



SUN ALLIANCE

GROUP plc

(Incorporated with limited liability in England and Wales with registered number 2339826)

Placing of
125,000,000 7³/₈ per cent.
Cumulative Irredeemable Preference Shares
of £1 each at 100.785 pence per share

Copies of this document, which comprises listing particulars relating to Sun Alliance prepared in accordance with the listing rules made under Section 142 of the Financial Services Act 1986, have been delivered for registration to the Registrar of Companies in England and Wales in accordance with Section 149 of that Act.

Application has been made to the London Stock Exchange for the Preference Shares to be admitted to the Official List. It is expected that such admission will become effective and that, subject to deferred settlement for initial dealings, dealings will commence on 13th October, 1993.

The Directors, whose names appear on page 4 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

In connection with this issue, Cazenove may over-allot or effect transactions on the London Stock Exchange which stabilise or maintain the market price of the Preference Shares at a level which might not otherwise prevail on that exchange. Such stabilising, if commenced, may be discontinued at any time.

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Expected Timetable of Events

	1993
Official dealings commence, fully paid, for account settlement subject to deferred settlement for initial dealings	13th October
Definitive Preference Share certificates despatched	26th October
Deferred settlement for initial dealings	28th October
	1994
First dividend payment on Preference Shares	1st April

Definitions

The following definitions apply throughout this document unless the context requires otherwise:—

“Sun Alliance” or the “Company”	Sun Alliance Group plc;
“Directors”	the directors of the Company;
“Group” or “Sun Alliance Group”	the Company and its subsidiary undertakings (as defined in the Companies Act 1985);
“Preference Shares”	the 7 ³ / ₈ per cent. cumulative irredeemable preference shares of £1 each in the Company which are to be issued and subscribed pursuant to the Placing;
“Authorised Preference Shares”	the 300,000,000 preference shares of £1 each in the Company created by a resolution passed on 22nd September, 1993;
“Shares” or “Ordinary Shares”	the existing shares of 25p each in the Company;
“London Stock Exchange”	The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited;
“Official List”	the Official List of the London Stock Exchange;
“Placing”	the placing of the Preference Shares as described in this document;
“Placing Agreement”	an agreement dated 12th October, 1993 between the Company, Cazenove and Warburg relating to the Placing;
“Placing Price”	100.785p per Preference Share;
“Cazenove”	Cazenove & Co.;
“Warburg”	S. G. Warburg Securities Ltd.

Directors and Company Secretary

The following persons whose business address is 1 Bartholomew Lane, London EC2N 2AB are the Directors of the Company:—

*Sir Christopher John Benson	<i>Chairman</i>
*Henry Neville Lindley Keswick	<i>Deputy Chairman</i>
*Robert John Ayling	
*Geoffrey Bowler	
Michael Lewis Dew	<i>Managing Director, Sun Alliance Group Properties</i>
*Sir Ewen Alastair John Fergusson	
*Graeme Elder Gilchrist, TD	
Thomas Arthur Hayes	<i>General Manager</i>
*Robert Hugh Molesworth, The Lord Kindersley	
Thomas Scott Nelson	<i>General Manager, Corporate Finance</i>
Roger Albert Gartside Neville, VRD	<i>Group Chief Executive</i>
Ralph Petty	<i>Managing Director, Sun Alliance Insurance Overseas</i>
*Leopold David de Rothschild, CBE	
Peter Graham Taylor	<i>Managing Director, Sun Alliance Life</i>
Roger John Taylor	<i>Group Executive Director</i>

** Non-Executive Directors*

Sir Christopher Benson joined the board of Sun Alliance in 1988, was appointed Vice-Chairman in 1991, Deputy Chairman in 1992, and was appointed Chairman with effect from 19th May, 1993. He is Chairman of The Boots Company PLC, Costain Group plc and The Housing Corporation, and is a former Chairman of MEPC plc.

Henry Keswick joined the board of Sun Alliance in 1975 and was appointed Deputy Chairman on 6th October, 1993. He is Chairman of Jardine Matheson Holdings Limited and a Director of Robert Fleming Holdings Limited, of Rothmans International plc and of The Telegraph plc.

Robert Ayling joined the board of Sun Alliance in April, 1993. Formerly Under Secretary to the Department of Trade, he is the Group Managing Director of British Airways Plc.

Geoffrey Bowler joined the board of Sun Alliance in 1970. He is a former Chief General Manager.

Sir Ewen Fergusson joined the board of Sun Alliance in April, 1993. Formerly H.M. Ambassador to France and South Africa, he is Chairman of Coutts & Co and a director of British Telecommunications PLC and The Savoy Hotel Plc.

Graeme Gilchrist joined the board of Sun Alliance in 1991. He is a former Deputy Chairman and Chief Executive of The Union Discount Company of London, p.l.c.

The Lord Kindersley joined the board of Sun Alliance in 1965 and was a Director of The London Assurance from 1957 to 1989. He is a Director of The Maersk Company Limited.

Leopold de Rothschild joined the board of Sun Alliance in 1982. He is a Director of N.M. Rothschild & Sons Limited.

References to the "board of Sun Alliance" above are to the board of Sun Alliance and London Insurance plc, in relation to the period prior to 1st July, 1989.

The Secretary of the Company is D.J. Miller, Barrister

PART I – SUN ALLIANCE

1. Description of the Business

The Company is the parent company of the Sun Alliance group of companies whose principal activity is the transaction in the United Kingdom and overseas of all major classes of insurance business and the provision of related financial services.

The Group includes the Sun Fire Office (now operating as Sun Insurance Office) which was founded in 1710 and is the oldest insurance office in the world. The Group was formed in 1959 by the merger of Sun Insurance Office and the Alliance Assurance Company (established in 1824). The London Assurance (established in 1720) joined the Group in 1965 and Phoenix Assurance (established in 1782) joined in 1984. The present structure of the Group dates from 1989 when the Company was formed as the holding company of the Group's insurance and non-insurance businesses. The Group is now one of the largest composite (life and general) insurance groups in the United Kingdom and one of the 20 largest quoted insurance groups in Europe ranked by premium income. The Group operates through subsidiaries in the United Kingdom, Europe, the United States, Canada, South America, Australia, Africa and Asia and is represented, in total, in more than 50 countries around the world.

The table below provides a geographical analysis of the Sun Alliance Group's general and long-term (life) insurance businesses for the three years ended 31st December, 1992:—

	1992		1991		1990	
	Premium income £m	Under- writing result £m	Premium income £m	Under- writing result £m	Premium income £m	Under- writing result £m
General Insurance						
United Kingdom	1,833.4	(438.4)	1,667.1	(713.0)	1,631.4	(461.3)
Europe	534.4	(61.0)	445.8	(78.2)	378.9	(53.1)
U.S.A.	334.3	(10.4)	249.1	0.8	230.2	(0.8)
Canada	70.5	(14.1)	68.2	(18.7)	61.0	(7.3)
Australia	166.8	(8.1)	108.7	(12.3)	101.7	(16.1)
Other overseas	188.6	(15.6)	139.0	(12.1)	109.5	(12.2)
	<u>3,128.0</u>	<u>(547.6)</u>	<u>2,677.9</u>	<u>(833.5)</u>	<u>2,512.7</u>	<u>(550.8)</u>

	1992		1991		1990	
	Premium income £m	Share holders' profits £m	Premium income £m	Share holders' profits £m	Premium income £m	Share holders' profits £m
Long-term Insurance						
United Kingdom	1,042.2	49.0	825.9	45.0	691.8	40.6
Europe	182.5	7.1	135.0	4.6	116.2	3.1
Australia	38.2	4.2	24.9	3.9	17.9	2.4
Other overseas	39.5	1.7	31.9	0.8	35.3	1.6
	<u>1,302.4</u>	<u>62.0</u>	<u>1,017.7</u>	<u>54.3</u>	<u>861.2</u>	<u>47.7</u>

The Group's insurance activities are undertaken by Sun Alliance and London Insurance plc and its subsidiaries. There are four main operating subsidiaries:—

Sun Alliance Insurance UK Limited (accounting for 32 per cent. of 1992 general insurance premium income) writes United Kingdom personal general business, including household, motor, personal accident, travel and mortgage indemnity business;

Sun Alliance Insurance International Limited (accounting for 27 per cent. of 1992 general insurance premium income) writes United Kingdom commercial (fire, motor, liability, etc.) and London market business, including marine, aviation and insurance programmes for multinational companies;

Sun Alliance Insurance Overseas Limited, with its subsidiaries, (accounting for 41 per cent. of 1992 general insurance premium income and 20 per cent. of long-term insurance premium income) is responsible for the Group's general and life business written by subsidiaries, branches and agencies overseas; and

Sun Alliance Life Limited and its subsidiaries (accounting for 80 per cent. of 1992 long-term insurance premium income) handle all United Kingdom life and pensions business and related financial services.

United Kingdom

As a composite insurer, the Group offers a wide range of general and life insurance in the United Kingdom market, with the exception of industrial life assurance business. The Group has major market shares in most categories of personal insurance, including over 10 per cent. of the household sector. The Group's personal insurance business was further strengthened in 1993 by increasing to 100 per cent. its investment in Swinton (Holdings) Limited which owns Swinton Insurance, a personal lines intermediary, having over 700 outlets in the United Kingdom. The Group is also a market leader in commercial insurance and the leading engineering insurer in the United Kingdom through its specialised subsidiary, National Vulcan Engineering Insurance Group Limited.

The Group has a significant presence in the United Kingdom life and pensions market. It maintains a direct sales force numbering over 900 which is supplemented by sales through independent intermediaries and tied agents and through one of the longest established and largest life assurance direct marketing units in the United Kingdom.

Europe

The Group operates in many European countries, with a significant presence in Denmark and Ireland and other subsidiaries in Belgium, France, Germany, Greece, Holland, Italy and Spain. New life companies were launched in Holland during 1990 and in Italy during 1992, adding to established life businesses in Denmark, Germany and Spain. In 1993 the Group's Danish subsidiary, A/S Forsikringsselskabet Codan ("Codan"), acquired the non-UK insurance business of the Hafnia Group, which has made Codan the largest general insurer in Denmark and third largest life insurer.

United States and Canada

In the United States, an association was established with The Chubb Corporation ("Chubb") in 1882. Chubb manages the majority of the Group's US business. Chubb currently holds a 3 per cent. stake in the Company and the Group holds a 5 per cent. stake in Chubb. In Canada, the Group has a casualty, property and life insurance operation in the eastern part of the country.

Australia

The Group writes both general and life business in Australia through subsidiary companies. The Australian general business operations were merged in 1992 with those of Royal Insurance to create Sun Alliance and Royal Insurance Australia Limited, which is 60 per cent. owned by the Group. This new operation is amongst the top five companies in the Australian general insurance market ranked by premium income.

2. Reasons for the Placing

As evidenced in the interim results, the Group has benefited from a continuing improvement in most insurance markets and sees the prospect of profitable growth both in the UK and Overseas.

The issue of Preference Shares will strengthen the Group's capital base, facilitating the development of general insurance business in the improved rating environment in the UK and the growth of its business in other markets in which the Group operates, including its overseas businesses.

3. Profit Forecast, Recent Developments and Current Trading

In the Chairman's Statement in the Report and Accounts for the year ended 31st December, 1992, the former Chairman stated that there was solid evidence that the worst was now behind the Group and that 1993 was very likely to show a return to profit. The Directors confirm that, in the absence of unforeseen circumstances and on the bases and assumptions set out on page 35 of this document, the Group will return to profit for the year ending 31st December, 1993.

The Interim Statement of the Company released on 2nd September, 1993 was as follows:—

Main Features

- Profit before tax £61.7m
(1992 : loss £97.9m).
- Underwriting losses reduced to £153.1m from £280.8m.
- Shareholders' net assets at 30th June were £1,561m
(31st December, 1992 : £1,548m).
- The solvency margin including minority interests was 50 per cent.
(31st December, 1992 : 54 per cent.).
- The interim dividend is maintained at 5.25p per share.

Commenting on the results, the Group Chief Executive of Sun Alliance, Mr. R.A.G. Neville, said "The profit for the first six months is evidence that the recovery in our results is firmly established. We have achieved a substantial improvement in all our major operations including insurance profits in UK personal business and overseas and a significant increase in life profits.

Losses on UK domestic mortgage indemnity business have fallen to £60m from £108m for the first half of 1992. Provided that the gradual improvement in the UK economy and the increasing activity in the housing market are maintained, we anticipate further reductions in these losses.

Excluding the DMI overhang, we have made strong progress in our drive for profits on UK personal business, where rigorous underwriting action and expense control have contributed to a sharp improvement in the result.

The rating environment for commercial risks in the UK remains sound and the results are beginning to show the benefit of selective withdrawal from loss-making lines and

increased emphasis on risk assessment. As a result, commercial losses have been substantially reduced, despite a loss of £25m from the terrorist bombing in Bishopsgate in April.

Overseas results for the first time include Hafnia's figures from the date of acquisition on the 1st April, 1993. Losses from Hafnia's general business operations prior to completing the full integration with Codan have depressed the overseas underwriting result. However, we are confident that the operational benefits of the merger will lead to improving results by the year end.

Life profits have increased substantially to £38.3m from £27.3m last year. Although a large part of this increase has been generated by the Hafnia life business, UK life profits at £26m have continued to rise. The 6 per cent. growth in new annual premiums in the UK was a strong performance in a competitive market.

Goodwill write-offs, including those related to the Hafnia acquisition and the purchase of the remaining minorities in Swinton, have held back the growth in net assets but the solvency margin including minorities remains adequate at 50 per cent.

Given the continuing improving climate in the UK market and the prospect of profitable growth at home and overseas, the Board has decided to request approval from shareholders to increase authorised capital by the creation of £300m of preference shares. Such a move will provide additional flexibility and enable the Group to take advantage of attractive opportunities when they arise. The circular to shareholders containing details of the proposal will be issued tomorrow 3rd September.

The recovery in our results is encouraging and demonstrates the action we are taking to improve the quality of our earnings. While we have some way to go to reach profit levels appropriate to our business, we are now beginning to see the effect of resolute management action. In the circumstances the Board believes it is right to maintain the interim dividend at 5.25p per share."

SUN ALLIANCE UK

	6 months to 30th June	
	1993	1992
	£m	£m
General insurance		
Premium income	501	521
Underwriting result	(31)	(122)

The substantial reduction in the underwriting loss reflects action taken to improve the portfolio mix, increase rates where necessary and reduce expenses. Some cut back in business volumes in the major product lines has been necessary in order to achieve profitability.

In the household account, the impact of underwriting action to meet the changing patterns of claims in respect of both buildings and contents has again resulted in an underwriting profit assisted by another six months of favourable weather experience.

The substantial reshaping of the motor portfolio, partially in response to the strong market forces in both the direct and broker segments, has enabled the Company greatly to reduce the underwriting loss for the half year, with a small underwriting profit in the second quarter.

Continued progress was made in developing the Health, Personal Accident, Legal Expenses and Creditor accounts, and an overall underwriting profit was achieved.

The domestic mortgage indemnity loss in the first half of 1993 was £60m compared with £108m in the similar period of 1992. This reflected the lower levels of

repossessions, together with the benefits of reduced claims costs as a consequence of lower interest rates, some improvement in the housing market and continuing detailed and rigorous examination of all aspects of claims.

SUN ALLIANCE INTERNATIONAL

	6 months to 30th June	
	1993	1992
	£m	£m
General insurance		
Premium income	453	423
Underwriting result	(70)	(123)

The result was adversely affected by a loss of £25m on the terrorist explosion in Bishopsgate. There has been a welcome improvement in the results of most major accounts, including a halving of the casualty loss and a small underwriting profit on packages business.

London market non-marine business suffered from a disproportionate number of large losses and there has been a further but reduced amount of reserve strengthening in the marine account.

Rate increases continue to be applied in most lines reinforced in some cases by higher deductibles. Strict adherence to selective underwriting and an increase in reinsurance including reinstatement of terrorist cover has held back the increase in premium income.

Continued emphasis on control of expenses is reflected in a reduction of four percentage points in the expense ratio.

SUN ALLIANCE OVERSEAS

	6 months to 30th June	
	1993	1992
	£m	£m
General insurance		
Premium income	777	518
Underwriting result	(52)	(36)
Long-term insurance		
Premium income	134	94
Shareholders' profits	12	3

The results include one quarter of the general and life business of Hafnia which was acquired by our Danish subsidiary Codan earlier this year. Whilst work to complete the merger of the two companies is well advanced the second quarter figures do not reflect any of the benefits that the acquisition will generate. The underwriting loss for Hafnia included above was £11m and life profits were £8m.

In Europe the results were disappointing with a significant loss in Holland, partly due to a single major loss of £8m from the Fokker factory fire, and an increased underwriting loss in Germany.

There was substantial growth in general premium income in Australia reflecting the merger there with the Royal in October last year and improved rating levels. The new company has achieved a much improved result. Our business in the USA from Chubb

continued to outperform that market and the results elsewhere overseas are good with underwriting profits being achieved in most territories.

Life business continues to grow with new annual premiums in the first half of £29m and an increased profits transfer in addition to Hafnia.

SUN ALLIANCE LIFE

	6 months to 30th June	
	1993	1992
	£m	£m
UK long-term insurance		
Premium income	375	534
Shareholders' profits	26	24

UK new annual premiums increased by 6 per cent. to £43m. There was a significant contribution from the company's direct marketing operation, primarily in the savings sector, where new business increased by 30 per cent. to £9m.

Single premium writings were substantially lower than last year as competitive forces significantly eroded profit margins on annuity business.

The profits transfer again increased with continuing good results being achieved by our Group Life Account.

Investment

Investment income increased by 3 per cent. after adjusting for exchange rate movements.

The increase in net assets included gains of £163m on investment appreciation offset by goodwill write-offs on the acquisitions of Hafnia and the remaining minority shareholding in Swinton, small exchange losses and a further small writedown on overseas properties.

The solvency margin adjusted to reflect a full year's income from Australia and Hafnia and including minority interests was 50 per cent. (December, 1992 : 54 per cent.).

The unaudited results for the six months ended 30th June, 1993 are set out below with the comparative figures for 1992.

	6 Months to 30th June, 1993 £m	6 Months to 30th June, 1992 £m	Year 1992* £m
Premium income —			
General insurance	1,730.5	1,462.5	3,128.0
Long-term insurance	509.0	627.9	1,302.4
	<u>2,239.5</u>	<u>2,090.4</u>	<u>4,430.4</u>
General insurance underwriting result	(153.1)	(280.8)	(547.6)
Long-term insurance profits	38.3	27.3	62.0
Investment and other income	176.5	155.6	356.0
PROFIT (LOSS) BEFORE TAXATION	<u>61.7</u>	<u>(97.9)</u>	<u>(129.6)</u>
Taxation	(14.2)	(8.0)	12.1
PROFIT (LOSS) AFTER TAXATION	<u>47.5</u>	<u>(105.9)</u>	<u>(117.5)</u>
Minority interests	(5.8)	(6.7)	(11.2)
PROFIT (LOSS) ATTRIBUTABLE TO SHAREHOLDERS	<u>41.7</u>	<u>(112.6)</u>	<u>(128.7)</u>
EARNINGS (LOSS) PER SHARE	5.2p	(14.1p)	(16.1p)

* Extracted from the statutory accounts for 1992 filed with the Registrar of Companies, which received an unqualified audit report.

Territorial Analysis of General Insurance Results

	6 months to 30th June, 1993		6 months to 30th June, 1992		Year 1992	
	Premium income £m	Under- writing result £m	Premium income £m	Under- writing result £m	Premium income £m	Under- writing result £m
United Kingdom	953.7	(100.6)	944.4	(244.7)	1,833.4	(438.4)
Europe	358.0	(49.9)	259.4	(20.7)	534.4	(61.0)
U.S.A.	178.3	0.6	106.9	3.3	334.3	(10.4)
Canada	34.7	0.8	28.9	(6.3)	70.5	(14.1)
Australia	114.4	(3.8)	48.1	(7.1)	166.8	(8.1)
Other overseas	91.4	(0.2)	74.8	(5.3)	188.6	(15.6)
	<u>1,730.5</u>	<u>(153.1)</u>	<u>1,462.5</u>	<u>(280.8)</u>	<u>3,128.0</u>	<u>(547.6)</u>

Shareholders' Funds

The Group's net assets at 30th June, 1993, excluding the value of Long-term business, were £1,561m (31st December, 1992 : £1,548m). The solvency margin including minority interests was 50 per cent. (31st December, 1992 : 54 per cent.).

Dividend

The Directors have declared an interim dividend for 1993 of 5.25p per share (1992 : 5.25p).

The dividend, costing £42.3m (1992 : £42.1m), will be paid on 1st December, 1993 to shareholders on the register at close of business on 14th October, 1993. The scrip dividend alternative will again be offered.

PART II – DESCRIPTION OF THE RIGHTS ATTACHING TO THE PREFERENCE SHARES

The following are the rights of the Preference Shares and the limitations and restrictions to which they are subject. Words and expressions defined in or for the purposes of the Articles of Association of the Company shall bear the same meanings in this Part II. In the event of any conflict between the definitions used in the Articles of Association of the Company and those set out on page 3 hereof, the former shall prevail.

1. Priority

The Preference Shares shall rank *pari passu* with each other and in priority to the Ordinary Shares.

2. Denomination and Form

The Preference Shares have a nominal value of £1 each and will be issued at 100.785p per Preference Share fully paid for cash. The Preference Shares will be in registered form.

Transfers of the Preference Shares must be in writing in the usual or common form or in such other form as the Directors may approve. The Directors may, in their absolute discretion, decline to register any transfer of Preference Shares not being fully paid and any Preference Shares on which the Company has a lien and may also refuse to register a transfer if:—

- (i) the instrument of transfer is not lodged at the Office or such other place as the Directors may from time to time determine, duly stamped, accompanied by the certificate for the Preference Shares to which it relates, or such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer and, if executed by some other person on the transferor's behalf, the authority of that person to do so;
- (ii) the transfer is in respect of more than one class of share; or
- (iii) in the case of a transfer to joint holders, the number of joint holders to whom the Preference Shares are to be transferred exceeds four.

3. Income

The holders of the Preference Shares shall be entitled, in priority to any payment of dividend to the holders of any other class of shares, to be paid out of the profits available for distribution and resolved to be distributed, a fixed cumulative preferential dividend payable at the rate of $7\frac{3}{8}$ per cent. per annum of the nominal amount of each Preference Share (exclusive of any associated tax credit) in sterling which will be payable in equal half-yearly instalments in arrears on 1st April and 1st October in each year (each a "Dividend Payment Date") save that the first dividend instalment will be payable on 1st April, 1994, in respect of the period from and including 26th October, 1993 up to but excluding 1st April, 1994 provided that nothing in this paragraph shall prohibit the payment of a dividend on the shares of any other class in the capital of the Company ranking *pari passu* with or after the Preference Shares at a rate not exceeding 0.1p per share in any calendar year.

If any Dividend Payment Date is not a day on which banks in London are open for business (a "Business Day"), then payment of the dividend otherwise payable on such Dividend Payment Date will be made on the next succeeding Business Day and without any interest or other payment in respect of such delay.

Dividends payable on the Preference Shares in respect of any period shorter or longer than a full dividend period will be calculated on the basis of a 365 day year and the actual number of days elapsed in such period.

Dividends remaining unclaimed after a period of 12 years after having been declared shall be forfeited and shall revert to the Company.

4. Capital

(i) **The Preference Shares will not be redeemable.**

(ii) On a return of capital on a winding up, the holders of the Preference Shares shall be entitled to receive out of the surplus assets of the Company remaining after payment of its liabilities an amount per Preference Share equal to whichever is the greater of:—

- (a) the nominal amount of a Preference Share together with any premium paid on issue; and
- (b) the price (rounded to 3 decimal places) at which the gross yield as reported to the Company by three gilt-edged market makers selected by the Directors on the advice of a member of The Securities and Futures Authority Limited (or equivalent regulatory authority) on each Preference Share is equal to the mean gross yield on 3½ per cent. War Loan or such Government stock as the Company, with the advice of a member of The Securities and Futures Authority Limited (or equivalent regulatory authority), may agree to be appropriate, calculated by reference to the average of the middle market quotations (as derived from the Daily Official List) for that stock on the date of the commencement of the winding up, save that such price shall not exceed a sum equal to twice the nominal amount of a Preference Share,

together with, in either case, all arrears and accruals (if any) of the dividend payable thereon, whether or not such dividend has been earned or has become due and payable, to be calculated up to and including the day of the commencement of the winding up.

(iii) **On a return of capital (otherwise than on a winding up or on a redemption or purchase by the Company of shares of any class), the holders of the Preference Shares shall be entitled to receive an amount per Preference Share equal to the nominal amount of a Preference Share with all arrears and accruals (if any) of the dividend payable thereon,** whether or not such dividend has been earned or has become due and payable, to be calculated up to and including the day of the return of capital.

(iv) The Preference Shares (and all other shares of the Company ranking *pari passu*) shall rank on a winding up in priority to all other shares of the Company from time to time in issue.

(v) If, upon a return of capital on a winding up or otherwise, the amounts available for payment are insufficient to cover the amounts payable in full on the Preference Shares and any other shares expressed to rank *pari passu* therewith as regards participation in assets, then the holders of the Preference Shares and such other shares will share rateably in the distribution of surplus assets (if any) in proportion to the full respective preferential amount to which they are entitled.

5. Voting and General Meetings

(i) **The holders of the Preference Shares shall, by virtue of and in respect of their holdings of Preference Shares, have the right to receive notice of, attend, speak and vote at a general meeting of the Company only:—**

- (a) if and when, at the date of the notice convening such meeting, the preferential dividend on such shares for the dividend payment period immediately prior to the issue of the notice convening the relevant meeting is in arrears or if any arrears or deficiency of dividend in respect of any preceding dividend payment period has not been paid in full; or
- (b) if a resolution is to be proposed abrogating, varying or modifying any of the rights or privileges of the holders of the Preference Shares or for the winding-up of the Company or for the reduction of capital of the Company (otherwise than on a redemption or purchase of shares), in which case they shall only be entitled to vote on such resolution.

Save as aforesaid, the Preference Shares shall not confer on the holders thereof the right to receive notice of, attend, speak or vote at any general meeting of the Company.

- (ii) Whenever the holders of the Preference Shares are entitled to vote at a general meeting of the Company upon any resolution proposed at such a general meeting, on a show of hands every holder thereof who is present in person or (being a corporation) by a representative shall have one vote and on a poll every holder thereof who is present in person or by proxy or (being a corporation) by a representative shall have one vote in respect of each complete £1 in nominal amount of Preference Shares registered in the name of such holder.

6. Limitations

No Preference Share shall:—

- (i) confer any right to participate in the profits or assets of the Company other than as set out in sections 3 and 4 above;
- (ii) subject to the Act, confer any right to participate in any offer or invitation by way of rights or otherwise to subscribe for additional shares in the Company;
- (iii) confer any rights of conversion; or
- (iv) confer any right to participate in any issue of bonus shares.

7. Purchase

- (i) Subject to the Act the Company may at any time purchase any Preference Shares upon such terms as the Directors shall determine.
- (ii) Following the purchase of any Preference Shares the nominal amount of such shares comprised in the capital of the Company may be divided by resolution of the Directors into, or reclassified as, shares of any other class in the capital of the Company without any further resolution or consent.

8. Further Issues and Variation of Rights

- (i) Save with such consent or sanction on the part of the holders of the Preference Shares as is required for a variation of the rights attached to such shares, the Directors shall not authorise or create, or increase the amount of, any shares of any class, or any securities convertible into any shares of any class, ranking as regards participation in the profits or assets of the Company (otherwise than on a redemption or purchase by the Company of any such share) in priority to the Preference Shares.
- (ii) Subject to the provisions of sub-section (iii) below, the rights attached to any Preference Shares allotted or in issue shall (unless otherwise provided by their

terms of issue) be deemed not to be varied by the allotment or issue of any further preference shares (in this paragraph called "Further Preference Shares") ranking as regards participation in the profits and assets of the Company *pari passu* with (but not in priority to) the Preference Shares. Any Further Preference Shares may either carry rights and restrictions as regards participation in the profits and assets of the Company which are identical in all respects with those attaching to the Preference Shares or any other series of Further Preference Shares or carry rights and restrictions differing therefrom in any respect including, but without prejudice to the generality of the foregoing:—

- (a) the rate of and/or the basis of calculation of dividend may differ and may be cumulative or non-cumulative;
 - (b) Further Preference Shares may rank for dividend from such date as may be provided by the terms of issue thereof and the dates for payment of dividend may differ;
 - (c) a premium may be payable on a return of capital or there may be no such premium;
 - (d) Further Preference Shares may be redeemable on such terms and conditions as may be prescribed by the terms of issue thereof or may be non-redeemable;
 - (e) Further Preference Shares may be convertible into any class of shares ranking as regards participation in the profits and assets of the Company *pari passu* with or after the Preference Shares in each case on such terms and conditions as may be determined by the terms of issue thereof; and
 - (f) Further Preference Shares may be denominated in any currency or, if permitted by law, any basket of currencies.
- (iii) The rights attached to any Preference Shares allotted or in issue shall (unless otherwise provided by their terms of issue) be deemed to be varied by the allotment or issue of Further Preference Shares where at the date of the allotment of such Further Preference Shares (the "Relevant Date"), the aggregate of the nominal amount (together with any premium paid or payable on issue) of the Preference Shares, and of any other shares ranking *pari passu* with or in priority to the Preference Shares allotted or in issue on the Relevant Date and, immediately following such issue, of the Further Preference Shares exceeds a sum equal to 25 per cent. of the Adjusted Share Capital and Reserves, immediately following such issue.

For these purposes "Adjusted Share Capital and Reserves" shall mean the aggregate of the amount paid up (or deemed to be paid up) on the issued share capital of the Company and the total of the capital and revenue reserves of the Group (which expression for these purposes shall mean the Company and its subsidiary undertakings for the time being) (including any amount credited to share premium account, capital redemption reserve, revaluation reserve and credit balance on the profit and loss account), in each case whether or not such amounts are available for distribution, all as shown in the latest audited consolidated balance sheet of the Group but after:—

- (a) making such adjustments as may be appropriate in respect of any variation in interests in subsidiary undertakings and to take account of any subsidiary undertaking which shall have become or ceased to be a subsidiary undertaking since the date as at which such balance sheet was prepared and in the amount paid up on the issued share capital or share premium account or capital redemption reserve since the date of such latest audited

- consolidated balance sheet and so that for this purpose if any issue or proposed issue of shares for cash or otherwise has been underwritten or otherwise agreed to be subscribed (for cash or otherwise) then, at any time when the underwriting of such shares or other agreement as aforesaid shall be unconditional, such shares shall be deemed to have been issued and the amount (including any premium) payable (or which would be credited as payable) in respect thereof (not being moneys payable later than six months after the date of allotment) shall be deemed to have been paid up to the extent that the underwriters or other persons are liable therefor;
- (b) deducting (to the extent included) any amounts distributed or proposed to be distributed by the Group (but not provided in such latest audited consolidated balance sheet) other than distributions attributable to the Company or any subsidiary undertaking and any amounts attributable to goodwill (including goodwill arising only on consolidation) or other intangible assets;
 - (c) excluding any sums set aside for taxation and any amounts attributable to outside shareholders in subsidiary undertakings of the Company;
 - (d) deducting any debit balance on the profit and loss account; and
 - (e) making such further adjustments (if any) as the auditors may consider appropriate
- (and so that no amount shall be included or excluded more than once).

A certificate or report by the auditors as to the amount or estimated amount of the Adjusted Share Capital and Reserves immediately prior to such issue shall be conclusive evidence of such amount.

- (iv) The rights attached to the Preference Shares may be varied or abrogated with the written consent of the holders of three-quarters in nominal value of the Preference Shares and any shares hereafter issued of the same class then in issue or with the sanction of an extraordinary resolution passed at a class meeting of the holders of such shares.

9. Restrictions on the Company

Save with such consent or sanction on the part of the holders of the Preference Shares as is required for a variation of the rights attached to such shares, the Directors shall not capitalise any part of the profits of the Company available for distribution or purchase or redeem any shares in the Company if either (i) the preferential dividend on the Preference Shares for the dividend payment period immediately prior to the date of the proposed capitalisation, purchase or redemption is in arrears or it, and any arrears or deficiency of dividend in respect of any preceding dividend payment periods, have not been paid in full or (ii) after such capitalisation, purchase or redemption the amount of the profits of the Company and its subsidiary undertakings available for distribution would be less than 10 times the aggregate amount of the annual dividends (exclusive of any associated tax credit) payable on the Preference Shares and any other preference shares of the Company then in issue ranking as regards dividends *pari passu* with or in priority to the Preference Shares.

The Directors are authorised to consolidate and divide and/or sub-divide any Preference Shares into shares of a larger or smaller amount (so that the provisions of Article 54 of the Articles of Association of the Company shall, where relevant, apply to such consolidation, division or sub-division).

As used in this Part II “subsidiary undertaking” means a subsidiary undertaking of the Company which is required by the Act to be included in consolidated Group accounts.

PART III – FINANCIAL INFORMATION

The following summarises the financial information in respect of the Group for the periods indicated. The information is extracted from the published audited consolidated financial statements of the Group for the three years ended 31st December, 1992. The accounting policies on pages 23 to 24 of this document and the notes on pages 25 to 33 (save for the paragraphs in italics) are extracted from the Group's audited consolidated accounts for the year ended 31st December, 1992.

The status of the financial information relating to the Group contained in this part is explained in sections 10(g) and 10(h) on page 56.

CONSOLIDATED REVENUE ACCOUNTS

		Year ended 31st December,		
		1992	1991	1990
		£m	£m	£m
Notes				
GENERAL INSURANCE				
Premiums written less reinsurance	2(a)	<u>3,128.0</u>	<u>2,677.9</u>	<u>2,512.7</u>
Premiums earned	2(b)	<u>3,037.1</u>	<u>2,625.6</u>	<u>2,452.9</u>
<i>less:</i>				
Claims incurred	2(c)	<u>2,571.8</u>	<u>2,529.0</u>	<u>2,154.4</u>
Commission		<u>480.5</u>	<u>413.0</u>	<u>387.6</u>
Expenses		<u>532.4</u>	<u>517.1</u>	<u>461.7</u>
		<u>3,584.7</u>	<u>3,459.1</u>	<u>3,003.7</u>
Underwriting result		<u>(547.6)</u>	<u>(833.5)</u>	<u>(550.8)</u>
LONG-TERM INSURANCE				
Premiums less reinsurance	3(a)	<u>1,302.4</u>	<u>1,017.7</u>	<u>861.2</u>
Investment income	4	<u>602.5</u>	<u>532.3</u>	<u>525.8</u>
Realised and unrealised appreciation (depreciation) on investments and foreign exchange adjustments		<u>721.5</u>	<u>441.9</u>	<u>(877.9)</u>
Development finance transfer		<u>5.5</u>	<u>8.5</u>	<u>9.0</u>
		<u>2,631.9</u>	<u>2,000.4</u>	<u>518.1</u>
<i>less:</i>				
Claims and surrenders	3(b)	<u>683.6</u>	<u>532.2</u>	<u>574.1</u>
Annuities		<u>154.6</u>	<u>108.0</u>	<u>76.4</u>
Commission		<u>83.2</u>	<u>72.6</u>	<u>72.9</u>
Expenses		<u>164.4</u>	<u>171.4</u>	<u>183.0</u>
Taxation	5	<u>32.9</u>	<u>44.3</u>	<u>41.5</u>
Transfer to profit and loss account	3(d)	<u>42.9</u>	<u>37.7</u>	<u>33.6</u>
		<u>1,161.6</u>	<u>966.2</u>	<u>981.5</u>
		<u>1,470.3</u>	<u>1,034.2</u>	<u>(463.4)</u>
Adjustments to opening insurance funds		<u>—</u>	<u>—</u>	<u>(31.5)</u>
Fund movements arising from acquisitions		<u>6.8</u>	<u>7.9</u>	<u>25.2</u>
Increase (decrease) in funds		<u>1,477.1</u>	<u>1,042.1</u>	<u>(469.7)</u>

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Year ended 31st December,		
		1992 £m	1991 £m	1990 £m
General insurance underwriting result		(547.6)	(833.5)	(550.8)
Long-term insurance profits	3(d)	62.0	54.3	47.7
Investment and other income	4	356.0	313.0	322.2
Profit (loss) before taxation	6	(129.6)	(466.2)	(180.9)
Taxation	5	12.1	2.7	82.5
Profit (loss) after taxation		(117.5)	(463.5)	(98.4)
Minority interests		(11.2)	(8.2)	(7.8)
Profit (loss) attributable to shareholders	10	(128.7)	(471.7)	(106.2)
Dividend				
Interim (1992: 5.25p; 1991: 5.25p; 1990: 5.0p)		(42.2)	(41.9)	(39.6)
Final (1992: 9.0p; 1991: 9.0p; 1990: 9.0p)		(72.4)	(72.0)	(71.5)
		(114.6)	(113.9)	(111.1)
Retained profits transfer		(243.3)	(585.6)	(217.3)
Earnings (loss) per share	8	(16.1p)	(59.2p)	(13.4p)

MOVEMENTS IN RESERVES

	Notes	Year ended 31st December,		
		1992 £m	1991 £m	1990 £m
Retained profits				
Balance at 1st January		164.5	708.6	760.7
Opening adjustment for long-term insurance profits		—	—	22.5
Profit and loss account transfer		(243.3)	(585.6)	(217.3)
Realised investment profits less losses, after taxation		266.5	118.3	190.3
Goodwill written off	11	(13.9)	(68.3)	(38.6)
Development finance for long-term insurance		(5.5)	(8.5)	(9.0)
Balance at 31st December		168.3	164.5	708.6
Revaluation reserve				
Balance at 1st January		1,307.1	1,121.7	1,976.6
Unrealised appreciation (depreciation) of investments and foreign exchange gains less losses		(150.7)	185.4	(854.9)
Balance at 31st December		1,156.4	1,307.1	1,121.7

CONSOLIDATED BALANCE SHEET

		At 31st December,		
	Notes	1992 £m	1991 £m	1990 £m
Share capital	9 & 13(b)	201.1	199.8	198.5
Reserves				
Share premium account	9 & 13(b)	21.9	12.6	4.8
Retained profits		168.3	164.5	708.6
Revaluation reserve		1,156.4	1,307.1	1,121.7
		<u>1,547.7</u>	<u>1,684.0</u>	<u>2,033.6</u>
Interests of minority shareholders in subsidiaries	13(b)	197.4	154.3	143.5
	6	1,745.1	1,838.3	2,177.1
Insurance funds including provisions and reserves				
Unearned premiums	2(d)	1,243.2	1,040.5	972.7
Outstanding claims	2(e)	3,824.1	3,185.5	2,554.4
		<u>5,067.3</u>	<u>4,226.0</u>	<u>3,527.1</u>
Other liabilities including provisions and reserve				
Borrowings	12 & 13(b)	369.7	361.7	254.8
Creditors		673.2	527.1	397.2
Proposed dividend		72.4	72.0	71.5
		<u>7,927.7</u>	<u>7,025.1</u>	<u>6,427.7</u>
Long-term insurance accounts (see separate balance sheet on page 20)		<u>10,189.3</u>	<u>8,682.3</u>	<u>7,700.3</u>
		<u>18,117.0</u>	<u>15,707.4</u>	<u>14,128.0</u>
Investments				
British Government and municipal securities		447.1	302.7	280.4
Overseas government and municipal securities		1,263.3	722.4	662.0
Debentures		569.9	741.2	545.8
Preference stocks and shares		56.1	47.8	51.5
Ordinary stocks and shares		2,071.1	2,308.6	2,032.9
Property		875.7	1,026.1	1,063.4
Mortgages and loans		137.1	130.4	126.0
Deposits at interest		887.3	383.9	466.7
		<u>6,307.6</u>	<u>5,663.1</u>	<u>5,228.7</u>
Other assets				
Agents' balances and debtors		1,320.1	1,102.1	964.4
Capitalised equipment		172.4	143.0	120.4
Due from long-term insurance fund		58.4	44.5	49.8
Bank balances and cash		69.2	72.4	64.4
		<u>7,927.7</u>	<u>7,025.1</u>	<u>6,427.7</u>
Long-term insurance accounts (see separate balance sheet on page 20)		<u>10,189.3</u>	<u>8,682.3</u>	<u>7,700.3</u>
		<u>18,117.0</u>	<u>15,707.4</u>	<u>14,128.0</u>

CONSOLIDATED LONG-TERM INSURANCE BALANCE SHEET

		At 31st December,		
	Notes	1992 £m	1991 £m	1990 £m
Long-term insurance funds including reserves		9,935.6	8,458.5	7,416.4
Other liabilities including provisions				
Outstanding claims		38.1	39.8	36.7
Borrowings	12	20.8	16.9	93.2
Creditors		136.4	122.6	104.2
Due to general fund		58.4	44.5	49.8
		<u>10,189.3</u>	<u>8,682.3</u>	<u>7,700.3</u>
Investments				
British Government and municipal securities		1,870.1	1,265.4	1,150.8
Overseas government and municipal securities		233.1	151.0	213.2
Debentures		1,504.2	1,140.9	905.3
Preference stocks and shares		31.2	46.2	52.2
Ordinary stocks and shares		4,389.9	3,680.4	2,883.3
Property		1,023.8	1,188.9	1,277.8
Mortgages and loans		193.2	181.9	184.5
Deposits at interest		648.5	772.2	776.0
		<u>9,894.0</u>	<u>8,426.9</u>	<u>7,443.1</u>
Other assets				
Debtors		285.3	240.8	243.9
Bank balances and cash		10.0	14.6	13.3
		<u>10,189.3</u>	<u>8,682.3</u>	<u>7,700.3</u>

This balance sheet forms part of the balance sheet appearing on page 19.

CONSOLIDATED CASH FLOW STATEMENT

(excluding long-term insurance business)

		Year ended	
		31st December,	
		1992	1991
	Notes	£m	£m
Operating activities			
Net cash inflow from operating activities	13(a)	253.8	191.5
Servicing of finance			
Ordinary dividends paid		(106.6)	(112.1)
Dividends paid to minority shareholders		(3.2)	(4.1)
Taxation			
Tax paid		(44.0)	(40.9)
Investing activities			
Net (purchases) sales of:—			
Fixed interest investments		(332.0)	(180.2)
Stocks and shares		572.8	117.4
Property		(3.0)	(34.0)
		237.8	(96.8)
Subsidiaries		(27.7)	(23.7)
Capitalised equipment		(37.7)	(48.2)
Development finance		(5.5)	(8.5)
		166.9	(177.2)
Net cash inflow (outflow) before financing activities		266.9	(142.8)
Financing activities	13(b)		
Issue of share capital		3.0	7.8
Capital redeemed from minority shareholders		(8.1)	(14.7)
Increase (decrease) in net borrowings		(6.7)	64.8
		(11.8)	57.9
Increase (decrease) in cash and cash equivalents	13(c)	255.1	(84.9)

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

(excluding long-term insurance business)

	Year ended 31st December,	
	1991	1990
	£m	£m
Source of funds		
Profit (loss) after taxation (per the profit and loss account)	(463.5)	(98.4)
Realised investment profits less losses, after taxation	118.3	190.3
Other movements in retained profits	(8.5)	13.5
Adjustments to convert revenue and expenditure onto a cash basis:—		
Increase in insurance funds	634.2	449.2
Increase in agents' and other balances	(15.5)	(58.1)
Depreciation of capitalised equipment	45.8	40.4
Funds generated from operations	310.8	536.9
Increase in borrowings	83.9	149.4
Issue of shares	9.1	4.1
	<u>403.8</u>	<u>690.4</u>
Application of funds		
Dividends paid (including dividends to minority shareholders)	117.6	105.0
Net investment in subsidiary and associated companies	60.2	39.9
Purchase of capitalised equipment	48.2	60.4
Increase (decrease) in invested funds at cost:—		
Fixed interest securities	168.4	77.9
Ordinary stocks and shares	35.7	283.2
Property	44.3	43.7
Mortgages and loans	20.9	38.9
Short-term deposits	(95.0)	64.9
	174.3	508.6
Movement in bank balances	3.5	(23.5)
	<u>403.8</u>	<u>690.4</u>

NOTE

Exchange movements have been eliminated by translating foreign currency assets and liabilities existing at the beginning of the year at year-end rates of exchange.

ACCOUNTING POLICIES

The principal accounting policies of the Group as set out below comply with UK accounting standards, to the extent that they are applicable to insurance companies, and the statement of recommended practice on accounting for insurance business issued by the Association of British Insurers.

(a) Group accounts

The consolidated accounts of the Group include the audited accounts of subsidiaries drawn up to 31st December.

The results of associated companies attributable to the Group's shareholdings are not of sufficient significance to be included in the consolidated accounts except to the extent of dividends received.

Goodwill arising on the acquisition of subsidiary companies and other interests is written off against retained profits in the year of purchase.

(b) General insurance business

(i) Underwriting results

Except for those classes of business referred to below, the underwriting results of general insurance business are determined on an annual basis. Premiums written are accounted for in the year in which the risks are assumed. The unearned proportions of the premiums and the commission and other acquisition costs incurred in writing the business relating to periods of risk extending beyond the end of the financial year are deferred to subsequent accounting periods. Claims incurred comprise the settlement and handling costs of paid and outstanding claims arising from events occurring in the year and adjustments to prior years' claims provisions. The results of London market marine and aviation business are determined at the end of the second year following the year of account, after providing for the estimated cost of all outstanding claims, whether notified or not.

(ii) Insurance funds

Unearned premiums are calculated on a time apportionment basis using principally the daily pro-rata method.

Outstanding claims comprise provisions for the estimated cost of settling all claims incurred up to but not paid at the balance sheet date, whether reported or not, and the balances of the open years' accounts for marine and aviation business. Claims provisions include estimates based on both past settlement experience and factors that are foreseeable and determinable at the time. In the case of an excess of loss reinsurance agreement made with Chubb Corporation in 1985 the claims provision has been discounted at the average interest rate applicable to the investment funds specifically held to meet the liability.

Insurance funds include provisions, as necessary, for any estimated future underwriting losses relating to unexpired risks at the balance sheet date, after taking account of future investment income on all insurance funds, and for underwriting losses expected to arise on open years' accounts.

(c) Long-term insurance business

The profits on long-term insurance business are determined annually by actuarial valuation. The shareholders' proportion of these profits is grossed up in the consolidated profit and loss account by the estimated UK and overseas tax in the long-term insurance funds attributable to such profits.

(d) Exchange

Assets and liabilities in foreign currencies and overseas revenue transactions are translated into sterling at rates ruling at the year-end. The resulting exchange adjustments, including the differences arising from the translation of the insurance funds at the beginning of the year at year-end rates, and gains and losses on the conversion of remittances are taken, in the case of general insurance business, to revaluation reserve.

(e) Expenses

Expenditure on motor cars and computer and office equipment is capitalised and depreciated by equal annual instalments over the estimated useful lives of the assets.

The cost of providing pensions for the Group's employees is accounted for over the employees' working lives on a systematic basis as advised by qualified actuaries.

(f) Investment income

Interest and dividends on investments other than ordinary shares are included on an accruals basis. Investment income is grossed up to include related tax credits on dividend income and is shown after deduction of interest payable and investment management expenses.

(g) Taxation

Taxation in the consolidated profit and loss account is based on the profits and income of the year and includes deferred taxation on timing differences other than those considered likely to continue in the foreseeable future.

The taxation charge in the consolidated long-term insurance revenue account is based on the income and realised investment profits less losses of the year, less reliefs.

Provision for deferred taxation on unrealised appreciation of investments is made only where realisations giving rise to a taxation liability are anticipated in the foreseeable future.

(h) Investments

Investments are stated in the balance sheets at market values comprising stock exchange values for listed securities, open market valuations by the Group's qualified surveyors for properties, values determined in accordance with the policy terms for investments in unit-linked funds, and directors' valuations for other investments.

The difference between market values and book values of general fund investments, other than the amount attributable to minority interests, is taken to revaluation reserve. Profits and losses on the realisation of general fund investments, less taxation and the amount attributable to minority interests, are taken to retained profits.

In the long-term insurance accounts unrealised appreciation and profits and losses on the realisation of investments are dealt with in the revenue account and included in long-term insurance funds.

NOTES ON THE ACCOUNTS

1. Accounting and disclosure requirements

The consolidated accounts of the Group are prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to insurance groups.

2. General insurance business

	1992 £m	1991 £m
In the consolidated revenue account premiums and claims are made up as follows:—		
(a) Premiums written—		
Gross of reinsurance	3,644.0	3,087.6
Reinsurance ceded	(516.0)	(409.7)
	<u>3,128.0</u>	<u>2,677.9</u>
(b) Premiums earned—		
Premiums written less reinsurance	3,128.0	2,677.9
Increase in unearned premiums	(114.5)	(76.4)
Increase in deferred acquisition costs	23.6	24.1
	<u>3,037.1</u>	<u>2,625.6</u>
(c) Claims incurred—		
Gross of reinsurance	2,978.7	2,975.6
Reinsurance recoveries	(406.9)	(446.6)
	<u>2,571.8</u>	<u>2,529.0</u>

Mortgage indemnity claims are recognised as incurred when the property is taken into possession. Potential future claims arising on policies in force are taken into account in the unexpired risk calculation. There is no provision required for unexpired risks.

The Chairman's Statement and Review of Operations contained in the Company's 1991 Report and Accounts stated that the 1991 results included an underwriting loss on mortgage indemnity business of £320 million. This loss was determined on a new basis of providing for the loss when a property is repossessed, representing an earlier recognition of the claim. The loss of £320 million, therefore, included some £110 million attributable to repossessions which took place in 1990.

The Chairman's Statement and Review of Operations contained in the Company's 1992 Report and Accounts stated that the 1992 results included an underwriting loss on mortgage indemnity business of £186 million and that losses from mortgage indemnity business should continue to decline although there would undoubtedly be further losses.

In the consolidated balance sheet insurance funds are made up as follows:—

(d) Unearned premiums—		
Gross of reinsurance	1,786.5	1,495.7
Reinsurance ceded	(172.4)	(138.8)
	<u>1,614.1</u>	<u>1,356.9</u>
Deferred acquisition costs	(370.9)	(316.4)
	<u>1,243.2</u>	<u>1,040.5</u>
(e) Outstanding claims		
Gross of reinsurance	4,461.1	3,708.3
Reinsurance recoverable	(637.0)	(522.8)
	<u>3,824.1</u>	<u>3,185.5</u>

3. Long-term insurance business

	1992 £m	1991 £m
(a) In the consolidated revenue account premiums are made up as follows:—		
Gross of reinsurance	1,339.4	1,070.4
Reinsurance ceded	(37.0)	(52.7)
	<u>1,302.4</u>	<u>1,017.7</u>
(b) In the consolidated revenue account claims and surrenders are made up as follows:—		
Gross of reinsurance	705.0	558.0
Reinsurance recoveries	(21.4)	(25.8)
	<u>683.6</u>	<u>532.2</u>
(c) New business, net of reinsurance, written during the year was as follows:—		
	1992	1991
	Life Pensions Total	Life Pensions Total
	£m £m £m	£m £m £m
Annual premiums—		
Conventional	83.3 24.1 107.4	77.3 18.7 96.0
Linked	12.9 8.7 21.6	10.9 8.1 19.0
	<u>96.2 32.8 129.0</u>	<u>88.2 26.8 115.0</u>
Single premiums—		
Conventional	75.0 389.2 464.2	54.2 216.8 271.0
Linked	88.2 57.9 146.1	38.6 50.0 88.6
	<u>163.2 447.1 610.3</u>	<u>92.8 266.8 359.6</u>
(d) The amount of long-term insurance profits dealt with in the consolidated profit and loss account is made up as follows:—		
	1992 £m	1991 £m
Transfer from revenue account	42.9	37.7
Attributable taxation	19.1	16.6
	<u>62.0</u>	<u>54.3</u>

4. Investment income

Investment and other income is shown after deduction of:—

	Consolidated profit and loss account		Consolidated long-term insurance revenue account	
	1992 £m	1991 £m	1992 £m	1991 £m
Interest payable on bank loans and overdrafts repayable within 5 years	12.7	8.0	0.2	1.0
Interest payable on other loans	<u>33.2</u>	<u>37.4</u>	<u>1.7</u>	<u>9.5</u>
	<u>45.9</u>	<u>45.4</u>	<u>1.9</u>	<u>10.5</u>
Investment management expenses	15.2	14.1	15.6	13.1

5. Taxation

The charges (credits) for taxation comprise:—

	Consolidated profit and loss account		Consolidated long-term insurance revenue account	
	1992	1991	1992	1991
	£m	£m	£m	£m
United Kingdom taxation:—				
Corporation tax	(72.2)	(56.6)	27.1	7.3
Tax attributable to UK dividend income and to UK long-term insurance transfers	31.9	31.4	13.9	15.4
Prior year adjustments	—	(4.2)	(30.9)	—
Advance corporation tax written off	8.8	0.5	—	—
	(31.5)	(28.9)	10.1	22.7
Less Double taxation relief	15.3	1.9	0.9	0.4
	(46.8)	(30.8)	9.2	22.3
Overseas taxation on profits	34.7	28.1	23.7	22.0
	(12.1)	(2.7)	32.9	44.3

UK corporation tax in the consolidated profit and loss account has been calculated at 33.0 per cent. (1991: 33.25 per cent.).

The taxation credit in the consolidated profit and loss account includes a deferred taxation credit of £3.9m (1991: £4.9m). Included in debtors in the 1991 consolidated balance sheet is advance corporation tax recoverable of £23.2m in respect of the proposed final dividend. There is no equivalent figure in 1992.

The potential liability for deferred taxation which is not expected to be payable in the foreseeable future and for which, therefore, no provision has been made is estimated to amount to:—

	General funds		Long-term insurance funds	
	1992	1991	1992	1991
	£m	£m	£m	£m
On unrealised appreciation of investments	440.0	430.0	235.0	195.0
Tax losses carried forward and continuing timing differences	(229.0)	(168.0)	—	—
	211.0	262.0	235.0	195.0

6. Segmental analysis

An analysis of the result and net assets of the Group is provided below in compliance with statement of standard accounting practice number 25. An analysis of premium income is included on page 5.

	Result		Net Assets	
	1992	1991	1992	1991
	£m	£m	£m	£m
General insurance				
United Kingdom	(259.5)	(554.1)	499.7	666.8
Europe	(7.0)	(27.9)	213.8	192.1
U.S.A.	29.3	33.8	133.7	99.6
Canada	(7.5)	(13.1)	28.2	27.3
Australia	11.6	1.4	66.7	43.5
Other overseas	(2.6)	1.9	75.4	41.8
	(235.7)	(558.0)	1,017.5	1,071.1
Long-term insurance	62.0	54.3	—	—
Investment/borrowings	44.1	37.5	727.6	767.2
Profit (loss) before taxation	(129.6)	(466.2)		
Shareholders' funds including minority interests			1,745.1	1,838.3

Net assets have been attributed to territorial segments of the Group's business on the basis of management's view of the assets committed locally to support the general business operation. The territorial disposition of the remaining net assets is determinable by group management and these have therefore not been segmented.

The result for general business represents the profit (loss) from insurance operations including investment income on the attributed net assets. The long-term insurance business result represents the shareholders' profits transfers, which are analysed in the territorial analysis on page 5. The investment/borrowings result represents investment income, net of interest payable, arising on the remaining net assets together with the results from non-insurance operations.

7. Pension costs

The majority of the staff pension schemes operated by the Group throughout the world are of the defined benefit type and the assets of these schemes are held mainly in separate trustee administered funds. The principal exceptions are in Denmark and Germany where defined contribution schemes are operated. The total pension cost for the Group was £28.1m (1991 £42.5m) of which £14.3m (1991 £10.4m) related to overseas schemes.

The pension cost relating to the main scheme in the United Kingdom is assessed using the projected unit method, in accordance with the advice of the actuary to the scheme, who is an employee of the Group. The last actuarial valuation of the scheme for the purpose of assessing the pension cost was made as at 31st March, 1992 for which purpose an investment return of 9.0 per cent. p.a. was assumed, with provision for pension increases of 5.0 per cent. p.a. and salary increases of 7.5 per cent. p.a. The market value of the assets of the scheme at 31st March, 1992 was £1,251m and their actuarial value was sufficient to cover 124 per cent. of the benefits that accrued to members, after allowing for projected increases in earnings and pensions. The surplus resulting from this valuation is being applied to reduce pension costs over the estimated working lives of employees.

Included in creditors at 31st December, 1992 is an amount of £30.7m (1991 £22.4m) resulting from the difference between the amounts charged to revenue and the amounts contributed to the main scheme in the United Kingdom. Also included in creditors is a provision amounting to £26.6m (1991 £18.6m) relating to unfunded overseas schemes.

8. Earnings (loss) per share

The calculation of the amount per share is based on the loss of £128.7m (1991 £471.7m) and on the weighted average of 801,197,453 shares (1991 796,277,189).

9. Share capital

	1992	1991
	£m	£m
Authorised: 1,100,000,000 (1991 1,000,000,000) shares of 25p each	275.0	250.0
Issued and fully paid: 804,253,159 (1991 799,202,666) shares of 25p each	201.1	199.8

During the year 1,909,275 shares were issued on the exercise of employee share options for a total consideration of £3.0m and 3,141,218 shares were issued pursuant to scrip dividend offers. As a consequence share capital increased by £1.3m and share premium account by £9.3m.

Under employee savings related share option schemes, options to subscribe for 18,273,038 shares of 25p each in the Company were outstanding at 31st December, 1992 as follows:—

Number of shares	Option price per share	Exercise date
92,080	103.25p	1st August, 1992
125,828	218.00p	1st August, 1992
406,124	147.00p	1st August, 1993
609,492	208.25p	1st August, 1993
362,900	218.00p	1st August, 1994
2,209,639	253.00p	1st December, 1994
374,504	208.25p	1st August, 1995
1,096,934	243.00p	1st August, 1995
793,676	307.00p	1st August, 1996
831,351	253.00p	1st December, 1996
1,114,380	280.00p	1st December, 1996
6,921,382	186.00p	1st August, 1997
339,076	243.00p	1st August, 1997
308,583	307.00p	1st August, 1998
338,857	280.00p	1st December, 1998
2,348,232	186.00p	1st August, 1999

The options are normally exercisable within 6 months of the exercise date.

Under executive share option schemes, options to subscribe for 8,976,922 shares of 25p each in the Company were outstanding at 31st December, 1992 as follows:—

Number of shares	Option price per share	Exercise date
3,479,872	232.25p	6th May, 1991
1,874,276	282.50p	5th May, 1992
1,645,859	303.00p	22nd April, 1993
1,113,908	384.00p	17th April, 1994
863,007	232.00p	14th April, 1995

The options are normally exercisable within 7 years of the exercise date.

10. Parent Company accounts

The profit attributable to shareholders amounted to £116.5m (1991 £113.8m). After realised investment profits of £7.3m (1991 nil) and the dividend of £114.6m (1991 £113.9m) the balance of the profit and loss account at 31st December, 1992 amounted to £90.1m (1991 £80.9m).

11. Subsidiaries

A list of subsidiaries at 7th October, 1993 appears on pages 52 to 54.

During the year the Group made acquisitions for which the aggregate consideration was £116.2m comprising cash and shares in subsidiaries of £66.7m and £49.5m respectively. The cash balances of

the subsidiaries acquired comprised cash at bank and in hand of £39.0m. Goodwill arising on these acquisitions amounted to £22.3m, of which the Group shareholders' proportion of £13.9m has been written off to retained profits and the balance charged to minority interests. The total book value and fair value of the net assets acquired amounted to £103.5m and £93.9m respectively.

The acquisitions include the purchase of Royal Australia Holdings Limited by the Group's Australian general business subsidiary by an issue of shares and cash. The Group has a 60 per cent. interest in the combined operation.

Since 1984 the cumulative goodwill charged against the Group's reserves arising on acquisitions of subsidiaries that are still part of the Group amounted to £208.9m at 31st December, 1992.

The accounts of certain subsidiaries, where the amounts involved are insignificant, have not been consolidated. Shares in these subsidiaries are included in the consolidated balance sheet at net asset value.

12. Borrowings

Bank borrowings and other loans are as follows:—

	Consolidated balance sheet		Consolidated long-term insurance balance sheet	
	1992	1991	1992	1991
	£m	£m	£m	£m
Bank loans and overdrafts repayable—				
Within one year, or on demand				
Secured	1.3	45.4	—	—
Unsecured	54.5	37.5	0.4	0.3
Between two and five years				
Unsecured	—	100.0	—	—
Other unsecured loans, at interest rates ranging from 4 per cent. to 11 per cent. repayable—				
Within one year	159.8	173.9	19.3	15.7
Between two and five years	149.1	—	—	—
Loans secured on properties, most of which are at interest rates ranging from 7 per cent. to 10 per cent. and are repayable after 1997	5.0	4.9	1.1	0.9
	<u>369.7</u>	<u>361.7</u>	<u>20.8</u>	<u>16.9</u>

Included in the other unsecured loans of £19.3m (1991 £15.7m) in long-term insurance borrowings is £16.8m (1991 £15.7m) due to the general fund.

Bank overdrafts represent cash book balances except where the bank account is managed to ensure that a cleared overdraft does not arise, in which event uncleared items are included in creditors.

13. Net cash inflow from operating activities, changes in financing and cash and cash equivalents

- (a) Reconciliation between profit (loss) before taxation and net cash inflow from operating activities:—

	1992 £m	1991 £m
Profit (loss) before taxation	(129.6)	(466.2)
Adjustments to convert revenue and expenditure onto a cash basis:—		
Depreciation	52.4	45.8
Increase in debtors and amounts due from long-term funds	(20.1)	(81.1)
Increase in insurance funds	340.9	633.1
Increase in creditors	51.5	99.3
Taxation	(41.3)	(39.4)
Net cash inflow from operating activities	<u>253.8</u>	<u>191.5</u>

- (b) Changes in financing

	Share capital and share premium		Minority shareholders		Borrowings	
	1992 £m	1991 £m	1992 £m	1991 £m	1992 £m	1991 £m
Balance at 1st January	212.4	203.3	154.3	143.5	361.7	254.8
Activities involving the movement of cash:—						
Shares issued	3.0	7.8	0.8	—	—	—
Shares and loan notes redeemed	—	—	(8.9)	(14.7)	—	(17.5)
Increase (decrease) in other net borrowings	—	—	—	—	(6.7)	82.3
	3.0	7.8	(8.1)	(14.7)	(6.7)	64.8
Activities not involving the movement of cash:—						
Shares and loan notes issued (redeemed)	7.6	1.3	49.5	15.4	(0.4)	22.3
Share of result for the year	—	—	11.2	8.2	—	—
Borrowings assumed through acquisitions	—	—	—	—	—	20.1
Other	—	—	(9.5)	1.9	15.1	(0.3)
Balance at 31st December	<u>223.0</u>	<u>212.4</u>	<u>197.4</u>	<u>154.3</u>	<u>369.7</u>	<u>361.7</u>

Borrowings include commercial paper that is repayable within three months of the date of issue, in accordance with Group investment management policy. Other short term loans and overdrafts are not material and are also included in borrowings rather than in cash and cash equivalents.

- (c) Changes in cash and cash equivalents

During the year cash and cash equivalents, comprising bank balances and cash and deposits at interest with maturity dates of less than three months when acquired, increased from £382.6m to £739.6m (1991 decrease from £453.2m to £382.6m). This movement includes foreign exchange restatement of £62.2m (1991 £1.4m) and £39.7m (1991 £12.9m) arising principally from subsidiaries acquired during the year.

14. Capital commitments

Capital commitments in respect of office premises and equipment not provided for in these accounts were:—

	1992	1991
	£m	£m
Contracted for at 31st December	20.3	5.3
Authorised but not contracted for at 31st December	16.0	4.1

15. Auditors' remuneration

The remuneration of the auditors of the Company and its subsidiaries, in respect of annual accounts, amounted to £2,518,000 (1991 £2,249,000) of which £1,546,000 (1991 £1,251,000) related to overseas. In the United Kingdom, Coopers & Lybrand also received fees of £478,000 in respect of other audit and non-audit services.

16. Directors and officers

The aggregate emoluments of the directors of the Company, including amounts received from subsidiaries, were:—

	1992	1991
	£	£
For services as directors	186,209	213,953
Other emoluments (including pension fund contributions)	<u>1,514,422</u>	<u>1,549,889</u>
	<u>1,700,631</u>	<u>1,763,842</u>

A pension payment of £16,177 (1991 £15,936) was made by a subsidiary to a director in respect of services other than as a director.

Eight executive directors waived fees amounting to £72,297 (1991 eight directors — £73,260).

The emoluments of the Chairman were £56,250 (1991 £56,250). The emoluments, excluding pension fund contributions, of the highest paid director were £292,625 (1991 £285,236).

The following table shows the number of directors of the Company whose emoluments were within the ranges stated.

Emoluments (excluding pension fund contributions)	1992	1991
£		
0 — 5,000	1	2
5,001 — 10,000	2	3
10,001 — 15,000	5	5
15,001 — 20,000	1	2
20,001 — 25,000	1	—
25,001 — 30,000	—	1
45,001 — 50,000	—	1
55,001 — 60,000	3	1
110,001 — 115,000	2	—
145,001 — 150,000	1	1
150,001 — 155,000	—	2
155,001 — 160,000	3	1
190,001 — 195,000	—	2
195,001 — 200,000	1	—
285,001 — 290,000	—	1
290,001 — 295,000	1	—

Particulars of transactions and arrangements:—

Directors

The following guarantees to a building society in respect of mortgage advances under a staff house purchase scheme applied throughout 1992: Mr. G. E. Browne £14,990, Mr. M. L. Dew £15,044 and Mr. T. A. Hayes £34,357.

Officers

At 31st December, 1992 there was an amount outstanding of £36,990 in respect of one officer of the Company (who was not a director) by way of guarantee to a building society.

17. Associated companies and other participating interests

The Group owned more than 10 per cent. of the equity share capital of the following companies:—

- (a) Companies in which the Group's interest in the equity capital amounts to 20 per cent. or more, all of which are associated companies:—

<i>Name and country of incorporation and of principal operations unless otherwise indicated</i>	<i>Class of shares</i>	<i>Issued capital</i>	<i>Total reserves</i>	<i>Group interest (held by subsidiaries)</i>
		£m	£m	%
United Kingdom				
<i>(registered in England and Wales)</i>				
British Aviation Insurance Co. Ltd.	Ordinary	2.0	18.9	29.7
Mynshul Group PLC	Ordinary	8.7	(10.8)	30.0
Woolwich Life Assurance Co. Ltd	Ordinary	30.0	(13.3)	49.0
Argentina				
Los Andes Compania de Seguros S.A.	Ordinary	2.7	1.8	26.6
Jamaica				
West Indies Alliance Insurance Co. Ltd.	Ordinary	0.1	1.0	49.0
Philippines				
Federal Phoenix Assurance Co. Ltd.	Ordinary	0.3	0.7	40.0
Saudi Arabia				
Al-Alamiya Insurance Co. Ltd. (EC)	Ordinary	2.0	1.1	42.0
<i>(incorporated in Bahrain)</i>				

The above details are based on the latest available accounts.

- (b) Other companies in which the Group's interest in the equity capital exceed 10 per cent.:—

<i>Name and country of incorporation</i>	<i>Class of shares</i>	<i>Group interest (held by subsidiaries)</i>
		%
United Kingdom		
<i>(registered in England and Wales)</i>		
The Fleming Continental European Trust P.L.C.	Ordinary	10.1
	Preference	15.5
Peru		
Compania de Seguros La Fenix Peruana	Ordinary	19.2

Some interests in associated companies and other participating interests have been omitted from this statement to avoid providing particulars of excessive length but none materially affects the results or assets of the Group.

PART IV – THE PLACING

At the Extraordinary General Meeting of the Company held on 22nd September, 1993, an Ordinary Resolution was passed, *inter alia*, (a) to increase the authorised share capital of the Company by the creation of the Authorised Preference Shares and (b) to authorise the Directors of the Company to allot and issue all or any of such Authorised Preference Shares at any time prior to the conclusion of the Annual General Meeting of the Company to be held in 1994 or 22nd December, 1994, whichever is the earlier. The terms of, and rights attaching to, the Preference Shares are contained in the Articles of Association of the Company, the Ordinary Resolution referred to above and the resolution of the Committee of the Board of Directors duly authorised for this purpose passed on 11th October, 1993 and are set out in Part II above.

The Directors have decided to issue the Preference Shares at the price of 100.785p per share and have determined that the rate of dividend attaching to the new Preference Shares shall be $7\frac{3}{8}$ per cent. per annum (exclusive of any associated tax credit) which will be payable in equal half-yearly instalments in arrears on 1st April and 1st October in each year except that the first dividend instalment shall be payable in respect of the period from and including 26th October, 1993 up to but excluding 1st April, 1994.

The placing is conditional on the Preference Shares being admitted to the Official List by the London Stock Exchange, on such admission becoming effective not later than 9.00 am on 13th October, 1993 and on the Placing Agreement becoming unconditional in accordance with its terms.

Under the Placing Agreement each of Cazenove and Warburg has separately agreed to use reasonable endeavours to procure subscribers for or, to the extent of their failing to procure such subscribers, themselves to subscribe for the Preference Shares for which they shall have failed to provide subscribers at the Placing Price in the proportions of 60 per cent. and 40 per cent. respectively. The obligations of Cazenove and Warburg are conditional upon, *inter alia*, the London Stock Exchange admitting the Preference Shares to the Official List and such admission becoming effective not later than 13th October, 1993.

The Placing Agreement contains certain representations, warranties, undertakings and indemnities given by the Company relating, *inter alia*, to the accuracy of the information contained in this document. Cazenove and Warburg may terminate the Placing Agreement in certain exceptional circumstances (including on the occurrence of a *force majeure* event) prior to the admission to listing becoming effective.

The Company has agreed to pay to Cazenove and Warburg commissions amounting in aggregate to $7\frac{7}{8}$ per cent. of the aggregate Placing Price of the Preference Shares, being an amount equal to the number of the Preference Shares multiplied by the Placing Price. The Company will also pay to Cazenove and Warburg a sum equal to any stamp or other duties or taxes (if any) payable in connection with the issue of the Preference Shares and any value added tax payable in connection with the commission payable in connection with or arising out of the Placing.

The Placing Price for the Preference Shares will be payable in cash in full on 26th October, 1993. It is estimated that the cash proceeds (net of expenses) accruing to the Company from the placing will amount to approximately £124,747,250.

The Preference Shares will be in registered form. Temporary documents of title will not be issued and definitive certificates for the Preference Shares are expected to be despatched by not later than close of business on 26th October, 1993.

PART V – PROFIT FORECAST FOR THE YEAR ENDING 31ST DECEMBER, 1993

1. Profit Forecast

The Directors confirm that, in the absence of unforeseen circumstances and on the bases and assumptions set out below, the Group will return to profit for the year ending 31st December, 1993.

2. Bases and Assumptions

The profit forecast for the year ending 31st December, 1993 is based on the Group's unaudited interim results for the six months ended 30th June, 1993 and the Directors' forecast of the results for the six months ending 31st December, 1993.

The profit forecast has been prepared using the accounting policies adopted by the Group in its annual accounts for the year ended 31st December, 1992 and is based on the following principal assumptions:—

- (a) There will be no material divergence from the underwriting experience which is reflected in the unaudited interim results and no abnormally large claims or aggregation of claims arising from catastrophe events or other causes.
- (b) There will be no significant fiscal changes or changes in governmental or legislative controls or policies affecting the Group's operations.
- (c) There will be no major fluctuations in interest or foreign currency exchange rates.
- (d) Trading results will not be significantly affected by industrial disputes.

3. Letters relating to the profit forecast

Set out on the following pages is the full text of the letters from Coopers & Lybrand, Chartered Accountants, auditors of Sun Alliance, and Cazenove and Warburg, concerning the profit forecast for the year ending 31st December, 1993.

Coopers
&Lybrand

chartered accountants

Plumtree Court
London EC4A 4HT

telephone 071-583 5000

cables Colybrand London
telex 887470
facsimile 071-822 4652

The Directors
Sun Alliance Group plc
1 Bartholomew Lane
LONDON EC2N 2AB

Cazenove & Co.
12 Tokenhouse Yard
LONDON EC2R 7AN

The Directors
S.G. Warburg Securities Ltd.
1 Finsbury Avenue
LONDON EC2M 2PA

12th October, 1993

Dear Sirs,

The Board of Sun Alliance Group plc ("the Company") has made the profit forecast which is set out on pages 7 and 35 of the listing particulars of the Company dated 12th October, 1993.

This profit forecast of the Company, for which the directors of the Company are solely responsible, includes the published unaudited interim results for the six months ended 30th June, 1993 and forecasts for the six months ending 31st December, 1993.

We have reviewed the accounting policies and calculations adopted in arriving at the profit forecast. In our opinion the profit forecast, so far as the accounting policies and calculations are concerned, has been properly compiled on the bases and assumptions made by the directors of the Company, set out on page 35 of the said listing particulars, and is presented on a basis consistent with the accounting policies normally adopted by the Company.

Yours faithfully,

Coopers & Lybrand

COOPERS & LYBRAND
Chartered Accountants

Coopers & Lybrand is a member firm of Coopers & Lybrand (International)

Partners are partners of Coopers & Lybrand, the Main Firm, or one of its associate firms. A list of partners' names for each firm is available at the above address. The Main Firm is authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business. All partners of the associate firms are authorised to conduct business as agents of, and all contracts are made with, the Main Firm.

The Directors,
Sun Alliance Group plc,
1 Bartholomew Lane,
London EC2N 2AB

12th October, 1993

Dear Sirs,

We have discussed with you and with Coopers & Lybrand the profit forecast of Sun Alliance Group plc ("Sun Alliance") and its subsidiaries for the year ending 31st December, 1993 which is set out on pages 7 and 35 of the Listing Particulars of the Company dated 12th October, 1993.

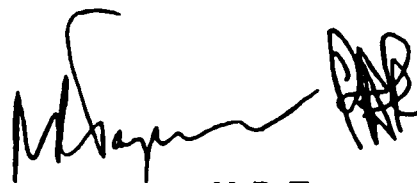
We have also considered the letter dated 12th October, 1993 from Coopers & Lybrand addressed to yourselves and ourselves regarding the accounting policies and calculations upon which the forecast is based.

As a result of these discussions and in the light of the letter we are satisfied that the profit forecast, for which you as Directors of Sun Alliance are solely responsible, has been prepared after due and careful enquiry.

Yours faithfully,

Cazenove

Cazenove & Co.



N. R. Tapner
for and on behalf of
S.G. Warburg Securities Ltd.

PART VI – FURTHER INFORMATION

1. Incorporation

The Company was incorporated as a public limited company and registered in England and Wales (number 2339826) on 26th January, 1989 under the Companies Act 1985. The registered and head office of the Company is at 1 Bartholomew Lane, London EC2N 2AB.

2. Share capital

- (a) The following tables show the authorised and issued share capital of the Company as at 7th October, 1993 (being the latest practicable date before the printing of this document):—

(i)	Authorised	Issued
Shares	£300,000,000	£201,562,996
Preference Shares	£300,000,000	—
Total	£600,000,000	£201,562,996

- (ii) The fully diluted share capital of the Company was as follows:—

	Number of Shares
Shares in issue	806,251,984
Options to subscribe for Shares under employee share option schemes	28,022,527
£155,000,000 7.25 per cent. Convertible Subordinated Bonds 2008	39,743,589
Fully diluted share capital	874,018,100

- (iii) On 5th March, 1993 the Company issued £155,000,000 7.25 per cent. Convertible Subordinated Bonds 2008 (the “Bonds”). The holder of each Bond has the right to convert his Bond into Shares up until 23rd November, 2008 unless such Bond has been previously redeemed or repurchased and cancelled. The initial conversion price was set at 390p per Share. The conversion price will be adjusted upon the happening of certain events as more fully set out in the Trust Deed referred to in paragraph 8(c) below. The Bonds are direct and unsecured obligations of the Company and are subordinated in right of payment on a winding-up to all debts of the Company (other than any class of securities which may be issued by the Company subordinated on a similar basis). The Bonds may be redeemed, at the option of the Company, in whole or in part (in multiples of £10,000,000) at any time after 7th June, 1998 or at any time on or prior to 7th June, 1998 if at least 85 per cent. of the Bonds have been converted or purchased by any subsidiary of the Company and cancelled.

- (iv) Under executive share option schemes, options to subscribe for 9,852,207 Shares were outstanding at 7th October, 1993 as follows:—

Date of Grant	Option price per Share	Number of Shares	Exercise Date
6th May, 1988	232.25p	3,135,670	6th May, 1991
5th May, 1989	282.50p	1,747,028	5th May, 1992
20th April, 1990	303.00p	1,529,126	20th April, 1993
17th April, 1991	384.00p	1,112,988	17th April, 1994
14th April, 1992	232.00p	862,583	14th April, 1995
21st April, 1993	337.00p	1,052,609	21st April, 1996
13th September, 1993	369.00p	412,203	13th September, 1996

The options are normally exercisable within 7 years of the exercise date.

- (v) Under employee savings related share option schemes, options to subscribe for 18,170,320 Shares were outstanding at 7th October, 1993 as follows:—

Date of Grant	Option price per Share	Number of Shares	Exercise date
19th June, 1986	147.00p	75,708	1st August, 1993
18th June, 1987	218.00p	347,568	1st August, 1994
16th June, 1988	208.25p	112,892	1st August, 1993
16th June, 1988	208.25p	356,584	1st August, 1995
18th October, 1989	253.00p	2,053,156	1st December, 1994
18th October, 1989	253.00p	789,187	1st December, 1996
10th June, 1990	243.00p	1,034,895	1st August, 1995
10th June, 1990	243.00p	302,445	1st August, 1997
9th May, 1991	307.00p	708,852	1st August, 1996
9th May, 1991	307.00p	285,351	1st August, 1998
16th October, 1991	280.00p	1,003,159	1st December, 1996
16th October, 1991	280.00p	312,997	1st December, 1998
6th May, 1992	186.00p	6,636,566	1st August, 1997
6th May, 1992	186.00p	2,276,104	1st August, 1999
13th May, 1993	270.00p	1,561,866	1st August, 1998
13th May, 1993	270.00p	312,990	1st August, 2000

The options are normally exercisable within 6 months of the exercise date.

- (vi) On 19th May, 1993 a resolution was passed at the Annual General Meeting of the Company:—

- to increase the authorised share capital of the Company to £300,000,000 by the creation of 100,000,000 Shares;
- to authorise the Directors, in accordance with Section 80 of the Companies Act 1985, to allot relevant securities (as defined therein) up to an aggregate nominal amount of £67,042,972; and
- to empower the Directors, pursuant to Section 95 of the Companies Act 1985 to allot equity securities (as defined in Section 94 of that Act) as if Section 89(1) of that Act did not apply to such allotment, but such power was limited to the allotment of equity securities in connection with a rights issue (subject to certain exclusions) or any scrip dividend offer and otherwise to an aggregate nominal amount of £10,053,164

and, with the above authority, will expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, on 19th August, 1994.

(vii) On 22nd September, 1993 a resolution was passed at an Extraordinary General Meeting of the Company:—

- (a) to increase the authorised share capital of the Company to £600,000,000 by the creation of the Authorised Preference Shares; and
 - (b) to authorise the Directors in accordance with Section 80 of the Companies Act 1985 to allot and issue all or any of such Authorised Preference Shares at any time prior to the conclusion of the Annual General Meeting of the Company to be held in 1994 or 22nd December, 1994, whichever is the earlier.
- (b) Since 31st December, 1989, the following changes have occurred in the issued share capital of the Company:—

	Number of Shares
Issued as a result of the exercise of options under employee share option schemes:	9,987,789
Issued by way of scrip dividend on the basis of one new Share:	
for every 38 Shares at 302.8p per Share on 2nd July, 1990	470,742
for every 55 Shares at 270.6p per Share on 1st December, 1990	345,782
for every 43 Shares at 383.2p per Share on 1st July, 1991	198,282
for every 67 Shares at 349.0p per Share on 2nd December, 1991	157,987
for every 26 Shares at 232.0p per Share on 1st July, 1992	2,592,073
for every 55 Shares at 286.0p per Share on 1st December, 1992	549,145
for every 38 Shares at 336.8p per Share on 1st July, 1993	352,014
Total Shares issued from 1st January, 1990 to 7th October, 1993	<u>14,653,814</u>

Save as disclosed herein, during the three years immediately preceding 7th October, 1993, there have been no issues of share capital of the Company and (save for intra-group issues by wholly-owned subsidiaries and *pro rata* issues by partly-owned subsidiaries) no material issues of share capital of any other member of the Group.

3. Memorandum and Articles of Association

Memorandum of Association

The Memorandum of Association of the Company provides that its principal objects are to act and carry on business as a holding company. The objects are set out in Clause 4 of the Memorandum of Association which is available for inspection as mentioned below.

Articles of Association

The following is a summary of certain of the provisions of the Articles of Association of the Company:—

(a) *Voting*

Subject to disenfranchisement of a member in the event of non-payment of any calls or other sums presently payable in respect of any shares or non-compliance

with a notice requiring disclosure of any interest in shares, on a show of hands every member present in person at a general meeting shall have one vote and on a poll every member present in person or by proxy shall have one vote for each share of which he is the holder.

(b) *Variation of rights and alterations of capital*

- (i) Subject to the provisions of the Companies Act 1985, whenever the share capital of the Company is divided into different classes of shares, the rights attached to any class may be modified, abrogated or varied, with the consent in writing of the holders of three-fourths of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class. At any such separate general meeting (except an adjourned meeting) the quorum shall be two persons holding or representing by proxy at least one-third in nominal value of the issued shares of that class.
- (ii) The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its shares into shares of a larger amount, sub-divide its shares or any of them into shares of a smaller amount and cancel any shares not taken or agreed to be taken by any person. The Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account in any manner and with and subject to, any incident authorised, and consent required, by law.

(c) *Transfer of shares*

- (i) The instrument of transfer of a share of the Company may be in any usual or common form or any other form which the Directors may approve and shall be signed by or on behalf of the transferor and, in the case of a share which is not fully paid, by or on behalf of the transferee.
- (ii) The Directors may, in their absolute discretion and without assigning any reason therefor, refuse to register any transfer of any share that is not fully paid or of any share in favour of more than four persons jointly. The Directors may decline to recognise any instrument of transfer which is in respect of more than one class of share, or in respect of shares on which the Company has a lien.

(d) *Dividends and other distributions*

- (i) Subject to any rights of persons, if any, entitled to shares with any priority, preference or special rights as to dividend, all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid. All dividends shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid; but if any share is issued on terms providing that it shall rank for dividend as if paid up in full or in part from a particular date, whether past or future, such share shall rank for dividend accordingly.
- (ii) On a winding up the liquidator may, with the sanction of an extraordinary resolution and any other sanction required by the Companies Act 1985, divide amongst the members in specie or kind the whole or any part of the assets of the Company.
- (iii) All dividends unclaimed for a period of twelve years after having been declared shall be forfeited and shall revert to the Company.
- (iv) On being given an authority by the Company in general meeting, the Directors may capitalise any part of the amount standing to the credit of any

of the Company's reserve accounts or profit and loss account and distribute fully paid shares to members electing to receive the same, in the place of a cash dividend.

4. Directors' and Other Interests

- (a) The interests of the Directors and their immediate families in the Shares as at 7th October, 1993, as notified to the Company pursuant to sections 324, 328 and 346 of the Companies Act 1985 and shown in the register maintained under section 325 of the Companies Act 1985 are as follows:—

Name	Shares	Options to subscribe for Shares
Robert Ayling	600	—
Sir Christopher Benson	28,444	—
Geoffrey Bowler	26,515	—
M.L. Dew	4,388	244,814
Sir Ewen Fergusson	494	—
Graeme Gilchrist	5,000	—
T.A. Hayes	3,837	232,049
Henry Keswick	24,493	—
The Lord Kindersley	1,600	—
T.S. Nelson	1,162	234,075
R.A.G. Neville	13,361	443,432
R. Petty	8,600	240,499
Leopold de Rothschild	25,890	—
P.G. Taylor	7,541	233,921
R.J. Taylor	16,335	327,561

None of the above interests has been notified to the Company as non-beneficial.

- (b) It is estimated that the aggregate emoluments of the Directors for 1993 will be £1,650,000 (1992 £1,700,631).
- (c) There have been no transactions between the Directors and the Company or any of its subsidiaries in the current financial year or the financial year ended 31st December, 1992 which are or were unusual in their nature or conditions or significant to the business of the Group. There are no transactions between the Directors and any member of the Group in earlier financial periods which are or were unusual in their nature or conditions or significant to the business of any member of the Group and which remain in some respect outstanding or unperformed.
- (d) The following guarantee to a Building Society in respect of a mortgage advance under a staff house purchase scheme was in existence as at 7th October, 1993: Mr. M.L. Dew £15,044.
- (e) (i) As declared in accordance with Part VI of the Companies Act 1985, on 7th October, 1993:—
- Chubb was interested in 24,794,656 Shares representing 3 per cent. of the Company's issued share capital;
 - Each of TransAtlantic Holdings plc, TAI Investments Limited, Conduit Insurance Holdings Limited, First International Trust Limited, Liberty Life Association of Africa Limited, Liberty Holdings Limited, Liblife Controlling Corporation (Proprietary) Limited, Liberty Investors

Limited, Mr. Donald Gordon and Standard Bank Investment Corporation Limited was interested in 24,463,649 Shares representing 3 per cent. of the Company's issued share capital; and

- (c) Mercury Asset Management plc and its holding companies, Mercury Asset Management Group plc, S.G.Warburg Asset Management Holdings Ltd. and S.G.Warburg Group plc were interested non-beneficially by virtue of discretionary management arrangements in 93,854,937 Shares representing 11 per cent. of the Company's issued share capital.
- (ii) S.G.Warburg Group plc has notified the Company that it is interested in an additional 300,004 Shares.

5. Directors' Service Agreements

- (a) Each of the undermentioned Directors who hold the executive positions shown below entered into a service agreement with Sun Alliance and London Insurance plc with effect from 1st May, 1990:—

Director	Position	Current salary per annum (subject to annual review) £
M.L. Dew	Managing Director, Sun Alliance Group Properties	162,501
T.A. Hayes	General Manager	162,501
T.S. Nelson	General Manager, Corporate Finance	162,501
R.A.G. Neville	Group Chief Executive	325,002
R. Petty	Managing Director, Sun Alliance Insurance Overseas	157,500
P.G. Taylor	Managing Director, Sun Alliance Life	150,000
R.J. Taylor	Group Executive Director	212,001

Each agreement is terminable by notice equal to three years or the period to the Normal Retirement Date (in each case as set out in the schedule of the agreement) or the period to early retirement (as defined in clause 12(a) of the agreement) whichever is the shortest.

- (b) Save as disclosed above, no Director has a service contract with any company within the Group and there are no service contracts proposed between any of the Directors and any company within the Group.

6. Sun Alliance Employee Share Schemes

The Company operates approved savings-related and executive share option schemes.

(a) Summary of the Sun Alliance Group 1989 Savings Related Share Option Scheme (the "SAYE Scheme")

(i) *Introduction*

The SAYE Scheme is approved by the Inland Revenue and enables employees (including executive directors) of the Group to be granted options to subscribe for Shares in the Company. No options may be granted under the SAYE Scheme after 8th September, 1999.

The SAYE Scheme is administered by the Directors in accordance with its rules.

(ii) *Eligibility*

Employees (including executive directors) of the Group who have been employed within the Group for a continuous period of at least 3 years and are contracted to work for at least 16 hours per week immediately preceding any offer of options made under the SAYE Scheme and who remain so employed at the date such options are granted are eligible to participate in respect of such offer.

(iii) *Participation*

(a) An eligible employee who wishes to participate must contribute a monthly sum (the current permitted range being not less than £10 and not more than £250 per month) for 5 years to an authorised savings contract. After 5 years, a bonus is added to the participant's savings and if he leaves his savings in the account for an additional 2 years the bonus is doubled. The bonus rate is fixed once an option has been granted.

(b) A participant must declare at the outset whether his option is to be exercisable normally on or after the first or the second bonus date. Sun Alliance will grant an option, normally exercisable on or within 6 months of the chosen bonus date, in respect of Shares having an aggregate option price equal to the amount contracted to be saved plus the appropriate bonus.

(c) Options are not transferable.

(iv) *Option Price*

(a) The option price per Share may not be less than 80 per cent. of the average of the middle market quotations as derived from the Daily Official List for the Shares on 5 consecutive business days commencing not earlier than 30 days prior to the date of grant of the option (or the nominal value of a Share if this is greater).

(b) The option price and/or the number of Shares comprised in each option may be adjusted, to the extent that the auditors of Sun Alliance confirm in writing to be in their opinion fair and reasonable, in the event of subsequent rights or capitalisation issues or upon a consolidation, sub-division, reduction or other reconstruction of the share capital. No adjustment will materially change the aggregate option price under any option or reduce the option price below the nominal value of a Share. All such adjustments shall be subject to the prior approval of the Board of Inland Revenue.

(v) *Limits to the Grant of Options*

- (a) The aggregate number of Shares of Sun Alliance which may be under option under the SAYE Scheme on any occasion, when aggregated with the number of such Shares issued or remaining issuable in respect of rights granted in the preceding 10 years under the SAYE Scheme and any other share scheme for employees or directors of the Group, may not exceed the lesser of 10 per cent. of the share capital of Sun Alliance in issue immediately prior to the grant of such options and 80,000,000 Shares (representing 10.14 per cent. of the issued share capital of Sun Alliance immediately after the Scheme became effective). This numerical limit may, however, be adjusted by the Directors in the circumstances and the manner described in (iv)(b) above.
- (b) The aggregate number of Shares of Sun Alliance which may be placed under option under the SAYE Scheme on any occasion, when aggregated with the number of Shares issued or remaining issuable in respect of rights granted in the relevant period under the SAYE Scheme and any other share scheme for employees or directors of the Group, will be subject, at the discretion of the Board, to one or other of the following limitations:—
 - (i) in any 3 year period ending on such occasion, 3 per cent. of the share capital of Sun Alliance in issue immediately prior to the grant of such options; or
 - (ii) in any 5 year period ending on such occasion prior to the fifth anniversary of Inland Revenue approval of the SAYE Scheme 5 per cent. of the share capital of Sun Alliance in issue immediately prior to the grant of such options.

If the limit referred to in (ii) above is complied with, the limit set out in (i) above will not apply on or subsequent to the fifth anniversary of Inland Revenue approval of the SAYE Scheme.

(vi) *Rights and Restrictions*

- (a) If a participant dies on or before the relevant bonus date, his options may be exercised by his personal representatives within 12 months after the date of his death and, if he dies within 6 months after the bonus date, his options may be exercised within 12 months after the bonus date; otherwise they will lapse.
- (b) If a participant ceases to be employed within the Group by reason of injury, disability, normal retirement or redundancy within the meaning of the Employment Protection (Consolidation) Act 1978 (as amended) or by reason that his employing company or business ceases to be a member or part of the Group, his options may be exercised within 6 months of such cessation of employment; otherwise they will lapse.
- (c) If a participant retires more than 3 years after the grant of an option at an age not more than 3 years less than that at which he is bound to retire by his contract of employment, he may exercise the option within 6 months of his so retiring; otherwise it will lapse.
- (d) If a participant ceases to be employed within the Group for any other reason, his options may not be exercised, and will lapse.
- (e) If a participant continues to be employed within the Group after the date on which he reaches pensionable age within the meaning of

Schedule 20 to the Social Security Act 1975, he may exercise his options within 6 months after that date, but if he does not do so this will not prejudice his right (if any) to exercise it subsequently.

- (f) In the event of a voluntary winding-up of Sun Alliance (except for the purpose of reconstruction or amalgamation), options may be exercised within 90 days after the passing of the resolution for such winding-up; otherwise they will lapse.
- (g) In the event that Sun Alliance is taken over a participant may exercise an option within 6 months after the date on which control passes (but not after the date on which any offeror ceases to be bound or entitled to acquire Shares under Sections 428 to 430F of the Companies Act 1985 (as amended)); otherwise it will lapse unless the participant has entered into an agreement as described in paragraph (vi)(i) below.
- (h) In the event of a change of control of Sun Alliance as a result of a scheme of compromise or arrangement under Section 425 of the Companies Act 1985, a participant may exercise an option up to the date on which the scheme takes effect or, if earlier, the date of expiry of the period of 6 months commencing on the date of the Court's sanction thereto; otherwise it will lapse unless the participant has entered into an agreement as described in paragraph (vi)(i) below.
- (i) In any of the events described in paragraph (vi)(g) and (h) above, a participant may enter into an agreement to release an option in consideration of the grant of a new option to acquire shares of the acquiring company. On such a transaction, the old and new options must be equivalent in all respects except as to the shares to be acquired. Time limits and other conditions apply to these transactions which are also subject to the concurrence of the acquiring company.
- (j) An option which is exercised (in the circumstances described in paragraphs (vi)(a) to (vi)(c) inclusive and (vi)(e) to (vi)(h) inclusive above) before the relevant bonus date can only be exercised in respect of so many Shares as may be subscribed for with the amount accrued under the savings contract up to the date of exercise.

(vii) *Taxation*

- (a) When a participant exercises an option, in whole or in part, there will be no liability to income tax in respect of any increase in the market value of the Shares at the date of exercise over the option price unless (in the circumstances mentioned in paragraphs (vi)(b) and (vi)(e) to (vi)(h) inclusive above) it is exercised before the third anniversary of the date on which it was granted.
- (b) There may, however, be a liability, if and when the Shares are sold, to capital gains tax calculated by reference to the difference between the selling price and the option price.

(viii) *Issue of Shares*

Wherever Shares are issued following the exercise of options granted under the SAYE Scheme, Sun Alliance will apply to the London Stock Exchange for such Shares to be admitted to the Official List. Shares issued under the SAYE Scheme will rank *pari passu* with Sun Alliance's issued share capital except that they will not rank for any dividend or other distribution payable by reference to a record date before the date of exercise of the relevant option.

(ix) *Amendments*

The Board may terminate the SAYE Scheme at any time but the provisions in relation to options then subsisting shall continue in full force and effect. The Board may also amend the rules of the SAYE Scheme but not so as to affect options already granted to participating employees without the consent of the appropriate majority of the holders of such options. In addition, except with the prior approval of shareholders of Sun Alliance in general meeting, no amendment may alter to the advantage of participating employees (present or future) the provisions of the SAYE Scheme relating to:

- (a) eligibility for participation;
- (b) the limitations on the grant of options;
- (c) the determination of option prices;
- (d) the basis for adjustments on a variation of capital;
- (e) the restrictions on the exercise of options;
- (f) the rights attaching to Shares issued on the exercise of options;
- (g) the transferability of options;
- (h) the rights arising on a voluntary winding-up;
- (i) the power to amend the rules of the SAYE Scheme.

Provided that the Directors may make any amendment necessary to maintain approval of the SAYE Scheme and provided also that, so long as the Board intends that the SAYE Scheme continues to be so approved, no amendment may be made without the prior approval of the Board of Inland Revenue.

(x) *Grants of Options*

The offer and grant of options may be made only during the period of 42 days immediately following any interim or preliminary announcement of the results of Sun Alliance or following the lifting of any restrictions on the granting of options. Whether or not any offers are made is at the discretion of the Directors.

(b) The Sun Alliance Group 1989 Executive Share Option Scheme (the “Executive Scheme”)

(i) *Introduction*

The Executive Scheme is approved by the Inland Revenue. It enables selected senior employees (including executive directors) of the Group to be granted options to subscribe for Shares in the Company. No option may be granted under the Executive Scheme after 26th March, 2000.

For the purposes of granting options and administering the Executive Scheme generally, there is a committee consisting of directors who are not themselves employees of the Group (the “Committee”).

(ii) *Eligibility*

Participation in the Executive Scheme is restricted to any full-time employee (including an executive director) of the Group who is not within 2 years of retirement and who is contracted to work at least 25 hours per week. These employees will be selected by the Committee at its sole discretion.

(iii) *Option Price*

- (a) The option price per Share will not be less than the average of the middle market quotations as derived from the Daily Official List for the

Shares on the five consecutive business days ending on the last but one business day immediately preceding the date of grant of the option (or the nominal value of a Share if this is greater).

- (b) The option price and/or the number of Shares comprised in each option may be adjusted, to the extent that the auditors of Sun Alliance confirm in writing to be in their opinion fair and reasonable, in the event of subsequent rights issues or capitalisation issues or upon a consolidation, sub-division, reduction or other reconstruction of the share capital. No adjustment will materially change the aggregate option price under any option or reduce the option price below the nominal value of a Share. All such adjustments shall be subject to the prior approval of the Board of Inland Revenue.

(iv) *Limits to the Grant of Options*

- (a) The aggregate number of Shares in Sun Alliance which may be placed under option under the Executive Scheme on any occasion, when aggregated with the number of such Shares issued or remaining issuable in respect of rights granted in the preceding 10 years under the Executive Scheme and any other share scheme for employees or directors of the Group (except profit sharing and savings related share option schemes approved by the Board of Inland Revenue under the Income and Corporation Taxes Act 1988 (the "Taxes Act")) may not exceed the lesser of 3 per cent. of the share capital of Sun Alliance in issue immediately prior to the grant of such options or 24,000,000 Shares (representing 3.04 per cent. of the issued share capital of the Company immediately after the Scheme became effective). This numerical limit may, however, be adjusted by the Directors, in the circumstances and the manner described in (iii)(b) above.
- (b) The aggregate number of Shares of Sun Alliance which may be placed under option under the Executive Scheme on any occasion, when aggregated with the number of such Shares issued or remaining issuable in respect of rights granted in the preceding 10 years under the Executive Scheme and any other share scheme for employees or directors of the Group may not exceed 10 per cent. of the share capital of Sun Alliance in issue immediately prior to the grant of such options.
- (c) The aggregate number of Shares of Sun Alliance which may be placed under option under the Executive Scheme on any occasion, when aggregated with the number of Shares issued or remaining issuable in respect of rights granted in the relevant period under the Executive Scheme and any other share scheme for employees or directors of the Group will be subject, at the discretion of the Committee, to one or other of the following limitations:
 - (i) in any 3 year period ending on such occasion, 3 per cent. of the share capital of Sun Alliance in issue immediately prior to the grant of such options; or
 - (ii) in any 5 year period ending on such occasion prior to the fifth anniversary of the date of Inland Revenue approval of the Executive Scheme, 5 per cent. of the share capital of Sun Alliance in issue immediately prior to the grant of such options. Of this 5 per cent., only 3 per cent. (i.e. $\frac{3}{5}$ ths) will be available under the Executive Scheme.

If the limit referred to in (ii) above is complied with, the limit set out in (i) above will not apply on or subsequent to the fifth anniversary of Inland Revenue approval of the Executive Scheme.

- (d) No option may be granted to any employee under the Executive Scheme if immediately thereafter the aggregate option price of all the Shares subject to options granted to him within the immediately preceding 10 years under the Executive Scheme and any other option scheme(s) for employees which may from time to time be in force (other than a savings related share option scheme approved under the Taxes Act) excluding any option which has been exercised would exceed the amount of four times his contractual earnings from the Group at the date upon which an option is granted.
- (e) Notwithstanding the above, no option may be granted to any employee under the Executive Scheme which would cause the limit expressed in paragraph 28 of Schedule 9 to the Taxes Act to be breached.
- (v) *Rights and Restrictions*
 - (a) Options are not transferable; they may not be exercised before the third anniversary of the date of grant (except in the circumstances mentioned in paragraphs (v)(c) to (v)(h) below) nor after the tenth anniversary (except during the period of 12 months following the date of death in the event of death of the option holder).
 - (b) The Committee may at the time of grant of an option impose such additional conditions to be satisfied prior to an option becoming exercisable as it considers fit. In the circumstances referred to in paragraphs (v)(c) to (v)(h) below, such conditions do not apply.
 - (c) If a participant dies, his options may be exercised by his personal representatives within 12 months after the date of his death; otherwise they will lapse.
 - (d) If a participant ceases to be employed within the Group by reason of injury, disability, retirement, or redundancy within the meaning of the Employment Protection (Consolidation) Act 1978 (as amended) or by reason that his employing company or business ceases to be a member or part of the Group, his options may be exercised within 12 months of such cessation of employment or, while the Executive Scheme is approved by the Inland Revenue, within 12 months of such cessation or within 42 months following the later of:
 - (i) the last occasion prior to such cessation when he exercised an option with income tax relief; or
 - (ii) the date of grant,otherwise they will lapse.
 - (e) If a participant ceases to be employed within the Group for any other reason, the option will lapse unless the Committee, in its absolute discretion, allows the option to subsist for a period not exceeding the longest of any of the periods mentioned in paragraph (v)(d) above.
 - (f) In the event of a winding-up of Sun Alliance (except for the purpose of reconstruction or amalgamation), a participant may exercise his options within 90 days after the passing of the resolution for such winding-up or the grant of a winding-up order by the Court; otherwise they will lapse.
 - (g) In the event that Sun Alliance is taken over, a participant may exercise his options within 6 months after the date on which control passes (but

not after the date on which any offeror ceases to be bound or entitled to acquire Shares under Sections 428 to 430F of the Companies Act 1985 (as amended)); otherwise they will lapse unless the participant has entered into an agreement as described in paragraph (v)(i) below.

- (h) In the event of a change of control of Sun Alliance as a result of a scheme of compromise or arrangement under Section 425 of the Companies Act 1985, a participant may exercise his options up to the date on which the scheme takes effect or, if earlier, the date of expiry of the period of 6 months commencing on the date of the Court's sanction thereto; otherwise they will lapse unless the participant has entered into an agreement as described in paragraph (vi)(i) below.
- (i) In any of the events described in paragraphs (v)(g) and (v)(h) above, a participant may enter into an agreement to release his options in consideration of the grant of new options to acquire shares of the acquiring company. On such a transaction, the old and new options must be equivalent in all respects except as to the shares to be acquired. Time limits and other conditions apply to these transactions which are also subject to the concurrence of the acquiring company.

(vi) *Taxation*

- (a) When a participant exercises an option, in whole or in part, there will be no liability to income tax in respect of any increase in the market value of the Shares at the date of exercise over the option price unless it is exercised before the third anniversary (in the circumstances mentioned in paragraphs (v)(d) to (v)(h) inclusive above) or after the tenth anniversary of the date on which it was granted or, generally, within 3 years following the last occasion when an option was exercised on which relief from income tax was allowed under the Taxes Act.
- (b) There may, however, be a liability, if and when Shares are sold, to capital gains tax calculated by reference to the difference between the selling price and the option price.

(vii) *Issue of Shares*

Whenever Shares are issued following the exercise of options granted under the Executive Scheme, Sun Alliance will apply to the London Stock Exchange for such Shares to be admitted to the Official List. Shares issued under the Executive Scheme will rank *pari passu* with Sun Alliance's issued share capital except that they will not rank for any dividend or other distribution payable by reference to a record date before the date of exercise of the relevant option.

(viii) *Amendments*

The Directors may terminate the Executive Scheme at any time but the provisions in relation to options then subsisting shall continue in full force and effect. The Directors may also amend the Rules of the Executive Scheme but not so as to affect options already granted to the detriment of participating employees without the consent of the appropriate majority of the holders of such options. In addition, except with the prior approval of shareholders of Sun Alliance in general meeting, no amendment may alter to the advantage of participating employees (present or future) the provisions of the Executive Scheme relating to:—

- (a) eligibility for participation;
- (b) the requirement that options be granted by the Committee;

- (c) the limitations on the grant of options;
- (d) the determination of option prices;
- (e) the basis of adjustments on a variation of capital;
- (f) the restrictions on the exercise of options;
- (g) the rights attaching to Shares issued on the exercise of options;
- (h) the transferability of options;
- (i) the rights arising on a winding-up;
- (j) the power to amend the Rules of the Executive Scheme.

Provided that the Directors may make any amendment necessary to maintain approval of the Board of the Inland Revenue of the Executive Scheme and provided also that, so long as the Directors intend that the Executive Scheme continues to be so approved, no amendments may be made without the prior approval of the Board of Inland Revenue.

(ix) *Grants of Options*

The offer and grant of options may be made only during the period of 42 days immediately following any interim or preliminary announcement of the results of Sun Alliance or following the lifting of any restrictions upon the granting of options. Whether or not any options are granted is at the discretion of the Committee.

7. Taxation

Taxation on Dividends

Under current UK taxation legislation, no withholding tax will be deducted from dividends paid by the Company. However, the Company is generally required to account for advance corporation tax ("ACT") when a dividend is paid. The current rate of ACT is 22.5/77.5ths of the cash dividend paid (to be reduced to 20/80ths for dividends paid on or after 6th April 1994). Consequently, the ACT relating to a dividend currently equals 22.5 per cent. of the total of the cash dividend and the ACT (to be reduced to 20 per cent. for dividends paid on or after 6th April, 1994). A UK resident individual shareholder is entitled, in respect of any cash dividend received, to a tax credit which, at current rates, is equal to 20/80ths of the dividend paid. Dividend income is liable to UK income tax (if at all) at either the lower rate (currently 20 per cent.) or higher rate (currently 40 per cent.) of the aggregate of the dividend plus the tax credit (depending upon the level of the dividend income and the individual shareholder's circumstances). Accordingly, the tax credit referred to above will satisfy in full a UK resident individual shareholder's liability to lower rate income tax on the dividend plus the tax credit. Where such shareholder is liable to higher rate income tax, the tax payable on the dividend plus the tax credit will be at a rate equal to the excess of the higher rate over the lower rate (i.e. 20 per cent.). In appropriate cases (for example if the individual is not liable to income tax), the tax credit may be reclaimed, in whole or in part, from the Inland Revenue.

A UK resident corporate preference shareholder is not liable to UK corporation tax on any dividend received from the Company and the dividend and associated tax credit (of an amount equal to the ACT on such dividend) will represent franked investment income in the hands of such a shareholder.

Preference shareholders in the Company who are not resident in the UK may be entitled to reclaim from the Inland Revenue a proportion of the tax credit relating to their dividends but such entitlement will depend, in general, upon the provisions of

any double taxation agreement or convention which exists between the UK and their country of residence. Preference shareholders who are resident in countries other than the UK but who are either Commonwealth citizens or citizens of the Republic of Ireland or who belong to certain other classes of person, are entitled to a tax credit which they may set off against their total UK income tax liability or reclaim in cash to the same extent as if they were resident in the UK. Non-UK resident shareholders may be subject to foreign taxation on dividend income in their country of residence. Any person who is not resident in the UK should consult his own tax adviser on the question of the double taxation provisions (if any) applying between his country of residence and the UK.

The above summary reflects certain aspects of current law and practice in the UK and may not apply to certain classes of person (such as dealers). Holders of Preference shares who are in any doubt as to their personal taxation position or who may be subject to tax in any other jurisdiction should consult their professional advisers.

8. Principal Subsidiaries and Other Investments

- (a) The following table contains a list of the principal subsidiaries of the Company at 7th October, 1993, being subsidiaries contributing over ten per cent. of consolidated capital and reserves and/or net profit or loss at 31st December, 1992. These companies are considered by the Company to be likely to have a significant effect in relation to an assessment of the assets and liabilities, the financial position and/or the profits and losses of the Sun Alliance Group. The audited consolidated accounts of the Sun Alliance Group for the year ended 31st December, 1992 include the audited accounts of each of these companies.

Name	Percentage of ordinary shares owned	Issued capital at 31st December, 1992		Activity
		£m		
Phoenix Assurance plc	100.0	15.9		Insurance
Sun Alliance and London Insurance plc	100.0	199.8		Insurance
Sun Alliance Insurance International Ltd	100.0	400.0		Insurance
Sun Alliance Insurance Overseas Ltd	100.0	400.0		Insurance
Codan*	71.5	DKr339.0m		Insurance
Sun Alliance Life Ltd	100.0	78.4		Insurance
Sun Alliance Insurance UK Ltd	100.0	508.7		Insurance

*Registered office: Gammel Kongevej 64, Copenhagen - all the other companies listed above have their registered office at 1 Bartholomew Lane, London EC2N 2AB

(b) Other subsidiaries include:

Name	Country of Incorporation	Percentage of ordinary shares owned at 7th October, 1993
Sun Alliance Group Properties Ltd	United Kingdom	100.0
Sun Alliance Investment Management Ltd	United Kingdom	100.0
Sun Alliance Management Services Ltd	United Kingdom	100.0
Alliance Assurance Co. Ltd	United Kingdom	100.0
Bradford Insurance Co. Ltd	United Kingdom	100.0
Chancellors Holdings Ltd	United Kingdom	100.0
The Legal Protection Group Ltd	United Kingdom	100.0
The London Assurance	United Kingdom	100.0
National Vulcan Engineering Insurance Group Ltd	United Kingdom	100.0
The Sea Insurance Co. Ltd	United Kingdom	100.0
Sun Alliance and London Assurance Co. Ltd	United Kingdom	100.0
Sun Alliance Fund Management Ltd	United Kingdom	100.0
Sun Alliance Linked Life Insurance Ltd	United Kingdom	100.0
Sun Alliance Pensions Life & Investment Services Ltd	United Kingdom	100.0
Sun Alliance Pensions Ltd	United Kingdom	100.0
Sun Alliance Property Construction Ltd	United Kingdom	100.0
Sun Alliance Trust Co. Ltd	United Kingdom	100.0
Sun Alliance Unit Trust Management Ltd	United Kingdom	100.0
Sun Insurance Office Ltd	United Kingdom	100.0
Swinton (Holdings) Ltd	United Kingdom	100.0
Tariff Reinsurances Ltd	United Kingdom	100.0
Sun Alliance Insurance (East Caribbean) Ltd	Antigua	75.0
Sun Alliance and Royal Insurance Australia Holdings Limited	Australia	60.0
Sun Alliance Life Assurance Ltd	Australia	100.0
Sun Alliance Versicherungs AG	Austria	100.0
Sun Alliance Insurance (Bahamas) Ltd	Bahamas	65.0
Sun Alliance SA	Belgium	100.0
Sun Alliance Seguradora SA	Brazil	100.0
Sun Alliance Insurance Company	Canada	100.0
Sun Alliance and London Assurance Co (Canada)	Canada	100.0
Yonge Wellington Property Ltd	Canada	100.0
Sun Alliance International Life Assurance Co. Ltd	Channel Islands (Guernsey)	100.0
Compania de Seguros La Fenix de Colombia SA	Colombia	51.9
Sun Alliance Insurance (Antilles) NV	Curacao	51.0
Forsikringsselskabet Hafnia Liv A/S	Denmark	71.5
Forsikringsselskabet Hafnia Liv II A/S	Denmark	71.5
Forsikringsselskabet Hafnia Liv III A/S	Denmark	71.5
Hafnia Bank A/S	Denmark	71.5
Sun Alliance Assurance SA	France	100.0
Securitas Bremer Allgemeine Versicherungs AG	Germany	99.4
Securitas-Gilde Lebensversicherung AG	Germany	99.7
Sun Alliance Insurance (Hellas) SA	Greece	100.0

Name	Country of Incorporation	Percentage of ordinary shares owned at 7th October, 1993
Sun Alliance Verzekering NV	Holland	100.0
Sun Alliance Levensverzekering NV	Holland	100.0
PT Sun Alliance Insurance Indonesia	Indonesia	65.0
Sun Alliance Vita SpA	Italy	100.0
Sun Alliance Insurance Ltd	New Zealand	100.0
Sun Alliance Life Ltd	New Zealand	100.0
Sun Alliance Insurance Co. of Puerto Rico Inc.	Puerto Rico	100.0
Protea Assurance Co. Ltd	Republic of South Africa	79.7
Sun Alliance Insurance (Singapore) Ltd	Singapore	100.0
Sun Alliance SA	Spain	94.6
Alliance Assurance Company of America Inc.	United States of America	100.0
The London Assurance of America Inc.	United States of America	100.0
London Guarantee & Accident Company of New York	United States of America	100.0
Wm. H. McGee & Co. Inc	United States of America	100.0
Phoenix Assurance Company of New York	United States of America	100.0
The Sea Insurance Company of America Inc.	United States of America	100.0
Sun Alliance USA Inc.	United States of America	100.0
Sun Insurance Company of New York	United States of America	100.0
Sun Insurance Office of America Inc.	United States of America	100.0
Phoenix Prudential Assurance of Zimbabwe Ltd.	Zimbabwe	53.2

- (c) Since 31st December, 1989, other than in the ordinary course of its insurance business generally, the Group has made three main investments in other undertakings. It has, at a cost of £119.4 million, over this period increased its interest in the share capital of Swinton (Holdings) Ltd from 30 per cent. to 100 per cent. In 1992, the Group's Australian general business subsidiary acquired Royal Assurance Holdings Limited for a consideration of shares and cash (based on the net asset values of these two businesses), following which the Group owns 60 per cent. of the combined operation, Sun Alliance and Royal Insurance Australia Limited, which had shareholders' funds of A\$300 million on acquisition. In March 1993 Codan, the Group's 71 per cent. subsidiary, agreed to purchase the Hafnia non-UK insurance business for some £140m. The enlarged Codan operation is the largest general insurance business in Denmark and has around 12 per cent. of the life insurance market.

(d) The Group has the following shareholding in the issued share capital of Chubb:—

(i) Principal Office	15 Mountain View Road PO Box 1615 Warren NJ 07061-1615 USA
(ii) Country of Incorporation	United States of America
(iii) Nature of Business	Insurance
(iv) Issued Capital (fully paid)	US\$87.5m (£57.5m) at 31st December, 1992
(v) Per cent. amount of issued share capital owned by Sun Alliance Group	5.1 per cent.
(vi) Reserves	US\$3,867m (£2,539m) at 31st December, 1992
(vii) Dividends received during year ended 31st December, 1992	US\$12.4m (£8.1m)
(viii) Dividends received during 6 months ended 30th June, 1993	US\$3.7m (£2.4m)
(ix) Profit after tax	US\$617.1m (£405.2m) (year ended 31st December, 1992)
(x) Market value of the Sun Alliance Group shareholding at 7th October, 1993	£237.4m

Notes

Where applicable, the figures provided above have been converted into pounds sterling at the spot rate £1 = US\$1.523 prevailing at 7th October, 1993, as derived from the Financial Times (Exchange Cross Rates) published on 8th October, 1993.

9. Material Contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company since 11th October, 1991 and are, or may be, material:—

- The Placing Agreement referred to in Part IV of this document;
- The Trust Deed dated 10th March, 1992 relating to the Company's issue of £150,000,000 10⁵/₈ per cent. Notes 1997;
- The Trust Deed dated 5th March, 1993 relating to the Company's issue of £155,000,000 7.25 per cent. Convertible Subordinated Bonds 2008; and
- The sale and purchase agreement dated 28th March, 1993 (the "Sale and Purchase Agreement") whereby Codan purchased from Hafnia Holding af 1992 A/S the entire issued share capital of Forsikringsselskabet Hafnia A/S ("Forsik"), Hafnia Bank A/S, Hafnia Service A/S, Hafnia Administration A/S, Hafnia Ejendomme A/S and Risk Research & Captive Services A/S together with all of the subsidiary and associated companies thereof (save for Hafnia Holdings UK Ltd and its subsidiaries). The consideration for such sale and purchase was Dkr 1,320,398,587.58.

The Sale and Purchase Agreement provides that subordinated loans in the amount of Dkr 1,500,000,000 in Forsik be assigned to Codan.

10. General

- (a) The registered office of the Company is at 1 Bartholomew Lane, London, EC2N 2AB and this is its principal place of business.
- (b) The number of employees of the Group, in each of the three preceding calendar years, were:—

1990	26,183
1991	26,206
1992	25,110

- (c) Save for insurance claims in the ordinary course of business, neither the Company nor any of its subsidiaries is involved in any legal or arbitration proceedings which may have or have had during the 12 months preceding the date of this document a significant effect on the financial position of the Group, nor so far as the Directors are aware, are any such proceedings pending or threatened against any member of the Group.
- (d) There has been no significant change in the financial or trading position of the Group since the publication of the interim statement on 2nd September, 1993.
- (e) The expenses of and incidental to the Placing and listing of the Preference Shares, including registration and listing fees, printing, advertising and distribution costs, the commission payable to Cazenove and Warburg and legal, accounting and other professional fees, are estimated to amount to £1,234,000 (exclusive of value added tax) and are payable by the Company.
- (f) Cazenove and Warburg are members of The Securities and Futures Authority Limited.
- (g) The financial information in relation to the Company contained in this document does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. Statutory Accounts of the Company for the three financial years ended 31st December, 1990, 1991 and 1992 have been delivered to the Registrar of Companies.
- (h) Coopers & Lybrand, the auditors of the Company have made a report under Section 235 of the Companies Act 1985 on the Statutory Accounts of Sun Alliance for each of the three years ended 31st December, 1992 none of which was qualified within the meaning of Section 262 of the Companies Act 1985 or contained a statement made under either Section 237(2) or (3) of the Companies Act 1985.
- (i) Coopers & Lybrand, Cazenove and Warburg have given and have not withdrawn their respective written consents to the issue of this document with the inclusion herein of their letters and the references to their respective names in the forms and contexts in which they appear.
- (j) In connection with the Placing, Cazenove has offered 3,000,000 Preference Shares at the Placing Price to the market.

11. Documents for Inspection

Copies of the following documents are available for inspection at the offices of Ashurst Morris Crisp, Broadwalk House, 5 Appold Street, London EC2A 2HA during normal business hours on any weekday (Saturdays and public holidays excepted) for a period of 14 days from the date hereof:—

- (a) the Memorandum and Articles of Association of the Company;
- (b) the published audited consolidated accounts of the Company for the three years ended 31st December, 1992;
- (c) the Placing Agreement described in Part IV above;
- (d) the other material contracts referred to in section 9 above;
- (e) the rules of the share option schemes referred to in section 6 above;
- (f) the service agreements referred to in section 5 above;
- (g) the consents referred to in sub-section 10(i) above.

REGISTERED OFFICE OF THE ISSUER

1 Bartholomew Lane
London EC2N 2AB

BROKERS TO THE ISSUE

Cazenove & Co.
12 Tokenhouse Yard
London EC2R 7AN

S.G. Warburg Securities Ltd
1 Finsbury Avenue
London EC2M 2PA

LEGAL ADVISERS

To the Issuer
Ashurst Morris Crisp
Broadwalk House
5 Appold Street
London EC2A 2HA

To the Placing
Slaughter and May
35 Basinghall Street
London EC2V 5DB

AUDITORS

Coopers & Lybrand
Plumtree Court
London EC4A 4HT

REGISTRAR

Lloyds Bank Plc
Registrars' Department
Goring-by-Sea
Worthing
West Sussex BN12 6DA

