

PRUDENTIAL-BACHE INTERNATIONAL LIMITED

REPORT AND FINANCIAL STATEMENTS

31 December 2000



Registered number 512397

PRUDENTIAL-BACHE INTERNATIONAL LIMITED**CONTENTS**

| | <i>Page</i> |
|--|-------------|
| Officers and professional advisers | 1 |
| Report of the directors | 2 – 4 |
| Report of the auditors to the members | 5 |
| Profit and loss account | 6 |
| Statement of total recognised gains and losses | 7 |
| Reconciliation of movements in shareholders' funds | 7 |
| Balance sheet | 8 |
| Notes to the financial statements | 9 – 23 |

PRUDENTIAL-BACHE INTERNATIONAL LIMITED**OFFICERS AND PROFESSIONAL ADVISERS**

| | |
|--------------------------|--|
| <i>Directors</i> | S.L. Massey (Chairman) T.P. Woodward (Managing Director) I.H.A. Angell A.J. Brody W.J. Horan B. Jones J.P. McAleenan A.L. Norton T.B. Wright |
| <i>Secretary</i> | A.V.M. Warrack |
| <i>Registered office</i> | 9 Devonshire Square, London, EC2M 4HP |
| <i>Auditors</i> | PricewaterhouseCoopers Chartered Accountants |
| <i>Solicitors</i> | Simmons & Simmons |

PRUDENTIAL-BACHE INTERNATIONAL LIMITED

REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements for the year ended 31 December 2000.

1. ACTIVITIES

The principal activity of the company is that of a broker and trader in the futures markets for which purpose it holds memberships in the principal UK futures exchanges. The company also carries on the business of a broker dealer on The London Stock Exchange Plc, and acts as a custodian for clients including affiliated companies. The company is a member of The Securities and Futures Authority Limited, and operates through a network of branches in Belgium, France, Germany, Japan, Luxembourg, Monaco, Switzerland and the United Arab Emirates, in addition to the United Kingdom.

2. REVIEW OF DEVELOPMENTS

The financial statements show results for the year as set out below:

| | 2000 £ | 1999 £ |
|---|---------------------|--------------------|
| Revenue, including interest receivable | <u>173,474,933</u> | <u>91,625,639</u> |
| Profit on ordinary activities before taxation | 23,366,339 | 14,782,565 |
| Tax on profit on ordinary activities | <u>7,199,485</u> | <u>6,261,189</u> |
| Profit on ordinary activities after taxation for the financial year transferred to reserves | £ <u>16,166,854</u> | £ <u>8,521,376</u> |

Pursuant to the continued reorganisation of the Prudential-Bache group:

- The company opened branches in Switzerland on 31 March 2000. In connection with the establishment of the Swiss branches, the company acquired the net assets, at their net book value of £3,830,906, of a fellow subsidiary company established in Switzerland.
- On 31 March 2000, the company acquired the net assets, at their net book value of £211,448, of a fellow subsidiary company established in the United Kingdom.
- On 1 January 2001, the company acquired the tangible fixed assets, at net book value of £5,875,444, of the immediate parent company, Prudential-Bache International (UK) Limited.

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2000 (1999 - £nil).

PRUDENTIAL-BACHE INTERNATIONAL LIMITED**REPORT OF THE DIRECTORS****3. FUTURE PROSPECTS**

The directors expect the company to continue to develop during 2001 and thereafter, with further branches being established within Europe, to take advantage of the opportunities afforded by the European Community Investment Services Directive.

4. DIRECTORS

The current directors are listed on page 1. The following changes have occurred since 1 January 2000:

| | <u>Date of appointment</u> | <u>Date of resignation</u> |
|----------------|----------------------------|----------------------------|
| I.H.A. Angell | 31 August 2000 | - |
| C. Bellew | - | 1 September 2000 |
| A.J. Brody | 31 August 2000 | - |
| B.J. Gershon | - | 1 September 2000 |
| W.J. Horan | 31 August 2000 | - |
| J.P. McAleenan | 31 August 2000 | - |
| P. Morgan | - | 1 September 2000 |
| A.R. Watson | - | 1 September 2000 |
| T.B. Wright | 3 April 2000 | - |

No director had any interest in the allotted share capital of the company, or of any parent or fellow subsidiary company, at the beginning or end of the year.

5. DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and, if applicable, of the profit and loss of the company for that period. In preparing those financial statements, the directors are required to:-

- (a) select suitable accounting policies and then apply them consistently;
- (b) make judgements and estimates that are reasonable and prudent;
- (c) state whether applicable accounting standards have been followed;
- (d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

PRUDENTIAL-BACHE INTERNATIONAL LIMITED

REPORT OF THE DIRECTORS

5. DIRECTORS' RESPONSIBILITIES (continued)

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

6. DONATIONS

The company made charitable donations during the year amounting to £6,383 (1999 - £3,271).

7. ELECTIVE RESOLUTIONS

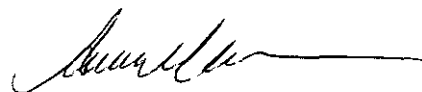
In accordance with Section 379A of the Companies Act 1985, the company has passed elective resolutions to dispense with the requirements to lay accounts and reports before General Meeting and to hold Annual General Meetings.

8. AUDITORS

Pursuant to Section 386 of the Companies Act 1985, the company has passed an elective resolution to dispense with the obligation to appoint auditors annually.

PricewaterhouseCoopers have expressed their willingness to continue in office as auditors.

Approved by the board of directors
and signed on behalf of the board



A.V.M. WARRACK
Secretary

5 February 2001

PRUDENTIAL-BACHE INTERNATIONAL LIMITED
REPORT OF THE AUDITORS TO THE MEMBERS

We have audited the financial statements on pages 6 to 23 which have been prepared under the historical cost convention, as modified by the valuation of open positions and readily marketable exchange memberships at market prices, and the accounting policies set out on pages 9 to 11.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the financial statements. As described on pages 3 and 4, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

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

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

BASIS OF AUDIT OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors
5 February 2001

Southwark Towers
32 London Bridge Street
London SE1 9SY

PRUDENTIAL-BACHE INTERNATIONAL LIMITED

**PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2000**

| | Note | 2000 £ | 1999 £ |
|--|------|----------------------------|---------------------------|
| Revenue from continuing operations | 2 | 132,450,548 | 66,204,621 |
| Administrative expenses on continuing operations | | <u>113,860,481</u> | <u>57,708,729</u> |
| Operating profit from continuing operations | | 18,590,067 | 8,495,892 |
| Interest receivable | 4 | 41,024,385 | 25,421,018 |
| Interest payable and similar charges | 5 | <u>36,248,113</u> | <u>19,134,345</u> |
| Profit on ordinary activities before taxation | 6 | 23,366,339 | 14,782,565 |
| Tax on profit on ordinary activities | 7 | <u>7,199,485</u> | <u>6,261,189</u> |
| Profit on ordinary activities after taxation for the financial year transferred to reserves | 20 | £ <u>16,166,854</u> | £ <u>8,521,376</u> |

PRUDENTIAL-BACHE INTERNATIONAL LIMITED

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 December 2000**

| | Note | 2000 £ | 1999 £ |
|---|------|---------------------|--------------------|
| Profit for the financial year attributable to the members | 20 | 16,166,854 | 8,521,376 |
| Unrealised surplus on revaluation of intangible assets | 19 | <u>250,000</u> | <u>-</u> |
| | | £ 16,416,854 | £ 8,521,376 |

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
for the year ended 31 December 2000**

| | 2000 £ | 1999 £ |
|--|---------------------|---------------------|
| Profit of the financial year attributable to the members | 16,166,854 | 8,521,376 |
| Other recognised net gains relating to the year | 250,000 | - |
| Net proceeds of ordinary shares issued | <u>4,042,354</u> | <u>3,996,707</u> |
| Net addition to shareholders' funds | 20,459,208 | 12,518,083 |
| Opening shareholders' funds | <u>71,075,549</u> | <u>58,557,466</u> |
| Closing shareholders' funds | £ 91,534,757 | £ 71,075,549 |

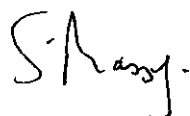
PRUDENTIAL-BACHE INTERNATIONAL LIMITED

BALANCE SHEET as at 31 December 2000

| | Note | 2000 £ | 1999 £ |
|--|------|---------------------|---------------------|
| Fixed assets | | | |
| Intangible assets | 8 | 892,582 | 642,582 |
| Tangible assets | 9 | 2,538,930 | 1,960,703 |
| Investments | 10 | <u>5,189,423</u> | <u>4,606,604</u> |
| | | <u>8,620,935</u> | <u>7,209,889</u> |
| Current assets | | | |
| Debtors | 11 | 443,658,893 | 509,985,082 |
| Short term loans | 12 | - | 3,354,721 |
| Investments | 13 | 2,932,719 | - |
| Cash at bank and in hand | 14 | <u>174,815,941</u> | <u>150,716,578</u> |
| | | 621,407,553 | 664,056,381 |
| Creditors: amounts falling due within one year | 15 | <u>530,513,198</u> | <u>594,253,049</u> |
| Net current assets | | <u>90,894,355</u> | <u>69,803,332</u> |
| Total assets less current liabilities | | 99,515,290 | 77,013,221 |
| Creditors: amounts falling due after more than one year | 16 | 247,719 | 345,061 |
| Provisions for liabilities and charges | 17 | <u>7,732,814</u> | <u>5,592,611</u> |
| | | £ <u>91,534,757</u> | £ <u>71,075,549</u> |
| Capital and reserves | | | |
| Called up share capital | 18 | 18,089,231 | 14,046,877 |
| Share premium account | | 2,537,101 | 2,537,101 |
| Revaluation reserve | 19 | 250,000 | - |
| Profit and loss account | 20 | <u>70,658,425</u> | <u>54,491,571</u> |
| Equity shareholders' funds | | £ <u>91,534,757</u> | £ <u>71,075,549</u> |

These financial statements were approved by the directors on 5 February 2001.

Signed on behalf of the board of directors



S.L. MASSEY
Chairman

PRUDENTIAL-BACHE INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2000

1. ACCOUNTING POLICES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

(a) *Accounting convention*

The financial statements are prepared under the historical cost convention, as modified by the revaluation of open positions and readily marketable exchange memberships at market prices, and have been prepared in accordance with applicable accounting standards, and except for the treatment of taking to the profit and loss account profits and losses arising on the valuation of open positions, in accordance with the requirements of the Companies Act 1985. An explanation of this departure from the requirements of the Companies Act is given in note 1 (j) below.

(b) *Consolidation*

Consolidated financial statements are not prepared as the company is a wholly-owned subsidiary of Prudential-Bache International (UK) Limited, a company registered in England and Wales, the consolidated financial statements of which are available from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.

(c) *Cash flow statement*

The company is exempt from the requirement to prepare a cash flow statement under Financial Reporting Standard No.1 (Revised 1996) – Cash Flow Statements, as a consolidated cash flow statement is included in the financial statements of the US parent company. Copies of the US parent company's financial statements are available on request from the company's registered office.

(d) *Related party transactions*

In accordance with the exemption afforded by Financial Reporting Standard No. 8 - Related Party Disclosures, certain details of transactions with parent and fellow subsidiary companies are not disclosed as the company is a wholly owned subsidiary of a group whose consolidated financial statements are publicly available.

(e) *Foreign exchange*

Monetary assets and liabilities denominated in foreign currencies and outstanding at the balance sheet date are translated at the rates ruling at that date. All foreign currency transactions, including those of the overseas branches, are translated into Sterling at the rates ruling at the time of the transactions. Foreign exchange profits and losses arising are disclosed net and treated as part of revenue from continuing operations.

PRUDENTIAL-BACHE INTERNATIONAL LIMITED**NOTES TO THE FINANCIAL STATEMENTS****for the year ended 31 December 2000**

1. ACCOUNTING POLICIES (continued)**(f) *Intangible fixed assets***

Exchange and market memberships are stated at cost, adjusted for any permanent diminution in value, or in the case of certain readily marketable exchange memberships, at market value at the date of the last revaluation. They provide the company with rights extending over an indefinite period and for this reason are not amortised but are reviewed for impairment on an annual basis.

(g) *Fixed asset investments*

Fixed asset investments are stated at cost less provision for any permanent diminution in value.

(h) *Revenue from continuing operations*

Commission and own account trading profit, generated from both own customer and introduced business, is shown net of fees paid to group companies under operating agreements, for services provided in connection with such business.

(i) *Commission*

Commission on transactions undertaken for clients is accounted for on a trade-date basis.

(j) *Financial instruments*

Financial instruments include fixed income securities, forward contracts, futures, options and currency swaps. Transactions undertaken as part of trading activities are recorded at market value. Gains and losses arising from this valuation are taken to the profit and loss account. This is a departure from the provisions of Schedule 4 to the Companies Act 1985, which requires that such assets be stated at the lower of the cost and net realisable value, or that if revalued any revaluation differences be taken to the revaluation reserve.

The directors consider that these requirements would fail to give a true and fair view of the company's profit for the year as it would not include a proper measure of the company's performance in the year by reference to the market value of open positions for which there is a liquid and active market. It is not practicable to quantify the effect on the financial statements of this departure since information on the original cost, being of no continuing relevance to the business, is not readily available.

Transactions undertaken to specifically hedge existing assets and liabilities are accounted for on the same basis as the underlying assets and liabilities.

PRUDENTIAL-BACHE INTERNATIONAL LIMITED**NOTES TO THE FINANCIAL STATEMENTS****for the year ended 31 December 2000**

1. ACCOUNTING POLICIES (continued)**(k) *Repurchase and resale agreements***

Securities purchased under agreements to resell and securities sold under agreements to repurchase are accounted for as collateralised financing transactions.

(l) *Depreciation*

Depreciation is provided on cost in equal annual instalments over the estimated lives of the assets. The rates of depreciation are as follows:

| | |
|--|----------------------------|
| Leasehold improvements | Over the term of the lease |
| Office equipment, furniture and fittings | 10%-50% per annum |
| Motor vehicles | 25% per annum |

(m) *Pension costs*

Pension costs in respect of members of the defined benefits plans are charged against results so as to spread the costs over employees' average service lives. The capital cost of ex-gratia pensions is recognised in the profit and loss account when granted.

(n) *Operating leases*

Rental costs under operating leases are charged to the profit and loss account evenly over the lives of the leases.

(o) *Deferred taxation*

Deferred taxation is provided at the prevailing rate of corporate tax on differences arising from the recognition of income and expenditure for taxation purposes in periods different from those used for accounting purposes to the extent that it is probable that an asset or liability will crystallise in the foreseeable future.

(p) *Trade debtors and trade creditors*

Amounts receivable and payable are stated after the netting of debtor and creditor balances with the same counterparty, where the company has the legal right to a net settlement.

PRUDENTIAL-BACHE INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2000

2. REVENUE FROM CONTINUING OPERATIONS

| | 2000 £ | 1999 £ |
|--|----------------------|---------------------|
| Commissions and dealing turns on business: | | |
| - with own customers | 12,616,547 | 13,942,494 |
| - introduced by group companies | <u>2,348,134</u> | <u>4,079,167</u> |
| Total commissions | 14,964,681 | 18,021,661 |
| Profit on own account trading | 17,496,811 | 15,344,578 |
| Fees received from group companies | 105,816,112 | 46,302,598 |
| Fees paid to group companies | (13,986,259) | (13,917,982) |
| Net foreign exchange gain | 5,831,529 | 418,874 |
| Exceptional proceeds from sale of exchange shares | 2,292,229 | - |
| Other | <u>35,445</u> | <u>34,892</u> |
| | £ <u>132,450,548</u> | £ <u>66,204,621</u> |

Revenue from continuing operations has been disclosed instead of turnover and cost of sales as this reflects more appropriately the nature of the company's activities.

Following the demutualisation of the London Stock Exchange Plc on 12 April 2000, the company received 100,000 ordinary shares of 5 pence each in the new shareholder owned entity. As shares are no longer required to be held as a condition of membership of the London Stock Exchange Plc, they have been disposed of. Any capital gain associated with the sale has been offset by group capital losses.

Segmental analysis

The principal activity of the company is that of broker and trader in securities and futures. No further analysis of revenue is appropriate since the company provides financial services in a worldwide market place where the risks and opportunities are not determined by geographical location.

PRUDENTIAL-BACHE INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2000

3. EMPLOYMENT COSTS

(a) Employment costs, including directors' emoluments, are as follows:-

| | 2000 £ | 1999 £ |
|-------------------------------|---------------------|---------------------|
| Wages and salaries | 63,740,163 | 30,928,471 |
| Social security costs | 6,534,864 | 3,453,934 |
| Other pension costs - UK plan | 688,043 | 333,130 |
| - overseas plans | <u>1,207,101</u> | <u>846,316</u> |
| | £ <u>72,170,171</u> | £ <u>35,561,851</u> |

| | | |
|----------------------------|--------------------|--------------------|
| (b) Directors' emoluments: | 2000 | 1999 |
| Management remuneration | £ <u>2,967,472</u> | £ <u>3,300,314</u> |

The value of the awards receivable by 2 (1999 - 4) of the directors under long-term incentive schemes is £120,919 (1999 - £723,353).

Of the directors, 2 (1999 - 5) are members of the group defined benefits pension plan operated for all eligible employees of subsidiaries of Prudential Securities Group Incorporated operating in the UK. A further director is a member of the defined benefits pension plan operated for all eligible employees of the company's branches in Germany.

(c) Remuneration of the highest paid director:

| | 2000 | 1999 |
|-------------------------|--------------------|--------------------|
| Management remuneration | £ <u>1,421,102</u> | £ <u>1,104,328</u> |

The value of the awards receivable by the highest paid director under long-term incentive schemes is £112,973 (1999 - £373,521).

The accrued defined benefits plan entitlements of the highest paid director as at the end of the year are as follows:-

| | 2000 | 1999 |
|-------------------------|-----------------|-----------------|
| Accrued pension benefit | £ <u>62,818</u> | £ <u>21,040</u> |

(d) The average number of persons, including directors, employed by the company is analysed below:

| | 2000 No. | 1999 No. |
|-------------------|-------------|-------------|
| Sales and dealing | <u>599</u> | <u>231</u> |

PRUDENTIAL-BACHE INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2000

3. EMPLOYMENT COSTS (continued)

- (e) A group defined benefits plan is operated for all eligible employees of subsidiaries of Prudential Securities Group Incorporated operating in the UK. The plan is funded by contributions from the employer determined in accordance with the advice of a professional qualified and independent actuary. Except as disclosed, contributions are based on pension costs across the UK group as a whole. The funding policy is the same as the accounting policy with the exception of instances where the pensions in payment are discretionarily increased, above the guaranteed provision, which are funded when paid.

The plan's assets are legally separated from the group's assets and form no part of these financial statements.

An actuarial valuation of the defined benefits plan was undertaken as at 6 April 1998 and details of this valuation are disclosed in the financial statements of the UK parent company, Prudential-Bache International (UK) Limited.

The company also operates separate pension arrangements for employees of its branch offices in Belgium, Germany, Monaco and Switzerland, details of which are as follows:

Belgium: The group operates three separate policies under a group insurance arrangement for certain defined categories of employees. The policies are funded by contributions from the employer on a defined contributions basis and are either a fixed annual monetary amount or computed as 12% of the Belgium Social Security ceiling plus 32% of the excess of the annual gross salary received in the preceding calendar year.

Germany: A defined benefits plan is operated for all eligible employees. The plan is accounted for on a book reserve basis reinsured by individual insurance contracts held in the name of the group with a multi-national insurer. All costs relating to the plan (insurance premiums and other costs as computed by the insurer) are met in full by the group.

The plan provides for a pension of 1% of accrued earnings up to DEM 200,000 plus 0.5% of pensionable earnings above the state social security ceiling. Pensions in payment are reviewed triennially in accordance with German law.

Monaco: The group operates a defined contribution personal pension arrangement through an independent multi-national insurer, to provide pension benefits to a number of employees. Fixed contributions are made to the individual employee's account. Benefits payable from the arrangement are based on the capital value of the individual plans at the date of withdrawal or retirement.

Switzerland: The group operates a defined contribution pension arrangement for all employees in Switzerland. Contributions are paid by both employer and employee up to a maximum salary of CHF 150,000. The funds are managed by an independent multi-national insurer. Supplementary arrangements are in place for certain employees to provide additional cover.

PRUDENTIAL-BACHE INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2000

4. INTEREST RECEIVABLE

Interest receivable includes £14,940,400 (1999 - £6,932,077) receivable from parent and fellow subsidiary companies.

5. INTEREST PAYABLE AND SIMILAR CHARGES

| | 2000 £ | 1999 £ |
|---------------------------|---------------------|---------------------|
| Bank loans and overdrafts | 36,222,333 | 19,126,439 |
| Finance leases | <u>25,780</u> | <u>7,906</u> |
| | £ <u>36,248,113</u> | £ <u>19,134,345</u> |

Interest payable on bank loans
and overdrafts repayable
within five years

£ 36,222,333 £ 19,126,439

Interest payable includes £2,184,464 (1999 - £1,354,558) payable to parent and fellow subsidiary companies.

Finance lease charges are allocated by the immediate parent company.

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit on ordinary activities before taxation is arrived at after charging/(crediting) the following:-

| | 2000 £ | 1999 £ |
|---|---------------|---------------|
| Loss/(profit) on disposal of owned assets | 54,308 | (9,835) |
| Loss/(profit) on disposal of fixed assets allocated by parent and fellow subsidiary companies | 35,035 | (8,610) |
| Depreciation charged on owned assets | 1,040,622 | 773,419 |
| Depreciation allocated by parent and fellow subsidiary companies for fixed assets | 803,408 | 248,577 |
| Operating lease rentals | | |
| - land and buildings | 1,480,291 | 1,040,558 |
| - motor cars | 28,255 | 32,746 |
| - other | 836,581 | 910,848 |
| Operating lease rentals allocated by parent and fellow subsidiary companies | | |
| - land and buildings | 1,273,575 | 439,130 |
| - other | <u>64,149</u> | <u>22,906</u> |

PRUDENTIAL-BACHE INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2000

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION (continued)

The auditors' remuneration, together with other administrative costs, is borne by the immediate parent company.

During the year ended 31 December 2000, a recharge in the amount of £13,579,076 (1999 - £7,273,165), determined by reference to directly attributable costs and an allocation of general overheads relevant to the company, was made by the immediate parent company to cover such expenses.

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

| | 2000 £ | 1999 £ |
|--|--------------------|--------------------|
| Corporation tax on profit for the year at 30% (1999 - 30.25%) | 6,273,269 | 5,230,460 |
| Overseas tax | 3,810,034 | 2,727,772 |
| Less relief for overseas taxation | (2,896,683) | (1,746,649) |
| Adjustment in respect of prior years | <u>12,865</u> | <u>49,606</u> |
| | £ 7,199,485 | £ 6,261,189 |

8. INTANGIBLE FIXED ASSETS

| | 2000 £ |
|--|------------------|
| Exchange and market memberships: | |
| Cost | 809,019 |
| Revaluation | 250,000 |
| Adjustment for permanent diminution in value | <u>(166,437)</u> |
| Net book value | £ 892,582 |

As stated in note 1(f), exchange and market memberships are not amortised but subject to annual impairment review. As at 31 December 2000, the market value of the company's memberships was £2,016,530 (1999 - £1,163,219).

PRUDENTIAL-BACHE INTERNATIONAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2000
9. TANGIBLE FIXED ASSETS

| | <u>Leasehold improvements</u> £ | <u>Office equipment, furniture and fittings</u> £ | <u>Motor vehicles</u> £ | <u>Total</u> £ |
|--|--|--|--------------------------------|-------------------------|
| <u>Cost</u> | | | | |
| 1 January 2000 | 957,155 | 3,193,090 | 208,458 | 4,358,703 |
| Transfer from group companies | 559,353 | 1,579,619 | 127,161 | 2,266,133 |
| Additions | 231,354 | 640,420 | 33,845 | 905,619 |
| Disposals | (114,190) | (1,126,702) | (50,888) | (1,291,780) |
| Foreign currency translation adjustment | <u>70,684</u> | <u>27,520</u> | <u>28,204</u> | <u>126,408</u> |
| 31 December 2000 | <u>1,704,356</u> | <u>4,313,947</u> | <u>346,780</u> | <u>6,365,083</u> |
| <u>Depreciation</u> | | | | |
| 1 January 2000 | 561,432 | 1,733,613 | 102,955 | 2,398,000 |
| Transfer from group companies | 481,721 | 946,258 | 84,625 | 1,512,604 |
| Charge for the year | 222,440 | 767,962 | 50,220 | 1,040,622 |
| Disposals | (97,540) | (1,051,125) | (34,065) | (1,182,730) |
| Foreign currency translation adjustment | <u>57,312</u> | <u>(9,124)</u> | <u>9,469</u> | <u>57,657</u> |
| 31 December 2000 | <u>1,225,365</u> | <u>2,387,584</u> | <u>213,204</u> | <u>3,826,153</u> |
| <u>Net book value</u> | | | | |
| 31 December 2000 | <u>478,991</u> | <u>1,926,363</u> | <u>133,576</u> | <u>2,538,930</u> |
| 31 December 1999 | <u>395,723</u> | <u>1,459,477</u> | <u>105,503</u> | <u>1,960,703</u> |

10. INVESTMENTS
Cost and net book value

| | <u>Investment in subsidiaries</u> £ | <u>Fixed asset investment</u> £ | <u>Total</u> £ |
|--|--|--|-------------------------|
| 1 January 2000 | 2 | 4,606,602 | 4,606,604 |
| Additions | - | 535,895 | 535,895 |
| Foreign currency translation adjustment | <u>-</u> | <u>46,924</u> | <u>46,924</u> |
| 31 December 2000 | <u>2</u> | <u>5,189,421</u> | <u>5,189,423</u> |

PRUDENTIAL-BACHE INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2000

10. INVESTMENTS (continued)

- (a) The fixed asset investment represents insurance policies held by the company's German branches to meet pension obligations to employees.
- (b) The company owns 100% of the allotted share capital of Circle (Nominees) Limited, a company registered in England and Wales.

11. DEBTORS

| | 2000 £ | 1999 £ |
|--|----------------------|----------------------|
| Trade debtors | 289,489,009 | 289,681,974 |
| Securities purchased under agreements to resell | 130,095,992 | 211,735,902 |
| Amounts owed by parent and fellow subsidiary companies | 14,904,631 | 5,679,764 |
| Other debtors | 6,214,341 | 1,593,481 |
| Prepayments and accrued income | <u>2,954,920</u> | <u>1,293,961</u> |
| | £ 443,658,893 | £ 509,985,082 |

- (a) Included in trade debtors are cash and deposits placed with the London Clearing House Limited in the normal course of business, part of which is not subject to immediate withdrawal. Similarly included within trade debtors, and not subject to immediate withdrawal, is the company's £2,579,000 (1999 - £2,606,000) member default deposit with the London Clearing House Limited.
- (b) Trade debtors also include £144,820,699 (1999 - £91,294,960) owed by parent and fellow subsidiary companies in the ordinary course of business.
- (c) Segregated debtors of £16,132,720 (1999 - £6,886,273), representing amounts held by clearing houses in separate accounts, on behalf of clients, as required by the Rules of The Securities and Futures Authority Limited, is also included within trade debtors.
- (d) Included in securities purchased under agreements to resell is £55,102,050 (1999 - £37,572,680) owed by parent and fellow subsidiary companies in the ordinary course of business.
- (e) Other debtors include Advance Corporation Tax recoverable of £3,912,500 (1999 - £nil).

PRUDENTIAL-BACHE INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2000

12. SHORT TERM LOANS

All loans are to parent and fellow subsidiary companies.

13. CURRENT ASSET INVESTMENTS

| | 2000 | 1999 |
|-------------------------|--------------------|------------|
| Fixed income securities | £ <u>2,932,719</u> | £ <u>-</u> |

As stated in note 1 (j), open positions are stated at market prices with any profits or losses so arising taken to the profit and loss account.

14. CASH AT BANK AND IN HAND

Cash at bank and in hand includes £116,612,370 (1999 - £85,637,323) segregated cash held by banks, in separate accounts, on behalf of clients, as required by the Rules of The Securities and Futures Authority Limited.

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2000 £ | 1999 £ |
|--|----------------------|----------------------|
| Bank loans | 140,005,187 | 173,826,894 |
| Trade creditors | 216,365,251 | 247,611,886 |
| Securities sold under agreements to repurchase | 70,855,207 | 136,247,705 |
| Amounts owed to parent and fellow subsidiary companies | 84,820,149 | 25,880,775 |
| Other creditors | 5,392,027 | 2,914,305 |
| Accruals and deferred income | <u>13,075,377</u> | <u>7,771,484</u> |
| | £ <u>530,513,198</u> | £ <u>594,253,049</u> |

(a) Trade creditors include £381,524 (1999 - £16,326,663) owed to parent and fellow subsidiary companies in the ordinary course of business.

(b) Other creditors include taxation and social security of £4,690,556 (1999 - £1,979,050).

PRUDENTIAL-BACHE INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2000

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | 2000 | 1999 |
|------------------------------|------------------|------------------|
| Accruals and deferred income | £ <u>247,719</u> | £ <u>345,061</u> |

17. PROVISIONS FOR LIABILITIES AND CHARGES

| | 2000 £ | 1999 £ |
|---|--------------------|--------------------|
| Client related claims (see note 22) | 1,337,167 | - |
| Employment related claims (see note 22) | 494,445 | 451,045 |
| Pensions and similar obligations (see note 3) | <u>5,901,202</u> | <u>5,141,566</u> |
| | £ <u>7,732,814</u> | £ <u>5,592,611</u> |

| | Client related <u>claims</u> £ | Employment related <u>claims</u> £ | Pensions and similar <u>obligations</u> £ | <u>Total</u> £ |
|---|---|---|--|-------------------------|
| At 1 January 2000 | - | 451,045 | 5,141,566 | 5,592,611 |
| Transfer from group companies | - | - | 28,529 | 28,529 |
| Profit and loss account charge | 1,323,101 | 689,910 | 2,147,720 | 4,160,731 |
| Applied | - | (649,527) | (1,465,612) | (2,115,139) |
| Foreign currency translation adjustment | <u>14,066</u> | <u>3,017</u> | <u>48,999</u> | <u>66,082</u> |
| At 31 December 2000 | <u>1,337,167</u> | <u>494,445</u> | <u>5,901,202</u> | <u>7,732,814</u> |

PRUDENTIAL-BACHE INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2000

18. CALLED UP SHARE CAPITAL

| | 2000 | 1999 |
|-----------------------------|----------------------|----------------------|
| Ordinary shares of £1 each: | | |
| Authorised | £ <u>100,000,000</u> | £ <u>100,000,000</u> |
| Number of shares | <u>100,000,000</u> | <u>100,000,000</u> |
| Allotted and fully paid | £ <u>18,089,231</u> | £ <u>14,046,877</u> |
| Number of shares | <u>18,089,231</u> | <u>14,046,877</u> |

On 14 April 2000, 3,830,906 ordinary shares of £1 each were issued at par value in consideration for the net assets, at their net book value of £3,830,906, of a fellow subsidiary company established in Switzerland. On 25 April 2000, a further 211,448 ordinary shares of £1 each were issued at par value in consideration for the net assets, at their net book value of £211,448, of a fellow subsidiary company established in the United Kingdom.

19. REVALUATION RESERVE

| | 2000 £ |
|--|------------------|
| At 1 January | - |
| Restatement of marketable exchange memberships | <u>250,000</u> |
| At 31 December | £ <u>250,000</u> |

Following the demutualisation of the London Metal Exchange Limited on 14 September 2000, the company received 250,000 ordinary shares of 10 pence each in the new shareholder owned entity. The revaluation reserve reflects the restatement of these shares, for which there is no associated book cost, to their market value at that date.

20. PROFIT AND LOSS ACCOUNT

| | 2000 £ | 1999 £ |
|------------------------------|---------------------|---------------------|
| At 1 January | 54,491,571 | 45,970,195 |
| Profit retained for the year | <u>16,166,854</u> | <u>8,521,376</u> |
| At 31 December | £ <u>70,658,425</u> | £ <u>54,491,571</u> |

PRUDENTIAL-BACHE INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2000

21. OPERATING LEASE COMMITMENTS

Commitments under operating leases for the next financial year are as follows:

| | 2000 | | |
|--------------------------|-----------------------|---------------|----------------|
| | Land and buildings | Motor cars | Other |
| <i>Cancellable</i> | | | |
| Leases which expire: | | | |
| within one year | 195,209 | 7,965 | 29,013 |
| within two to five years | 551,204 | 10,272 | 90,521 |
| after five years | <u>173,302</u> | <u>-</u> | <u>-</u> |
| <i>Non-cancellable</i> | | | |
| Leases which expire: | | | |
| after five years | <u>-</u> | <u>-</u> | <u>717,769</u> |

22. CONTINGENT LIABILITIES

The company has given counter indemnities in respect of bank guarantees of \$70 million provided to the London Clearing House Limited to cover margin requirements.

The company has given a counter indemnity in respect of a bank guarantee of \$13 million provided to the London Metal Exchange to satisfy CFTC Part 30 segregation requirements to protect London Metal Exchange forward profits of US customers. Additionally, the company has given counter indemnities on bank guarantees of \$16 million to protect London Metal Exchange forward profits of overseas customers.

The company's European branches have assumed a number of employment related claims. Taking into consideration current legal opinion, the directors believe that all material amounts in respect of these claims have been provided for (see note 17).

The company has received a claim relating to a client account. Taking into consideration current legal opinion, the directors believe that all material amounts in respect of this claim have been provided for (see note 17).

23. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the company participates in a variety of financial and administrative transactions with parent and fellow subsidiary companies. Such transactions are not disclosed in accordance with the exemption detailed in note 1(d).

PRUDENTIAL-BACHE INTERNATIONAL LIMITED**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2000**

24. ULTIMATE PARENT COMPANY

The company's ultimate parent company is The Prudential Insurance Company of America, a company established in the United States of America. It is also the parent undertaking of the largest group which includes the company and for which group financial statements are prepared. The parent undertaking of the smallest group which includes the company and for which group financial statements are prepared is Prudential-Bache International (UK) Limited, a company registered in England and Wales. Copies of the latter group's financial statements are available from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ. Copies of the financial statements of The Prudential Insurance Company of America are available on request from the company's registered office.