

Exco plc and Subsidiary Undertakings

EXCO plc

1423001

Directors

David Hubbard OBE, FCA* (Chairman)
Peter Edge BA (Chief Executive)
Peter Buckley CA* (Alternate Jonathan Cartwright FCA)
Clive Cooke
John Heywood LLB*
Michael Johns BA*
James Magee BA
Kim Taylor MA, FCA (Finance Director)
Marcel Wolf (Chief Operating Officer)
* non-executive

Secretary and Registered Office

Edward Pank MA, MRCS, LRCP, MB, BS
119 Cannon Street, London EC4N 5AX

Registered Auditors

Coopers & Lybrand
Chartered Accountants
1 Embankment Place, London WC2N 6NN

Registrars

Lloyds Bank Registrars
The Causeway
Worthing
West Sussex BN99 6DA

Solicitors

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

Stockbrokers

Kleinwort Benson Securities Limited
20 Fenchurch Street
London EC3P 3DB

Bankers

Lloyds Bank Plc
St. George's House
PO Box 787
6-8 Eastcheap
London EC3M 1LL

Merchant Bankers

N M Rothschild & Sons Ltd
New Court
St. Swithin's Lane
London EC4P 4DL



CHAIRMAN'S REPORT

Market Conditions

As shareholders will be aware, conditions for brokers in the wholesale Money and Securities Broking markets worldwide have been extremely difficult over the past three years and 1997 proved, if anything, tougher than its predecessors. The combination of quieter foreign exchange and interest rate markets brought about by stable economic conditions in Western countries, together with retrenchment and consolidation in the international banking sector, has had and continues to have an adverse impact on our business. The cautious approach to trading prospects we have advised for the past two years has therefore proved well founded.

Results

Consolidated Group turnover for the year was £189 million, a 12% fall from 1996 or 7% in constant currency terms. Excluding the effect of adverse currency movements, the revenues in the continuing businesses rose by 2%. This increase in revenue took place in the Derivatives and Securities product groups, more than making up for reduced revenues in short-term interest rate products.

Profits before tax and exceptional costs fell to £6.1 million from £18.2 million, and included losses of £4.2 million (1996 : £437,000) on product lines discontinued within the year. The strength of Sterling during the year reduced operating profits by £3 million by comparison with 1996.

Exceptional costs, mainly incurred in the restructuring of our New York and London offices, amounted to £7.8 million and the net results for the year, after these costs and a tax charge of £2.8 million, amounted to a loss of £5.9 million.

The impact of the strength of Sterling was felt mainly in London where significant brokerage is earned in foreign currencies. These operations also suffered from the decline in short term interest rate products, whilst benefiting from the growth in Derivatives.

In New York, increased market shares and a broader product range led to an increase in turnover, but, with new product investment costs and intensely competitive markets, profits were reduced.

In Germany, the impending advent of EMU is bringing about changes in the markets, with increased competition for experienced staff and the entry of new competitors. Our performance was again disappointing and our response to these challenges has been to make a complete change in management in our Frankfurt office and to implement cost reductions further to those achieved in 1996.

The Asian Pacific region experienced considerable economic uncertainty during the year and this was a factor in our decision to close our Hong Kong office in December, after we had unsuccessfully tried to stem the decline in its results over two years. Singapore was also adversely affected, whilst in Tokyo activity continued at a low level. Our Sydney office was the least affected and reported improved results. Further details of the trading results and the steps taken to improve our businesses during 1997 follow later in this report and in the Chief Executive's Review.

Changes in the balance sheet during the year include the capital investment in New York and London already referred to, a loan from our Japanese associated company, the adverse impact on cash flow of the trading results and the re-organisation costs. The strength of Sterling at the year end diminished the net assets by £2.2 million compared to 1996, mainly in the Asian Pacific region.

CHAIRMAN'S REPORT

Dividends

In view of the adverse trading conditions experienced by the Group over the past two years the Board has reduced the level of dividend payments during this period. An interim dividend of 0.75p (1996: 1.5p) was paid in October 1997 and bearing in mind the high level of capital investment in New York and London and the disappointing results for the year, it is the Board's intention not to recommend a final dividend (1996: 3.0p). The Board will review its dividend policy in the light of trading developments during 1998 with the aim of re-instating a normal pattern of interim and final dividend payments as soon as is practicable.

Strategy and Investment for the Future

As stated at this time last year, Exco's strategy is to focus on Securities, Derivatives and Capital Markets where the broker, by his activities, can add value for his customers. At the same time we have reduced our presence in products with a declining value and rationalised our infrastructure costs.

During the year the Group stepped up the rate of change demanded by this strategy in several ways. First, the product base was further rationalised: two offices, Hong Kong and Guernsey were closed, together with many desks in other offices and over the year staff numbers were reduced by 260, or 15% of the workforce at the start of the year. These steps gave rise to £3.8 million of exceptional costs included in the profit and loss account under Discontinued Businesses.

Secondly, we successfully completed the installation of a new international telecommunications network with an entirely new technology base, managed by a third party. This project has already reduced the costs of the Group's telecommunications systems and will continue to do so as the full benefits of pricing and efficiency gains are felt.

Thirdly, as already reported, the Group has been undertaking a major capital investment programme in New York and London. At the half year we announced that we would integrate our two operations in New York and transfer them onto a single site. In addition to achieving a key strategic aim, this step enabled us to re-equip with the latest technology and to lay the foundation for the future development of these businesses. This project has recently been completed at the budgeted cost of £6 million and the businesses are now consolidated on a single trading floor in the World Trade Center, with the benefit of a 25% reduction in office space. Economies of scale have already begun to flow through and in time we expect to extract further efficiencies from the new technology base. This decision to relocate to a single site in New York required substantial provisions to cover the surrender of leases and the write-off of fixed assets. However the strengthening of the property market in New York has meant that these costs will be lower than was estimated when they were first announced in August last year.

We also announced in August the commencement in London of a major re-equipment programme costing some £6 million over the next two and a half years. Its objectives are the same as those in New York: to produce an integrated business, having available the most modern technological base, capable of adapting rapidly and flexibly to changes in our business. The first stage of this programme will be finished by the middle of 1998. Whilst initially this plan was thought to give rise to a need for provisions against the vacated office space, subsequent improvements to the plan and the strengthening of the London property market have made such provisions unnecessary.

CHAIRMAN'S REPORT

Lastly, a specific action plan for 1998 is being implemented, which will produce another round of substantial cost saving, mainly through overhead reductions, so as to align the Group more closely with current market conditions.

The Board and our Staff

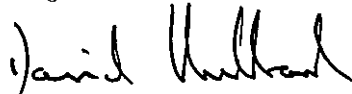
On 17th November, 1997 Richard Lacy retired from the Board of Exco. Richard joined Exco nearly 31 years ago. He established the Singapore office in 1972 and became Asian Pacific Regional Managing Director in 1975, Director in charge of the Astley & Pearce Group Foreign Exchange activities in 1978 and was appointed to the Board in 1979.

Richard was part of the management team which bought out Astley & Pearce in 1979 and was a Director at the first flotation of Exco in 1981. At the end of 1986 Richard became Chairman and Chief Executive of Exco. He stepped down as Chairman in 1991 and as Chief Executive in 1993. His contribution to Exco has been unique and our thanks are due to Richard for all that he has done for Exco in his lengthy career with the Group.

As a service business, Exco critically relies on the quality, dedication and commitment of its staff and I should like to express, on behalf of the Board, our appreciation and thanks to all members of our staff for their contribution throughout what has been another difficult year.

Prospects

The short term outlook for brokers in the wholesale Money and Securities markets remains uncertain, affected unavoidably by the changes the new Euro currency will bring about, the economic turbulence in the Asian Pacific region and continued consolidation in the international banking sector. However the steps we have taken, and continue to take, to strengthen our businesses where we anticipate a profitable role for brokers, give us confidence for the future. Managing the business in the circumstances of the immediate past has been an exceptional challenge, but all at Exco are well aware that strong management is essential to restore shareholder value.



David Hubbard
Chairman

Exco plc and Subsidiary Undertakings

CHIEF EXECUTIVE'S REVIEW

Conditions in the Money and Securities broking industry in 1997 continued to be difficult. Great changes are happening in our customer base with the consolidation of many major banks in developed economies. This has created overcapacity in the broking industry and downward pressure on commissions. At the same time intense competition for highly skilled staff has made cost control difficult.

Clearly this is having an impact on the prospects for the Moneybroking industry as a whole. Industry revenues are stable, albeit concentrated in the hands of a smaller number of customers. However, across our product range we have seen many different revenue trends, with steep falls in old, commoditised products particularly noticeable.

All the above factors have created a difficult environment for Moneybrokers. Despite revenues in the industry overall being stable profits have more than halved. Our strategy of focusing on Securities and Derivatives whilst maintaining the appropriate cost base through prudent management will achieve better results for Exco.

We have made significant investments over the last 12 months, particularly in the area of technology. Staying at the forefront of technological developments within our industry will be a key to our future success.

Europe

In London, further growth was seen in revenues from Derivatives, but in the shorter term interest rate products volumes were down and results were unsatisfactory. In addition the office was hit hard by the strength of Sterling, further reducing profits.

Our office in Switzerland had a successful year with its focus on purely local markets and products. Our market position in Scandinavia is still strong. However, trading was less active than had been the case in 1996 and so the contribution from our office in Copenhagen was much reduced.

In Germany the action taken in 1996 in the Moneybroking products did produce benefits. The Securities market continued to cause us great problems. Competition for staff and revenues increased and the overall results showed a substantial loss. We believe that Germany will continue to be an important market in the future and we have completely changed the management in Germany and further reduced the cost base significantly.

North America

In North America, the key event was the successful integration of our two businesses in New York into the World Trade Center. This makes Exco the only Money and Securities broking operation in New York which has such a fully integrated business on a single trading floor. Our task now is to exploit fully the synergies from having two formerly separate businesses on one site working together.

At the beginning of 1997 the Moneybroking business in New York divested itself of its remaining Spot and Forward Foreign Exchange activities. We now are confident that our product mix is right for the future. Our revenues from Derivative Products grew and overall the results were much better than the previous year. We continued to build our Energy department. Revenues in the securities business grew as the business increased its market share and expanded its product spread. The costs of increasing the product coverage have been high and despite the revenue growth this has not immediately produced increased profits. The prospects are better for 1998.

CHIEF EXECUTIVE'S REVIEW

Our business in Toronto suffered from intense price competition as customers continued to exert downward pressure on commissions. The contribution of this office to the Group's profits was therefore reduced, although underlying volumes are still good and we enjoy solid market share.

Asia

For the first half of the year profits from the Asian subsidiaries were a little better than in 1996. In the second half of the year, however, the economic turbulence affected the region's contribution to the Group. In the short term this turbulence brought significant business but volumes thereafter dropped considerably.

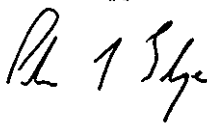
In Tokyo uncertain domestic economic conditions, exposure to the Asian economic crisis and little tangible progress towards deregulation resulted in a disappointing year. The progress towards deregulation of the financial markets has clearly been upset by the regional crisis but, although the timetable has slipped, deregulation will occur and with it new opportunities for brokers in Japan.

In Singapore our office has substantial exposure to Asian currency products and was unavoidably affected by the economic crisis in the region. As the crisis built up we experienced good volumes, but in October, at the peak of the crisis, the international customers which are the core of the Singapore customer base deserted the Asian currencies. The smaller offices of Jakarta and Kuala Lumpur, whose customer base is entirely local, continued to enjoy busy markets although of course the profits were reduced by the exchange rates in their translation into sterling. We remain cautious over the prospects for the region in 1998.

In Sydney we had another successful year. Our office showed itself to be a leader in this market and has a broad and stable base in local Money and Securities broking products.

The Future

We continue to build our business in Securities and Derivatives Products whilst paying close attention to the reduction of operating costs. At the same time we are pursuing suitable new business opportunities as they arise.



Peter Edge
Group Chief Executive

FINANCIAL REVIEW

Accounting Standards

No new accounting standards have application to these accounts.

Impact of changing exchange rates

Towards the end of 1996 there was significant movement in the Sterling exchange rate, in particular against the Dollar, Yen and Deutschmark. Some further strengthening of Sterling took place in 1997 against most European currencies, the Yen and other Asian currencies. Exchange rate movements had a significant effect on the turnover, operating costs and net assets of the Group in 1997, as reported in Sterling terms in these accounts, because so much of the Group's activities lie outside the UK.

Excluding the effect of currency changes, turnover fell by 7% and total operating expenses by 2% compared to 1997. If 1996's exchange rates had been applicable to these results, profits before exceptional items would have been £3 million higher than the £6.1 million actually recorded.

At the end of 1997, the Group had in reserves unrealised exchange losses on translation of £4.2 million, compared to £2.1 million at the end of 1996. These currency exposures are not hedged, though the Group ensures that the currencies of its borrowings match those of its corresponding assets. The Group's policy is to hedge transaction exposure where it exists, but to allow locally earned profits to accumulate in local currency.

Taxation

The Group's effective tax rate fluctuates from year to year and is always higher than the standard UK corporate tax rate of 31% due to the proportion of profits which is earned in countries where tax rates are higher than here. In addition, the nature of Exco's business involves a significant amount of expenditure, such as entertainment, which is not allowable for tax purposes in many countries. Furthermore, in the current year, the Group suffered losses in Germany, the benefit for which may not be realised until some time in the future, and which has accordingly not been recognised in these accounts.

Cash flow

Net cash inflows from operating activities amounted to £3.1 million (1996: £13.0 million) reflecting the poor results of the Group in 1997.

As is highlighted in the Chairman's Statement, the major capital expenditure in the year has come in New York and London. The move of offices in New York was completed shortly after the year end, one half of the business having been moved into the World Trade Center in late December 1997, the other half following in early February 1998. The major part of the capital expenditure had been undertaken by the year end. Also, towards the end of the year, the re-equipment in London was commenced and about a third of the first stage re-equipment cost of £3 million was committed by the end of the year.

During the year the Group also invested heavily in its management information systems and successfully effected the transfer of all general ledgers on to a single system. The Group now possesses a fully integrated management accounting system which has automated a great number of previously labour intensive tasks. The use of the management information generated is already enabling management to improve its control over costs.

FINANCIAL REVIEW

During the year we also acquired the minorities existing in our subsidiaries in Denmark and Germany, together with most of the remaining minority in Canada. This leaves the Group with only a very small minority in Canada still to be acquired at a future date. A final payment was made of the deferred consideration attached to the acquisition of a subsidiary in 1993. Dividends of £4.6 million (1997: £9.2 million) were paid to shareholders. These events were financed by the realisation of short term deposits and investments of £5.1 million and a cash decrease of £7.4 million. The cash flow benefited from the loan to the Group of £7.4 million by our Japanese associated company. Borrowings of £1.1 million were however repaid in the year.

Bank facilities at the end of 1997 amounted to £18.0 million, all of which were drawn down. These facilities have a remaining maturity of two and a half years and are sufficient for present requirements. Accordingly the accounts of the Group have been prepared on a going concern basis.

Kim Taylor
Group Finance Director



Exco plc and Subsidiary Undertakings

DIRECTORS' REPORT

1. The directors present their annual report together with the group accounts for the year ended 31st December 1997.

2. **Principal Activities**

The principal activity of the Group is international wholesale money and fixed income securities broking. The profit and loss account for the year is set out on page 19.

3. **Review of Business**

A review of the business of the Group and its development during the financial year is set out on pages 2 to 8.

4. **Dividends and Transfers to Reserves**

A final dividend of £3,694,981 in respect of 1996 was paid on 30th May 1997. In respect of 1997's profit the company paid an interim dividend on 31st October 1997 of £923,745. The directors do not recommend the payment of a final dividend.

5. **Directors**

The directors as at the date of this report are set out on page 1.

Biographical details of the directors are shown below:

David Hubbard, aged 61, was elected to the Board as a non-executive director and Deputy Chairman in 1995. He was appointed Chairman on 18th April 1996. He is also Chairman of London & Manchester Group PLC and a non-executive director of The City of London Investment Trust PLC and Slough Estates plc.

Peter Edge, aged 39, Group Chief Executive since 1994 has worked for the Group since May 1980. Originally a broker, he became Managing Director of London Moneybroking in May 1989.

Peter Buckley, aged 55, was appointed a non-executive director of Exco in June 1992. He is Chairman of Caledonia Investments plc and is their representative on the board of Exco. He is also Chairman of Sterling Industries PLC and English and Scottish Investors plc; and a non-executive director of Close Brothers Group plc, Sun International Hotels Limited, Société Générale de Surveillance Holdings S.A. and Offshore Logistics, Inc.

Clive Cooke, aged 40, was one of the original founders of Exco WCLK, the leading gilt inter dealer broker in the London market. In 1993 he became Chief Executive of RMJ in New York and from 1996 he has also been Chief Executive of Exco USA Inc.

John Heywood, aged 60, served on the board of Exco as a non-executive director between 1982 and 1986 and was re-appointed in June 1994. He is currently Chairman of Clayhithe PLC, of BNB Resources PLC and of Mauritius Fund Ltd; and a non-executive director of Lavendon Group PLC and of Foreign and Colonial Management Limited.

Michael Johns, aged 50, was appointed a non-executive director in 1985. He is a partner of Exco's solicitors, Ashurst Morris Crisp and is also a non-executive director of London Forfaiting Company PLC.

James Magee, aged 45, having worked in the securities industry in New York, moved to Canada in 1977 to found Exco Shorcan Limited of which he is now President. He has been a director since 1994.

Kim Taylor, aged 42, has worked in the Group since 1986 and became Finance Director in 1992.

Marcel Wolf, aged 51, started work in the banking industry in Switzerland and moved to Astley & Pearce S.A., now Exco CMS (Switzerland) Limited, in 1971. He has been a director of Exco since 1979 and has been Chief Operating Officer since 1995.

Jonathan Cartwright, the Finance Director of Caledonia Investments plc, was appointed alternate director for Peter Buckley on 12th March 1997.

Richard Lacy resigned as a non-executive director on 17th November 1997.

DIRECTORS' REPORT

6. Directors' Interests

The interests of the directors holding office at 31st December 1997 and their families in the shares of the company, as required to be notified under the Companies Act 1985, are set out in the Report of the Remuneration Committee on pages 14 to 18.

There were no contracts of significance subsisting during or at the end of the financial year in which a director of the company was materially interested (other than service contracts).

7. Substantial Shareholdings

At 1st March 1998 the directors were aware of the following interests, each of which represent three per cent. or more of the issued share capital of the company:

Name	Number of ordinary shares	Percentage of issued share capital
Caledonia Financial Limited	34,693,175	28.17
Fidelity International Limited	7,110,400	5.77
Nittan Exco Limited	6,323,318	5.13
Exco Trustees Limited	4,912,556	3.99

8. Contracts of Significance with Controlling Shareholders

No contracts of significance to which the Group or its subsidiary undertakings were a party and in which a controlling shareholder had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

9. Subsidiary and Associated Undertakings

Details of changes in fixed asset investments in subsidiary and associated undertakings are shown in note 14 (a) to the accounts.

10. Donations

In the United Kingdom, the Group contributed £750 (1996: £4,470) to charitable organisations. In addition, subsidiary undertakings outside the UK contributed £69,105 to charitable organisations (1996: £59,050).

11. Corporate Governance

The directors consider that the company has been in full compliance throughout the year with the Code of Best Practice, as defined by the Cadbury Committee ("the Code"), with the exception of the provision relating to the length of directors' service contracts and the term of appointment of the Caledonia representative.

The Board comprises 5 executive and 4 non-executive directors; it meets regularly and has adopted a schedule of matters specifically reserved to itself for decision. The Board has appointed the following committees, each with a formal constitution:

Executive Committee

Peter Edge (Chairman)
Clive Cooke
James Magee
Kim Taylor
Marcel Wolf

The Executive Committee formulates the strategy of the Group for presentation to the full Board and implements all decisions made by the Board. In addition, the Committee monitors and guides the Group's financial performance and approves capital and revenue investment proposals within limits agreed by the Board. The Executive Committee usually meets once a month to deal with all matters not specifically reserved to the Board or any other committee.

Exco plc and Subsidiary Undertakings

DIRECTORS' REPORT

Remuneration Committee

John Heywood (Chairman)
Peter Buckley
David Hubbard
Michael Johns

The Remuneration Committee consists exclusively of non-executive directors and meets at least twice a year. The Chief Executive attends except when his own affairs are under discussion. The Committee establishes the remuneration packages of the executive directors and certain other senior executives in the Group. It also is the body which is authorised by the Board to exercise any powers vested in it under the rules of the Exco plc (No.1) and (No.2) Employee Benefit Trusts, the Exco plc (Nos. 1, 2 and 3) Share Option Schemes and the Long Term Employee Share Plan, including the issue of share options.

In addition to its responsibilities in respect of executive directors, the Committee's powers extend to the structure of employee profit sharing schemes and the grant of any contract of employment in the Group which has a term of 3 years or more, or a notice period of greater than twelve months.

Audit Committee

Michael Johns (Chairman)
Jonathan Cartwright
John Heywood

The Audit Committee, which consists of non-executive directors and Jonathan Cartwright, alternate director for Peter Buckley, meets at least twice a year. The Group Finance Director and the external auditors attend the meetings of the Committee as required. The Committee is the primary point of contact for the agreement of the nature and scope of the audit and the discussion of its results with the external auditors. It has a duty to ensure that the auditors are free to conduct their investigations independent of management constraint and that their independence and objectivity is maintained.

The Committee also assists the Board in ensuring that appropriate accounting policies, internal financial controls and compliance procedures are in place. Furthermore, the Committee reviews all financial information to be published by the Group before its submission to the Board.

Nominations Committee

David Hubbard (Chairman)
Peter Buckley
Michael Johns
John Heywood

The Committee's duties are to nominate suitable persons as directors for approval by the Board as and when required.

Treasury Committee

Peter Edge (Chairman)
Vanessa Cruwys (Group Financial Controller)
Geoffrey Lott (Managing Director of Exco WCLK Limited)
Kim Taylor

The Treasury Committee usually meets once a month. Its primary duty is to ensure that the Group has adequate cash resources to meet its needs. It issues limits to each subsidiary which are designed to minimise country and banking risks for the Group as a whole. The Committee's duties also encompass the minimisation of the exposure of the Group to foreign currency and interest rate risks. The Treasury Committee does not, however, operate as a profit centre and does not conduct its activities with the object of making a trading profit.

DIRECTORS' REPORT

Compliance Committee

Kim Taylor (Chairman)

Peter Edge

Marcel Wolf

Given that many of the businesses of the Group are subject to local regulatory regimes, the Compliance Committee has a duty to act as a review and advisory body giving general supervision and guidance on any compliance matter in the Group. The Committee reports direct to the Board on any relevant compliance matters.

Internal Financial Control

The directors acknowledge that they are responsible for the Group's system of internal financial control. They recognise that such a system can provide only reasonable and not absolute assurance against material misstatement or loss. Control is exercised through an organisational structure with clearly designated levels of responsibility, delegation of authority and appropriate reporting procedures. Information is regularly provided at all levels and compared with budgeted targets which are reviewed on a monthly basis.

The following are the main features of the internal financial control framework:

- **Financial Reporting**—there is a comprehensive budgeting system with an annual budget approved by the Board. Monthly trading results, balance sheets and cashflow statements are reported against the corresponding figures for the budget and previous year. Each month the forecast for the full year is reviewed in the light of trading results.
- **Treasury Management**—the Treasury Department operates within Board-approved guidelines. Transactions are authorised at the requisite level and there is an appropriate segregation of duties. Frequent reports are made to the Group Finance Director and monthly reports are prepared for the Treasury Committee.
- **Capital Expenditure**—There are clear and detailed procedures for the appraisal and authorisation of all capital expenditure, however financed. There is also, where appropriate, a process of post-investment review.
- **Risk Management**—The identification of major business risks is carried out in conjunction with operating management and steps are taken to mitigate or manage these where possible. The key risks are identified and reported to the Board and Audit Committee.
- **Operating Company Systems**—Each operating company maintains financial controls and procedures appropriate to its own business environment conforming to overall standards and guidelines.

The Board, through the Audit Committee, has reviewed the effectiveness of the system of internal financial control operated by the Group for the period from 1st January 1997 to 31st December 1997.

Going Concern

Having reviewed the Group's liquid resources, borrowing facilities and its cashflow forecasts, the directors believe that the Group has adequate resources to continue as a going concern for the foreseeable future. For this reason, the accounts have been prepared on the going concern basis.

The auditors have reported to the company that in their opinion the directors' comments on going concern above provide the disclosure required by paragraph 4.6 of the Code and are not inconsistent with the information of which they are aware from their audit work on the accounts. They have also reported to the company that the above statement appropriately reflects the company's compliance with the other paragraphs of the Code specified by the London Stock Exchange for their review. They are not required to, and therefore do not, express any opinion on the effectiveness of the Group's corporate governance procedures or the ability of the Group to continue in operational existence.

The Statement of Directors' Responsibilities for preparing accounts is set out on page 46.

DIRECTORS' REPORT

12. Special business to be conducted at the Annual General Meeting—Notice: pages 48 and 49

Resolution 4 proposes to renew the directors' authority to allot authorised but unissued share capital of the company in the event that they consider it appropriate to do so. This authority, which will expire on 22nd April 2003, is in respect of £10,756,966 nominal of share capital, representing 35 per cent. of the issued share capital of the company as at the date of this report. The directors do not have a present intention of exercising this authority other than to satisfy obligations to issue 1,972,522 shares (which represents the excess over one third of the company's unissued share capital) under the arrangements described in note 21 to the accounts.

Resolution 5 renews the directors' authority to issue new shares for cash, without following the statutory pre-emption procedures, so long as such issue does not exceed £1,539,575 (representing 5 per cent. of the issued Ordinary Share Capital of the company) or so long as the issue is a rights issue or pursuant to a scrip dividend offer or a pre-emptive invitation. The company will have regard to the Investor Protection Committee's ("IPC") guidelines in relation to any exercise of this authority. These guidelines require prior consultation with the IPC before making any issue under the 5 per cent. element of the authority which exceeds 7.5 per cent. in any rolling three-year period. If given, this authority will expire on 22nd April 2003.

Resolution 6 permits the Company to purchase up to 12,316,603 ordinary shares at a price not less than 25p per share nor more than 105 per cent. of the average price of such shares in the Official List of the London Stock Exchange for the five business days immediately preceding such purchase. Such permission shall expire at the earlier of the conclusion of the next Annual General Meeting or 22nd July 1999. The company has no present intention of exercising this power and if exercised it will only be exercised if it is deemed to be in the interests of the remaining shareholders and if it is expected to result in an increase in earnings per share for the remaining shareholders.

Resolution 7 alters the Companies Articles of Association so that all directors (excluding the Caledonia representative) retire by rotation, rather than non-executive directors only as previously.

13. Policy on Payment to Creditors

The company's policy for the year to 31st December 1997, for all suppliers, is to fix terms of payment when agreeing the terms of each business transaction, to ensure that the supplier is aware of those terms, and to abide by the agreed terms of payment.

14. Auditors

A resolution to reappoint the auditors, Coopers & Lybrand, will be proposed at the Annual General Meeting.

By order of the Board,
Edward Pank
Secretary
London
27th March 1998

A handwritten signature in black ink, appearing to read 'E. Pank', with a long horizontal stroke extending from the bottom right.

REPORT OF THE REMUNERATION COMMITTEE

1. Composition of the Committee

The members of the Committee are set out on page 11 of these accounts.

2. Compliance

The company has adopted the provisions of the Greenbury code. The constitution and operation of the Remuneration Committee complies with the principles set out in the Stock Exchange Listing Rules in section (a) of its Best Practice Provisions. The Committee also confirms that full consideration has been given to the principles set out in section (b) of the Best Practice Provisions in the Stock Exchange Listing Rules in determining the remuneration packages for directors for 1998.

3. Policy on Remuneration of Executive Directors and Senior Executives

(a) Total level of remuneration

The Remuneration Committee aims to ensure that remuneration packages are competitive and attract, retain and motivate executive directors and senior executives of the right calibre.

(b) Components of Directors' Remuneration

The main components of the directors' remuneration are as follows:

(i) Basic Salary

The basic salary for each director is determined by the Remuneration Committee by taking into account the performance of the individual and the rates of pay for similar positions in comparable companies.

(ii) Annual Bonus

Bonuses can be awarded to the Executive Directors of the Company provided that certain financial targets are met. These financial targets are combined with personal targets given to the directors by the Committee. Failure to achieve these targets would lead to a reduction in bonus even if the financial targets are met. For 1997 the financial targets have not been met and therefore no bonus has been awarded.

(iii) Share Options

The company believes that share ownership by directors and senior executives strengthens the link between their personal interests and those of the shareholders. Directors are entitled to participate on the same basis as other employees in the Long Term Employee Share Plan, which is described on page 18. The plan is based on benefits in the form of shares, rather than cash, to align the interests of the plan participants with those of the company's shareholders, in such a way that shareholders and employees share in success. There are no other incentives or share option plans currently open to directors. Certain directors possess share options which were granted to them whilst the company was in private ownership. These option schemes are explained further in note 6 of this Report.

(iv) Benefits

The Group provides directors with pension, healthcare and life assurance benefits. In two cases a car is provided.

(c) Companies used for Comparison

In assessing all aspects of pay and benefits, the Committee compares packages offered by competitor companies. These companies are chosen having regard to size, diversity, complexity and product spread.

(d) Policy on Service Contracts

It is not the current policy of the company to offer service contracts to directors of a duration of greater than one year except in circumstances overseas where market conditions may require.

Exco plc and Subsidiary Undertakings

REPORT OF THE REMUNERATION COMMITTEE

(e) Pension policy regarding Executive Directors

The company has no single pension scheme, nor one which is specific to the executive directors. Instead directors participate in pension schemes which are usual for the countries in which they live and work and which are similar to or the same as those extended to all employees in that country.

The company does not provide schemes which increase pension benefits to the levels that would have applied without the caps imposed by the local law. Neither benefits nor bonuses are pensionable.

Directors have personal pension schemes which fall into the category of defined contribution schemes. The ultimate benefits are derived from the contributions made to the pension scheme and are not related to the director's final salary.

4. Directors' Emoluments

The emoluments of the directors in office for all or part of 1997 are set out below:

	Salary and fees £'000	Benefits £'000	Annual bonus £'000	Payments to Defined Contribution Pension Schemes £'000	Total 1997 £'000	Total 1996 £'000
Executive Directors						
Peter Edge	273	1	—	61	335	326
Clive Cooke	365	38	—	44	447	761
James Magee	163	—	—	—	163	192
Kim Taylor	132	1	—	31	164	146
Marcel Wolf	263	—	—	81	344	613
Non-executive Directors						
David Hubbard	60	—	—	—	60	51
Peter Buckley	17	—	—	—	17	17
John Heywood	17	—	—	—	17	17
Michael Johns	17	—	—	—	17	17
Richard Lacy	108	1	—	5	114	105
Directors who resigned in 1996	—	—	—	—	—	94
Total	1,415	41	—	222	1,678	2,339
Total 1996	1,541	43	318	437		2,339

Clive Cooke, James Magee and Marcel Wolf discharge their duties wholly or mainly outside the United Kingdom.

Richard Lacy's remuneration was in accordance with a contract under which he acted as an advisor to the Group for the period from 1st March 1994 to 17th November 1997.

Former Directors

Joseph Sciametta had a contract of employment with Exco Noonan Inc entered into on 1st January 1994, lasting from that date until 31st December 1998 at an annual rate of \$600,000. Provision was made in the accounts of the Group for the year ended 31st December 1995 for outstanding liabilities under this contract.

Philip D'Angelo, who resigned as a director on 31st December 1994, continues to be paid at an annual rate of \$500,000 under a compensation agreement with Exco Noonan Inc covering his loss of executive office on 31st December 1990. This agreement covers the period from 1st January 1991 to 4th August 1998. Full provision was made in the accounts of the Group for the year ended 31st December 1990 for the liabilities under this compensation agreement.

Exco plc and Subsidiary Undertakings

REPORT OF THE REMUNERATION COMMITTEE

5. Directors' Shareholdings

The interests of directors and their families in the share capital of Exco plc are as follows:

	Ordinary 25p Shares	
	31st December 1997	1st January 1997
	Beneficial	Beneficial
David Hubbard	7,340	7,340
Peter Buckley	100,000	25,000
Clive Cooke	139,857	139,857
Peter Edge	882,225	632,225
John Heywood	40,000	—
Michael Johns	—	—
James Magee	500,243	500,243
Kim Taylor	52,962	52,962
Marcel Wolf	490,225	240,225

The interests set out above were unchanged at 1st March 1998.

The mid market price of the ordinary shares of the company at 31st December 1997 was 31.5p (1996: 49p).

6. Directors' Options

Details of the share options granted to directors are as follows:

1992 No. 1 Share Option Scheme

	Number of options			Date from which exercisable	Expiry date
	At 1st January 1997	During the year			
		Granted	Exercised	At 31st December 1997	
David Hubbard	—	—	—	—	—
Peter Buckley	—	—	—	—	—
Clive Cooke	96,000	—	—	96,000	19.07.94
Peter Edge	22,000	—	—	22,000	19.07.94
John Heywood	—	—	—	—	—
Michael Johns	—	—	—	—	—
James Magee	—	—	—	—	—
Kim Taylor	—	—	—	—	—
Marcel Wolf	214,000	—	—	214,000	19.07.94

The 1992 No. 1 Share Option Scheme, of which Exco Trustees Limited is trustee, was established by a Deed of Trust dated 29th April 1992. The scheme was a part of the arrangements put in place at the time of the private placement of 60 per cent. of the share capital of the company in June 1992. It has not been submitted to the Inland Revenue for approval under Schedule 9 to the Income and Corporation Taxes Act 1988. No further options can be granted under this scheme.

The options are over existing ordinary shares of the company. They were offered as a package of three share options for every two shares purchased at a price of 62.5p each (adjusted for the share split which took place in 1994). This was the same price as that paid by those financial institutions which purchased through the private placement. Therefore, notionally, each share acquired by an employee or director could be thought of as having an original acquisition price of 25p per share. Furthermore, since these share options are not conventional share options, the full value of the shares at the date of exercise of the options is in most tax jurisdictions assumed to be subject to income tax, rather than capital gains tax. The options may be exercised at any time, but before the seventh anniversary of the date of grant. The date of grant was 1st June 1992. Identical (though separate) arrangements were made for employees of associated undertakings through the Exco plc (No. 2) Employee Benefit Trust and (No. 2) Share Option Scheme.

The exercise price is £1.00 for each event of exercise.

Exco plc and Subsidiary Undertakings

REPORT OF THE REMUNERATION COMMITTEE

1992 No. 3 Share Option Scheme

1992 No. 3 Share Option Scheme					
	Number of options			Date from which exercisable	Expiry date
	At 1st January 1997	During the year			
		Granted	Exercised	At 31st December 1997	
David Hubbard	—	—	—	—	—
Peter Buckley	—	—	—	—	—
Clive Cooke	150,000	—	—	150,000	17.02.97
Peter Edge	150,000	—	—	150,000	17.02.97
John Heywood	—	—	—	—	—
Michael Johns	—	—	—	—	—
James Magee	150,000	—	—	150,000	17.02.97
Kim Taylor	150,000	—	—	150,000	17.02.97
Marcel Wolf	150,000	—	—	150,000	17.02.97

The No. 3 Share Option Scheme has not been submitted to the Inland Revenue for approval under Schedule 9 to the Income and Corporation Taxes Act 1988. All existing options were granted on 17th February 1994. No further options can be granted under this scheme.

In normal circumstances, an option may be exercised:

- (i) as to one third of the shares in respect of which it was granted on or after the third anniversary of its date of grant;
- (ii) as to an additional one third of such ordinary shares on or after the fourth such anniversary; and
- (iii) as to the remaining one third of such ordinary shares on or after the fifth such anniversary;

and in each case before the seventh such anniversary.

The exercise price is £1.00 per share.

Long Term Employee Share Plan

Long Term Employee Share Plan		Number of options			Date from which exercisable	Expiry date
	At 1st January 1997	Granted	Exercised	Lapsed	At 31st December 1997	
David Hubbard	—	—	—	—	—	—
Peter Buckley	—	—	—	—	—	—
Clive Cooke	50,000	—	—	(25,000)	25,000	19.07.98 19.07.2004
Peter Edge	22,000	—	—	(11,000)	11,000	19.07.98 18.07.2001
John Heywood	—	—	—	—	—	—
Michael Johns	—	—	—	—	—	—
James Magee	50,000	—	—	(25,000)	25,000	19.07.98 19.07.2004
Kim Taylor	40,000	—	—	(20,000)	20,000	19.07.98 18.07.2001
Marcel Wolf	50,000	—	—	(25,000)	25,000	19.07.98 19.07.2004

REPORT OF THE REMUNERATION COMMITTEE

This Plan is intended to obtain a financial commitment from directors and selected employees to acquire a certain number of shares and to match that commitment with a right to acquire further shares subject to continued employment within the Group and, to some extent, to the Group fulfilling certain performance conditions. To this end, there are three sets of rules. The first set of rules governs the grant of options over shares which have been purchased by the Trustee with sums contributed by Group companies which might otherwise have been subsequently paid out by way of discretionary cash bonus (a "Purchased Share Option"). The second set of rules covers arrangements under which employees may acquire shares outright out of their net pay and voluntarily submit those shares to dealing restrictions (the "nominee arrangements"). The third set of rules governs the terms of options to be granted either to those to whom a Purchased Share Option has been granted or to those who have acquired shares under the nominee arrangements ("matching options"). Identical (though separate) arrangements have been made for employees of the associated undertakings. Accordingly, the description of the Plan applies equally to these separate arrangements.

In the event of exercise, the exercise price of the matching option is 1.0p per share. This feature will mean that in most tax jurisdictions the market value of the shares at the date of exercise of the option will be treated as being subject to income tax.

The performance conditions attaching to half of the matching options issued in 1994 cannot now be met and accordingly they have lapsed. The remaining options issued in 1994 are not subject to performance conditions.

7. Directors' Interests

James Magee has a fixed term contract for the period 1st October 1997 to 30th September 1999.

Marcel Wolf has a contract, which commenced on 1st January 1994, terminable on not less than 18 months' notice, expiring not earlier than 31st December 1998.

Clive Cooke is a holder of Floating Rate Secured Convertible Loan Stock 2001 in the sum of £350,010 (1996: £350,010) and has the right to convert the stock into ordinary shares of the company at their then market value. The right can be exercised at any time up to 27th June 2001, provided that the ordinary shares of the company are listed on the London Stock Exchange.

27th March 1998

Exco plc and Subsidiary Undertakings

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 31st December 1997

				1997	(as restated)	(as restated)	(as restated)
	Note	£'000	£'000	£'000	£'000	£'000	£'000
		Continuing	Discontinued		Continuing	Discontinued	
Turnover	2	181,606	7,423	189,029	188,799	26,859	215,658
Total operating expenses	3	(172,294)	(11,574)	(183,868)	(172,093)	(27,296)	(199,389)
Exceptional operating expense	4	(3,990)	(3,792)	(7,782)	—	—	—
Operating profit/(loss)		5,322	(7,943)	(2,621)	16,706	(437)	16,269
Income from interests in associated undertakings				572			203
Exceptional items in respect of associated undertakings	5			(1,500)			—
(Loss)/profit on ordinary activities before interest				(3,549)			16,472
Other interest receivable and similar income	8			2,039			3,416
Interest payable and similar charges	9			(1,634)			(1,654)
(Loss)/profit on ordinary activities before taxation				(3,144)			18,234
Tax on (loss)/profit on ordinary activities	10			(2,771)			(9,765)
(Loss)/profit on ordinary activities after taxation				(5,915)			8,469
Minority interests				(84)			(534)
(Loss)/profit for the financial year				(5,999)			7,935
Ordinary dividends	11			(924)			(5,542)
(Loss)/profit for the year 22(a)				(6,923)			2,393
Earnings per ordinary share	12			(4.87p)			6.4p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	1997	1996
	£'000	£'000
(Loss)/profit for the financial year	(5,999)	7,935
Exchange adjustments on foreign currency net investments	(2,176)	(6,684)
Unrealised surplus on revaluation of properties	875	—
Other recognised gains and losses relating to the year	(1,301)	(6,684)
Total recognised gains and losses since the last annual report	(7,300)	1,251

There is no material difference between the loss on ordinary activities before taxation, the loss for the year stated above and their historical cost equivalents.

The notes on pages 23 to 45 form part of these accounts

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Exco plc and Subsidiary Undertakings

CONSOLIDATED BALANCE SHEET

31st December 1997

	Note	1997 £'000	1997 £'000	1996 £'000	1996 £'000
Fixed assets					
Tangible fixed assets	13		14,811		12,557
Investments:					
Interests in associated undertakings	14(b)		12,899		15,953
Other investments	14(b)		1,086		1,062
			<u>28,796</u>		<u>29,572</u>
Current assets					
Debtors: amounts falling due after one year	15	4,757		6,038	
Debtors: amounts falling due within one year	15	41,625		33,444	
Investments	16	10,986		16,279	
Cash at bank and in hand	17	23,359		31,818	
		<u>80,727</u>		<u>87,579</u>	
Creditors: amounts falling due within one year	18				
Other creditors		(45,866)		(39,706)	
Convertible debt		(569)		(1,192)	
		<u>(46,435)</u>		<u>(40,898)</u>	
Net current assets			<u>34,292</u>		<u>46,681</u>
Total assets less current liabilities			<u>63,088</u>		<u>76,253</u>
Creditors: amounts falling due after more than one year	19		(22,184)		(23,202)
Net assets			<u><u>40,904</u></u>		<u><u>53,051</u></u>
Capital and reserves:					
Called up share capital	21		30,792		30,792
Share premium account	22(a)		5,273		5,273
Revaluation reserve	22(a)		875		—
Other reserves	22(a)		(4,049)		(1,938)
Profit and loss account	22(a)		8,002		18,613
Equity shareholders' funds	23		<u>40,893</u>		<u>52,740</u>
Equity minority interests			11		311
Total capital employed			<u><u>40,904</u></u>		<u><u>53,051</u></u>

Approved by the Board on 27th March 1998 and signed on its behalf by

PETER EDGE
KIM TAYLOR

Directors

The notes on pages 23 to 45 form part of these accounts

Auditors' report – page 47

Exco plc

COMPANY BALANCE SHEET
31st December 1997

	Note	1997 £'000	1997 £'000	1996 £'000	1996 £'000
Fixed assets					
Investments:					
Shares in subsidiary undertakings	14(b)		71,416		78,795
Other investments	14(b)		428		1,216
			<u>71,844</u>		<u>80,011</u>
Current assets					
Debtors: amounts falling due after one year	15	442		1,382	
Debtors: amounts falling due within one year	15	75,591		65,938	
Cash at bank and in hand	17	2,915		2,607	
		<u>78,948</u>		<u>69,927</u>	
Creditors: amounts falling due within one year	18				
Other creditors		(81,049)		(63,638)	
Convertible debt		(569)		(1,192)	
		<u>(81,618)</u>		<u>(64,830)</u>	
Net current (liabilities)/assets			<u>(2,670)</u>		<u>5,097</u>
Total assets less current liabilities			<u>69,174</u>		<u>85,108</u>
Creditors: amounts falling due after more than one year	19		<u>(18,282)</u>		<u>(18,169)</u>
Net assets			<u>50,892</u>		<u>66,939</u>
Capital and reserves:					
Called up share capital	21		30,792		30,792
Share premium account	22(b)		5,273		5,273
Other reserves	22(b)		1,520		967
Profit and loss account	22(b)		13,307		29,907
Equity shareholders' funds			<u>50,892</u>		<u>66,939</u>

Approved by the Board on 27th March 1998 and signed on its behalf by

PETER EDGE }
KIM TAYLOR } Directors

The notes on pages 23 to 45 form part of these accounts

Auditors' report – page 47

Exco plc and Subsidiary Undertakings

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31st December 1997

	Note	1997 £'000	1996 £'000
Net cash inflow from operating activities	29	3,137	12,998
Net cash (outflow)/inflow from returns on investments and servicing of finance	30	(20)	491
Taxation			
UK corporation tax paid		(2,727)	(3,263)
Overseas tax paid		(2,984)	(4,696)
Tax paid		(5,711)	(7,959)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(11,135)	(3,121)
Sale of tangible fixed assets		2,579	1,035
Sale of fixed asset investments		292	7
Purchase of fixed asset investments		(147)	(241)
Net cash outflow from capital expenditure and financial investment		(8,411)	(2,320)
Acquisitions and disposals			
Purchase of minority interests		(1,146)	(7,435)
Investment in associated undertaking		—	(210)
Deferred consideration in respect of subsidiary undertaking		(2,118)	—
Net cash outflow from acquisitions and disposals		(3,264)	(7,645)
Equity dividends paid		(4,619)	(9,237)
Cash outflow before use of liquid resources and financing		(18,888)	(13,672)
Net cash inflow from management of liquid resources	31	5,186	6,314
Financing			
Increase in long term loans		347	3,781
Loan from associated undertaking		7,371	—
Payment of principal under finance leases		(1,434)	(999)
Net cash inflow from financing	32	6,284	2,782
Decrease in cash	33	(7,418)	(4,576)

Exco plc and Subsidiary Undertakings

NOTES TO THE ACCOUNTS

31st December 1997

1. Principal accounting policies

The accounts have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important group accounting policies, which have been applied consistently, is set out below.

(a) Changes in accounting policies

There are no changes in accounting policies.

The group in the year terminated permanently its operations in a number of geographical locations and certain products. These terminations had a material effect on the nature and focus of the group's operations and represented a material reduction in its operating facilities. The assets, liabilities, results and activities of these operations were clearly distinguishable physically, operationally and for financial reporting purposes. The prior year's comparatives have accordingly been restated.

(b) Basis of accounting

The accounts are prepared in accordance with the historical cost convention as modified by the revaluation of certain fixed assets.

(c) Basis of consolidation

The consolidated profit and loss account and the balance sheet include the accounts of the company and its subsidiary undertakings made up to 31st December each year.

The results of subsidiary undertakings acquired or disposed of during an accounting period are included in the consolidated profit and loss account up to or from the date control passes.

Intra-group sales and profits are eliminated on consolidation and turnover and profit figures relate to external transactions only.

On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities and the resulting gains and losses that arise after the Group has gained control of the subsidiary are charged to the post acquisition profit and loss account.

Goodwill arising on consolidation of subsidiary undertakings, representing the excess of the cost of shares over the fair value of the identifiable net tangible assets acquired, is taken to reserves.

(d) Associated undertakings

Entities in which the Group has an interest comprising not less than 20 per cent and not more than 50 per cent of the voting capital and over which it exerts significant influence are treated as associated undertakings.

The consolidated profit and loss account includes the appropriate share of profits less losses of all material associated undertakings based on latest available audited accounts together with unaudited management accounts for the period from the date of the audited accounts to 31st December. The Group's share of post-acquisition retained profits and reserves is added to the cost of investment in the consolidated balance sheet. Goodwill attaching to interests in associated undertakings is taken to reserves.

(e) Tangible fixed assets

Tangible fixed assets are stated at cost or valuation. Where tangible fixed assets are revalued at an amount higher than cost, the revaluation surplus is credited to non-distributable reserves. Where the revalued amount is lower than cost, the difference between cost and valuation is written off in the profit and loss account. Depreciation is calculated to write off the cost or valuation of tangible fixed assets on a straight line basis over the expected useful lives of the assets concerned. The principal annual rates are as follows:-

	%
Freehold property	2
Furniture, fixtures and equipment	15-33 1/3
Motor vehicles	25-33 1/3

Fixed assets held under finance leases are capitalised and depreciated over the shorter of the lease terms and the useful life of equivalent owned assets.

Leasehold properties are amortised over 50 years or the remaining term of the lease if shorter.

NOTES TO THE ACCOUNTS

31st December 1997

1. Principal accounting policies (continued)

(f) Investments

Investments included in fixed assets are stated at cost less any permanent diminution in value.

Current asset investments are stated at the lower of cost and net realisable value.

Interest income, including interest on government securities, is accrued on a daily basis. Other investment income is accounted for when it becomes receivable.

(g) Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership, the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as creditors due within one year and after one year. Lease payments are treated as consisting of a capital and an interest element and the interest is charged to the profit and loss account using the actuarial method.

All other leases are operating leases and the annual rentals are charged to operating profit on a straight line basis over the lease term.

(h) Deferred taxation

Tax deferred or accelerated is accounted for in respect of all material timing differences, including those arising from the provision of employee pensions, to the extent that it is probable that an asset or liability will crystallise.

(i) Pension costs

The Group makes contributions to various pension plans which cover the majority of employees and which are charged against profits. In the UK employees are covered by defined contribution schemes. The assets of the schemes are held by trustees and are kept separate from those of the Group. Overseas pension plans vary according to local requirements, but are generally provided by contributions to government, insured, or self-administered schemes.

(j) Foreign currencies

The balance sheets of overseas subsidiary undertakings expressed in foreign currencies are translated into sterling at the rates of exchange ruling at the end of the accounting period. The profit and loss accounts of these undertakings are translated at monthly weighted average exchange rates for the year. Differences on exchange arising from the retranslation of the opening net investment in subsidiary undertakings, and from the translation of the results of those undertakings at average rate, are taken to reserves and are reported in the statement of total recognised gains and losses.

Other foreign currency assets and liabilities are translated at the rates ruling at the end of the accounting period and gains or losses thereon are taken to the profit and loss account in the year in which they arise.

The company has in the year matched external borrowings with its investment in a subsidiary undertaking.

(k) Brokerage income

Brokerage income is accounted for at the date of the transaction.

(l) Turnover

Turnover, exclusive of sales taxes, represents:

- (i) for money and other broking transactions, the invoiced brokerage charges for the year less commissions payable to third parties;
- (ii) for other transactions, the invoiced value of goods sold or services provided for the year.

Exco plc and Subsidiary Undertakings

NOTES TO THE ACCOUNTS

31st December 1997

2. Group turnover, loss before interest and taxation and net assets

All the Group's turnover and loss before interest and taxation arose from international wholesale money and fixed income securities broking.

The geographical analysis of turnover is as follows:

			(as restated)		(as restated)	
	£'000	£'000	1997	£'000	£'000	1996
	Continuing	Dis-continued	Continuing	Dis-continued		
Europe	79,951	2,196	82,147	91,359	6,753	98,112
North America	79,731	1,331	81,062	76,378	11,260	87,638
Asian Pacific	21,924	3,896	25,820	21,062	8,846	29,908
	<u>181,606</u>	<u>7,423</u>	<u>189,029</u>	<u>188,799</u>	<u>26,859</u>	<u>215,658</u>

The turnover analysis is based on turnover by origin. The results for turnover by destination would not be materially different.

The geographical analysis of loss before interest and taxation is as follows:

			(as restated)		(as restated)	
	£'000	£'000	1997	£'000	£'000	1996
	Continuing	Dis-continued	Continuing	Dis-continued		
Europe	2,314	(2,177)	137	9,363	274	9,637
North America – subsidiary undertakings	1,650	(3,211)	(1,561)	6,773	15	6,788
– associated undertaking	—	—	—	(274)	—	(274)
Asian Pacific – subsidiary undertakings	1,358	(2,555)	(1,197)	570	(726)	(156)
– associated undertakings	(928)	—	(928)	477	—	477
(Loss)/profit before interest	<u>4,394</u>	<u>(7,943)</u>	<u>(3,549)</u>	<u>16,909</u>	<u>(437)</u>	<u>16,472</u>

The geographical analysis of net operating assets is as follows:

	1997	1996
	£'000	£'000
Europe	15,969	35,505
North America – subsidiary undertakings	22,119	21,552
– associated undertaking	—	567
Asian Pacific – subsidiary undertakings	6,666	9,069
– associated undertakings	12,899	15,386
Net operating assets	<u>57,653</u>	<u>82,079</u>
Non operating liabilities	<u>(16,749)</u>	<u>(29,028)</u>
Net assets	<u>40,904</u>	<u>53,051</u>

Cash and current asset investments have been included in net operating assets.

Exco plc and Subsidiary Undertakings

NOTES TO THE ACCOUNTS

31st December 1997

3. Total operating expenses

			(as restated)		(as restated)	
	1997		1997		1996	
	£'000	£'000	£'000	£'000	£'000	£'000
	Continuing	Dis-continued	Continuing	Dis-continued	Continuing	Dis-continued
Staff costs (see note 7)	115,747	6,360	122,107	110,228	17,108	127,336
Amounts written off fixed asset investments:						
Due to permanent diminution in value	17	—	17	11	—	11
Due to temporary fluctuations in value	243	—	243	—	—	—
	260	—	260	11	—	11
Amounts written off current asset investments:						
Due to temporary fluctuations in value	(68)	—	(68)	182	—	182
Depreciation and amounts written off:						
Tangible fixed assets	3,985	311	4,296	5,306	347	5,653
Assets held under finance leases	240	—	240	336	—	336
	4,225	311	4,536	5,642	347	5,989
Other operating expenses:						
Auditors' remuneration (including expenses)	371	20	391	387	18	405
(Company: £53,175, 1996: £47,500)						
Hire of plant and machinery	19	—	19	7	—	7
Hire of other assets – operating leases	7,159	714	7,873	8,361	762	9,123
Other expenses	44,581	4,169	48,750	47,275	9,061	56,336
	52,130	4,903	57,033	56,030	9,841	65,871
Total operating expenses	172,294	11,574	183,868	172,093	27,296	199,389

The remuneration of the Group's auditors for provision of non-audit services to the Group in the United Kingdom was £269,000 (1996: £383,000). These non-audit services comprise tax advisory and compliance work.

4. Exceptional operating expense

			1997		1996	
	£'000	£'000	£'000	£'000	£'000	£'000
	Continuing	Dis-continued	Continuing	Dis-continued	Continuing	Dis-continued
Property relocation costs	(3,990)	—	(3,990)	—	—	—
Redundancy costs	—	(3,065)	(3,065)	—	—	—
Office closure costs	—	(727)	(727)	—	—	—
	(3,990)	(3,792)	(7,782)	—	—	—

Reference should be made to the Chairman's Report for further explanation of the nature of these items.

Exco plc and Subsidiary Undertakings

NOTES TO THE ACCOUNTS

31st December 1997

5. Exceptional items in respect of associated undertakings

	1997	1996
	£'000	£'000
Provision for diminution in value of fixed asset investments	(1,500)	—
	<u>(1,500)</u>	<u>—</u>

6. Directors' emoluments

(a) The emoluments of directors of Exco plc were:

	1997	1996
	£'000	£'000
Fees as directors	50	59
Salary payments (including benefits in kind)	1,406	1,525
Pension contributions	222	437
Annual performance related bonuses	—	318
	<u>1,678</u>	<u>2,339</u>

	1997	1996
	£	£
Highest paid director:		
Salary including benefits in kind	274,952	264,751
Pension contributions	60,500	61,110
	<u>335,452</u>	<u>325,861</u>

No directors waived emoluments in respect of the year ended 31st December 1997 (1996: Nil).

Retirement benefits are accruing to four directors (1996: five directors) under the Group's defined contribution schemes.

Further details of directors emoluments are set out in the Report of the Remuneration Committee on pages 14 to 18.

Exco plc and Subsidiary Undertakings

NOTES TO THE ACCOUNTS

31st December 1997

7. Staff costs

Staff costs during the year, including executive directors of the Group but excluding, in 1997, exceptional costs, amounted to:

	1997 £'000	1996 £'000
Wages and salaries	111,935	115,363
Social security costs	7,923	8,668
Other pension costs	2,249	3,305
	<u>122,107</u>	<u>127,336</u>

The average weekly number of persons employed, including executive directors of the Group, was as follows:

	1997 Number	1996 Number
Sales and broking	1,130	1,257
Administration	365	399
	<u>1,495</u>	<u>1,656</u>

8. Other interest receivable and similar income

	1997 £'000	1996 £'000
Income from fixed asset investments:		
Unlisted overseas	17	11
Income from current asset investments:		
Unlisted	325	337
Bank interest and other income	1,697	3,068
	<u>2,039</u>	<u>3,416</u>

9. Interest payable and similar charges

	1997 £'000	1996 £'000
On finance leases	153	290
On bank loans and overdrafts repayable within 5 years	1,481	1,364
	<u>1,634</u>	<u>1,654</u>

Exco plc and Subsidiary Undertakings

NOTES TO THE ACCOUNTS
31st December 1997

10. Taxation

The tax charge is based on the profit for the year and comprises:

	1997	1996
	£'000	£'000
UK corporation tax at a rate of 31.5% (1996: 33%)	2,011	4,333
Advance corporation tax written off	500	—
Deferred taxation	(532)	(273)
	<u>1,979</u>	<u>4,060</u>
Less: Relief for overseas taxation	(476)	(307)
Overseas taxation	<u>1,082</u>	<u>5,688</u>
Taxation arising on profit of the Group	2,585	9,441
Tax attributable to share of profits of associated undertakings	<u>186</u>	<u>324</u>
	<u><u>2,771</u></u>	<u><u>9,765</u></u>

The Financial Review on pages 7 and 8 provides further explanation of key aspects of the tax charge.

11. Dividends in respect of equity shares

	1997	1996
	£'000	£'000
Interim dividend of 1.5p per share paid on 30th October 1996	—	1,847
Final dividend of 3.0p per share paid on 30th May 1997	—	3,695
Interim dividend of 0.75p per share paid on 31st October 1997	924	—
	<u>924</u>	<u>5,542</u>

12. Earnings per ordinary share

Earnings per share has been calculated based on the loss on ordinary activities after taxation and minority interests. The weighted average number of ordinary shares in issue during the year was 123,166,034 (1996: 123,166,034). The dilutive effect of unexercised options and convertible loan stocks on earnings per share is not material.

Exco plc and Subsidiary Undertakings

NOTES TO THE ACCOUNTS

31st December 1997

13. Tangible fixed assets

	Land and Buildings		Furniture Fixtures & Equipment £'000	Motor Vehicles £'000	Total £'000
	Freehold £'000	Short Leasehold £'000			
Cost or valuation					
At 1st January 1997					
Cost	448	6,724	39,932	4,250	51,354
Valuation	—	—	—	—	—
Exchange adjustments	(43)	97	(1,174)	(251)	(1,371)
Additions	—	3,027	6,283	560	9,870
Surplus on revaluation	1,136	—	—	—	1,136
Disposals	—	(5,227)	(11,180)	(2,319)	(18,726)
At 31st December 1997					
Cost	405	4,621	33,861	2,240	41,127
Valuation	1,136	—	—	—	1,136
	<u>1,541</u>	<u>4,621</u>	<u>33,861</u>	<u>2,240</u>	<u>42,263</u>
Depreciation					
At 1st January 1997	156	4,047	32,653	1,941	38,797
Exchange adjustments	(13)	27	(876)	(144)	(1,006)
Charge for the year	7	396	3,544	589	4,536
Disposals	—	(3,041)	(10,543)	(1,291)	(14,875)
At 31st December 1997	<u>150</u>	<u>1,429</u>	<u>24,778</u>	<u>1,095</u>	<u>27,452</u>
Net book value					
At 31st December 1997	<u>1,391</u>	<u>3,192</u>	<u>9,083</u>	<u>1,145</u>	<u>14,811</u>
At 31st December 1996	<u>292</u>	<u>2,677</u>	<u>7,279</u>	<u>2,309</u>	<u>12,557</u>

Motor vehicles include assets held under finance leases with a net book value of £203,000 (1996: £1,099,000).

Furniture, fixtures and equipment include assets held under finance leases with a net book value of £550,000 (1996: Nil).

The freehold property which the Group occupies was valued independently as at 31st December 1997 on the basis of existing use value.

Exco plc and Subsidiary Undertakings

NOTES TO THE ACCOUNTS

31st December 1997

14. Fixed asset investments

(a) Movement in subsidiary and associated undertakings

During 1997, the Group acquired the remaining minority interest in an existing subsidiary undertaking, Exco Scandinavia A/S, for £1,562,000. Of the consideration, £800,000 was deferred and is payable in equal instalments in December 1998 and December 1999.

The assets and liabilities acquired are set out below:

	Book value £'000	Revaluation £'000	Fair Value £'000
Tangible fixed assets	273	261	534
Current assets:			
Debtors	288	—	288
Cash at bank and in hand	133	—	133
Total assets	694	261	955
Liabilities:			
Creditors	(335)	—	(335)
Net assets	359	261	620
Goodwill			942
			1,562
Satisfied by:			
Deferred consideration			800
Cash			762
			1,562

The Group in 1997 also acquired the remaining minority interest in Exco Bierbaum Securities GmbH for a consideration of £135,000 and the Group's associated undertaking in Delta Government Options Corp became a fixed asset investment, with an effective reduction in the holding of 10 per cent. The Group also acquired most of the remaining minority interest in an existing subsidiary undertaking, Exco Shorcan Limited, for £384,000.

The consideration for the acquisition in 1993 of a subsidiary undertaking in Switzerland was based on a formula linked to profits. A payment of £2,118,000 was made in 1997 under this arrangement and gave rise to goodwill of the same amount.

(b) Investments

	Group		Company	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Shares in subsidiary undertakings	—	—	71,416	78,795
Interests in unlisted investments	1,039	1,009	428	205
Interests in listed investments overseas	47	53	—	—
Interests in associated undertakings	12,899	15,953	—	1,011
	13,985	17,015	71,844	80,011

The aggregate market value of unlisted investments was for the Group £1,039,000 (1996: £1,009,000) and the Company £428,000 (1996: £205,000).

Exco plc and Subsidiary Undertakings

NOTES TO THE ACCOUNTS

31st December 1997

14. Fixed asset investments (continued)

	Group		Company		
	Associates	Other Investments	Associates	Shares in Group Undertakings	Other Investments
	£'000	£'000	£'000	£'000	£'000
Cost:					
At 1st January 1997	19,554	1,091	1,011	78,795	205
Exchange adjustments	(1,327)	(140)	—	—	—
Additions	—	140	—	1,818	100
Disposals	—	(297)	—	—	(200)
Share of retained profit for the year	(1,161)	—	—	—	—
Transfers	(713)	1,011	(1,011)	6,521	1,011
At 31st December 1997	16,353	1,805	—	87,134	1,116
Amounts written off:					
At 1st January 1997	(3,601)	(29)	—	—	—
Exchange adjustments	—	5	—	—	—
Disposals	—	10	—	—	—
Amounts written back/(off) during the year	147	(260)	—	(15,718)	(688)
Transfers	—	(445)	—	—	—
At 31st December 1997	(3,454)	(719)	—	(15,718)	(688)
Net book value at 31st December 1997	12,899	1,086	—	71,416	428
Net book value at 31st December 1996	15,953	1,062	1,011	78,795	205

Principal subsidiary undertakings of the Group are set out on page 45.

In the opinion of the directors, the value of shares in group undertakings is not less than the amount shown in these accounts.

The Group's investment in associated undertakings comprises:

	Group	
	1997	1996
	£'000	£'000
Interests in associates		
Cost less amounts written off	(702)	211
Share of retained reserves	13,601	15,742
Net book value	12,899	15,953
Representing:		
Share of tangible net assets of associated undertakings	12,899	15,953

All associated undertakings are unlisted.

Details of associated undertakings are set out on page 45.

Exco plc and Subsidiary Undertakings

NOTES TO THE ACCOUNTS
31st December 1997

15. Debtors

	Group 1997 £'000	Group 1996 £'000	Company 1997 £'000	Company 1996 £'000
Debtors due after one year:	4,757	6,038	442	1,382
Debtors due within one year:	41,625	33,444	75,591	65,938
	<u>46,382</u>	<u>39,482</u>	<u>76,033</u>	<u>67,320</u>
	Group 1997 £'000	Group 1996 £'000	Company 1997 £'000	Company 1996 £'000
Debtors due after one year:				
Other debtors	3,340	3,081	—	—
Prepayments and accrued income	696	376	—	—
Advance corporation tax recoverable	442	1,382	442	1,382
Deferred taxation (see note 20)	279	1,199	—	—
	<u>4,757</u>	<u>6,038</u>	<u>442</u>	<u>1,382</u>
	Group 1997 £'000	Group 1996 £'000	Company 1997 £'000	Company 1996 £'000
Debtors due within one year:				
Trade debtors (see note)	27,929	19,359	—	—
Amounts owed by subsidiary undertakings	—	—	73,624	63,439
Amounts owed by associated undertakings	660	628	—	—
Other debtors	4,383	6,291	116	203
Prepayments and accrued income	2,760	2,551	—	—
Dividends receivable from subsidiary undertakings	—	—	—	198
Advance corporation tax recoverable	1,851	2,098	1,851	2,098
Deferred taxation (see note 20)	4,042	2,517	—	—
	<u>41,625</u>	<u>33,444</u>	<u>75,591</u>	<u>65,938</u>

The Group is involved in the purchase and simultaneous sale of negotiable money market instruments and gilt-edged securities. The form of these transactions is that group undertakings take temporary control of valuable paper until the transactions are settled, at which time control is released. To reflect the substance of these transactions only the net commission receivable is included in trade debtors. At 31st December 1997 the gross amount of purchase and sale commitments in respect of these transactions was £334,790,000.

Exco plc and Subsidiary Undertakings

NOTES TO THE ACCOUNTS

31st December 1997

16. Current asset investments

The following amounts are included in the net book value of current asset investments:

	Group	
	1997	1996
	£'000	£'000
Unlisted	10,986	16,279
	<u>10,986</u>	<u>16,279</u>
Their aggregate market value was:	.	.
Unlisted at directors' valuation	10,986	16,279
	<u>10,986</u>	<u>16,279</u>

Unlisted investments consist principally of certificates of deposit and Treasury Bills.

17. Cash at bank and cash in hand

Cash at bank and in hand includes £569,404 (1996: £1,192,204) which is charged to a third party creditor (see note 21).

Exco plc and Subsidiary Undertakings

NOTES TO THE ACCOUNTS
31st December 1997

18. Creditors: amounts falling due within one year

The following amounts are included in creditors falling due within one year:

	Group 1997 £'000	Group 1996 £'000	Company 1997 £'000	Company 1996 £'000
Bank loans and overdrafts repayable in one year or less	372	1,302	—	—
Trade creditors	14,539	4,687	—	—
Amounts owed to subsidiary undertakings	—	—	72,502	56,851
Amounts owed to associated undertakings	42	38	—	—
Loan from associated undertaking	6,787	—	6,787	—
Obligations under finance leases	404	1,349	—	—
Other creditors:				
Taxation payable	174	3,383	107	379
ACT on dividends paid and proposed	231	1,386	231	1,386
Social security and taxation	1,871	2,243	—	—
Other	2,737	4,210	111	17
Convertible Secured Loan Stock 2001 (see note 21)	569	1,192	569	1,192
Proposed dividends:				
Minority shareholders	—	365	—	—
Company shareholders – final	—	3,695	—	3,695
Accruals and deferred income	18,709	17,048	1,311	1,310
	<u>46,435</u>	<u>40,898</u>	<u>81,618</u>	<u>64,830</u>

19. Creditors: amounts falling due after more than one year

	Group 1997 £'000	Group 1996 £'000	Company 1997 £'000	Company 1996 £'000
Bank loans				
– repayable between one and two years	11,282	4,169	11,282	4,169
– repayable between two and five years	7,000	14,000	7,000	14,000
Obligations under finance leases				
payable within two and five years	675	1,264	—	—
Other creditors	3,227	3,769	—	—
	<u>22,184</u>	<u>23,202</u>	<u>18,282</u>	<u>18,169</u>

Exco plc and Subsidiary Undertakings

NOTES TO THE ACCOUNTS

31st December 1997

20. Provision for liabilities and charges

The provision for liabilities and charges comprises:

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
(a) Deferred taxation asset:				
Amount recognised:				
Capital and other investment allowances on fixed assets and finance leases	228	495	—	—
Other timing differences	4,093	3,221	—	—
Deferred taxation asset	<u>4,321</u>	<u>3,716</u>	<u>—</u>	<u>—</u>
The deferred taxation asset arises mainly in the United States of America.				
Amount not recognised:				
Capital and other investment allowances on fixed assets and finance leases	—	74	—	—
Other timing differences	2,119	2,454	—	—
	<u>2,119</u>	<u>2,528</u>	<u>—</u>	<u>—</u>

(b) The movement in deferred taxation during the year was as follows:

	Group	Company
	£'000	£'000
At 1st January 1997	3,716	—
Exchange adjustment	73	—
Credited to profit and loss account	532	—
At 31st December 1997	<u>4,321</u>	<u>—</u>

The deferred taxation asset for the Group at 31st December 1997 and 1996 has been included in debtors.

(c) No provision has been made for any taxation which would become payable on the distribution of profits of overseas subsidiary and associated undertakings because there is no intention in the foreseeable future that such profits will be remitted in such a way as to crystallise such tax liabilities.

NOTES TO THE ACCOUNTS
31st December 1997

Authorised:
172,000,000 ordinary shares of 25p each

Group and Company	
1997 £'000	1996 £'000
43,000	43,000
<u>43,000</u>	<u>43,000</u>

Allotted, called up and fully paid:
123,166,034 ordinary shares of 25p each

Group and Company	
1997 £'000	1996 £'000
30,792	30,792
<u>30,792</u>	<u>30,792</u>

Of the total of 1,650,000 options outstanding under the 1992 No. 3 Share Option Scheme described in the Report of the Remuneration Committee on page 17, at 31st December 1997, 560,322 were to subscribe for new ordinary shares of the company. The options are exercisable up to 16th February 2001 at a price of £1.00 per share. At 31st December 1997, 2,587,700 matching share options were outstanding under the Long Term Employee Share Plan. Of these options 1,175,500 lapsed on signature of these accounts leaving 1,412,200 matching options outstanding. All these options are to subscribe for new ordinary shares of the company. 1,175,500 of these options are exercisable up to 19th July 2004 but not before 19th July 1998, 167,400 are exercisable up to 2nd July 2006 but not before 2nd July 2000 and 69,300 are exercisable up to 9th July 2006 but not before 9th July 2000 at a price of 1.0p per share.

Exco plc and Subsidiary Undertakings

NOTES TO THE ACCOUNTS
31st December 1997

22. Reserves

(a) Group

	Share Premium Account £'000	Revaluation Reserve £'000	Other Reserves £'000	Profit & Loss Account £'000
At 1st January 1997	5,273	—	(1,938)	18,613
Exchange translation	—	—	(2,111)	(65)
Goodwill written off	—	—	—	(3,623)
Surplus on revaluation of properties	—	875	—	—
Loss for the year	—	—	—	(6,923)
At 31st December 1997	<u>5,273</u>	<u>875</u>	<u>(4,049)</u>	<u>8,002</u>

Of the exchange translation movement of £2,111,000 in the year, £170,000 (1996: £2,250,000) relates to the net exchange gain on foreign currency borrowings.

Other reserves comprise:

	Group	
	1997 £'000	1996 £'000
Unrealised exchange losses	(4,221)	(2,110)
Other non-distributable reserves	172	172
	<u>(4,049)</u>	<u>(1,938)</u>

(b) Company

	Share Premium Account £'000	Other Reserves £'000	Profit & Loss Account £'000
At 1st January 1997	5,273	967	29,907
Exchange translation	—	553	—
Loss for the year after dividends	—	—	(16,600)
At 31st December 1997	<u>5,273</u>	<u>1,520</u>	<u>13,307</u>

As permitted by section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these accounts. The parent company's loss for the financial year was £15,676,000 (1996: profit of £2,366,000).

Exco plc and Subsidiary Undertakings

NOTES TO THE ACCOUNTS
31st December 1997

21. Share capital

	Group and Company	
	1997	1996
	£'000	£'000
Authorised:		
172,000,000 ordinary shares of 25p each	43,000	43,000
	<u>43,000</u>	<u>43,000</u>
	<u><u>43,000</u></u>	<u><u>43,000</u></u>
	Group and Company	
	1997	1996
	£'000	£'000
Allotted, called up and fully paid:		
123,166,034 ordinary shares of 25p each	30,792	30,792
	<u>30,792</u>	<u>30,792</u>
	<u><u>30,792</u></u>	<u><u>30,792</u></u>

Holders of Floating Rate Secured Convertible Loan Stock 2001 in the sum of £569,404 (1996: £1,192,204) (included in creditors due within one year) have the right to convert their stock into ordinary shares of the company at their then market value. The right can be exercised at any time up to 27th June 2001, provided that the ordinary shares of the company are listed on the London Stock Exchange.

Of the total of 1,650,000 options outstanding under the 1992 No. 3 Share Option Scheme described in the Report of the Remuneration Committee on page 17, at 31st December 1997, 560,322 were to subscribe for new ordinary shares of the company. The options are exercisable up to 16th February 2001 at a price of £1.00 per share. At 31st December 1997, 2,587,700 matching share options were outstanding under the Long Term Employee Share Plan. Of these options 1,175,500 lapsed on signature of these accounts leaving 1,412,200 matching options outstanding. All these options are to subscribe for new ordinary shares of the company. 1,175,500 of these options are exercisable up to 19th July 2004 but not before 19th July 1998, 167,400 are exercisable up to 2nd July 2006 but not before 2nd July 2000 and 69,300 are exercisable up to 9th July 2006 but not before 9th July 2000 at a price of 1.0p per share.

Exco plc and Subsidiary Undertakings

NOTES TO THE ACCOUNTS

31st December 1997

22. Reserves

(a) Group

	Share Premium Account £'000	Revaluation Reserve £'000	Other Reserves £'000	Profit & Loss Account £'000
At 1st January 1997	5,273	—	(1,938)	18,613
Exchange translation	—	—	(2,111)	(65)
Goodwill written off	—	—	—	(3,623)
Surplus on revaluation of properties	—	875	—	—
Loss for the year	—	—	—	(6,923)
At 31st December 1997	<u>5,273</u>	<u>875</u>	<u>(4,049)</u>	<u>8,002</u>

Of the exchange translation movement of £2,111,000 in the year, £170,000 (1996: £2,250,000) relates to the net exchange gain on foreign currency borrowings.

Other reserves comprise:

	Group	
	1997 £'000	1996 £'000
Unrealised exchange losses	(4,221)	(2,110)
Other non-distributable reserves	172	172
	<u>(4,049)</u>	<u>(1,938)</u>

(b) Company

	Share Premium Account £'000	Other Reserves £'000	Profit & Loss Account £'000
At 1st January 1997	5,273	967	29,907
Exchange translation	—	553	—
Loss for the year after dividends	—	—	(16,600)
At 31st December 1997	<u>5,273</u>	<u>1,520</u>	<u>13,307</u>

As permitted by section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these accounts. The parent company's loss for the financial year was £15,676,000 (1996: profit of £2,366,000).

Exco plc and Subsidiary Undertakings

NOTES TO THE ACCOUNTS
31st December 1997

23. Reconciliation of movements in equity shareholders' funds

	1997 £'000	1996 £'000
(Loss)/profit for the financial year	(5,999)	7,935
Ordinary dividends	(924)	(5,542)
	<u>(6,923)</u>	<u>2,393</u>
Other recognised gains and losses relating to the year (net)	(1,301)	(6,684)
Goodwill written off during the year	(3,623)	(6,974)
	<u>(11,847)</u>	<u>(11,265)</u>
Net deduction from shareholders' funds	52,740	64,005
Opening shareholders' funds	<u>40,893</u>	<u>52,740</u>
Closing shareholders' funds	<u>40,893</u>	<u>52,740</u>

24. Cumulative goodwill

During the year the movement in net goodwill taken to reserves was as follows:

	Group £'000
At 1st January 1997	124,048
Taken to reserves in year	3,623
At 31st December 1997	<u>127,671</u>

25. Pension costs

(a) Defined contribution schemes

The Group operates a number of defined contribution schemes throughout the world.

The total pension cost for the Group was £1,867,000 (1996: £2,301,000) of which £322,000 (1996: £715,000) related to overseas schemes. At the year end contributions accrued but not paid totalled £2,000 (1996: £13,000).

(b) Defined benefit schemes

The Group has significant funded defined benefit schemes in Germany, Switzerland and the USA.

In the USA the pension costs are assessed in accordance with a qualified actuary's advice. The last actuarial assessment was performed by an independent actuary as at 1st January 1997.

At the most recent formal valuation the main assumption was:

Investment return	USA 8.5%
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This scheme was closed as at 1st July 1996.

Exco plc and Subsidiary Undertakings

NOTES TO THE ACCOUNTS

31st December 1997

25. Pension costs (continued)

In Germany the defined benefit scheme is wholly reinsured with a German insurance company with the pension obligation being determined by employee contributions to a defined contribution scheme.

In Switzerland the defined benefit schemes are wholly reinsured with Swiss insurance companies, with the pension obligation being determined by the premiums paid to the reinsurers.

The market values of the schemes were £4,341,000 (1996: £4,227,000) and the level of funding was considered to be in accordance with requirements. At the present time there are expected to be no material changes to pensions arrangements which would affect future costs.

During the year defined benefit contributions charged to the profit and loss account were £382,000 (1996: £1,004,000) and at the year end contributions accrued but not yet due to be paid totalled £832,000 (1996: £894,000).

As at 31st December 1997, no deficiencies are considered to exist on the basis of current funding levels.

26. Contingent liabilities and commitments

(a) Capital commitments:

	Group	
	1997	1996
	£'000	£'000
Contracted for	3,112	131

(b) Other commitments

(i) In the normal course of business, the company and its subsidiary undertakings have entered into forward commitments for the purchase and sale of securities and foreign exchange.

(ii) At 31st December 1997, the Group had annual commitments under operating leases as follows:

	Group	
	1997	1996
	£'000	£'000
In respect of leases for land and buildings expiring:		
– within one year	427	272
– between two and five years	772	1,754
– in more than five years	4,137	5,103
	<u>5,336</u>	<u>7,129</u>

	Group	
	1997	1996
	£'000	£'000
In respect of other leases expiring:		
– within one year	585	475
– between two and five years	344	911
– in more than five years	—	—
	<u>929</u>	<u>1,386</u>

(iii) At the balance sheet date the Group was liable to purchase the minority interests in Exco Shorcan Limited at purchase prices based on profits.

NOTES TO THE ACCOUNTS
31st December 1997

26. Contingent liabilities and commitments (continued)

(c) Contingent liabilities

The company has given guarantees on behalf of various subsidiary undertakings in respect of their business.

In addition:

- A subsidiary undertaking has given a guarantee on behalf of a third party in respect of property with a current passing rent of £104,000 per annum, the lease of which expires in 1999.
- The company has issued a counter indemnity to a bank in respect of a guarantee of A\$200,000 given by the bank for a property occupied by a subsidiary undertaking.

A subsidiary undertaking is being sued by a former employee for alleged wrongful dismissal. The subsidiary undertaking has been advised that it has a valid defence to such claim and the directors are of the view that no material liability will fall on the Group as a result of such litigation.

27. Regulatory capital

Regulatory authorities in Denmark, Singapore, the United Kingdom and the United States of America require that a minimum amount be maintained in liquid assets. Therefore the use of those funds may be restricted in accordance with such requirements.

28. Related party disclosures

It is considered that the related parties of the Group consist of the associated undertakings, identified on page 45 of these accounts, together with Caledonia Investments plc, which indirectly holds 28.17 per cent. of the issued share capital of the company. All transactions with these related parties are carried out on an arms length basis.

(a) Associated undertakings

In the normal course of its business the Group arranges transactions as an agent for its customers. Usually all the brokerage derived from the transaction is earned by the Group through one or more of its subsidiary undertakings. It is, however, an integral part of the Group's business that transactions are arranged for customers where a subsidiary undertaking earns the brokerage from one side of the transaction but an associated undertaking earns brokerage from the other side.

During the year the Group received £2,611,000 (1996: £4,460,000) in brokerage from customers in these circumstances. In addition to these amounts, the Group or its subsidiary undertakings, received £965,000 (1996: £807,000) in fees from its associated undertakings for the provision of technical, administrative and business services to its associated undertakings. These services included the provision of seconded management, systems and telecommunications know-how and information. The amounts due from or to these related parties at the balance sheet date are shown in notes 15 and 18 of these accounts.

There were no provisions for doubtful debts due from such parties at these dates, nor had any amounts been written-off during the period in respect of amounts due to or from related parties.

(b) Caledonia Investments plc

In the year the Group paid director's fees of £16,500 (1996: £16,500) to Caledonia Group Services Limited, a subsidiary undertaking of Caledonia Investments plc, for the services of Peter Buckley as a non-executive director of the company. Caledonia Investments plc and its subsidiary undertakings provided no other services to the Group.

Exco plc and Subsidiary Undertakings

NOTES TO THE ACCOUNTS

31st December 1997

29. Reconciliation of loss on ordinary activities before interest to net cash inflow from operating activities

	1997	1997	1996	1996
	£'000	£'000	£'000	£'000
(Loss)/profit on ordinary activities before interest		(3,549)		16,472
Depreciation of tangible fixed assets		4,536		5,989
Share of profits of associates	(572)		(203)	
Exceptional items of associated undertakings	1,500		—	
Dividends received from associated undertakings	50		136	
Profits of associates less dividends received and exceptional items		978		(67)
Loss on sale of tangible fixed assets		1,338		118
Loss on sale of fixed asset investments		—		4
Increase in operating debtors and prepayments		(9,246)		(3,905)
Increase/(decrease) in operating creditors and accruals		9,080		(5,613)
Net cash inflow from operating activities		3,137		12,998

In relation to the exceptional operating expense in 1997 of £7,782,000, cash outflows of £3,460,000 occurred in 1997.

30. Returns on investments and servicing of finance

	1997	1996
	£'000	£'000
Interest received	2,024	2,897
Interest paid	(1,495)	(1,342)
Interest paid on finance leases	(152)	(285)
Income from fixed asset investments	17	11
Expenses paid in connection with long term loans	(39)	(94)
Dividends paid to minorities	(375)	(696)
Net cash (outflow)/inflow from returns on investments and servicing of finance	(20)	491

31. Management of liquid resources

	1997	1996
	£'000	£'000
Cash withdrawn from short term deposits	6,297	4,205
(Purchase)/sale of US treasury securities	(1,081)	2,094
(Purchase)/sale of short term investments	(30)	15
Net cash inflow from management of liquid resources	5,186	6,314

Exco plc and Subsidiary Undertakings

NOTES TO THE ACCOUNTS

31st December 1997

32. Analysis of changes in financing during the year

	Share Capital (excluding Premium)	Loans and Finance Lease Obligations	Share Capital (excluding Premium)	Loans and Finance Lease Obligations
	1997 £'000	1997 £'000	1996 £'000	1996 £'000
At 1st January	30,792	20,782	30,792	19,002
Cash inflows from financing	—	6,284	—	2,782
Inception of finance lease contracts	—	76	—	1,510
Effect of foreign exchange rate changes	—	(994)	—	(2,512)
At 31st December	<u>30,792</u>	<u>26,148</u>	<u>30,792</u>	<u>20,782</u>

33. Reconciliation of net cash flow to movement in net funds

	1997 £'000	1996 £'000
Decrease in cash	(7,418)	(4,576)
Cash inflow from decrease in liquid resources	(5,186)	(6,314)
Cash inflow from increase in debt and lease financing	(6,284)	(2,782)
Change in net debt resulting from cash flows	<u>(18,888)</u>	<u>(13,672)</u>
New finance leases	(76)	(1,510)
Translation difference	776	(774)
Movement in net debt	<u>(18,188)</u>	<u>(15,956)</u>
Net funds as at 1st January	26,013	41,969
Net funds as at 31st December	<u>7,825</u>	<u>26,013</u>

Exco plc and Subsidiary Undertakings

NOTES TO THE ACCOUNTS

31st December 1997

34. Analysis of net funds

	At 1st January 1997 £'000	Cash Flow £'000	Other Non Cash Changes £'000	Exchange Movements £'000	At 31st December 1997 £'000
Net cash:					
Cash at bank and in hand	31,818				23,359
Less: deposits treated as liquid resources	(4,148)				(4,244)
	<u>27,670</u>	<u>(8,348)</u>	<u>—</u>	<u>(207)</u>	<u>19,115</u>
Bank overdrafts	(1,302)	930	—	—	(372)
	<u>26,368</u>	<u>(7,418)</u>	<u>—</u>	<u>(207)</u>	<u>18,743</u>
Liquid resources:					
Deposits included in cash	4,148	342	—	(246)	4,244
Current asset investments	16,279	(5,528)	—	235	10,986
	<u>20,427</u>	<u>(5,186)</u>	<u>—</u>	<u>(11)</u>	<u>15,230</u>
Debt:					
Long term loans	(18,169)	(347)	—	234	(18,282)
Loan from associated undertaking	—	(7,371)	—	584	(6,787)
Finance leases	(2,613)	1,434	(76)	176	(1,079)
	<u>(20,782)</u>	<u>(6,284)</u>	<u>(76)</u>	<u>994</u>	<u>(26,148)</u>
Net funds	<u>26,013</u>	<u>(18,888)</u>	<u>(76)</u>	<u>776</u>	<u>7,825</u>
Analysed in Balance Sheet:					
Cash at bank and in hand	31,818				23,359
Current asset investments	16,279				10,986
Bank overdrafts	(1,302)				(372)
Loan from associated undertaking	—				(6,787)
Finance leases due within one year	(1,349)				(404)
Finance leases due after one year	(1,264)				(675)
Long term bank loans	(18,169)				(18,282)
	<u>26,013</u>				<u>7,825</u>

Exco plc

SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

The following were the principal operating subsidiary and associated undertakings of the Group at 31st December 1997:

Subsidiary undertakings	Country of Incorporation and Operation	Nature of Business	Issued Ordinary Share Capital
Exco Moneybroking Australia Pty Limited	Australia	Moneybroking	A\$600,000
Exco Scandinavia A/S	Denmark	Moneybroking	Dkr2,700,000
Exco Bierbaum Money Markets GmbH	Germany	Moneybroking	Dmk 1,500,000
Exco Bierbaum GmbH & Co oHG	Germany	Moneybroking	Dmk 2,850,000
Exco Moneybroking UK Limited	Great Britain	Moneybroking	£14,071,156
Exco Securities UK Limited	Great Britain	Moneybroking	£1,371,000
Exco AP Singapore Pte Limited	Singapore	Moneybroking	S\$1,000,000
Exco CMS (Switzerland) Limited	Switzerland	Moneybroking	Sfr300,000
Exco USA Inc.	U.S.A.	Moneybroking	US\$438,000
Exco FIB Pty Limited	Australia	Fixed Income Securities Broking	A\$300,000
Exco Shorcan Limited (99.35%)	Canada	Fixed Income Securities Broking	Can\$67,263
Exco Bierbaum Securities GmbH	Germany	Fixed Income Securities Broking	Dmk 500,000
*Exco WCLK Limited	Great Britain	Fixed Income Securities Broking	£5,400,000
Exco USA Securities Inc.	U.S.A.	Fixed Income Securities Broking	US\$2,115
*Exco (Management Services) Limited	Great Britain	Central Services	£1,000
Associated undertakings			
PT AP Nusantara Indonesia (25%)	Indonesia	Moneybroking	Rp2,100,000,000
Nittan Exco Limited (33%)	Japan	Moneybroking	¥300,000,000
KAF Astley & Pearce Sdn Bhd (40%)	Malaysia	Moneybroking	Ringgit 200,000
S-One Exco Co. Limited (30%)	Thailand	Moneybroking	Baht 30,000,000

The financial year ends of KAF Astley & Pearce Sdn Bhd and Nittan Exco Limited are 31st May and 30th September respectively.

Except where marked with an asterisk the above undertakings are owned indirectly. The Group's interest in the nominal value of issued ordinary shares is 100 per cent. unless otherwise stated.

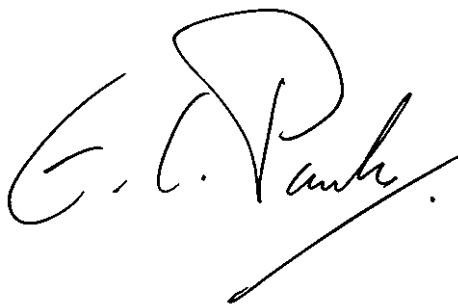
STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgement and estimates have been made in the preparation of the accounts for the year ended 31st December 1997. The directors also confirm that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the Group and which enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

A handwritten signature in black ink, appearing to read 'E. C. Pank', with a long horizontal stroke extending from the bottom right.

By order of the Board,
Edward Pank
Secretary
London
27th March 1998

Exco plc and Subsidiary Undertakings

REPORT OF THE AUDITORS

To the Members of Exco plc.

We have audited the accounts on pages 19 to 45.

Respective responsibilities of directors and auditors

As described on page 46 the company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosure in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts are free from material misstatements, 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and the Group at 31st December 1997 and of the loss, total recognised gains and losses and cashflows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand
Coopers & Lybrand
Chartered Accountants and Registered Auditors
LONDON

27th March 1998

NOTICE OF ANNUAL GENERAL MEETING

This document is important and requires your immediate attention. If you are in any doubt as to what action you should take you are recommended to consult an appropriate independent adviser. If you have sold or transferred all your ordinary shares in Exco plc please pass this document to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at 119 Cannon Street, London EC4N 5AX at 12.30 p.m. on Thursday, 23rd April 1998 for the following purposes:

Ordinary Business

1. That the Directors' Report and the Audited Accounts of the Company for the year ended 31st December 1997 be received and adopted.
2. That Coopers & Lybrand be re-appointed auditors of the Company and that the directors be authorised to determine their remuneration.
3. That Mr. M. C. Johns be re-elected a director of the Company.

Special Business

To consider and, if thought fit, to pass the following resolutions of which resolution 4 will be proposed as an ordinary resolution and resolutions 5, 6 and 7 will be proposed as special resolutions.

4. That in substitution for any other authority previously conferred on them, the directors be and they are hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 ("the Act"), to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80 (2) of the Act) up to an aggregate nominal amount of £10,756,966. This authority shall expire on 22nd April 2003 save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

5. That, subject to the passing of resolution 4 above, the directors be and they are hereby empowered to allot equity securities (as defined in section 94(2) of the Act) of the Company pursuant to the authority conferred by resolution 4 above as if section 89(1) of the said Act did not apply to such allotment, provided that this power shall be limited to the allotment of equity securities:

(a) in connection with a rights or other pre-emptive issue in favour of ordinary shareholders where the equity securities offered are proportionate (as nearly as practicable) to the respective number of ordinary shares held by such holders, but subject to such exclusions or other arrangements as the directors may deem necessary or desirable to deal with fractional entitlements, record dates, or legal or practical problems under the laws of, or the requirements of, any regulatory authority in any territory or otherwise however; and/or

(b) pursuant to the acceptance of any scrip dividend offer; and/or

(c) otherwise than pursuant to (a) or (b) above for cash up to an aggregate nominal amount of £1,539,575 representing 5 per cent. of the issued ordinary share capital of the Company as at the date hereof.

This power shall expire on 22nd April 2003, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

NOTICE OF ANNUAL GENERAL MEETING

6. That:

- (a) the Company be and is hereby generally and unconditionally authorised, pursuant to section 166 of the Companies Act 1985 to make market purchases (as defined in section 163 of the Companies Act 1985) of its own shares on such terms and in such a manner as the directors of the Company shall determine;
- (b) the general authority conferred by this resolution shall:
 - (i) be limited to a maximum of 12,316,603 ordinary shares of 25p each (representing 10 per cent. of the issued share capital of the Company at 31st March 1998);
 - (ii) not permit payment of a price per ordinary share, exclusive of expenses, of less than 25p or more than 105 per cent. of the average price at which business was done in the ordinary shares of the Company on the Listed Securities Market of the London Stock Exchange for such shares as derived from the London Stock Exchange Daily Official List for the five business days in respect of which that list is published immediately preceding the day on which the shares are contracted to be purchased;
 - (iii) expire on the conclusion of the next Annual General Meeting after the passing of this resolution or 22nd July 1999 (whichever is the earlier) save that the Company may before the expiry of the power hereby conferred contract to purchase its own ordinary shares which requires or might require the purchase of such ordinary shares to be executed wholly or partly after such expiry.

7. That, Article 122 of the Company's Articles of Association shall be amended by deleting the words

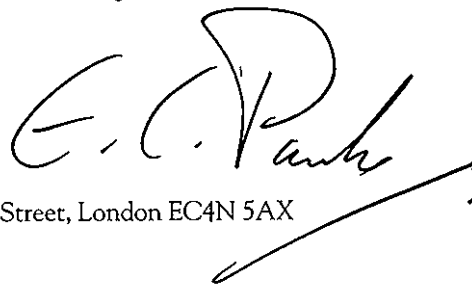
"A director so appointed shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the rotation of retirement of directors but,"

By order of the Board

E.C. Pank
Secretary

Registered Office: 119 Cannon Street, London EC4N 5AX

31st March 1998



1. A member of the Company entitled to attend and vote at the Meeting convened by the above Notice is entitled to appoint a proxy to attend and, on a poll, vote on his behalf. A proxy need not be a Member of the Company.
2. A form of proxy is enclosed for use in connection with the above Meeting. To be valid the instrument appointing a proxy and the Power of Attorney (if any) under which it is signed must be deposited at the office of the Company's Registrars, Lloyds Bank Registrars Limited, The Causeway, Worthing, West Sussex BN99 6DA, not later than 6 p.m. on Tuesday, 21st April 1998. Completion of the form of proxy will not affect the right of a shareholder to attend and vote at the above meeting should he or she afterwards so decide.
3. The Company pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, specifies that only those shareholders registered in the register of members of the company as at 6 p.m. on Tuesday, 21st April 1998 shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
4. The following documents will be available for inspection at the registered office of the Company during normal business hours from the date of this notice until the date of the Annual General Meeting and at the venue of the Meeting from 12.15 p.m. on 23rd April 1998 until the conclusion of the Meeting.
 - (i) copies of the service contracts of the directors; and
 - (ii) the register of directors' interests in the share capital of the Company.

Exco plc
FORM OF PROXY

For use at the Annual General Meeting on 23rd April 1998

I/We _____
(Please complete in block capitals)
of _____
(Address)

being (a) holder(s) of Shares in the above Company hereby appoint Mr. R. D. C. Hubbard or failing him the
Chairman of the Meeting/ _____ (see note 5 below)
as my/our proxy to vote for me/us at the Annual General Meeting of the Company to be held on 23rd April 1998 and at
any adjournment thereof.

Please indicate with an x how you wish your vote to be cast in respect of the resolutions. In the absence of any
specific directions, the proxy will vote or abstain at his discretion.

Ordinary Business	For	Against
1. To receive and adopt the Directors' Report and the Audited Accounts for the year ended 31st December 1997.		
2. To re-appoint Coopers & Lybrand as auditors of the Company and to authorise the directors to determine their remuneration.		
3. To re-elect Mr M. C. Johns* as a director of the Company.		
Special Business		
4. To authorise the directors to allot shares.		
5. Special resolution – to disapply pre-emption rights.		
6. Special resolution – to permit the Company to purchase shares in itself.		
7. Special resolution – to amend the Articles of Association.		

*Mr. M. C. Johns is a member of the Remuneration, Audit and Nominations Committees.

Signed _____ Dated _____ 1998

Notes:

1. A member who is entitled to attend and vote at the above meeting is entitled to appoint a proxy or proxies to attend and, on a poll, to vote on his behalf. A proxy need not be a member of the Company.
2. Only one of joint holders needs to sign. In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of any other joint holder(s), and for this purpose seniority will be determined by the order in which the names stand in the Register of Members.
3. Corporations should affix their common seal or sign by a duly authorised officer or attorney.
4. To be valid, this Form of Proxy and the Power of Attorney (if any) under which it is signed or a duly certified copy of such power or authority must reach Lloyds Bank Registrars, the Registrars of the Company, at the address overleaf not later than 6 p.m. on 21st April 1998.
5. If you wish to appoint some person of your own choosing as your proxy you should complete in block capitals his or her full name in the space provided and delete the words "Mr. R.D.C. Hubbard or failing him the Chairman of the Meeting". Such proxy need not be a member of the Company. Any alterations must be initialled.
6. Completion of this form will not preclude you from attending and voting at the Meeting in person if you so wish.
7. You should print your name and address in the space provided.
8. You should sign in the space provided.
9. Unless instructed otherwise, the proxy may also vote or abstain from voting as he or she thinks fit on any other business which may properly come before the meeting (including amendments to resolutions).

FOLD

FOLD

BUSINESS REPLY SERVICE
LICENCE NO. BR 3006



Lloyds Bank Registrars
The Causeway, Worthing,
West Sussex,
BN99 6DB

TUCK IN