assurance Holdings plc and its subsidiaries. The total pension cost of employer contributions in the year was £1.0 million (1997: £ 0.4 million).

There is also an occupational scheme with two sections. The defined benefit section is closed to new members, while the defined contribution section (opened in December 1998) is operated for new employees of J. Rothschild Assurance Holdings plc and its subsidiaries and those existing employees who wish to transfer from the Group personal pension plan.

The latest draft valuation of the scheme is at 31 December 1998. The principal assumptions in this valuation are:

|                                                           |           |
|-----------------------------------------------------------|-----------|
| Investment returns relative to salary increases           | 1.5% p.a. |
| Investment returns relative to pensions payment increases | 4.5% p.a. |

The draft valuation showed assets of £15.1 million and a surplus of £2.7 million. On a minimum funding requirements basis, which may be a more realistic estimate of the surplus, the surplus was estimated to be £3.6 million at the same date. The surplus will be reduced by using it to pay contributions to the defined contribution section of the scheme.

Given the small number of members in the scheme and the large surplus the pensions cost has been assessed at zero.

### 32. PENSION TRANSFER RESERVE

In common with many life companies in the United Kingdom, the group has liabilities in respect of pension transfer and opt-out business.

During the year the Financial Services Authority published guidance on phase 2 of the review. In the light of this, and further experience gained during the year, the Directors of J. Rothschild Assurance plc have increased the reserve in respect of rectification and review costs to £11.4 million (1997: £8.0 million), being their best estimate of the costs of settlement. This is included in the long-term business provision in the Group's financial statements at 31 December 1998. The reserve takes no account of any recoveries from professional indemnity insurers.

## Notes to the Accounts *continued*

### 33. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

|                                                            | Year Ended<br>31 December<br>1998 | Year Ended<br>31 December<br>1997 |
|------------------------------------------------------------|-----------------------------------|-----------------------------------|
|                                                            | £' Million                        | £' Million                        |
| <b>Continuing activities</b>                               |                                   |                                   |
| Profit on ordinary activities before tax                   | 86.3                              | 47.0                              |
| Interest paid                                              | 1.7                               | 0.7                               |
| Interest received                                          | (4.1)                             | (4.1)                             |
| Profits relating to long-term business                     | (57.5)                            | (25.4)                            |
| Depreciation                                               | 1.7                               | 0.8                               |
| Share of profit of associated undertakings                 | (16.0)                            | (12.8)                            |
| Dividend from associated undertakings                      | 2.6                               | 4.8                               |
| Share of tax of associated undertakings                    | (6.3)                             | (4.2)                             |
| Realised profit on investments                             | (0.2)                             | (0.2)                             |
| Profit on sale of fixed assets                             | (0.2)                             | (0.2)                             |
| (Increase)/decrease in debtors and prepayments             | (1.2)                             | 37.2                              |
| Decrease/(increase) in debtors to long-term business fund  | 2.1                               | (3.1)                             |
| Increase/(decrease) in creditors                           | 0.6                               | (46.6)                            |
| <b>Net cash inflow/(outflow) from operating activities</b> | <b>9.5</b>                        | <b>(6.1)</b>                      |

The 1997 figures as presented include a discontinued cash flow of £1.6 million.

### 34. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

|                                                       | Year Ended<br>31 December<br>1998 | Year Ended<br>31 December<br>1998 |
|-------------------------------------------------------|-----------------------------------|-----------------------------------|
|                                                       | £' Million                        | £' Million                        |
| Decrease in cash in the year                          | (0.1)                             |                                   |
| Cash inflow from increase in debt and lease financing | (4.9)                             |                                   |
| Movement in net debt in the period                    |                                   | (5.0)                             |
| Net debt at 1 January 1998                            |                                   | 12.8                              |
| Net debt at 31 December 1998                          |                                   | 7.8                               |

## Notes to the Accounts *continued*

### 35. MOVEMENT IN CASH, PORTFOLIO INVESTMENTS AND FINANCING

|                                      | At<br>1 January<br>1998 | Cashflow     | At<br>31 December<br>1998 |
|--------------------------------------|-------------------------|--------------|---------------------------|
|                                      | £' Million              | £' Million   | £' Million                |
| Cash at bank                         | 14.2                    | 0.7          | 14.9                      |
| Overdrafts                           | (12.9)                  | (3.3)        | (16.2)                    |
| Deposits with<br>credit institutions | 20.0                    | 2.5          | 22.5                      |
|                                      |                         | (0.1)        |                           |
| Mortgage                             | (0.5)                   | 0.5          | —                         |
| Finance leases                       | (1.0)                   | 1.0          | —                         |
| Loans                                | (7.0)                   | (6.4)        | (13.4)                    |
|                                      |                         | (4.9)        |                           |
|                                      | <u>12.8</u>             | <u>(5.0)</u> | <u>7.8</u>                |

### 36. FINANCIAL COMMITMENTS

At 31 December 1998 the group had annual commitments under non-cancellable operating leases which expire as follows:

|                            | 31 December<br>1998 | 31 December<br>1997 |
|----------------------------|---------------------|---------------------|
|                            | £' Million          | £' Million          |
| <i>Office equipment:</i>   |                     |                     |
| Within one year            | —                   | —                   |
| Between two and five years | 0.3                 | 0.3                 |
| <i>Property leases:</i>    |                     |                     |
| Within one year            | 0.2                 | —                   |
| Between two and five years | 0.2                 | 1.0                 |
| In more than five years    | 3.3                 | 3.3                 |
|                            | <u>4.0</u>          | <u>4.6</u>          |

### 37. RELATED PARTY TRANSACTIONS

#### Prudential Corporation

Scottish Amicable Life plc, Scottish Amicable Investment Managers Limited and Scottish Amicable International Assurance Management Services Limited, all 100% owned subsidiaries of Prudential Corporation, have insurance services and administration agreements with J. Rothschild Assurance plc, J. Rothschild International Assurance plc and St. James's Place Unit Trust Group Limited. An amount of £17.9 million was paid to the Prudential Corporation subsidiaries listed above during the year in respect of services received under these agreements. The agreements are renewable on 1 October 2003.

#### Directors' transactions

Total contributions paid by the Directors during the year to various life and unit trust contracts issued by group companies under normal terms, amounted to £0.1 million.

## Notes to the Accounts *continued*

It is not the practice of companies within the SJPC Group to offer loans to Directors. However, on his appointment as a Director on 15 September 1997, Mr John Newman had a loan outstanding from J. Rothschild Assurance Marketing Services Ltd, a subsidiary of SJPC. The loan had no repayment term and interest was charged at the cost of borrowing to J. Rothschild Assurance Marketing Services Ltd, which was 1% above the bank base rate. On 3 March 1998, Mr Newman repaid the outstanding balance of principal and interest in full. The maximum outstanding during the current year was £106,345.

No other contract of significance existed at any time during the year in which a director was materially interested or which required disclosure as a related party transaction under FRS 8 – Related Party Disclosures.

## Principal Investments

*at 31 December 1998*

The following are the principal investments in which the Group held over 10% of a class of issued share capital at 31 December 1998.

| <u>Company</u>                                               | <u>Class of Share Capital</u> | <u>% Held</u> |
|--------------------------------------------------------------|-------------------------------|---------------|
| <b>Unlisted companies</b>                                    |                               |               |
| <b>Investment Management</b>                                 |                               |               |
| Global Asset Management Limited<br>(incorporated in Bermuda) | Shares of US\$1               | 29.7          |
| <b>Life Assurance</b>                                        |                               |               |
| Life Assurance Holding<br>Corporation Limited                | Shares of 1 penny             | 22.9          |

Both the above investments are held directly by the Group 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 1998*

### **Investment Holding**

J. Rothschild Holdings plc

### **Life Assurance**

J. Rothschild Assurance plc

J. Rothschild International Assurance plc (incorporated in Ireland)

### **Unit Trust Management**

St. James's Place Unit Trust Group Limited

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

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

All of these companies have been consolidated into the Group's accounts.

## Supplementary Information on Group Life and Unit Trust Embedded Value

The following unaudited information is provided for the combined "embedded value" of the life and unit trust business.

|                          | Year Ended<br>31 December<br>1998 | Year Ended<br>31 December<br>1998 | Pro forma<br>Year Ended<br>31 December<br>1997 | Pro forma<br>Year Ended<br>31 December<br>1997 |
|--------------------------|-----------------------------------|-----------------------------------|------------------------------------------------|------------------------------------------------|
|                          | £' Million                        | £' Million                        | £' Million                                     | £' Million                                     |
| <b>Post tax profits</b>  |                                   |                                   |                                                |                                                |
| Profit from new business |                                   |                                   |                                                |                                                |
| Life                     | 19.3                              |                                   | 15.3                                           |                                                |
| Unit trust               | 4.9                               | 24.2                              | 3.1                                            | 18.4                                           |
| Unwind of discount rate  |                                   |                                   |                                                |                                                |
| Life                     | 15.3                              |                                   | 14.2                                           |                                                |
| Unit trust               | 3.4                               | 18.7                              | 2.8                                            | 17.0                                           |
| Change in assumptions    |                                   |                                   |                                                |                                                |
| Life                     | 5.4                               |                                   | —                                              |                                                |
| Unit trust               | 3.9                               | 9.3                               | —                                              | —                                              |
| Other                    |                                   |                                   |                                                |                                                |
| Life                     | 0.2                               |                                   | (3.2)                                          |                                                |
| Unit trust               | 3.7                               | 3.9                               | 6.4                                            | 3.2                                            |
| Profit after taxation    |                                   |                                   |                                                |                                                |
| Life                     | 40.2                              |                                   | 26.3                                           |                                                |
| Unit trust               | 15.9                              |                                   | 12.3                                           |                                                |
|                          |                                   | <b>56.1</b>                       |                                                | <b>38.6</b>                                    |

### Notes

1. The figures show the earnings for the life and unit trust businesses accounted for on an embedded value basis.
2. The figures for unit trusts include the earnings on a conventional accounting basis of £3.5 million (1997: £3.4 million).
3. Inclusion of the unit trust value of in force would increase Group net assets by £38.4 million (1997: £26.3 million).

## Shareholder Information

### ANALYSIS OF ORDINARY SHAREHOLDERS

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

|                             | <u>Shares Held</u>        | <u>%</u>             |
|-----------------------------|---------------------------|----------------------|
| <b>ANALYSIS BY CATEGORY</b> |                           |                      |
| Private Investors           | 59,250,714                | 14.27                |
| Insurance Companies         | 159,607,391               | 38.44                |
| Unit Trusts                 | 36,580,154                | 8.81                 |
| Pension Funds               | 104,301,188               | 25.12                |
| Investment Trusts           | 9,134,658                 | 2.20                 |
| Overseas Investors          | 9,549,870                 | 2.30                 |
| Other Funds                 | 4,567,329                 | 1.10                 |
| Unclassified                | <u>32,220,430</u>         | <u>7.76</u>          |
| <b>Total</b>                | <b><u>415,211,734</u></b> | <b><u>100.00</u></b> |

|                                         | <u>Number of<br/>Shareholders</u> | <u>%</u>             | <u>Shares Held</u>        | <u>%</u>             |
|-----------------------------------------|-----------------------------------|----------------------|---------------------------|----------------------|
| <b>ANALYSIS BY NUMBER<br/>OF SHARES</b> |                                   |                      |                           |                      |
| 1 – 9                                   | 57                                | 0.56                 | 146                       | 0.00                 |
| 10 – 49                                 | 81                                | 0.80                 | 2,410                     | 0.00                 |
| 50 – 99                                 | 109                               | 1.08                 | 7,540                     | 0.00                 |
| 100 – 499                               | 1,235                             | 12.20                | 349,494                   | 0.08                 |
| 500 – 999                               | 1,301                             | 12.85                | 913,861                   | 0.22                 |
| 1,000 – 1,999                           | 2,055                             | 20.29                | 2,758,410                 | 0.66                 |
| 2,000 – 2,999                           | 1,373                             | 13.56                | 3,244,039                 | 0.78                 |
| 3,000 – 3,999                           | 845                               | 8.34                 | 2,825,655                 | 0.68                 |
| 4,000 – 4,999                           | 520                               | 5.14                 | 2,267,004                 | 0.55                 |
| 5,000 – 9,999                           | 1,126                             | 11.12                | 7,469,282                 | 1.80                 |
| 10,000 – 24,999                         | 707                               | 6.98                 | 10,498,387                | 2.53                 |
| 25,000 – 49,999                         | 264                               | 2.61                 | 9,277,748                 | 2.24                 |
| 50,000 – 99,999                         | 166                               | 1.64                 | 11,441,948                | 2.76                 |
| 100,000 and above                       | <u>287</u>                        | <u>2.83</u>          | <u>364,155,810</u>        | <u>87.70</u>         |
| <b>Total</b>                            | <b><u>10,126</u></b>              | <b><u>100.00</u></b> | <b><u>415,211,734</u></b> | <b><u>100.00</u></b> |

### FINANCIAL CALENDAR

Announcement of final results for  
year ended 31 December 1998

18 March 1999

Annual General Meeting

19 May 1999

Final dividend on ordinary  
shares of 0.75 pence

Payable 20 May 1999 to shareholders on  
the register on 6 April 1999.

## Secretary and Advisers

### **SECRETARY AND REGISTERED OFFICE**

**H J Gladman**

J. Rothschild House

Dollar Street

Cirencester GL7 2AQ

### **AUDITORS**

**PricewaterhouseCoopers**

Southwark Towers

32 London Bridge Street

London SE1 9SY

### **SOLICITORS**

**Linklaters & Paines**

No 1 Silk Street

London EC2Y 8HQ

### **REGISTRARS AND TRANSFER OFFICE**

**Computershare Services Plc**

P.O Box 82

Caxton House

Redcliffe Way

Bristol BS99 7NH

### **BANKERS**

**National Westminster Bank plc**

National Westminster House

73a Commercial Road

Swindon SN1 5LT

### **BROKERS**

**Cazenove & Co**

12 Tokenhouse Yard

London

EC2R 7AN

# 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 Over-Seas League, Over-Seas House, Park Place, St. James's Street, London SW1A 1LR on Wednesday 19 May 1999 at 11.00 am. The Meeting will be held for the following purposes:

## ORDINARY BUSINESS

### Resolution 1

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

### Resolution 2

To declare a final dividend.

### Resolution 3

Separately, to elect as Directors the following persons who have been appointed as Directors since the last Annual General Meeting:

**Resolution 3a:** Charles Bailey

**Resolution 3b:** Martin Moule

Separately, to re-elect as Directors the following persons who retire by rotation:

**Resolution 3c:** Sir Mark Weinberg

**Resolution 3d:** Lord Weir

**Resolution 3e:** Derek Netherton

### Resolution 4

To consider the following resolution, special notice having been received of the intention to propose the resolution as an ordinary resolution:

"THAT PricewaterhouseCoopers be re-appointed auditors of the Company (having previously been appointed by the Board to fill the casual vacancy arising by reason of the resignation of Price Waterhouse), to hold office until the conclusion of the next General Meeting at which accounts are laid before the Company and to authorise the Directors to determine the remuneration of the auditors".

## SPECIAL BUSINESS

To consider and, if thought fit, pass the following Resolutions, of which Resolutions 5, 6, 7, 9, 11 and 13 will be proposed as Ordinary Resolutions and the remaining Resolutions will be proposed as Special Resolutions.

### Resolution 5

THAT the proposals to combine the assets of the J. Rothschild Group Charitable Trust and The J. Rothschild Assurance Foundation be approved and that the Directors be authorised to match, on a pound for pound basis, donations made to The J. Rothschild Assurance Foundation (or any successor body), up to a maximum of £300,000 in respect of the year to 31 December 1999 (in substitution for the £50,000 per annum currently authorised to be paid to the J. Rothschild Group Charitable Trust).

## Annual General Meeting *continued*

### **Resolution 6**

THAT the Directors of the Company be and they are hereby authorised to amend the rules of the Company's Executive Share Option Scheme 1997, the Company's Sharesave Option Scheme 1997 and the Company's Partners' Share Option Scheme 1997 so as to remove the fixed limit of £60 million on the aggregate initial market value of unissued ordinary shares over which options may be granted under those Schemes.

### **Resolution 7**

THAT the Directors of the Company be and they are hereby authorised to amend the rules of the Company's Executive Share Option Scheme 1997 and of the Company's Partners' Share Option Scheme 1997 as described in the Explanatory Notes to this Notice of Meeting subject to such modifications as the Directors of the Company may consider necessary (or as may be consequential) to obtain the approval of the board of Inland Revenue or to take account of the requirements of the London Stock Exchange or otherwise.

### **Resolution 8**

THAT the Company be hereby authorised to purchase up to an aggregate of 62,941,822 Ordinary Shares of 15 pence each of the Company (or such a number of Ordinary Shares as represents 14.99% of the Company's issued capital at the date of the Meeting, whichever is less) at a price (exclusive of expenses) which is:

- (a) not less than 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 the date of the Annual General Meeting in 2000 or 31 July 2000, whichever is the earlier, (except in relation to the purchase of shares the contract for which was concluded before such date and which might be executed wholly or partly after such date).

### **Resolution 9**

THAT the authority and power conferred on the Directors by Article 9.2 of the Company's Articles of Association be renewed for the period ending on the date of the Annual General Meeting in 2000 or on 31 July 2000, whichever is the earlier, and for such period the Section 80 Amount shall be £21,010,686, 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 10**

THAT, subject to the passing of Resolution 9, the authority and power conferred on the Directors by article 9.3 of the Company's Articles of Association be renewed for the period ending on the date of the Annual General Meeting in 2000 or on 31 July 2000, whichever is the earlier, and for such period the Section 89 Amount shall be £3,151,918, 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.

## Annual General Meeting *continued*

### Resolution 11

THAT the Option Deeds to be entered into between Paul Bradshaw, Teeover Limited, J. Rothschild International Assurance Holdings Limited, J. Rothschild Assurance Holdings plc and the Company (as appropriate), copies of which, initialled for the purpose of identification only by the Chairman, are produced to the Annual General Meeting, be and are hereby approved and the Directors be and are hereby authorised to execute the Deeds and to take all steps necessary or desirable to complete and carry the same into effect and to exercise the Company's rights under them.

### Resolution 12

THAT the Articles of Association of the Company be amended as follows:

(a) by deleting Article 71 and substituting the following:

"Subject as hereinafter provided the Directors shall not be less than two nor more than fifteen in number. The Company may by Ordinary Resolution from time to time vary the minimum number and/or maximum number of Directors".

(b) by deleting Article 81 and substituting the following:

"At each Annual General Meeting all those Directors who were elected or last re-elected at or before the Annual General Meeting held in the third calendar year before the current year shall retire from office by rotation".

(c) by deleting Article 82 and the heading thereto;

(d) in Article 86, by deleting the words:

" , but shall not be taken into account in determining the number of Directors who are to retire by rotation at such meeting"

in the final sentence; and

(e) by incorporating the changes underlined in the text of the Company's Articles produced to the Meeting (and for the purposes of identification, initialled by the Chairman of the Meeting) relating to the Regulations (as defined in the Articles).

### Resolution 13

THAT (conditionally upon Resolution 12 being approved by shareholders) Paul Bradshaw be and is hereby appointed as an additional Director of the Company.

By Order of the Board



H. J. Gladman  
Secretary

J. Rothschild House  
Dollar Street  
Cirencester  
Gloucestershire GL7 2AQ

16 April 1999

## Annual General Meeting *continued*

### NOTES

1. 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 form is enclosed.
2. Copies of the following documents will be available for inspection at the registered office at the Company and at the offices of Linklaters & Paines, One Silk Street, London EC2Y 8HQ during usual business hours on any weekday (Saturdays and Bank Holidays excepted) until 19 May 1999 and at the place of the meeting from 10.45 am until its conclusion.
  - the Service Contracts of the Company's Executive Directors;
  - the full text of the Company's Executive Share Option Scheme 1997, the Company's Sharesave Option Scheme 1997 and the Company's Partners' Share Option Scheme 1997 marked to show the proposed amendments;
  - the Option Deed to be entered into between Paul Bradshaw, Teeover Limited, J. Rothschild International Assurance Holdings Limited ("JRIAH"), J. Rothschild Assurance Holdings plc and the Company, the Option Deed to be entered into by Teeover Limited and J. Rothschild Assurance Holdings plc and the proposed new Articles of Association of JRIAH;
  - the Service Contract to be entered into between Paul Bradshaw and JRIAH;
  - the Company's existing Memorandum and Articles of Association;
  - the Company's Articles of Association marked to show the full text of the proposed amendments.

# Explanatory Notes to the Resolutions

## ORDINARY BUSINESS

### Resolution 1 – To Receive the Directors' Report and Accounts

The Directors present the Company's Annual Report and Accounts for the year ended 31 December 1998.

### Resolution 2 – Declaration of Final Dividend

The Board recommends payment of a final dividend of 0.75 pence per share on 20 May 1999 to shareholders on the register at the close of business on 6 April 1999. Please see page 4 for details of the Company's dividend policy.

### Resolution 3 – Election and Re-election of Directors

Pursuant to the Company's Articles of Association, the two Directors appointed since the last Annual General Meeting will relinquish their office at the Annual General Meeting and both will be proposed for election at the meeting. The Articles also require one third in number of the Directors (excluding those seeking election for the first time) to retire by rotation each year. Accordingly, Sir Mark Weinberg, Lord Weir and Derek Netherton will retire at the Annual General Meeting in accordance with the Articles. All three will be seeking re-election. Biographical details of the Directors seeking election or re-election are set out on pages 9 to 11.

### Resolution 4 – Appointment and Remuneration of Auditors

Following the merger between Price Waterhouse and Coopers & Lybrand, PricewaterhouseCoopers were appointed by the Board to fill the casual vacancy that arose following Price Waterhouse's resignation as auditors. It is proposed that PricewaterhouseCoopers be re-appointed as auditors and that the Directors be authorised to determine their remuneration.

## SPECIAL BUSINESS

### Resolution 5 – Charitable Donations

The Company has made charitable donations through the J. Rothschild Group Charitable Trust since its inception in 1987; in addition, The J. Rothschild Assurance Foundation, which was established in 1993, has raised funds from Partners and employees of the JRA Group for distribution to various charitable causes. Following the merger of the interests of SJPC and the JRA Group in 1997, it is proposed that the assets of the Charitable Trust and the Foundation be combined, such proposals having the approval of both the trustees of the Charitable Trust and the Foundation. It is also proposed to change the charitable contributions of the Group from the current fixed level of £50,000 pa (to the Charitable Trust) to a new basis whereby the Company will match, on a pound for pound basis, donations made to the Foundation (or any successor body) by Partners and employees of the Group, up to a limit of £300,000 in 1999.

### Resolutions 6 and 7 – Changes to the Company's Share Schemes

The Directors seek authority from shareholders to amend (subject, where appropriate, to the approval of the Inland Revenue) the rules of the SJPC Executive Share Option Scheme 1997 ("the Executive Scheme"), the SJPC Sharesave Option Scheme 1997 ("the SAYE Scheme") and the SJPC Partners' Share Option Scheme 1997 ("the Partners' Scheme") – together referred to as "the Schemes" – as follows:

## Explanatory Notes to the Resolutions *continued*

### **Resolution 6:**

It is proposed to bring the Schemes into line with current practice by removing the existing fixed financial limit (of £60 million) on the aggregate initial market value of unissued shares over which options may be granted under all three Schemes. Such a financial limit is no longer required by the Listing Rules of the London Stock Exchange and is proving to be unnecessarily restrictive due to the large increase in the Company's share price since the adoption of the Schemes. If the Company grants options to acquire shares in excess of this fixed financial limit before the Annual General Meeting and the Directors are not authorised to make such amendments, then such options or options over the same number of shares will be satisfied by the transfer of existing shares presently held in the Company's Jersey-based Share Benefit Trust or which will be purchased in the market. The grant of options under all of the Schemes will remain subject to the overall limit, of 10% of the current issued share capital, on the shares over which options to subscribe for new shares may be granted in any period of 10 years.

### **Resolution 7:**

It is proposed:

- (a) to permit share options to be granted under the Executive Scheme and the Partners' Scheme at any time within the 10 year life of those Schemes, subject always to the limitations imposed by the Model Code for Securities Transactions by Directors of Listed Companies and any other relevant legal or regulatory restrictions. This will allow options normally to be granted shortly after a member of The J. Rothschild Partnership or an employee first joins the Group and, if appropriate, upon the anniversaries of that date or, in the case of an employee, on promotion;
- (b) subject as appropriate to the approval of the Inland Revenue, to enable an optionholder under the Executive Scheme who becomes a member of The J. Rothschild Partnership (and therefore ceases to be an 'employee') to retain at the discretion of the Directors all or some of the benefit of his share option(s); and to enable the benefit of a share option granted to a member of The J. Rothschild Partnership which is itself a partnership of individuals or a corporate entity, and which is dissolved or reorganised on terms that one or more of the persons connected with the said member becomes or remains a member of The J. Rothschild Partnership, to be split and assigned in favour of such ongoing 'partners' (instead of such share option becoming exercisable early or lapsing). Such amendments are not intended to alter the terms on which shares could otherwise have been acquired for the benefit of such individual if, when the option was granted, the individual optionholder's status (as a partner or corporate entity) had been equivalent to his new or ongoing status;
- (c) to amend the Executive Scheme so as to enable the Directors to determine, when an option is granted, the period(s) within which such option may normally be exercised. The purpose of this amendment is to allow the Directors to restrict the periods within which an option (other than an Inland Revenue approved share option) may normally be exercised and thereby restrict the Group's exposure to the cost of employer's secondary Class 1 National Insurance Contributions payable on option gains realised on the exercise of unapproved employee share options granted after 5 April 1999;

## Explanatory Notes to the Resolutions *continued*

- (d) to amend the Executive Scheme so as to allow options to be granted pursuant to that Scheme by the trustees of the Company's employee share benefit trust or any other trust for the benefit of employees within the Group. This will enable the Group to satisfy options using shares purchased in the market and to do so in a manner which affords both flexibility as to the funding of such purchases and the opportunity to claim relief from corporation tax for the cost of funding share option benefits.

### **Resolution 8 – Purchase of Own Shares**

It is proposed to seek power to purchase up to a maximum of 62,941,822 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 Company's shares on the preceding five business days. This represents 14.99% of the current 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 14.99% of that issued capital. The authority now sought would last until the Annual General Meeting in 2000 or 31 July 2000, whichever is the earlier. 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 pursuant to this authority at more than their attributable net asset value.

### **Resolution 9 – Authority to Allot Shares**

Although the Company's Articles of Association provide that all the 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 to renew, until the Annual General Meeting in 2000 or 31 July 2000, whichever is the earlier, the Directors' authorisation to allot the Company's unissued shares up to a nominal amount of £21,010,686 (which represents 139,931,169 ordinary shares and, as at 31 March 1999 33.33% of the issued ordinary share capital of the Company). The Directors have no present intention of allotting shares pursuant to this authority except in relation to the share schemes operated by the Company and its subsidiaries.

### **Resolution 10 – Disapplication of 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.

It is proposed to renew the power under the Company's Articles of Association to allot ordinary shares otherwise than in accordance with these pre-emption rules for a period to expire on the date of the Annual General Meeting in 2000 or 31 July 2000, whichever is the earlier, provided that any ordinary shares allotted for cash pursuant to such power be limited to a nominal amount of £3,151,918 (which represents 20,991,774 ordinary shares and, as at 31 March 1999 5% of the issued ordinary share capital of the Company).

## Explanatory Notes to the Resolutions *continued*

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, except in relation to the share schemes operated by the Company and its subsidiaries.

### **Resolution 11 – Approval of Substantial Property Transaction Between the Company and Paul Bradshaw**

On 20 January 1999 the Company announced that heads of terms had been signed with Paul Bradshaw with a view to his becoming Chief Executive of J. Rothschild International Assurance Holdings Limited ("JRIAH"), an indirectly wholly-owned subsidiary of the Company. On 1 February 1999 Paul Bradshaw was appointed under a fixed term employment contract to act as Chief Executive of JRIAH until 31 May 1999, pending negotiation of the incentivisation arrangements concerning his proposed appointment as a Director of JRIAH. In accordance with Section 320 of the Companies Act 1985 the incentivisation arrangements require the prior approval of shareholders.

The 11,250,699 ordinary shares in JRIAH will be redesignated into 10,250,699 'A' ordinary shares and 1,000,000 'B' ordinary shares. The 'A' Ordinary shares will be entitled to any profits arising from the UK and selected overseas business of JRIAH. The 'B' ordinary shares will have an entitlement to any profits arising from any other international business of JRIAH.

Under the proposed arrangement Paul Bradshaw's company Teeover Limited will pay £75,000 to acquire an option to purchase 'B' Ordinary shares representing a 5% stake in JRIAH's international business (as from time to time defined). The consideration payable by Teeover Limited for the option represents the current market value of 5% of JRIAH's international business. Paul Bradshaw will have the right to sell his shares in Teeover Limited to the Company at certain times (and in certain circumstances) over a period of 7 years (the "Put Option"). The Company will also have the right to purchase Teeover Limited from Paul Bradshaw at certain times (and in certain circumstances) over a period of 7 years (the "Call Option").

On exercise of the Put Option or the Call Option, the agreement provides for Paul Bradshaw to receive a cash consideration for his shareholding in Teeover Limited or (at the discretion of the Company) shares in the Company. In either case the consideration would represent an amount equal to the then market value of the number of Teeover Limited shares being sold (by reference to the market value of the shares in JRIAH over which Teeover Limited holds the option).

The Agreement makes provision for the consideration payable by the Company to be reduced if Paul Bradshaw's employment with the Group is terminated in certain circumstances prior to the exercise of the Put Option.

The Directors consider that the proposed incentivisation arrangements are in the best interests of shareholders in that they closely align Paul Bradshaw's interests with the performance of the international business of JRIAH and with the interests of shareholders in the Company.

The Board intends to introduce further incentivisation arrangements later in the year, for senior management of JRIAH (excluding Paul Bradshaw) using shares

## Explanatory Notes to the Resolutions *continued*

representing a further 5% of JRIAH's international business. The appropriate approvals will be sought when these proposals have been finalised.

### **Resolution 12 – Amendments to Articles of Association**

It is proposed to make a number of changes to the Articles, as follows:

- (a) The maximum number of Directors be increased from 12 to 15.
- (b) The Combined Code includes a provision that all Directors should be required to submit themselves for re-election at regular intervals and at least every three years. It is proposed that the relevant Articles be amended to reflect this.
- (c) It is proposed to make certain additional changes to certain of the Articles to clarify the effect of the Uncertificated Securities Regulations 1995 (relating to the holding and transfer of shares via the CREST system).

### **Resolution 13 – Appointment of Paul Bradshaw as a Director**

Subject to Shareholders' approval of Resolution 12 (specifically the proposed increase in the maximum number of directors from 12 to 15), it is proposed to elect Paul Bradshaw as an additional Director of the Company at the Annual General Meeting.

Aged 49, Paul Bradshaw was engaged as Chief Executive of J. Rothschild International Assurance Holdings Limited in February 1999 with a remit to develop the business outside of the United Kingdom. He has worked in life assurance since 1971, having developed a number of new life companies in the United Kingdom and abroad. He was Chairman and Managing Director of Skandia Life and in 1992 he headed the formation of J. Rothschild International Assurance plc. In 1994 he became Chief Executive of Scottish Amicable International, which handled the administration of J. Rothschild International's operations. He was also Deputy Managing Director of Scottish Amicable. He is a Fellow of the Institute of Actuaries.

Paul Bradshaw's proposed Service Agreement as Chief Executive of J. Rothschild International Assurance Holdings Limited can be terminated, without specific provision for compensation for early termination by, inter alia, either party giving the other not less than twelve months written notice. The Agreement would automatically terminate on Paul Bradshaw's 60th birthday and provides for an annual salary of £200,000 and benefits in kind, including life assurance, participation in the discretionary bonus scheme, pension provision, private health insurance and a company car. Paul Bradshaw will be entitled to participate in the Company's SAYE Option Scheme but will not be invited to participate in the Executive Share Option Scheme.

# ST. JAMES'S PLACE CAPITAL PLC FORM OF PROXY

I/We .....  
of .....

being (a) Member(s) of the above-named Company hereby appoint the Chairman of the Meeting or\*

as my/our proxy to attend and, on a poll, vote for me/us on my/our behalf at the ANNUAL GENERAL MEETING of the Company to be held at The Royal Over-Seas League, Over-Seas House, Park Place, St. James's Street, London SW1A 1LR on Wednesday 19 May, 1999 at 11.00 am and at any adjournment thereof.

I/We direct my/our proxy to vote on the resolutions set out in the notice convening the Annual General Meeting as follows:

| ORDINARY BUSINESS                                                                        | **FOR                    | **AGAINST                |                                                                                | **FOR                    | **AGAINST                |
|------------------------------------------------------------------------------------------|--------------------------|--------------------------|--------------------------------------------------------------------------------|--------------------------|--------------------------|
| 1. To receive the Director's Report and Accounts                                         | <input type="checkbox"/> | <input type="checkbox"/> | 7. To approve amendments to the Company's Share Schemes                        | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. To declare a final dividend                                                           | <input type="checkbox"/> | <input type="checkbox"/> | 8. To approve the purchase of own shares                                       | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. To elect or re-elect as Directors:                                                    |                          |                          | 9. To renew the Directors' powers to allot shares                              | <input type="checkbox"/> | <input type="checkbox"/> |
| Charles Bailey                                                                           | <input type="checkbox"/> | <input type="checkbox"/> | 10. To renew the Directors' powers to disapply pre-emption rights              | <input type="checkbox"/> | <input type="checkbox"/> |
| Martin Moule                                                                             | <input type="checkbox"/> | <input type="checkbox"/> |                                                                                |                          |                          |
| Sir Mark Weinberg                                                                        | <input type="checkbox"/> | <input type="checkbox"/> | 11. To approve the proposed arrangements between the Company and Paul Bradshaw | <input type="checkbox"/> | <input type="checkbox"/> |
| Lord Weir                                                                                | <input type="checkbox"/> | <input type="checkbox"/> |                                                                                |                          |                          |
| Derek Netherton                                                                          | <input type="checkbox"/> | <input type="checkbox"/> | 12. To amend the Articles of Association                                       | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. To re-appoint Price-waterhouseCoopers as auditors and to determine their remuneration | <input type="checkbox"/> | <input type="checkbox"/> | 13. To elect Paul Bradshaw as a Director                                       | <input type="checkbox"/> | <input type="checkbox"/> |
| SPECIAL BUSINESS                                                                         |                          |                          | Dated this ..... day of ..... 1999                                             |                          |                          |
| 5. To approve donations to The J. Rothschild Assurance Foundation                        | <input type="checkbox"/> | <input type="checkbox"/> | Signature .....                                                                |                          |                          |
| 6. To remove the £60m limit on options under the Company's Share Schemes                 | <input type="checkbox"/> | <input type="checkbox"/> |                                                                                |                          |                          |

\* The Chairman of the Meeting will act on your proxy if no other name is inserted. If you wish to appoint someone other than the Chairman as your proxy please cross out the words "Chairman of the Meeting" and insert on the dotted line below that deletion the name and address of the person you wish to appoint as your proxy. A proxy need not be a member of the Company.

\*\* Please indicate how you wish your proxy to vote by placing a tick in the appropriate box. If you do not do so your proxy will abstain or vote for or against the resolutions at his discretion and may also do so in relation to any other matters which may properly come before the Meeting.

## NOTES:

- The instrument appointing a proxy shall be in writing and, in the case of an individual, shall be signed by the appointor or attorney or, if the appointor is a corporation, either under its common seal or signed on its behalf by an attorney or duly authorised officer.
- This form (together with the letter or power of attorney or a duly certified copy thereof if the form is signed by an attorney) must be returned so as to reach Computershare Services PLC, P.O. Box 1075, Bristol BS99 3FA, not later than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid. The form is pre-addressed overleaf and the postage is pre-paid.
- In the case of joint holders, the vote of the senior who tenders a vote shall be accepted to the exclusion of the votes of the other joint holders, seniority for this purpose being determined by the order of the names in the Register of Members in respect of the joint holding.
- Completion of this form of proxy does not preclude a Member from attending the meeting and voting in person.

SECOND FOLD

BUSINESS REPLY SERVICE  
Licence No SWB 1002



**Computershare Services PLC**  
**PO Box 1075**  
**Bristol**  
**BS99 3FA**

FIRST FOLD

THIRD FOLD AND TUCK IN