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This document is important and requires your immediate attention

Exco plc

Proposals for the

**Acquisition of the broking operations of Intercapital
in return for the issue of 231,801,727 Ordinary Shares**

Nittan Sale Agreement and Nittan Loan Agreement

Subscription for 12,000,000 Ordinary Shares by Nihon

Change of name to Intercapital plc

Interim Results

and

Ancillary matters



Listing Particulars

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about what action you should take, you are recommended to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser, authorised under the Financial Services Act 1986, immediately.

If you have sold or otherwise transferred all of your ordinary shares of 25p each in the share capital of Exco, please forward this document, together with the accompanying documents, as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee.

Rothschild, which is regulated by The Securities and Futures Authority Limited, is acting for Exco and no one else, including any recipient of this document, in connection with the Transactions and Admission and will not be responsible to any person other than Exco for providing the protections afforded to customers of Rothschild nor for providing advice in relation to the Transactions or Admission.

Exco plc ✓

COMPANIES HOUSE 30/09/98

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Share Capital			
Existing authorised		Existing issued and fully paid	
£	Number of Ordinary Shares	£	Number of Ordinary Shares
43,000,000	172,000,000	30,849,759	123,399,034
Authorised on Admission		Proposed enlarged issued and fully paid on Admission	
£	Number of Ordinary Shares	£	Number of Ordinary Shares
122,500,000	490,000,000	91,800,190	367,200,761

A copy of this document, which comprises Listing Particulars relating to Exco prepared in accordance with the listing rules made by the London Stock Exchange under section 142 of the Financial Services Act 1986, has been delivered to the Registrar of Companies in England and Wales for registration as required by section 149 of the Financial Services Act 1986. This document should be read in conjunction with the accompanying Circular.

Application has been made to the London Stock Exchange for the Enlarged Issued Share Capital to be admitted to the Official List. It is expected that such admission will become effective, and that dealings will commence, on 26 October 1998.

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	<i>1998</i>
Latest time and date for receipt of the form of proxy	11.00 am on 21 October
Extraordinary General Meeting of Exco	11.00 am on 23 October
Completion of Merger and Subscription	23 October
Commencement of dealings in the Enlarged Issued Share Capital	9.00 am on 26 October

DEFINITIONS

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

"Acquisition Agreement"	the conditional agreement relating to the Merger dated 30 September 1998 between Exco, IBS and Intercapital, details of which are set out in paragraph 1 of Part 7 of this document
"Act"	the Companies Act 1985, as amended
"Admission"	the admission of the Enlarged Issued Share Capital to the Official List on completion of the Merger and the Subscription
"Articles of Association"	the articles of association of Exco, further details of which are set out in paragraph 4 of Part 8 of this document
"Caledonia"	Caledonia Financial Limited, a subsidiary of Caledonia Investments plc
"Caledonia Trust"	Caledonia No. 1 Settlement Trust
"Caledonia Trustees"	the trustees of Caledonia Trust being J R Hale and E J Osborn
"Circular"	the circular dated 30 September 1998 to Shareholders accompanying this document
"City Code"	The City Code on Takeovers and Mergers
"connected persons"	has the meaning ascribed thereto by Section 346 of the Act and "connected" shall be construed accordingly
"Directors", "Exco Directors" or "Board"	the directors of Exco at the date of this document
"disclosure period"	the period commencing on 11 July 1997 and ending on 29 September 1998 as referred to in paragraph 7.2 of Part 8 of this document
"Enlarged Group"	the Exco Group as enlarged by the Icap Companies following the Merger and the Subscription and reduced by the Nittan Sale Agreement
"Enlarged Group Board", "Board of the Enlarged Group" or "Enlarged Group Directors"	the persons who it is proposed will be the directors of Exco following completion of the Merger as set out in paragraph 9 of Part 1 of this document
"Enlarged Issued Share Capital"	the issued ordinary share capital of Exco immediately following completion of the Merger and the Subscription
"Exco Group" or "Group"	Exco and its current subsidiary undertakings
"Exco" or "the Company"	Exco plc (which is proposed to be renamed Intercapital plc following completion of the Merger)
"Exco Shorcan"	Exco Shorcan Limited
"Exco Share Option Schemes"	the Share Option and Incentive Schemes, described in paragraph 5 of Part 8 of this document together or separately as the context so requires
"Exco USA"	Exco USA Inc.
"Exco USA Securities"	Exco USA Securities Inc.
"Exco WCLK"	Exco WCLK Limited

"Extraordinary General Meeting"	the Extraordinary General Meeting of Exco proposed to be held on 23 October 1998, at which, <i>inter alia</i> , the resolutions necessary to enable the Merger, the Nittan Sale Agreement, the Nittan Loan Agreement and the Subscription to proceed will be proposed
"IBS"	Intercapital Brokerage Services Limited, a subsidiary of Intercapital and the holding company for the Icap Companies
"Icap Companies"	the Intercapital Group subsidiary companies which are to be acquired by the Company pursuant to the Merger, details of which are set out in Part 2 and paragraph 11(b) of Part 8 of this document
"Intercapital"	Intercapital Group Limited
"Intercapital Directors"	the directors of Intercapital, whose names are set out in paragraph 6.2 of Part 8 of this document
"Intercapital Group"	Intercapital and its subsidiary undertakings (including the Icap Companies)
"Intercapital plc"	the proposed name of the Company following completion of the Merger
"LIBOR"	London Interbank Offered Rate
"Listing Particulars"	these listing particulars dated 30 September 1998 relating to Exco and the New Ordinary Shares
"Loan Facility Agreement"	the agreement dated 29 September 1998 between the Company and, <i>inter alia</i> , Lloyds Bank Plc, details of which are set out in paragraph 5(a) of Part 7 of this document
"Loan Stock"	Exco's £562,604 of Floating Rate Secured Convertible Loan Stock 2001
"London Stock Exchange"	London Stock Exchange Limited
"Matching Scheme"	the Matching Share Option scheme which is part of the Exco plc Long Term Employee Share Plan, details of which are set out in paragraph 5.3 of Part 8 of this document
"Merger"	the proposed acquisition by Exco of the Icap Companies pursuant to the Acquisition Agreement and the issue to IBS of 231,801,727 of the New Ordinary Shares as described in this document
"New Ordinary Shares"	243,801,727 new Ordinary Shares to be issued in connection with the Merger and the Subscription
"New Bank Facility Agreement"	the agreement dated 30 September 1998 between the Company and Barclays PLC, details of which are set out in paragraph 5(b) of Part 7 of this document
"Nihon"	Nihon Tanshi Co., Limited, the 67 per cent. shareholder in Nittan Exco
"Nittan Exco"	Nittan Exco Limited, the Japanese company which currently holds a 5.1 per cent. interest in Exco, and in which Exco holds a 33 per cent. interest
"Nittan Loan Agreement"	the conditional agreement dated 28 September between Exco, Nittan Exco and Nihon relating to a loan of ¥2,052 million by Nittan Exco to Exco
"Nittan Sale Agreement"	the conditional agreement dated 29 September 1998 between Exco, Intercapital and Nihon relating to the sale by Exco of 540 shares in Nittan Exco

“Nittan Agreements”	together the Nittan Sale Agreement and the Nittan Loan Agreement
“Official List”	the Official List of the London Stock Exchange
“Ordinary Shares”	ordinary shares of 25p each in the share capital of Exco
“Panel”	The Panel on Takeovers and Mergers
“Proposed Directors”	the proposed new directors of the Company, Michael Spencer and David Gelber
“Relationship Agreement”	the agreement entered into conditionally upon Admission between Exco, IBS, Intercapital and Michael Spencer, details of which are set out in paragraph 2 of Part 7 of this document
“Retained Intercapital Group”	the Intercapital Group (excluding the Icap Companies and, after Admission, the Enlarged Group)
“Rothschild”	N M Rothschild & Sons Limited
“Shareholders”	holders of Ordinary Shares in Exco
“Subscription”	the proposed subscription for 12 million of the New Ordinary Shares pursuant to the Subscription Agreement
“Subscription Agreement”	the conditional agreement dated 29 September 1998 between Exco and Nihon relating to the Subscription
“Transactions”	the Merger, the Nittan Agreements and the Subscription
“¥”	Japanese yen, for which an approximate translation to sterling is provided using the rate of 232.364 yen to the pound (the rate quoted in the <i>Financial Times</i> on 29 September 1998 being the latest practicable date prior to posting this document) unless otherwise specified
“US\$”	United States dollars
“C\$”	Canadian dollars
“SF”	Swiss francs

DIRECTORS, ENLARGED GROUP DIRECTORS AND ADVISERS

Exco Directors

Richard David Cairns Hubbard, OBE (*non-executive Chairman*)

Peter John Edge (*Chief Executive*)

Peter Neville Buckley (*non-executive*)

Clive John Cooke

John Axson Heywood (*non-executive*)

Michael Charles Johns (*non-executive*)

James Patrick Magee

Kim Michael Taylor

Marcel Wolf

All of 119 Cannon Street, London EC4N 5AX

Enlarged Group Board

Michael Alan Spencer (*Chairman and Chief Executive*)

Richard David Cairns Hubbard, OBE (*Non-Executive Deputy Chairman*)

Peter Neville Buckley (*Non-Executive*)

Clive John Cooke

David Moses Gelber

Kim Michael Taylor

Marcel Wolf

All of 119 Cannon Street, London EC4N 5AX

Secretary

Edward Charles Pank

Registered Office and Head Office

119 Cannon Street, London EC4N 5AX

Financial Advisers to Exco

N M Rothschild & Sons Limited
New Court, St. Swithin's Lane
London EC4P 4DU

Sponsors to the Enlarged Group

N M Rothschild & Sons Limited
New Court, St. Swithin's Lane
London EC4P 4DU

Solicitors to Exco

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

Solicitors to Intercapital

Macfarlanes
10 Norwich Street
London EC4A 1BD

Brokers to Exco

Kleinwort Benson Securities Limited
20 Fenchurch Street,
London EC3P 3DB

Reporting Accountants to Exco

PricewaterhouseCoopers
Chartered Accountants
1 Embankment Place,
London WC2N 6NN

Registrars and Paying Agents to Exco

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

Principal Bankers to Exco

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

Barclays PLC

Broadgate Corporate Banking
155 Bishopsgate
London EC2N 3XA

PART 1

GENERAL INFORMATION

1. Details of the Transactions

1.1 The Merger

On 30 September 1998 it was announced that the boards of Exco and Intercapital had reached agreement on the Merger of Intercapital's wholesale financial broking operations, the Icap Companies, with Exco. Exco and the Icap Companies operate as brokers in the wholesale international money and securities markets in the world's major financial centres.

The Merger will be effected through the acquisition by Exco from IBS of the Intercapital Group's shareholdings in the Icap Companies, in exchange for the issue to IBS of 231,801,727 of the fully paid New Ordinary Shares, representing 63.13 per cent. of the Enlarged Issued Share Capital. This values the Icap Companies at approximately £58 million, based on the par value of 25p for an Ordinary Share. IBS is an English private company owned as to approximately 88 per cent. by Intercapital and 12 per cent. by directors and employees of the Icap Companies. Intercapital is owned as to approximately 42 per cent. by Michael Spencer and his family.

The New Ordinary Shares will be issued credited as fully paid up and will rank *pari passu* in all respects with the Ordinary Shares now in issue. A pro forma statement of net assets of the Enlarged Group is set out in Part 5 of this document.

Given the significant nature of the Merger, which will constitute a reverse takeover of Exco for the purposes of the listing rules of the London Stock Exchange, the listing of the Ordinary Shares was suspended on 10 July 1998, the date on which discussions in respect of the Merger were announced. Exco has applied for its Enlarged Issued Share Capital following the Merger to be admitted to the Official List. Dealings in the Enlarged Issued Share Capital are expected to commence on 26 October 1998.

Existing share certificates will remain valid. New certificates in the name of Intercapital plc will be issued as and when transfers are lodged for registration. Ordinary Shares will be eligible to be traded through the CREST system on Admission on the same basis as Ordinary Shares were traded through the CREST system before the listing of the Ordinary Shares was suspended on 10 July 1998.

1.2 The Nittan Agreements

On 30 September 1998 the Company also announced it had reached agreement on the terms of the Nittan Sale Agreement relating to the disposal of a 9 per cent. interest in its moneybroking associate in Tokyo, Nittan Exco, to the 67 per cent. shareholder of Nittan Exco, Nihon, for ¥600 million (£2.6 million). In addition, Exco has agreed the terms of a new loan with Nittan Exco whereby Nittan Exco will lend Exco an additional ¥600 million (£2.6 million) which will be consolidated with an existing loan of ¥1,452 million (£6.2 million). The term of the new consolidated loan will be for 12 months and recourse on the loan will be limited to Exco's remaining shareholding in Nittan Exco.

The Nittan Sale Agreement is conditional on Shareholder approval. The Nittan Loan Agreement contains provisions whereby, if Exco should fail to repay the loan when due, Exco may be required to transfer the balance of its shareholding in Nittan Exco to Nihon which would then assume all liability in respect of the loan. In view of the fact that the Nittan Loan Agreement could result in the transfer of the 24 per cent. interest in Nittan Exco still held by the Group this agreement is also conditional on Shareholder approval.

1.3 Conditions

In view of the size of the Icap Companies relative to Exco and the significant nature of the Nittan Sale Agreement and the Nittan Loan Agreement, and the need to disapply statutory preemption rights for the Subscription, the Transactions are conditional on Shareholder approval at the Extraordinary General Meeting of the Company to be held on 23 October 1998. Accordingly, the Acquisition Agreement and the Subscription Agreement are conditional upon the passing of the resolutions 1, 2, 3 and 5 to be proposed at the Extraordinary General Meeting and Admission. The Nittan Agreements and the Subscription Agreement are all conditional on Admission.

The Acquisition Agreement is also conditional, *inter alia*, upon approvals from certain securities regulatory authorities. It is expected that these conditions will have been satisfied by the time of the Extraordinary General Meeting.

Each of the Acquisition Agreement, the Nittan Sale Agreement, Nittan Loan Agreement and the Subscription Agreement provide that, if its respective conditions are not satisfied by 3 November 1998, the relevant agreement will terminate.

1.4 Subscription

In order to cement further the ongoing relationship between the Enlarged Group and Nihon, and to provide the Enlarged Group with additional funding to progress the integration process of the Enlarged Group after the Merger, Nihon has agreed to subscribe for 12 million of the New Ordinary Shares pursuant to the Subscription Agreement at a price of 25p per share in cash to raise £3 million. The Subscription is conditional upon Admission. As a result, Nihon's interest in the Enlarged Issued Share Capital (including that of Nittan Exco) on Admission will be 4.99 per cent.. Shareholder approval will be required to allow the Directors to allot these shares. The principal terms of the Subscription are set out in paragraph 4 of Part 7 of this document.

2. Background to and reasons for the Merger

In recent years the markets in which Exco operates have been highly competitive. Factors which have contributed to this competitiveness in the market include the consolidation in the banking sector and the increasing penetration of the market by electronic broking. An increase in direct dealing between banks is also believed by the Directors to be a contributing factor. There has been intense competition for market share and the significant overcapacity in the moneybroking industry has led to downward pressure on commissions payable to brokers. The pursuit of market share has also led to increased competition for key staff with a consequent impact on operating costs. Whilst volumes in the wholesale financial markets have generally been increasing, lower commissions have meant that revenues have remained broadly static and the impact of higher costs has resulted in lower profitability for the industry as a whole.

In order to improve its financial performance, Exco has been reducing its presence in product areas where the Directors believe margins have declined, such as spot and forward foreign exchange, and has reduced its cost base through a combination of office closures, installation of a new international telecommunications network and a major capital investment programme in New York and London.

Exco's financial performance has, however, continued to be unsatisfactory and the Board believes that in order to secure a future for Exco in the industry it needs to continue to control the cost base and to seek to broaden Exco's product range to increase its exposure to products with:

- relatively high margins;
- growing market volumes;
- high value added by the broker (i.e. non-commoditised products); and
- sufficient complexity to mean the threat of electronic broking is minimised.

The Board believes these objectives will be best achieved through a merger with the Icap Companies.

3. Information on the Exco Group

The Exco Group operates as a broker in the wholesale international money and securities markets. Exco has a wide geographic spread of businesses with operations in all three major financial time zones.

Within its moneybroking operations, the Directors believe the Exco Group has particular strengths in:

- foreign exchange options where it is a global leader;
- short term Deutschmark interest rate swaps in London;
- medium term interest rate swaps in Sydney; and
- short and medium term Swiss franc interest rate swaps in Zurich.

Within its securities operations, the Directors believe that Exco Group's key product strengths comprise:

- its UK gilts inter-dealer broker; and
- Australian Government bonds.

The Exco Group has recently integrated its money and securities broking operations in New York to take advantage of overhead cost reductions and to exploit the synergies which exist between the capital markets and securities sides of the business.

Set out below is summary financial information, as extracted without adjustment from the audited financial statements of Exco for the three years ended 31 December 1997. Shareholders should read the whole of this document and not just rely on key or summarised financial information.

	<i>Year ended 31 December</i>		
	<i>1995</i>	<i>1996</i>	<i>1997</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Turnover	207,634	215,658	189,029
Profit/(loss) before tax	18,284	18,234	(3,144)
Profit/(loss) after tax	11,143	8,469	(5,915)
Net assets	65,014	53,051	40,904

Full financial information relating to the Exco Group is set out in Part 3 of this document.

Exco incurred exceptional costs in 1995 mainly in respect of a cost reduction programme and the closure of almost all of the spot foreign exchange broking operations in London which totalled £5.9 million before tax. In 1997 Exco restructured its New York and London offices incurring costs of £7.8 million before tax. In addition, in 1997 the Company wrote off £1.5 million in respect of fixed asset investments.

4. Information on the Icap Companies

The broking operations of the Intercapital Group were founded in 1986 by Michael Spencer in order to provide a specialist service in the then relatively new interest rate swap market. The business expanded rapidly and the Intercapital Directors believe the interest rate derivative operations of the Icap Companies are now a leading provider of broking services in these products in Europe. The Icap Companies' key broking activities are swaps and options broking, which represented 51 per cent. and 18 per cent. respectively of the Icap Companies' revenue for the year ended 31 March 1998. Financial information on the Icap Companies (excluding Valerie Chitty Services Limited and its wholly owned subsidiaries Alpha Brokers (Metals) Limited and Alpha Brokers (Metals) Holdings Limited, which were companies acquired by the Intercapital Group after 31 March 1998) is contained in Part 2 of this document.

In the over the counter derivative sector, the Icap Companies' prices are posted on the screens of the two major financial information service providers and have become a market benchmark. Certain of the Icap Companies' prices are now published daily in the *Financial Times*.

The Icap Companies' policy is to cover all European broking operations from their headquarters in London and as a result they have avoided the need to link up with continental brokers or open offices in Europe. The employment of nationals of various European countries has enabled the Icap Companies to forge relationships with the major banks in Europe irrespective of their location. Consequently the Enlarged Group Directors believe that the Icap Companies are well placed for the launch of the euro and they believe that London will probably emerge as the single largest centre for dealing. As well as in London, the Icap Companies trade from operations in New York, Sydney and Singapore. The New York operation is domestic in nature and provides commodity derivative and illiquid bond broking products. Sydney and Singapore cover the Asian Pacific region, providing derivative, securities broking and commodity broking products.

In addition to swaps and options products, the Icap Companies provide broking services in commodity, equity and credit derivatives, together with broking activities in illiquid bonds and asset swaps. Over the past twelve months the Icap Companies have also added a capability in emerging currency products such as the Greek Drachma, South African Rand and some Eastern European currencies.

The Icap Companies' significant share in certain core products has enabled consistent profitability to be maintained and, with the exception of Singapore and New York, all of the Icap Companies' operations have been profitable over the last 3 years. The majority of the senior management is actively involved on the various broking desks.

Set out below is summary financial information, as extracted without adjustment from the accountants' report on the Icap Companies (excluding Valerie Chitty Services Limited and its two wholly owned subsidiaries Alpha Brokers (Metals) Limited and Alpha Brokers (Metals) Holdings Limited, which were companies acquired by the Intercapital Group after 31 March 1998) for the three years ended 31 March 1998 set out in Part 2 of this document. Shareholders should read the whole of this document and not just rely on key or summarised financial information.

	<i>Years ended 31 March</i>		
	<i>1996</i>	<i>1997</i>	<i>1998</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Turnover	47,268	53,627	61,152
Profit before tax	12,061	17,353	14,436
Profit after tax	6,717	11,119	9,432
Shareholders' funds ⁽ⁱ⁾	21,618	29,360	34,322

- (i) dividends totalling £31.7 million were declared by some of the Icap Companies in September 1998. Exco will acquire the Icap Companies without the benefit of those dividends.

The Icap Companies' pre tax profits for the year ended 31 March 1998 were lower than those of the comparable period in 1997 despite greater turnover, due to a foreign exchange gain of approximately £1 million in 1997 (compared to a gain of £400,000 in 1998) and an increase in staff costs in 1998.

The Icap Companies have been accustomed to holding an annual charity day in December, as part of which commissions on trades made on that day and bonuses earned in respect of such trades are donated by the Icap Companies and participating employees to various charities. The Enlarged Group Board will review the position from time to time but in the absence of unforeseen circumstances plans the continuance of this tradition by the Enlarged Group after the Merger.

5. Information on Nittan Exco

Set out below is summary financial information, included in the consolidated financial statements of Exco in respect of Exco's 33 per cent. interest in Nittan Exco, for the three years ended 31 December 1997.

	<i>Years ended 31 December</i>		
	<i>1995</i>	<i>1996</i>	<i>1997</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Profit/(loss) before tax	743	253	(1,260)
Tax	(668)	(261)	(49)
Profit/(loss) after tax	75	(8)	(1,309)
Net assets	18,768	14,869	12,410
Net dividends received	83	50	46

The audited consolidated financial statements of Exco for the year ended 31 December 1997 include an exceptional charge of £1.5 million in respect of Exco's investment in Nittan Exco.

6. Current trading of the Exco Group and the Icap Companies

6.1 The Exco Group

The Exco Group has continued to face difficult trading conditions in 1998, with declines in turnover in many of the products which the Group brokes.

The London and New York offices, which provide two thirds of the Group's revenue, have suffered particularly from this trend. In these offices revenues in cash and short term interest rate products have fallen, together with those in US Treasury bonds and emerging market bonds. The offices in Denmark and Canada have also seen reduced revenues. All the offices in the Asian Pacific region have experienced revenue falls following the currency crises of 1997. As reported in the unaudited interim

results of the Exco Group for the six months ended 30 June 1998 which are set out in Part 6 of this document, the Group reported turnover of £80.5 million (1997: £101.2 million) and a loss before tax of £0.9 million (1997: profit before tax of £5.4 million). Shareholders' funds as at 30 June 1998 were £37.0 million (1997: £52.1 million).

Detailed financial information on the Exco Group is set out in Part 3 and Part 6 of this document. Shareholders should read the whole of this document and not just rely on key or summarised financial information.

This poor performance has resulted in Exco breaching certain of its banking covenants as at 30 June 1998. However, Exco has renegotiated the terms of its existing banking facilities, and obtained commitments for certain additional facilities in connection with, and conditional upon, the Merger, the terms of which are set out in more detail in Part 7 of this document. The existing lending banks have also agreed to waive the breaches, conditional on completion of the Merger.

In the event that the Merger does not take place the lending banks will be in a position to demand immediate repayment of all sums due to them and Exco will need to seek a renegotiation of these facilities.

6.2 The Icap Companies

For the period since 31 March 1998 the Icap Companies have made good progress. Trading volumes have continued to increase, with brokerage revenues reaching an all time high in August 1998 (against a background of emerging market turbulence) in the core business of medium term interest rate swaps and options. Whilst the comparable period in the previous year included the benefit of a one-off foreign exchange hedging gain, the Intercapital Directors are confident of the outlook for the Icap Companies for the year as a whole.

7. Benefits of the Merger and prospects of the Enlarged Group

The Directors believe that the prospects of Exco will be greatly enhanced by the Merger, which will create a larger, more competitive organisation with a committed management team determined to meet the challenges of the market and which will be well placed in a consolidating industry.

The Merger will combine the strengths of the Exco Group and the Icap Companies which the Enlarged Group Directors believe will create a leading global broking entity which is expected to benefit from:

- a strong market position in a broad range of complementary derivative products. The Enlarged Group will have strengths in European interest rate derivatives, foreign exchange options, Australian dollar interest rate derivatives, Australian Government bonds and the inter dealer broker market for UK Government Gilts. It will have strengths in Sterling deposits, Swiss franc interest rate derivatives, US Treasury securities and other securities products traded in the USA;
- the ability to offer customers a comprehensive service across the yield curve, combining Exco's strengths in the short term yield curve with the Icap Companies' strengths in longer term yield curve products;
- a reduction in combined expense levels through economies of scale, primarily in London, but also in Sydney; and
- a close relationship with Nihon in Asia.

The Directors believe that a significant level of one-off costs will be incurred in, or in respect of, the period ending 31 March 1999 (the period to the new financial year end of the Enlarged Group) to deal with the integration of the Exco Group and the Icap Companies.

Whilst the Directors are confident about the underlying growth prospects of the Enlarged Group, they believe that trading volumes are inherently volatile and difficult to predict with any degree of certainty and that the voice broking industry continues to face the uncertainty of further penetration of electronic broking in addition to pressure on commissions and the impact of the euro.

In assessing the impact of the euro on the business of the Enlarged Group, the Enlarged Group Directors believe the following factors are relevant:

- the Enlarged Group will be a leading broker in Deutschmark interest rate derivatives, which the Enlarged Group Directors anticipate will form the springboard for euro trading. This strong market position should also allow the Enlarged Group to service those customers who wish to trade the euro against other currencies such as the Swiss franc, US dollar, Japanese yen or Sterling;
- the euro is expected to become one of the three most traded currencies in the world, alongside the US dollar and Japanese yen, resulting in increasing volumes and substantially larger transactions;
- Sterling and Swiss francs are also likely to be more actively traded after the introduction of the euro (evidence to date would show that this is already the case) and the Enlarged Group is well positioned for this. In Sterling for example, the Icap Companies have been strengthened by the recent recruitment of a number of specialist brokers dealing in the short end of the yield curve, who complement the Icap Companies' current strong medium term capability in interest rate swaps. Exco's Zurich office is a leading broker in the Swiss franc interest rate products; and
- London is already the leading trading centre for euro derivatives and global trading activity is likely to concentrate here, which will place the Enlarged Group in a good position to take advantage of its direct customer contacts and market position.

The Board also believes that the more complex derivative products provided by the Enlarged Group are less vulnerable to the threat posed by electronic broking due to the greater element of broker added value and the difficulty of dealing with counterparty credit issues in such transactions. The slow progress to date of the electronic matching systems for spot foreign exchange to extend in any substantial way into other products, where counterparty credit is a significant issue, supports this contention. The Enlarged Group has various technology projects in progress with the intention that in the event that a two-tier voice and electronic broking market does develop, it will be well positioned in its key product areas to participate in both sectors.

Experience of the effect of electronic systems in the broking of spot foreign exchange indicates that there will most likely remain a role for the leading voice brokers, whom the Enlarged Group Board believe will remain profitable provided they maintain significant volumes of business. By seeking to establish a leading broking operation in both voice and electronic broking markets, whilst upgrading the current means of disseminating prices to the market in which it operates, the Board believes the Company will be better placed in the future competitive environment as a result of the Merger.

8. Dividend Payments and Future Dividend Policy of the Enlarged Group

Bearing in mind the significant costs that are expected to be incurred in connection with the Merger in the fifteen month period ending 31 March 1999, the Board of the Enlarged Group currently expects to be able to recommend payment of a modest dividend in respect of that period. However, it intends to review this position at the time of the announcement of the results for the period, in the light of the Enlarged Group's performance, cashflows and future prospects. (Dividends will only be paid if there are sufficient distributable reserves.) The Enlarged Group Board intends to comment further on its dividend policy at the time of that announcement.

9. Board of the Enlarged Group

The members of the Board of the Enlarged Group following completion of the Merger are listed below.

Michael Spencer**	Executive Chairman and Chief Executive
David Hubbard OBE*	Non-executive Deputy Chairman
Peter Buckley*	Non-executive Director
Clive Cooke*	Director
David Gelber**	Director
Kim Taylor*	Finance Director
Marcel Wolf*	Director

*Currently a director of Exco

**Currently a director of Intercapital and a Proposed Director

Those Exco Directors who will not be continuing on the Board will resign on completion of the Merger. The boards of Exco and Intercapital have agreed that the Company will, as soon as possible following the Merger, appoint two new independent non-executive directors. Other non-executive directors may also be appointed.

Brief biographical details of the members of the Board of the Enlarged Group are set out in Part 8 of this document. Details of the current members of the Board are set out in paragraph 8 of Part 8 of this document.

Details of the service contracts of the Directors and Proposed Directors which will be in effect upon completion of the Merger are set out in paragraph 8 of Part 8 of this document.

Michael Spencer and David Gelber have interests outside the Enlarged Group but, notwithstanding these interests, will devote such time as is necessary to fulfil their duties to the Enlarged Group.

10. Information on Intercapital

Intercapital was incorporated in April 1986 and commenced business as a specialist interest rate swaps broker with a staff of five. It was formed by Michael Spencer who remains the Chairman and largest shareholder. Over the past twelve years, the Intercapital Group has expanded rapidly and diversified. The Icap Companies comprise its core businesses, contributing approximately 81 per cent. of the consolidated turnover of the Intercapital Group for the financial year ended 31 March 1998. Intercapital itself is now a holding company.

The principal businesses of the Retained Intercapital Group are City Index, a leading financial and sports spread-betting firm based in London, and Data Analysis Risk Technology (DART), founded in 1988, which develops pricing and risk management systems for use by professionals in the derivatives markets, offering a broad range of software systems and products from offices in London, New York, Sydney and Northern Ireland. Intercapital also has interests and investments in a number of other businesses, including aviation services, management and recruitment consultancy, consumer finance and electronic dissemination of information.

Intercapital is an English private company, in which approximately 42 per cent. of the shares are owned by the Chairman, Michael Spencer, and his family. The balance is owned by an employee benefit trust and approximately 60 persons who are mainly directors and employees of the Intercapital Group. Further details are set out in paragraph 7.1(d) of Part 8 of this document.

An internal reorganisation of the Intercapital Group was carried out in September 1998 prior to the date of the Acquisition Agreement, whereby Intercapital and the management shareholders of Intercapital Brokers Limited, Intercapital Securities Limited, Intercapital Commodity Swaps Limited and Intercapital Equity Derivatives Limited exchanged their shares in the Icap Companies for newly-allotted shares in IBS, with the result that all of the Icap Companies (other than Valerie Chitty Services Limited and its subsidiaries) became wholly-owned subsidiaries of IBS. Further details are set out in paragraph 7.1(d) of Part 8 of this document.

Financial information about the Intercapital Group is set out in Part 4 of this document.

11. Relationship between Exco and Intercapital

The Acquisition Agreement and certain agreements entered into between Intercapital and the Icap Companies in anticipation of the Merger provide for certain transitional arrangements between the Enlarged Group and the Retained Intercapital Group, including agreements relating to shared premises, equipment and services and also to provide for the continued use of the Intercapital name by both groups.

The Acquisition Agreement also provides that IBS will be able to sell up to 32 million Ordinary Shares (8.71 per cent. of the Enlarged Issued Share Capital) after the first nine months after the completion of the Merger to or for the benefit of any present or former directors or employees of the Enlarged Group or the Retained Intercapital Group and/or their families or related trusts. Subject to certain limited exceptions, IBS may not transfer any of the remaining New Ordinary Shares acquired pursuant to the Acquisition Agreement outside the Intercapital Group (other than in connection with a takeover offer for Exco) for a period of 18 months from completion of the Merger, without the prior consent of the Company.

Conditionally upon completion of the Merger, Exco, Intercapital, IBS and Michael Spencer have entered into the Relationship Agreement, which is designed to regulate the relationship between them while the Retained Intercapital Group and any connected party controls at least 30 per cent. of the voting rights in Exco.

The Relationship Agreement requires that, subject to the transitional and other arrangements provided for by the Acquisition Agreement and other existing agreements, any transactions between members of the Retained Intercapital Group and the Enlarged Group will be at arms-length and on a normal commercial basis.

The Relationship Agreement also contains provisions designed to enable the Retained Intercapital Group to subscribe for additional shares in the Company at the time of any future issue not made to shareholders on a pre-emptive basis, to the extent necessary to maintain the level of its voting rights in Exco's shares. These rights are subject to initial and annual approval by an independent vote of Shareholders.

Further details of the agreements and arrangements mentioned above are set out in Part 7 of this document.

12. Regulatory environment in which the Exco Group and the Icap Companies operate

The Directors of the Enlarged Group believe that an appropriate degree of regulation assists the orderly working of the wholesale markets to the benefit of all participants, including brokers.

12.1 The Exco Group

Each company within the Exco Group is responsible for ensuring compliance with local regulatory requirements, whilst worldwide compliance is monitored from London.

Exco's UK based moneybrokers are regulated by the Financial Services Authority. They are required to maintain a minimum level of capital to ensure sufficient liquid resources are available to enable them to continue to meet running expenses in the event of a temporary downturn in brokerage income.

Exco WCLK is regulated by the Securities and Futures Authority and the Financial Services Authority and is a member of the London Stock Exchange.

Exco USA Securities is regulated by the Securities and Exchange Commission, which delegates monitoring to the National Association of Securities Dealers. It is required to maintain minimum capital levels. Exco USA is not subject to regulation.

Exco Shorcan is an approved inter dealer broker with the Investment Dealers Association of Canada which requires Exco Shorcan to maintain minimum levels of shareholders' equity.

There are no regulatory requirements for moneybrokers in Switzerland.

Exco Scandinavia A/S is regulated by the Finanstilsynet which imposes a minimum share capital requirement.

Exco Bierbaum Securities GmbH and Exco Bierbaum Devisen GmbH are regulated by the Bundesaufsichtsamt für das Kreditwesen ("BAKred") and the Bundesaufsichtsamt für Wertpapierhandel ("BAWe"). The BAKred supervises solvency requirements and the fitness of management. The BAWe is responsible for the supervision of market conduct. Exco Bierbaum Securities GmbH is also a member of the Frankfurt Stock Exchange and the Deutsche Terminbörse.

While there are no regulatory requirements for Japanese moneybrokers, they submit financial data and details of transactions to the Bank of Japan regularly.

In Singapore all financial institutions, including moneybrokers, are required to obtain the approval of the Monetary Authority of Singapore, which regulates the trading of foreign exchange and financial market instruments through the Singapore Foreign Exchange Market Committee.

All of the Exco operating subsidiaries in Australia are regulated by the Australian Securities and Investments Commission. Exco FIB Pty Ltd. is a licensed dealer and has to maintain surplus liquid funds, calculated on an annualised basis.

12.2 Icap Companies

Intercapital Brokers Limited is regulated by the Securities and Futures Authority and is a listed money market institution (for the purposes of section 43 of the Financial Services Act 1986) and is regulated by the Financial Services Authority. It is also a member of the International Swap Dealers Association.

Intercapital Securities Limited is regulated by the Securities and Futures Authority and is a member of the International Securities Markets Association.

Intercapital Commodity Swaps Limited, Intercapital Equity Derivatives Limited and Alpha Brokers (Metals) Limited are each regulated by the Securities and Futures Authority.

Intercapital Securities Inc. is registered with the Securities and Exchange Commission as a broker dealer. It is also a member of the National Association of Securities Dealers.

Intercapital Brokers (Australia) Limited, Intercapital Fixed Income Pty Limited and CM ICAP Pty Limited are each regulated by the Australian Securities and Investments Commission.

13. Undertakings of support for the Transactions from Shareholders

Caledonia and the Exco Directors, representing in aggregate 29.9 per cent. of Exco's existing issued ordinary share capital, have given undertakings to vote in favour of the resolutions to be proposed at the Extraordinary General Meeting.

PART 2

ACCOUNTANTS' REPORT ON THE ICAP COMPANIES

PRICEWATERHOUSECOOPERS 

PricewaterhouseCoopers
1 Embankment Place
London WC2N 6NN

The Directors and Proposed Directors
Exco plc
Sherborne House
119 Cannon Street
London EC4N 5AX

The Directors
NM Rothschild & Sons Limited
New Court
St Swithin's Lane
London EC4P 4DU

30 September 1998

Dear Sirs

Introduction

We report on the financial information set out below. This financial information has been prepared for inclusion in the listing particulars dated 30 September 1998 ("the Listing Particulars") of Exco plc ("the Company") relating to, *inter alia*, the proposed acquisition of certain subsidiaries of Intercapital Brokerage Services Limited, a subsidiary of Intercapital Group Limited ("Intercapital"). The subsidiaries to be acquired include:

- (a) companies owned by Intercapital or a subsidiary of Intercapital at 31 March 1998 - these subsidiaries, which are referred to in this report as "the Icap Companies", are listed in note 13 below; and
- (b) three companies purchased by Intercapital and a subsidiary of Intercapital since 31 March 1998, details of which are given in note 20(a) below.

Further details of all the companies to be acquired by the Company are given in paragraph 11(b) of Part 8 of the Listing Particulars.

Basis of preparation

The subsidiaries to be acquired have not comprised a separate statutory group during the three years ended 31 March 1998. The financial information set out below is based on the audited financial statements of the companies comprising the Icap Companies for the three years ended 31 March 1998 and represents a combination using consolidation principles of these statements and is stated after making such further adjustments as we considered necessary.

Responsibility

The financial statements of the Icap Companies are the responsibility of the directors of each of those companies who approved their issue.

The Directors and Proposed Directors of the Company are responsible for the contents of the Listing Particulars in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that recorded by the auditors (Moore Rowland) who audited the financial statements underlying the financial information. Our work also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the circumstances of the Icap Companies, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement, whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Listing Particulars, a true and fair view of the combined state of affairs of the Icap Companies as at the dates stated and of their combined profits, cash flows and recognised gains and losses for the periods then ended.

Principal accounting policies

The financial information contained in this report has been prepared in accordance with Accounting Standards currently applicable in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently for the periods covered by this report, is set out below.

(a) Accounting convention

The financial information has been prepared under the historical cost convention.

(b) Basis of preparation

The subsidiaries to be acquired have not comprised a separate statutory group during the three years ended 31 March 1998. The financial information has been prepared by combining the financial information relating to each of the companies comprising the Icap Companies. All transactions and balances between these companies are eliminated.

(c) Foreign currencies

The balance sheets of overseas companies expressed in foreign currencies are translated into sterling at the rate 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 re-translation of the opening reserves and from the translation of the results of those companies at average rate, are taken to reserves and are reported in the statements 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. Income earned or expenses incurred in foreign currencies are translated at the rates ruling at the time of the transaction.

(d) Pension costs

The Icap Companies operate defined contribution pension schemes. Contributions are charged against profits as they fall due.

(e) Deferred taxation

Deferred taxation is provided on timing differences, arising from the different treatment of items for accounts and taxation purposes, which are expected to reverse in the future, calculated at rates at which it is estimated that tax will arise.

(f) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated to write off the cost of tangible fixed assets on a straight line basis over the expected useful lives of the assets concerned.

The expected useful lives of short leasehold, motor cars, office equipment and furniture are considered to be between two and five years.

(g) *Turnover*

Turnover represents agency brokerage on capital market instruments, commodity swaps trading, bonds, equity derivatives trading and other broking transactions.

(h) *Current asset investments*

Investments are stated at the lower of cost or net realisable value except for listed investments which are stated at market value.

(i) *Leases*

Amounts payable under operating leases are charged to the profit and loss account as they are incurred.

COMBINED PROFIT AND LOSS ACCOUNTS

		<i>Years ended 31 March</i>		
	<i>Notes</i>	<i>1996</i> <i>£'000</i>	<i>1997</i> <i>£'000</i>	<i>1998</i> <i>£'000</i>
Turnover	1(a)	47,268	53,627	61,152
Operating expenses		(35,251)	(37,428)	(48,811)
Operating profit	3	12,017	16,199	12,341
Amounts written off investments		(672)	—	—
Profit on ordinary activities before interest	1(b)	11,345	16,199	12,341
Interest receivable and similar income	4	1,151	1,426	2,204
Interest payable	5	(435)	(272)	(109)
Profit on ordinary activities before taxation		12,061	17,353	14,436
Tax on profit on ordinary activities	6	(5,344)	(6,234)	(5,004)
Profit for the financial year		6,717	11,119	9,432
Dividends	7	(3,100)	(4,320)	(4,565)
Retained profit for the financial year		3,617	6,799	4,867

STATEMENT OF COMBINED TOTAL RECOGNISED GAINS AND LOSSES

		<i>Years ended 31 March</i>		
		<i>1996</i> <i>£'000</i>	<i>1997</i> <i>£'000</i>	<i>1998</i> <i>£'000</i>
Profit for the financial year		6,717	11,119	9,432
Foreign exchange translation differences		(25)	(306)	(371)
Total recognised gains and losses		6,692	10,813	9,061

Note of historical cost profits and losses

There is no material difference between the profit on ordinary activities before taxation and the retained profit for the financial years stated in the profit and loss accounts and their historical cost equivalents.

COMBINED BALANCE SHEETS

	<i>Notes</i>	<i>At 31 March</i>		
		<i>1996</i> <i>£'000</i>	<i>1997</i> <i>£'000</i>	<i>1998</i> <i>£'000</i>
Fixed assets				
Tangible fixed assets	8	1,276	2,741	2,575
Current assets				
Debtors	9	20,207	27,047	33,450
Investments	10	—	1,731	2,127
Cash at bank and in hand		14,814	13,800	13,913
		35,021	42,578	49,490
Creditors – Amounts falling due within one year	11	(14,179)	(15,459)	(17,243)
Net current assets		20,842	27,119	32,247
Total assets less current liabilities		22,118	29,860	34,822
Creditors – Amounts falling due after more than one year	12	(500)	(500)	(500)
Net assets	1(c)	21,618	29,360	34,322
Combined shareholders' funds and reserves	13	21,618	29,360	34,322

COMBINED CASH FLOW STATEMENTS

	<i>Notes</i>	<i>Years ended 31 March</i>		
		<i>1996</i>	<i>1997</i>	<i>1998</i>
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Net cash inflow from operating activities		11,784	11,774	9,385
Returns on investments and servicing of finance				
Interest received		1,203	1,442	2,371
Interest paid		(435)	(272)	(109)
Net cash inflow from returns on investment and servicing of finance		768	1,170	2,262
Taxation				
UK corporation tax paid		(4,094)	(5,421)	(5,306)
Overseas tax paid		(94)	(444)	(424)
Tax paid		(4,188)	(5,865)	(5,730)
Capital expenditure				
Purchase of tangible fixed assets		(1,163)	(2,551)	(1,601)
Sale of tangible fixed assets		64	91	120
Purchase of investments		(553)	(198)	(6)
Sale of investments		—	545	—
Net cash outflow from capital expenditure		(1,652)	(2,113)	(1,487)
Equity dividends paid		(2,215)	(4,560)	(4,196)
Management of liquid resources				
Purchase of short term investments		—	(1,731)	(400)
Sale of short term investments		1,617	—	128
		1,617	(1,731)	(272)
Financing				
Issue of ordinary share capital		766	805	345
Repurchase of shares		(65)	(120)	—
Repayments of subordinated loans		(102)	—	—
		599	685	345
Increase/(decrease) in cash in the year		6,713	(640)	307
RECONCILIATION OF NET CASH FLOW TO MOVEMENTS IN NET FUNDS				
Increase/(decrease) in cash for the year		6,713	(640)	307
Cash flow from (decrease)/increase in liquid resources		(1,617)	1,731	272
Revaluation of listed investments		—	—	177
Effect of foreign exchange differences		54	(151)	(247)
Movement in net funds in the year		5,150	940	509
Opening net funds		9,426	14,576	15,516
Closing net funds	16	14,576	15,516	16,025

	<i>Years ended 31 March</i>		
	<i>1996</i>	<i>1997</i>	<i>1998</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
RECONCILIATION OF OPERATING			
PROFIT TO NET CASH INFLOW FROM			
OPERATING ACTIVITIES			
Operating profit	12,017	16,199	12,341
Depreciation	1,133	1,035	1,651
(Increase) in debtors	(4,494)	(6,212)	(7,167)
Increase in creditors	3,059	755	2,722
Profit on sale of tangible fixed assets	—	(46)	(5)
Loss on sale of investment	—	55	99
Gain on revaluation of listed investments	—	—	(177)
Effect of foreign exchange differences	69	(12)	(79)
	<hr/>	<hr/>	<hr/>
Net cash inflow from operating activities	11,784	11,774	9,385
	<hr/>	<hr/>	<hr/>

NOTES TO THE FINANCIAL INFORMATION

1. Segmental information

The Icap Companies operate principally in a single business segment of money and securities broking. Geographical analyses are set out below:

	<i>Years ended 31 March</i>		
	<i>1996</i>	<i>1997</i>	<i>1998</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
(a) The geographical analysis of turnover is as follows:			
Europe	41,380	47,820	52,962
North America	914	921	1,895
Asian Pacific	4,974	4,886	6,295
Total	<u>47,268</u>	<u>53,627</u>	<u>61,152</u>

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

	<i>Years ended 31 March</i>		
	<i>1996</i>	<i>1997</i>	<i>1998</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
(b) The geographical analysis of profit/(loss) before interest and taxation is as follows:			
Europe	10,777	16,458	11,391
North America	(446)	(792)	(239)
Asian Pacific	1,014	533	1,189
Total	<u>11,345</u>	<u>16,199</u>	<u>12,341</u>

	<i>At 31 March</i>		
	<i>1996</i>	<i>1997</i>	<i>1998</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
(c) The geographical analysis of net operating assets is as follows:			
Europe	26,684	34,964	37,940
North America	401	535	484
Asian Pacific	1,291	823	1,263
Net operating assets	<u>28,376</u>	<u>36,322</u>	<u>39,687</u>
Proposed dividends	(2,046)	(1,838)	(2,330)
Corporation tax	(4,712)	(5,093)	(3,057)
Advance corporation tax	—	(31)	22
Net assets	<u>21,618</u>	<u>29,360</u>	<u>34,322</u>

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

2. Directors and employees

The combined emoluments of all the directors of the Icap Companies were:

	<i>Years ended 31 March</i>		
	<i>1996</i>	<i>1997</i>	<i>1998</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Directors:-			
Aggregate emoluments	3,701	4,390	5,511
Company pension contributions	98	132	124
Highest paid director:-			
Aggregate emoluments	364	523	751
Company pension contributions	6	15	6

Retirement benefits are accruing to all directors under the external pension schemes.

Employees

The average number of employees employed by the Icap Companies during the year was:

	<i>Years ended 31 March</i>		
	<i>1996</i>	<i>1997</i>	<i>1998</i>
	<i>Number of employees</i>		
By activity:			
Sales and broking	144	161	188
Administration	33	45	43
	<u>177</u>	<u>206</u>	<u>231</u>

Staff costs, including directors' emoluments

	<i>Years ended 31 March</i>		
	<i>1996</i>	<i>1997</i>	<i>1998</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Wages and salaries	17,137	21,589	27,162
Social security costs	1,581	2,021	2,448
Pension costs	392	481	613
Other costs	2,007	2,065	5,433
	<u>21,117</u>	<u>26,156</u>	<u>35,656</u>

3. Operating profit

Operating profit is stated after charging/(crediting):

	<i>Years ended 31 March</i>		
	<i>1996</i>	<i>1997</i>	<i>1998</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Auditors' remuneration			
Audit fees	96	67	83
Other services	43	51	57
Depreciation	1,133	1,035	1,651
Operating lease rentals	432	594	666
Revaluation of current asset investments	—	—	(177)

4. Interest receivable and similar income

	<i>Years ended 31 March</i>		
	<i>1996</i>	<i>1997</i>	<i>1998</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Bank interest	667	720	1,071
Interest from Intercapital and its subsidiary undertakings (excluding the Icap Companies) ("the Retained Intercapital Group")	484	706	1,133
	<u>1,151</u>	<u>1,426</u>	<u>2,204</u>

Interest receivable from the Retained Intercapital Group relates to amounts owed by Intercapital to Intercapital Brokers Limited (one of the Icap Companies). These amounts are included as amounts owed by the Retained Intercapital Group in debtors (note 9). Interest is charged at United Kingdom base rates.

5. Interest payable

	<i>Years ended 31 March</i>		
	<i>1996</i>	<i>1997</i>	<i>1998</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Bank interest	393	238	69
Interest payable to the Retained Intercapital Group	42	34	40
	<u>435</u>	<u>272</u>	<u>109</u>

Interest payable to the Retained Intercapital Group relates mainly to interest payable by Intercapital Commodity Swaps Limited (one of the Icap Companies) on a subordinated loan (note 12).

6. Tax on profit on ordinary activities

	<i>Years ended 31 March</i>		
	<i>1996</i>	<i>1997</i>	<i>1998</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
UK taxation is based on profit for the year at a rate equivalent to 31% (1997 - 33%, 1996 - 33%)			
Corporation tax on taxable profit for the year	4,640	6,269	4,786
Adjustment in respect of prior year	163	(185)	(264)
Overseas tax	541	150	482
	<u>5,344</u>	<u>6,234</u>	<u>5,004</u>

The effective tax rates are generally higher than the statutory rates due to a high level of disallowed expenses, in particular entertainment expenses.

7. Dividends

	<i>Years ended 31 March</i>		
	<i>1996</i>	<i>1997</i>	<i>1998</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Interim paid	1,054	2,482	2,235
Proposed dividends	2,046	1,838	2,330
	<u>3,100</u>	<u>4,320</u>	<u>4,565</u>

7. Dividends (continued)

Interim dividends paid and dividends proposed are attributable to the following companies:

	<i>Years ended 31 March</i>		
	<i>1996</i>	<i>1997</i>	<i>1998</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Intercapital Securities Limited	—	—	428
Intercapital Equity Derivatives Limited	50	—	900
Intercapital Brokers Limited	2,933	3,961	2,771
CM-ICAP Limited	117	359	466
	<u>3,100</u>	<u>4,320</u>	<u>4,565</u>

8. Tangible fixed assets

	<i>Short lease</i>	<i>Furniture fixtures and equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Cost				
At 1 April 1996	624	3,522	59	4,205
Translation adjustments	—	(23)	—	(23)
Additions	23	2,469	61	2,553
Disposals	—	(67)	(8)	(75)
Transfers to the Retained Intercapital Group	—	(45)	—	(45)
At 31 March 1997	647	5,856	112	6,615
Translation adjustments	(3)	(42)	—	(45)
Additions	156	1,435	—	1,591
Disposals	(219)	(2,421)	(51)	(2,691)
Transfers to the Retained Intercapital Group	(38)	(83)	—	(121)
At 31 March 1998	<u>543</u>	<u>4,745</u>	<u>61</u>	<u>5,349</u>
Depreciation				
At 1 April 1996	461	2,424	44	2,929
Translation adjustments	—	(12)	—	(12)
Charge for the year	3	1,012	20	1,035
Disposals	—	(64)	(8)	(72)
Transfers to the Retained Intercapital Group	—	(6)	—	(6)
At 31 March 1997	464	3,354	56	3,874
Translation adjustments	(2)	(29)	—	(31)
Charge for the year	122	1,502	27	1,651
Disposals	(224)	(2,320)	(51)	(2,595)
Transfers to the Retained Intercapital Group	(25)	(100)	—	(125)
At 31 March 1998	<u>335</u>	<u>2,407</u>	<u>32</u>	<u>2,774</u>
Net book value at 31 March 1998	<u>208</u>	<u>2,338</u>	<u>29</u>	<u>2,575</u>
1997	<u>183</u>	<u>2,502</u>	<u>56</u>	<u>2,741</u>
1996	<u>163</u>	<u>1,098</u>	<u>15</u>	<u>1,276</u>

9. Debtors

	<i>At 31 March</i>	
	<i>1997</i>	<i>1998</i>
	<i>£'000</i>	<i>£'000</i>
Trade debtors (see note (a) below)	8,311	9,898
Other debtors	779	1,306
Amounts owed by the Retained Intercapital Group (see note (b) below)	14,961	20,654
Prepayments	2,772	1,267
Advance corporation tax	224	325
	<u>27,047</u>	<u>33,450</u>

- (a) The Icap Companies are involved in the purchase and simultaneous sale of negotiable money market instruments and gilt-edged securities. The form of these transactions is that the Icap Companies 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 31 March 1998 the gross amount of the purchase and sale commitments in respect of these transactions was £158,643,000. At 31 March 1997 the gross amount of purchase and sale commitments in respect of these transactions was £18,588,000.
- (b) Amounts owed by the Retained Intercapital Group will be settled as part of the acquisition arrangements.

10. Investments held as current assets

	<i>At 31 March</i>	
	<i>1997</i>	<i>1998</i>
	<i>£'000</i>	<i>£'000</i>
Listed investments (see note 20(a))	—	577
Other short term investments	1,731	1,550
	<u>1,731</u>	<u>2,127</u>

11. Creditors – amounts falling due within one year

	<i>At 31 March</i>	
	<i>1997</i>	<i>1998</i>
	<i>£'000</i>	<i>£'000</i>
Bank overdrafts	15	15
Trade creditors (see note 9(a))	1,865	1,135
Amounts owed to the Retained Intercapital Group	912	1,180
Other creditors	96	73
Corporation tax	5,093	3,057
Other tax and social security	447	644
Accruals and deferred income	4,938	8,506
Proposed dividends	1,838	2,330
Advance corporation tax payable	255	303
	<u>15,459</u>	<u>17,243</u>

Amounts owed to the Retained Intercapital Group will be settled as part of the acquisition arrangements.

12. Creditors – amounts falling due after more than one year

	<i>At 31 March</i>	
	<i>1997</i>	<i>1998</i>
	<i>£'000</i>	<i>£'000</i>
Subordinated loan from Intercapital	500	500

The subordinated loan is an approved subordinated loan under the rules of the Securities and Futures Authority and is repayable on demand subject to the rules of the Securities and Futures Authority. Interest is charged by Intercapital at 1 per cent. above United Kingdom base rates. This loan is to be settled as part of the acquisition arrangements.

13. Combined share capital and reserves

The share capitals and reserves of the Icap Companies are analysed below:

	<i>At 31 March</i>		
	<i>1996</i>	<i>1997</i>	<i>1998</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Combined share capitals			
Intercapital Commodity Swaps Limited	108	108	108
Intercapital Securities Limited	95	95	95
Intercapital Equity Derivatives Limited	100	100	100
Intercapital Brokers Limited	2,744	2,717	2,717
Intercapital Commodity Derivatives Inc.	66	66	66
Intercapital Securities Inc.	997	1,801	2,146
Intercapital Group (Australia) Pty Limited	49	49	49
Intercapital Brokers (Australia) Limited	243	243	243
CM-ICAP Pty Limited	49	49	49
Intercapital Fixed Income (Australia) Pty Limited	140	140	140
Intercapital Commodity Swaps Pte Limited	55	55	55
	<u>4,646</u>	<u>5,423</u>	<u>5,768</u>
Combined reserves			
Intercapital Commodity Swaps Limited	729	819	1,237
Intercapital Securities Limited	2,201	2,695	2,595
Intercapital Equity Derivatives Limited	518	988	765
Intercapital Brokers Limited	14,557	20,891	25,548
Intercapital Commodity Derivatives Inc.	(6)	(88)	(94)
Intercapital Securities Inc.	(672)	(1,249)	(1,633)
Intercapital Group (Australia) Pty Limited	122	10	878
Intercapital Brokers (Australia) Limited	103	30	(103)
CM-ICAP Pty Limited	691	976	328
Intercapital Fixed Income (Australia) Pty Limited	(41)	(75)	(27)
Intercapital Commodity Swaps Pte Limited	(320)	(594)	(595)
	<u>17,882</u>	<u>24,403</u>	<u>28,899</u>
Elimination of cost of investments in the Icap Companies held by other Icap Companies	(910)	(466)	(345)
	<u>16,972</u>	<u>23,937</u>	<u>28,554</u>
Combined share capitals and reserves	<u>21,618</u>	<u>29,360</u>	<u>34,322</u>

13. Combined share capital and reserves (continued)

	<i>At 31 March</i>		
	<i>1996</i>	<i>1997</i>	<i>1998</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Combined reserves comprise:			
Share premium	837	837	837
Profit and loss account	16,789	23,282	27,778
Capital redemption reserve	256	284	284
Elimination of cost of investments in the Icap Companies held by other Icap Companies	(910)	(466)	(345)
	<u>16,972</u>	<u>23,937</u>	<u>28,554</u>

Dividends totalling £456,000 were declared by Intercapital Commodity Swaps Limited and Intercapital Equity Derivatives Limited on 1 September 1998 and paid on 28 September 1998. A dividend of £393,000 was declared and paid by Intercapital Group (Australia) Pty Limited on 25 September 1998. Dividends totalling £30,875,000 were declared by Intercapital Brokers Limited, Intercapital Commodity Swaps Limited, Intercapital Equity Derivatives Limited and Intercapital Securities Limited on 29 September 1998 and are to be paid on 30 November 1998. The total dividends declared were £31,724,000. The shares in each of these companies are being acquired by the Company without the benefit of any of these dividends. The balances on the profit and loss account reserves for the above mentioned companies at 31 March 1998 were £29,999,000.

14. Profit and loss account

	<i>Years ended 31 March</i>		
	<i>1996</i>	<i>1997</i>	<i>1998</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
At beginning of year	13,222	16,789	23,282
Profit retained for the financial year	3,617	6,799	4,867
Transfer to capital redemption reserves	(25)	(28)	—
Foreign exchange translation differences	(25)	(278)	(371)
At end of year	<u>16,789</u>	<u>23,282</u>	<u>27,778</u>

15. Reconciliation of movements in combined shareholders' funds

	<i>Years ended 31 March</i>		
	<i>1996</i>	<i>1997</i>	<i>1998</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Opening shareholders' funds	16,848	21,618	29,360
Total recognised gains and losses for the year	6,692	10,813	9,061
New share capital issued and purchase of own shares	567	805	345
Elimination of investment transactions in the Icap Companies held by other Icap Companies	611	444	121
Dividends	(3,100)	(4,320)	(4,565)
Closing shareholders' funds	<u>21,618</u>	<u>29,360</u>	<u>34,322</u>

16. Analysis of net funds

	<i>At 31 March</i>		
	<i>1996</i> <i>£'000</i>	<i>1997</i> <i>£'000</i>	<i>1998</i> <i>£'000</i>
Changes during the year:			
At 1 April	9,426	14,576	15,516
Net cash inflow before adjustments for the effects of foreign exchange rate changes	5,096	1,091	756
Foreign exchange translation differences	54	(151)	(247)
At 31 March	<u>14,576</u>	<u>15,516</u>	<u>16,025</u>
Analysis of balances:			
Cash at bank and in hand	14,814	13,800	13,913
Bank overdrafts	(238)	(15)	(15)
Current asset investments	—	1,731	2,127
Total	<u>14,576</u>	<u>15,516</u>	<u>16,025</u>

17. Financial commitments

	<i>At 31 March</i>	
	<i>1997</i> <i>£'000</i>	<i>1998</i> <i>£'000</i>
The Icap Companies had annual leasehold property commitments under operating leases as follows:		
Expiry within 2-5 years	743	812
Expiry after more than 5 years	86	53
	<u>829</u>	<u>865</u>

18. Related party transactions

Intercapital Brokers Limited acts as a central paying agent for companies within the Intercapital Group. Expenses recharged to the Retained Intercapital Group amounted to £1,018,000 (1997: £998,000).

Intercapital Commodity Swaps Limited made contributions of £96,000 (1997: £71,000) to the Intercapital Group Limited Employee Benefit Trust.

Intercapital Brokers Limited made contributions of £877,000 (1997: £192,000) to the Intercapital Group Limited Employee Benefit Trust.

Intercapital Brokers Limited made net purchases of £944,000 (1997: £399,000) from the Retained Intercapital Group.

Intercapital Securities Limited made net purchases of £36,000 (1997: £19,000) from the Retained Intercapital Group.

Intercapital Equity Derivatives Limited made net purchases of £8,000 (1997: £2,000) from the Retained Intercapital Group.

Intercapital Commodity Swaps Limited made net purchases of £4,000 (1997: nil) from the Retained Intercapital Group.

Intercapital Brokers (Australia) Limited and Intercapital Fixed Income (Australia) Pty Limited paid consulting fees of £433,000 (1997: £609,000) to companies of which the local directors were directors and shareholders.

An interest free loan was provided by Intercapital Fixed Income (Australia) Pty Limited to a company of which the local directors were directors and shareholders. The outstanding balance as at 31 March 1997 was £15,000. The loan was repaid during 1998.

Loans due from directors are as follows:

	<i>At 31 March</i>	
	<i>1997</i>	<i>1998</i>
	<i>£'000</i>	<i>£'000</i>
L. Harding	5	25

The loan is repayable on call and interest was charged at 7.55% (1997: 10.5%).

Intercapital USA Inc provided general and administrative services to Intercapital Securities Inc. amounting to £147,000 (1997: £154,000).

19. Contingent liabilities

In February 1998, Intercapital Brokers Limited recruited 13 sterling swap brokers who were at that time employed by MW Marshall (Financial Services) Limited ("Marshalls"). In August 1998, Marshalls and MW Marshall (UK) Limited, both subsidiaries of MW Marshall & Company Limited, served proceedings on Intercapital Brokers Limited, Michael Spencer and one of the former Marshalls employees, claiming that they induced and procured breaches of contract by the Marshalls employees. The claim alleges damages of £12 million. The defendants deny the claims and are vigorously defending the proceedings. Pursuant to the agreement relating to the proposed acquisition, Intercapital Brokerage Services Limited and Intercapital have agreed to indemnify Intercapital Brokers Limited and the Company against any liabilities and expenses arising out of such legal proceedings.

20. Post balance sheet events

(a) Acquisitions and disposals

On 26 June 1998, Intercapital acquired 30.1 per cent., and Intercapital Commodity Swaps Limited acquired 45 per cent., totalling 75.1 per cent. of Valerie Chitty Services Limited, which has two wholly owned subsidiaries, Alpha Brokers (Metals) Limited and Alpha Brokers (Metals) Holdings Limited, for a consideration of £140,000 and £210,000 respectively. On 16 September 1998, Intercapital Commodity Swaps Limited acquired the 30.1 per cent. shareholding from Intercapital for a consideration of £99,000.

At 31 March 1998 Intercapital Securities Limited held an investment in Anglo Irish Bank Corporation Limited of £577,000. Subsequent to 31 March 1998 this investment was sold for £644,000.

(b) Transactions associated with the acquisition by the Company

Dividends totalling £456,000 were declared by Intercapital Commodity Swaps Limited and Intercapital Equity Derivatives Limited on 1 September 1998 and paid on 28 September 1998. A dividend of £393,000 was declared and paid by Intercapital Group (Australia) Pty Limited on 25 September 1998. Dividends totalling £30,875,000 were declared by Intercapital Brokers Limited, Intercapital Commodity Swaps Limited, Intercapital Equity Derivatives Limited and Intercapital Securities Limited on 29 September 1998 and are to be paid on 30 November 1998. The total dividends declared were £31,724,000. The shares in each of these companies are being acquired by the Company without the benefit of any of these dividends.

Yours faithfully

PricewaterhouseCoopers
Chartered Accountants

PART 3

FINANCIAL INFORMATION ON THE EXCO GROUP

1. Introduction

The financial information set out in paragraphs 2 to 6 below has been extracted without material adjustment from the audited consolidated financial statements of Exco for each of the three years ended 31 December 1997. The financial information for the years ended 31 December 1995 and 1996 has been represented to show separately the results of operations discontinued in the year ended 31 December 1997, in accordance with the disclosure provisions of FRS 3.

The financial information in this Part 3 does not comprise statutory accounts of Exco within the meaning of section 240 of the Act. Statutory accounts of Exco for each of the three years ended 31 December have been filed with the Registrar of Companies. The auditors of Exco, Coopers & Lybrand, Chartered Accountants and Registered Auditors of 1 Embankment Place, London WC2N 6NN, gave unqualified audit reports on each set of accounts and those reports did not contain a statement under sections 237(2) or (3) of the Act. Coopers & Lybrand (details as above) are the current auditors of Exco.

2. Consolidated profit and loss account

	Note	Year ended 31 December 1995			Year ended 31 December 1996			Year ended 31 December 1997		
		(as restated)	(as restated)	(as restated)	(as restated)	(as restated)	(as restated)	Continuing	Discontinued	Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Turnover	2	168,162	39,472	207,634	188,799	26,859	215,658	181,606	7,423	189,029
Operating expenses	3	(148,735)	(38,662)	(187,397)	(172,093)	(27,296)	(199,389)	(172,294)	(11,574)	(183,868)
Exceptional operating expense	4	(2,162)	(3,744)	(5,906)	—	—	—	(3,990)	(3,792)	(7,782)
Operating profit/(loss)		17,265	(2,934)	14,331	16,706	(437)	16,269	5,322	(7,943)	(2,621)
Profit on sale of properties in discontinued operations				1,014			—			—
Income from interests in associated undertakings				861			203			572
Exceptional items in respect of associated undertakings	5			—			—			(1,500)
Profit/(loss) on ordinary activities before interest				16,206			16,472			(3,549)
Other interest receivable and similar income	8			3,412			3,416			2,039
Interest payable and similar charges	9			(1,334)			(1,654)			(1,634)
Profit/(loss) on ordinary activities before taxation				18,284			18,234			(3,144)
Tax on profit/(loss) on ordinary activities	10			(7,141)			(9,765)			(2,771)
Profit/(loss) on ordinary activities after taxation				11,143			8,469			(5,915)
Minority interests				(889)			(534)			(84)
Profit/(loss) for the financial year				10,254			7,935			(5,999)
Ordinary dividends	11			(11,085)			(5,542)			(924)
(Loss)/profit for the year	22			(831)			2,393			(6,923)
Earnings/(loss) per ordinary share	12			8.3p			6.4p			(4.87p)

There is no material difference between the profit/(loss) on ordinary activities before taxation, the retained profit/(loss) for the financial years stated in the profit and loss accounts and their historical cost equivalents.

3. Statement of total recognised gains and losses

	<i>Year ended 31 December</i>		
	<i>1995</i>	<i>1996</i>	<i>1997</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Profit/(loss) for the financial year	10,254	7,935	(5,999)
Exchange adjustments on foreign currency net investments	611	(6,684)	(2,176)
Unrealised surplus on revaluation of properties	—	—	875
Other recognised gains and losses relating to the year	611	(6,684)	(1,301)
Total recognised gains and losses since the last annual report	10,865	1,251	(7,300)

4. Consolidated balance sheet

	<i>Note</i>	<i>At 31 December</i>		
		<i>1995</i>	<i>1996</i>	<i>1997</i>
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Fixed assets				
Tangible fixed assets	13	18,435	12,557	14,811
Investments:				
Interests in associated undertakings	14(b)	19,875	15,953	12,899
Other investments	14(b)	932	1,062	1,086
		39,242	29,572	28,796
Current assets				
Debtors: amounts falling due after one year	15	7,564	6,038	4,757
Debtors: amounts falling due within one year	15	31,424	33,444	41,625
Investments	16	19,065	16,279	10,986
Cash at bank and in hand	17	42,786	31,818	23,359
		100,839	87,579	80,727
Creditors: amounts falling due within one year	18			
Other creditors		(48,863)	(39,706)	(45,866)
Convertible debt		(1,211)	(1,192)	(569)
		(50,074)	(40,898)	(46,435)
Net current assets		50,765	46,681	34,292
Total assets less current liabilities		90,007	76,253	63,088
Creditors: amounts falling due after more than one year	19	(24,993)	(23,202)	(22,184)
Net assets		65,014	53,051	40,904
Capital and reserves:				
Called up share capital	21	30,792	30,792	30,792
Share premium account	22	5,273	5,273	5,273
Revaluation reserve	22	—	—	875
Other reserves	22	3,956	(1,938)	(4,049)
Profit and loss account	22	23,984	18,613	8,002
Equity shareholders' funds	23	64,005	52,740	40,893
Equity minority interests		1,009	311	11
Total capital employed		65,014	53,051	40,904

5. Consolidated cash flow statement

		<i>Year ended 31 December</i>		
	<i>Note</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Net cash inflow from operating activities	29	24,125	12,998	3,137
Net cash inflow/(outflow) from returns on investments and servicing of finance	31	829	491	(20)
Taxation				
UK corporation tax paid		(1,744)	(3,263)	(2,727)
Overseas tax paid		(11,155)	(4,696)	(2,984)
Tax paid		(12,899)	(7,959)	(5,711)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(5,114)	(3,121)	(11,135)
Sale of tangible fixed assets		2,554	1,035	2,579
Sale of fixed asset investments		—	7	292
Purchase of fixed asset investments		(179)	(241)	(147)
Net cash outflow from capital expenditure and financial investment		(2,739)	(2,320)	(8,411)
Acquisitions and disposals				
Purchase of minority interests		(1,024)	(7,435)	(1,146)
Investment in associated undertaking		(1,012)	(210)	—
Purchase of subsidiary undertaking		(5,867)	—	—
Net cash acquired with subsidiary		250	—	—
Deferred consideration in respect of subsidiary undertaking		—	—	(2,118)
Net cash outflow from acquisitions and disposals		(7,653)	(7,645)	(3,264)
Equity dividends paid		(11,085)	(9,237)	(4,619)
Cash outflow before use of liquid resources and financing		(9,422)	(13,672)	(18,888)
Net cash inflow from management of liquid resources	32	1,260	6,314	5,186
Financing				
Increase in long term loans		4,344	3,781	347
Loan from associated undertaking		—	—	7,371
Payment of principal under finance leases		(1,519)	(999)	(1,434)
Net cash inflow from financing	33	2,825	2,782	6,284
Decrease in cash	34	(5,337)	(4,576)	(7,418)

6. Notes to the accounts

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.

In 1997 the Group 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 years' 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 31 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 31 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	15-33½
Motor vehicles	25-33½

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.

(f) Investments

Investments included in fixed assets are stated at cost less provision for 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.

(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.

2. Turnover, profit/(loss) before interest and taxation and net assets

All the turnover and profit/(loss) before interest and taxation arose from international wholesale money and fixed income securities broking.

The geographical analysis of turnover is as follows:

	Year ended 31 December 1995			Year ended 31 December 1996			Year ended 31 December 1997		
	(as restated) Continuing £'000	(as restated) Discontinued £'000	(as restated) Total £'000	(as restated) Continuing £'000	(as restated) Discontinued £'000	(as restated) Total £'000	Continuing £'000	Discontinued £'000	Total £'000
Europe	81,422	9,847	91,269	91,359	6,753	98,112	79,951	2,196	82,147
North America	69,777	15,217	84,994	76,378	11,260	87,638	79,731	1,331	81,062
Asian Pacific	16,963	14,408	31,371	21,062	8,846	29,908	21,924	3,896	25,820
	<u>168,162</u>	<u>39,472</u>	<u>207,634</u>	<u>188,799</u>	<u>26,859</u>	<u>215,658</u>	<u>181,606</u>	<u>7,423</u>	<u>189,029</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 profit/(loss) before interest and taxation is as follows:

	Year ended 31 December 1995			Year ended 31 December 1996			Year ended 31 December 1997		
	(as restated) Continuing £'000	(as restated) Discontinued £'000	(as restated) Total £'000	(as restated) Continuing £'000	(as restated) Discontinued £'000	(as restated) Total £'000	Continuing £'000	Discontinued £'000	Total £'000
Europe	9,482	(5,386)	4,096	9,363	274	9,637	2,314	(2,177)	137
North America									
- subsidiary undertakings	7,109	1,429	8,538	6,773	15	6,788	1,650	(3,211)	(1,561)
- associated undertaking	(23)	-	(23)	(274)	-	(274)	-	-	-
Asian Pacific									
- subsidiary undertakings	674	2,037	2,711	570	(726)	(156)	1,358	(2,555)	(1,197)
- associated undertakings	884	-	884	477	-	477	(928)	-	(928)
Profit/(loss) before interest	<u>18,126</u>	<u>(1,920)</u>	<u>16,206</u>	<u>16,909</u>	<u>(437)</u>	<u>16,472</u>	<u>4,394</u>	<u>(7,943)</u>	<u>(3,549)</u>

The geographical analysis of net operating assets is as follows:

	1995 £'000	1996 £'000	1997 £'000
Europe	38,474	35,505	15,969
North America - subsidiary undertakings	29,930	21,552	22,119
- associated undertaking	845	567	-
Asian Pacific - subsidiary undertakings	11,768	9,069	6,666
- associated undertakings	19,030	15,386	12,899
Net operating assets	<u>100,047</u>	<u>82,079</u>	<u>57,653</u>
Non operating liabilities	<u>(35,033)</u>	<u>(29,028)</u>	<u>(16,749)</u>
Net assets	<u>65,014</u>	<u>53,051</u>	<u>40,904</u>

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

3. Operating expenses

	Year ended 31 December 1995			Year ended 31 December 1996			Year ended 31 December 1997		
	(as restated)	(as restated)	(as restated)	(as restated)	(as restated)	(as restated)	Continuing	Discontinued	Total
	Continuing £'000	Discontinued £'000	Total £'000	Continuing £'000	Discontinued £'000	Total £'000	£'000	£'000	£'000
Staff costs (see note 7)	96,167	24,861	121,028	110,228	17,108	127,336	115,747	6,360	122,107
Amounts written off fixed asset investments:									
Due to permanent diminution in value	—	—	—	11	—	11	17	—	17
Due to temporary fluctuations in value	—	—	—	—	—	—	243	—	243
	—	—	—	11	—	11	260	—	260
Amounts written off current asset investments:									
Due to temporary fluctuations in value	(923)	—	(923)	182	—	182	(68)	—	(68)
Depreciation and amounts written off:									
Tangible fixed assets	5,016	500	5,516	5,306	347	5,653	3,985	311	4,296
Assets held under finance leases	553	—	553	336	—	336	240	—	240
	5,569	500	6,069	5,642	347	5,989	4,225	311	4,536
Other operating expenses:									
Auditors' remuneration (including expenses)	338	22	360	387	18	405	371	20	391
Hire of plant and machinery	4	—	4	7	—	7	19	—	19
Hire of other assets - operating leases	7,296	775	8,071	8,361	762	9,123	7,159	714	7,873
Other expenses	40,284	12,504	52,788	47,275	9,061	56,336	44,581	4,169	48,750
	47,922	13,301	61,223	56,030	9,841	65,871	52,130	4,903	57,033
Total operating expenses	148,735	38,662	187,397	172,093	27,296	199,389	172,294	11,574	183,868

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; 1995: £354,000). These non-audit services comprise tax advisory and compliance work.

4. Exceptional operating expense

	Year ended 31 December 1995			Year ended 31 December 1996			Year ended 31 December 1997		
	(as restated)	(as restated)	(as restated)	(as restated)	(as restated)	(as restated)	Continuing	Discontinued	Total
	Continuing £'000	Discontinued £'000	Total £'000	Continuing £'000	Discontinued £'000	Total £'000	£'000	£'000	£'000
Property relocation costs	—	—	—	—	—	—	3,990	—	3,990
Redundancy costs	2,162	3,744	5,906	—	—	—	—	3,065	3,065
Office closure costs	—	—	—	—	—	—	—	727	727
	2,162	3,744	5,906	—	—	—	3,990	3,792	7,782

The exceptional costs in 1997 were mainly incurred in the restructuring of the New York and London offices. The exceptional costs in 1995 were mainly incurred in respect of a cost reduction programme and the closure of almost all of the spot foreign exchange broking operations in London.

5. Exceptional items in respect of associated undertakings

	1995	1996	1997
	£'000	£'000	£'000
Provision for diminution in value of fixed asset investments	—	—	(1,500)

6. Directors' emoluments

(a) Summary

The emoluments of directors of Exco were:

	1995 £'000	1996 £'000	1997 £'000
Fees as directors	66	59	50
Salary payments (including benefits in kind)	1,511	1,525	1,406
Pension contributions	349	437	222
Annual performance related bonuses	82	318	—
	<u>2,008</u>	<u>2,339</u>	<u>1,678</u>

	1995 £	1996 £	1997 £
Highest paid director:			
Salary including benefits in kind	275,769	264,751	274,952
Pension contributions	61,092	61,110	60,500
	<u>336,861</u>	<u>325,861</u>	<u>335,452</u>

No directors waived emoluments in respect of the year ended 31 December 1997 (1996: Nil; 1995: Nil).

Retirement benefits are accruing to four directors (1995 and 1996: five directors) under the Group's defined contribution schemes.

(b) Detailed analyses

The following has been extracted from the reports of the remuneration committee included in the Company's Report and Accounts.

(i) 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	<u>1,415</u>	<u>41</u>	<u>—</u>	<u>222</u>	<u>1,678</u>	<u>2,339</u>
Total 1996	<u>1,541</u>	<u>43</u>	<u>318</u>	<u>437</u>		<u>2,339</u>

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 1 March 1994 to 17 November 1997.

Former Directors

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

Philip D'Angelo, who resigned as a director on 31 December 1991, continued to be paid at an annual rate of \$500,000 under a compensation agreement with Exco USA Inc (formerly Exco Noonan Inc) covering his loss of executive office on 31 December 1990. This agreement covered the period from 1 January 1991 to 8 April 1998. Full provision was made in the accounts of the Group for the year ended 31 December 1990 for the liabilities under this compensation agreement.

- (ii) The emoluments of the directors in office for all or part of 1996 are set out below:

	<i>Salary and fees £'000</i>	<i>Benefits £'000</i>	<i>Annual bonus £'000</i>	<i>Payments to defined contribution pension schemes £'000</i>	<i>Total 1996 £'000</i>	<i>Total 1995 £'000</i>
Executive Directors						
Peter Edge	264	1	—	61	326	337
Clive Cooke	361	39	318	43	761	—
James Magee	192	—	—	—	192	280
Joseph Sciametta	77	2	—	—	79	380
Kim Taylor	119	1	—	26	146	148
Marcel Wolf	311	—	—	302	613	609
Non-executive Directors						
Carel Mosselmans	15	—	—	—	15	59
David Hubbard	51	—	—	—	51	1
Peter Buckley	17	—	—	—	17	17
John Heywood	17	—	—	—	17	17
Michael Johns	17	—	—	—	17	17
Richard Lacy	100	—	—	5	105	128
Directors who resigned in 1995	—	—	—	—	—	15
Total	1,541	43	318	437	2,339	2,008
Total 1995	1,545	32	82	349		2,008

The Remuneration Committee (in the absence of the availability of a bonus under the formula which takes into account both profit on ordinary activities before taxation and growth in such profit, excluding differences caused only by exchange rate changes) exercised its discretion in respect of £128,000 of the bonus awarded to Clive Cooke. The remainder of Clive Cooke's bonus arose from his contract of employment as Chief Executive Officer of Exco USA Securities Inc (formerly Exco RMJ Securities Corp), under which he receives bonuses for the achievement of certain profit targets.

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

Former Directors

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

Philip D'Angelo, who resigned as a director on 31 December 1991, continued to be paid at an annual rate of \$500,000 under a compensation agreement with Exco USA Inc (formerly Exco Noonan Inc) covering his loss of executive office on 31 December 1990. This agreement covered the period from 1 January 1991 to 8 April 1998. Full provision was made in the accounts of the Group for the year ended 31 December 1990 for the liabilities under this compensation agreement.

7. Staff costs

Staff costs during the year, including executive directors of the Group but excluding, in 1995 and 1997, exceptional costs, amounted to:

	<i>1995</i>	<i>1996</i>	<i>1997</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Wages and salaries	108,852	115,363	111,935
Social security costs	8,576	8,668	7,923
Other pension costs	3,600	3,305	2,249
	<u>121,028</u>	<u>127,336</u>	<u>122,107</u>

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

	<i>1995</i>	<i>1996</i>	<i>1997</i>
	<i>Number</i>	<i>Number</i>	<i>Number</i>
Sales and broking	1,320	1,257	1,130
Administration	406	399	365
	<u>1,726</u>	<u>1,656</u>	<u>1,495</u>

8. Other interest receivable and similar income

	<i>1995</i>	<i>1996</i>	<i>1997</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Income from fixed asset investments:			
Unlisted overseas	—	11	17
Income from current asset investments:			
Unlisted	469	337	325
Bank interest and other income	2,943	3,068	1,697
	<u>3,412</u>	<u>3,416</u>	<u>2,039</u>

9. Interest payable and similar charges

	<i>1995</i>	<i>1996</i>	<i>1997</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
On finance leases	315	290	153
On bank loans and overdrafts repayable within 5 years	1,019	1,364	1,481
	<u>1,334</u>	<u>1,654</u>	<u>1,634</u>

10. Taxation

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

	1995 £'000	1996 £'000	1997 £'000
UK corporation tax at a rate of 31.5% (1996: 33%) (1995: 33%)	4,308	4,333	2,011
Advance corporation tax written off	—	—	500
Deferred taxation	(868)	(273)	(532)
	<u>3,440</u>	<u>4,060</u>	<u>1,979</u>
Less: Relief for overseas taxation	(3,371)	(307)	(476)
Overseas taxation	<u>6,360</u>	<u>5,688</u>	<u>1,082</u>
Taxation arising on profit of the Group	6,429	9,441	2,585
Tax attributable to share of profits of associated undertakings	712	324	186
	<u>7,141</u>	<u>9,765</u>	<u>2,771</u>

11. Dividends in respect of equity shares

	1995 £'000	1996 £'000	1997 £'000
Interim dividend of 3.0p per share paid 26 October 1995	3,695	—	—
Final dividend of 6.0p per share paid 31 May 1996	7,390	—	—
Interim dividend of 1.5p per share paid on 30 October 1996	—	1,847	—
Final dividend of 3.0p per share paid on 30 May 1997	—	3,695	—
Interim dividend of 0.75p per share paid on 31 October 1997	—	—	924
	<u>11,085</u>	<u>5,542</u>	<u>924</u>

12. Earnings per ordinary share

Earnings per share has been calculated based on the profit/(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; 1995: 123,166,034). The dilutive effect of unexercised options and convertible loan stocks on earnings per share is not material.

	1995	1996	1997
Earnings/(loss) per share	<u>8.30p</u>	<u>6.40p</u>	<u>(4.87p)</u>

13. Tangible fixed assets

	<i>Land and buildings</i>		<i>Furniture, fixtures & equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
	<i>Freehold</i>	<i>Short leasehold</i>			
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Cost					
At 1 January 1996					
Cost	584	7,537	50,242	6,085	64,448
Exchange adjustments	(85)	(680)	(5,116)	(366)	(6,247)
Additions	—	114	2,292	529	2,935
Disposals	(51)	(247)	(7,486)	(1,998)	(9,782)
At 31 December 1996					
Cost	448	6,724	39,932	4,250	51,354
Depreciation					
At 1 January 1996	182	4,307	39,228	2,296	46,013
Exchange adjustments	(26)	(357)	(4,190)	(269)	(4,842)
Charge for the year	9	343	4,713	924	5,989
Disposals	(9)	(246)	(7,098)	(1,010)	(8,363)
At 31 December 1996	156	4,047	32,653	1,941	38,797
Net book value					
At 31 December 1996	292	2,677	7,279	2,309	12,557
At 31 December 1995	402	3,230	11,014	3,789	18,435
Cost or valuation					
At 1 January 1997					
Cost	448	6,724	39,932	4,250	51,354
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 31 December 1997					
Cost	405	4,621	33,861	2,240	41,127
Valuation	1,136	—	—	—	1,136
	1,541	4,621	33,861	2,240	42,263
Depreciation					
At 1 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 31 December 1997	150	1,429	24,778	1,095	27,452
Net book value					
At 31 December 1997	1,391	3,192	9,083	1,145	14,811
At 31 December 1996	292	2,677	7,279	2,309	12,557

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 31 December 1997 on the basis of existing use value.

14. Fixed asset investments

(a) Movement in subsidiary and associated undertakings

Year ended 31 December 1997

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:

	<i>Book value</i> £'000	<i>Revaluation</i> £'000	<i>Fair value</i> £'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.

Year ended 31 December 1996

During 1996, the Group subscribed to 30 per cent. of the ordinary share capital of S-One Exco Co. Limited, an associated undertaking, for a consideration of £207,000. The Group in 1996 also acquired most of the remaining minority interest in an existing subsidiary undertaking, Exco Shorcan Ltd for £7,435,000.

Year ended 31 December 1995

In October 1995, the company acquired the German interests of Trio Holdings plc which carried on the business of money and fixed income securities broking under the name of Exco Bierbaum. This acquisition has been accounted for in accordance with Financial Reporting Standard No. 6. "Acquisitions and Mergers". Details of the fair value of the net assets acquired and consideration paid are set out below:

The summarised profit and loss account for Exco Bierbaum for the period 12 months to 30 September 1995 is as follows:

Profit and loss account

	<i>Period ended 30 September 1995 £'000</i>
Turnover	26,614
Operating profit	131
Loss on ordinary activities before taxation	(880)
Tax on ordinary activities	(1)
Loss on ordinary activities after taxation	(881)

The assets and liabilities acquired are set out below:

	<i>Book value £'000</i>	<i>Fair value adjustments £'000</i>	<i>Fair value £'000</i>
Fixed assets			
Tangible fixed assets	3,181	(900)	2,281
Other investments	62	—	62
Current assets			
Debtors	8,603	405	9,008
Cash at bank and in hand	1,080	—	1,080
Total assets	12,926	(495)	12,431
Liabilities			
Creditors	(8,980)	—	(8,980)
Bank overdrafts	(830)	—	(830)
Net assets	3,116	(495)	2,621
Goodwill			3,246
			5,867
Satisfied by cash			5,867

The values of furniture, fixtures and equipment acquired have been adjusted to align the subsidiary undertaking's depreciation policy with the Group policy.

Also in October 1995, the company acquired 20 per cent. of the issued share capital of Delta Government Options Corp. for a consideration of £1,012,000.

(b) Investments

	1996 £'000	1997 £'000
Interests in unlisted investments	1,009	1,039
Interests in listed investment overseas	53	47
Interests in associated undertakings	15,953	12,899
	<u>17,015</u>	<u>13,985</u>

The aggregate market value of unlisted investments was £1,039,000 (1996: £1,009,000).

	Associates £'000	Other investments £'000
Cost:		
At 1 January 1996	23,473	951
Exchange adjustments	(3,890)	(89)
Additions	207	239
Disposals	—	(10)
Share of retained (loss)/profit for the year	(236)	—
At 31 December 1996	<u>19,554</u>	<u>1,091</u>
Amounts written off:		
At 1 January 1996	(3,598)	(19)
Exchange adjustments	—	1
Amounts written off during the year	(3)	(11)
At 31 December 1996	<u>(3,601)</u>	<u>(29)</u>
Cost:		
At 1 January 1997	19,554	1,091
Exchange adjustments	(1,327)	(140)
Additions	—	140
Disposals	—	(297)
Share of retained (loss)/profit for the year	(1,161)	—
Transfers	(713)	1,011
At 31 December 1997	<u>16,353</u>	<u>1,805</u>
Amounts written off:		
At 1 January 1997	(3,601)	(29)
Exchange adjustments	—	5
Disposals	—	10
Amounts written back/(off) during the year	147	(260)
Transfers	—	(445)
At 31 December 1997	<u>(3,454)</u>	<u>(719)</u>
Net book value at 31 December 1997	<u>12,899</u>	<u>1,086</u>
Net book value at 31 December 1996	<u>15,953</u>	<u>1,062</u>
Net book value at 31 December 1995	<u>19,875</u>	<u>932</u>

(c) The Group's investment in associated undertakings comprises:

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

All associated undertakings are unlisted.

15. Debtors

	1996 £'000	1997 £'000
Debtors due after one year	6,038	4,757
Debtors due within one year	33,444	41,625
	39,482	46,382

	1996 £'000	1997 £'000
Debtors due after one year:		
Other debtors	3,081	3,340
Prepayments and accrued income	376	696
Advance corporation tax recoverable	1,382	442
Deferred taxation (see note 20)	1,199	279
	6,038	4,757

	1996 £'000	1997 £'000
Debtors due within one year:		
Trade debtors (see note below)	19,359	27,929
Amounts owed by associated undertakings	628	660
Other debtors	6,291	4,383
Prepayments and accrued income	2,551	2,760
Advance corporation tax recoverable	2,098	1,851
Deferred taxation (see note 20)	2,517	4,042
	33,444	41,625

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 31 December 1997 the gross amount of purchase and sale commitments in respect of these transactions was £334,790,000. As at 31 December 1996 the gross amount of purchase and sale commitments in respect of these transactions was £1,158,341,000.

16. Current asset investments

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

	1996 £'000	1997 £'000
Unlisted	16,279	10,986
Their aggregate market value was:		
Unlisted at directors' valuation	16,279	10,986

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 £569,000 (1996: £1,192,000) which is charged to a third party creditor (see note 21).

18. Creditors: amounts falling due within one year

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

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

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

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

20. Provision for liabilities and charges

(a) Deferred taxation asset:

	1996 £'000	1997 £'000
Amount recognised:		
Capital and other investment allowances on fixed assets and finance leases	495	228
Other timing differences	3,221	4,093
Deferred taxation asset	<u>3,716</u>	<u>4,321</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	2,454	2,119
	<u>2,528</u>	<u>2,119</u>

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

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

	1996 £'000	1997 £'000
At 1 January	3,782	3,716
Exchange adjustments	(339)	73
Credited to profit and loss account	273	532
At 31 December	<u>3,716</u>	<u>4,321</u>

(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.

21. Share capital

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

Holders of Floating Rate Secured Convertible Loan Stock 2001 in the sum of £569,000 (1996: £1,192,000) (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 27 June 2001, provided that the ordinary shares of the Company are listed on the London Stock Exchange.

1996 and 1997

Of the total of 1,650,000 options outstanding under the 1992 No.3 Share Option Scheme at 31 December 1997 and 31 December 1996, 560,322 were to subscribe for new ordinary shares of the Company. The options are exercisable up to 16 February 2001 at a price of £1.00 per share. At 31 December 1997, 2,587,700 (1996: 2,919,700) matching share options were outstanding under the Long Term Employee Share Plan. Of these options 1,175,500 lapsed on signature of the 1997 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 19 July 2004 but not before 19 July 1998, 167,400 are exercisable up to 2 July 2006 but not before 2 July 2000 and 69,300 are exercisable up to 9 July 2006 but not before 9 July 2000 at a price of 1.0p per share.

22. Reserves

	Share premium account £'000	Revaluation reserve £'000	Other reserves £'000	Profit & loss account £'000
At 1 January 1995	5,273	72	3,160	29,658
Exchange translation	—	—	723	(112)
Goodwill written off	—	—	—	(4,730)
Transfer from reserves to profit and loss account	—	(72)	73	(1)
Loss for the year	—	—	—	(831)
At 31 December 1995	5,273	—	3,956	23,984

	Share premium account £'000	Revaluation reserve £'000	Other reserves £'000	Profit & loss account £'000
At 1 January 1996	5,273	—	3,956	23,984
Exchange translation	—	—	(5,883)	(801)
Goodwill written off	—	—	—	(6,974)
Transfer from reserves to profit and loss account	—	—	(11)	11
Profit for the year	—	—	—	2,393
At 31 December 1996	5,273	—	(1,938)	18,613

	Share premium account £'000	Revaluation reserve £'000	Other reserves £'000	Profit & loss account £'000
At 1 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 31 December 1997	5,273	875	(4,049)	8,002

Of the exchange translation movement of £2,111,000 in the year, £170,000 (1996: £2,250,000; 1995: £497,000) relates to the net exchange gain on foreign currency borrowings.

Other reserves comprise:

	1995 £'000	1996 £'000	1997 £'000
Unrealised exchange gains/(losses)	3,773	(2,110)	(4,221)
Other non-distributable reserves	183	172	172
	3,956	(1,938)	(4,049)

23. Reconciliation of movements in equity shareholders' funds

	1995 £'000	1996 £'000	1997 £'000
Profit/(loss) for the financial year	10,254	7,935	(5,999)
Ordinary dividends	(11,085)	(5,542)	(924)
	(831)	2,393	(6,923)
Other recognised gains and losses relating to the year (net)	611	(6,684)	(1,301)
Goodwill written off during the year	(4,730)	(6,974)	(3,623)
Net deductions from shareholders' funds	(4,950)	(11,265)	(11,847)
Opening shareholders' funds	68,955	64,005	52,740
Closing shareholders' funds	64,005	52,740	40,893

24. Cumulative goodwill

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

	1996 £'000	1997 £'000
At 1 January	117,074	124,048
Taken to reserves in year	6,974	3,623
At 31 December	124,048	127,671

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; 1995: £3,197,000) of which £322,000 (1996: £715,000; 1995: £1,192,000) related to overseas schemes. At the year end contributions accrued but not paid totalled £2,000 (1996: £13,000; 1995: £527,000).

(b) Defined benefit schemes

1997

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 the qualified actuary's advice. The last actuarial assessment was performed by an independent actuary as at 1 January 1997.

At the most recent formal valuation the main assumptions were:

	USA
Investment return	8.5%
Salary increases	—

This scheme was closed as at 1 July 1996.

1996

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

In Hong Kong and 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 1 January 1996 in the USA and 1 January 1994 in Hong Kong.

At the most recent formal valuation the main assumptions were:

	<i>USA</i>	<i>Hong Kong</i>
Investment return	8.25%	3.5%
Salary increases	5.5%	3%-5%

1995

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

In Hong Kong and 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 1 January 1995 in the USA and 1 January 1994 in Hong Kong.

At the most recent formal valuation the main assumptions were:

	<i>USA</i>	<i>Hong Kong</i>
Investment return	8.25%	3.5%
Salary increases	5.5%	5%-8%

1997, 1996 and 1995

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; 1995: £4,934,000) 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; 1995: £404,000) and at the year end contributions accrued but not yet due to be paid totalled £832,000 (1996: £894,000; 1995: £1,098,000).

As at 31 December 1997, 1996 and 1995 no deficiencies are considered to exist on the basis of current funding levels.

26. Contingent liabilities and commitments

(a) Capital commitments:

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

(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 31 December the Group had annual commitments under operating leases as follows:

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

	1996 £'000	1997 £'000
In respect of other leases expiring:		
- within one year	475	585
- between two and five years	911	344
	1,386	929

- (iii) At 31 December 1997 the Group was liable to purchase the minority interests in Exco Shorcan Limited at purchase prices based on profits.

(c) Contingent liabilities

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, 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.

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

	1995 £'000	1995 £'000	1996 £'000	1996 £'000	1997 £'000	1997 £'000
Profit/(loss) on ordinary activities before interest		16,206		16,472		(3,549)
Depreciation of tangible fixed assets		6,069		5,989		4,536
Profit on sale of properties in discontinued operations		(1,014)		—		—
Share of profits of associates	(861)		(203)		(572)	
Exceptional items of associated undertakings	—		—		1,500	
Dividends received from associated undertakings	161		136		50	
Profits of associates less dividends received and exceptional items		(700)		(67)		978
(Profit)/loss on sale of tangible fixed assets		(1,217)		118		1,338
Loss on sale of fixed asset investments		—		4		—
Decrease/(increase) in operating debtors and prepayments		6,741		(3,905)		(9,246)
(Decrease)/increase in operating creditors and accruals		(1,960)		(5,613)		9,080
Net cash inflow from operating activities		24,125		12,998		3,137

In relation to the exceptional operating expense in 1997 of £7,782,000, cash outflows of £3,460,000 occurred in 1997. In relation to the exceptional operating expense in 1995 of £5,906,000, cash outflows of £1,514,000 and £3,516,000 occurred in 1995 and 1996 respectively.

30. Analysis of the net outflow of cash and cash equivalents in respect of the purchase of the subsidiary undertaking

	1995 £'000	1996 £'000	1997 £'000
Cash consideration	5,867	—	—
Cash at bank and in hand acquired	(1,080)	—	—
Bank overdrafts of acquired subsidiary undertaking	830	—	—
	<u> </u>	<u> </u>	<u> </u>
Net outflow of cash and cash equivalents in respect of the purchase of the subsidiary undertaking	<u>5,617</u>	<u>—</u>	<u>—</u>

31. Returns on investments and servicing of finance

	1995 £'000	1996 £'000	1997 £'000
Interest received	3,299	2,897	2,024
Interest paid	(1,077)	(1,342)	(1,495)
Interest paid on finance leases	(335)	(285)	(152)
Income from fixed asset investments	—	11	17
Expenses paid in connection with long term loans	(135)	(94)	(39)
Dividends paid to minorities	(923)	(696)	(375)
	<u> </u>	<u> </u>	<u> </u>
Net cash inflow/(outflow) from returns on investments and servicing of finance	<u>829</u>	<u>491</u>	<u>(20)</u>

32. Management of liquid resources

	1995 £'000	1996 £'000	1997 £'000
Cash (placed on)/withdrawn from short term deposits	(386)	4,205	6,297
Sale/(purchase) of US treasury securities	1,631	2,094	(1,081)
Sale/(purchase) of short term investments	15	15	(30)
	<u> </u>	<u> </u>	<u> </u>
Net cash inflow from management of liquid resources	<u>1,260</u>	<u>6,314</u>	<u>5,186</u>

33. Analysis of changes in financing during the year

	Share capital (excluding premium) 1995 £'000	Loans and finance lease obligations 1995 £'000	Share capital (excluding premium) 1996 £'000	Loans and finance lease obligations 1996 £'000	Share capital (excluding premium) 1997 £'000	Loans and finance lease obligations 1997 £'000
At 1 January	30,792	15,768	30,792	19,002	30,792	20,782
Cash inflows from financing	—	2,825	—	2,782	—	6,284
Inception of finance lease contracts	—	776	—	1,510	—	76
Effect of foreign exchange rate changes	—	(367)	—	(2,512)	—	(994)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December	<u>30,792</u>	<u>19,002</u>	<u>30,792</u>	<u>20,782</u>	<u>30,792</u>	<u>26,148</u>

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

	1995 £'000	1996 £'000	1997 £'000
Decrease in cash	(5,337)	(4,576)	(7,418)
Cash inflow from decrease in liquid resources	(1,260)	(6,314)	(5,186)
Cash inflow from increase in debt and lease financing	(2,825)	(2,782)	(6,284)
Change in net debt resulting from cash flows	(9,422)	(13,672)	(18,888)
New finance leases	(776)	(1,510)	(76)
Translation difference	1,235	(774)	776
Movement in net debt	(8,963)	(15,956)	(18,188)
Net funds as at 1 January	50,932	41,969	26,013
Net funds as at 31 December	41,969	26,013	7,825

35. Analysis of net funds

	At 1 January 1995 £'000	Cash flow £'000	Other non cash changes £'000	Exchange movements £'000	At 31 December 1995 £'000
Net cash:					
Cash at bank and in hand	44,186				42,786
Less: deposits treated as liquid resources	(6,110)				(8,930)
Bank overdrafts	38,076 (154)	(4,611) (726)	— —	391 —	33,856 (880)
	37,922	(5,337)	—	391	32,976
Liquid resources:					
Deposits included in cash	6,110	386	—	2,434	8,930
Current asset investments	22,668	(1,646)	—	(1,957)	19,065
	28,778	(1,260)	—	477	27,995
Debt:					
Long term loans	(12,820)	(4,344)	—	365	(16,799)
Finance leases	(2,948)	1,519	(776)	2	(2,203)
	(15,768)	(2,825)	(776)	367	(19,002)
Net funds	50,932	(9,422)	(776)	1,235	41,969
Analysed in Balance Sheet:					
Cash at bank and in hand	44,186				42,786
Current asset investments	22,668				19,065
Bank overdrafts	(154)				(880)
Finance leases due within one year	(923)				(1,020)
Finance leases due after one year	(2,025)				(1,183)
Long term bank loans	(12,820)				(16,799)
	50,932				41,969

	<i>At 1 January 1996 £'000</i>	<i>Cash flow £'000</i>	<i>Other non cash changes £'000</i>	<i>Exchange movements £'000</i>	<i>At 31 December 1996 £'000</i>
Net cash:					
Cash at bank and in hand	42,786				31,818
Less: deposits treated as liquid resources	(8,930)				(4,148)
	<hr/> 33,856	<hr/> (4,154)	<hr/> —	<hr/> (2,032)	<hr/> 27,670
Bank overdrafts	(880)	(422)	—	—	(1,302)
	<hr/> 32,976	<hr/> (4,576)	<hr/> —	<hr/> (2,032)	<hr/> 26,368
Liquid resources:					
Deposits included in cash	8,930	(4,205)	—	(577)	4,148
Current asset investments	19,065	(2,109)	—	(677)	16,279
	<hr/> 27,995	<hr/> (6,314)	<hr/> —	<hr/> (1,254)	<hr/> 20,427
Debt:					
Long term loans	(16,799)	(3,781)	—	2,411	(18,169)
Finance leases	(2,203)	999	(1,510)	101	(2,613)
	<hr/> (19,002)	<hr/> (2,782)	<hr/> (1,510)	<hr/> 2,512	<hr/> (20,782)
Net funds	<hr/> 41,969	<hr/> (13,672)	<hr/> (1,510)	<hr/> (774)	<hr/> 26,013
Analysed in Balance Sheet:					
Cash at bank and in hand	42,786				31,818
Current asset investments	19,065				16,279
Bank overdrafts	(880)				(1,302)
Finance leases due within one year	(1,020)				(1,349)
Finance leases due after one year	(1,183)				(1,264)
Long term bank loans	(16,799)				(18,169)
	<hr/> 41,969				<hr/> 26,013

	<i>At 1 January 1997 £'000</i>	<i>Cash flow £'000</i>	<i>Other non cash changes £'000</i>	<i>Exchange movements £'000</i>	<i>At 31 December 1997 £'000</i>
Net cash:					
Cash at bank and in hand	31,818				23,359
Less: deposits treated as liquid resources	(4,148)				(4,244)
	<hr/> 27,670	<hr/> (8,348)	<hr/> —	<hr/> (207)	<hr/> 19,115
Bank overdrafts	(1,302)	930	—	—	(372)
	<hr/> 26,368	<hr/> (7,418)	<hr/> —	<hr/> (207)	<hr/> 18,743
Liquid resources:					
Deposits included in cash	4,148	342	—	(246)	4,244
Current asset investments	16,279	(5,528)	—	235	10,986
	<hr/> 20,427	<hr/> (5,186)	<hr/> —	<hr/> (11)	<hr/> 15,230
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)
	<hr/> (20,782)	<hr/> (6,284)	<hr/> (76)	<hr/> 994	<hr/> (26,148)
Net funds	<hr/> 26,013	<hr/> (18,888)	<hr/> (76)	<hr/> 776	<hr/> 7,825
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)
	<hr/> 26,013				<hr/> 7,825

PART 4

FINANCIAL INFORMATION ON THE INTERCAPITAL GROUP

1. Nature of the financial information

The financial information in paragraphs 2 to 7 below does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985, as amended, and has been extracted without material adjustment from the full audited consolidated accounts of Intercapital for the three years ended 31 March 1998, on which the audit opinions were unqualified.

2. Intercapital consolidated profit and loss accounts for the three years ended 31 March 1998

	Notes	1996 £'000	1997 £'000	1998 £'000
Turnover				
Continuing operations		63,011	68,286	75,664
Acquisitions		—	—	23
Discontinued operations		1,171	2,686	—
		<hr/>	<hr/>	<hr/>
Total turnover		64,182	70,972	75,687
		<hr/>	<hr/>	<hr/>
Operating expenses				
Continuing operations		(48,771)	(56,061)	(68,848)
Acquisitions		—	—	(789)
Discontinued operations		(1,981)	(3,122)	—
		<hr/>	<hr/>	<hr/>
		(50,752)	(59,183)	(69,637)
		<hr/>	<hr/>	<hr/>
Operating profit				
Continuing operations	2	14,240	12,225	6,816
Acquisitions		—	—	(766)
Discontinued operations		(810)	(436)	—
		<hr/>	<hr/>	<hr/>
		13,430	11,789	6,050
Interest receivable and similar income	3	2,198	2,399	2,514
Interest payable	4	(995)	(805)	(577)
		<hr/>	<hr/>	<hr/>
Profit on ordinary activities before taxation		14,633	13,383	7,987
Tax on profit on ordinary activities	5	(6,141)	(5,942)	(3,846)
		<hr/>	<hr/>	<hr/>
Profit on ordinary activities after taxation		8,492	7,441	4,141
Minority interests		(1,559)	(1,366)	(754)
		<hr/>	<hr/>	<hr/>
Group profit for the financial year		6,933	6,075	3,387
Dividends	6	(1,680)	(2,218)	(2,111)
		<hr/>	<hr/>	<hr/>
Retained profit for the financial year		5,253	3,857	1,276
		<hr/>	<hr/>	<hr/>
Dividends per share		300p	375p	350p
Earnings per share		942p	825p	460p

3. Intercapital consolidated balance sheet as at 31 March 1998

	Notes	£'000
Fixed assets		
Tangible assets	7	4,335
Intangible assets	8	990
Investments	9	7,294
		<hr/>
		12,619
Current assets		
Debtors	10	243,749
Investments	11	5,749
Cash at bank and in hand		19,950
		<hr/>
		269,448
Creditors – amounts falling due within one year	12	(243,966)
		<hr/>
Net current assets		25,482
		<hr/>
Total assets less current liabilities		38,101
Minority interests		(4,310)
		<hr/>
Total net assets		33,791
		<hr/>
Capital and reserves		
Called up share capital	13	736
Share premium accounts		90
Capital redemption reserve		3
Other reserves		726
Profit and loss account		32,236
		<hr/>
Shareholders' funds		33,791
		<hr/>

4. Intercapital consolidated cash flow statement for the year ended 31 March 1998

	Notes	£'000
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit		6,050
Depreciation		2,412
Goodwill amortisation		247
(Increase) in debtors		(138,811)
Increase in creditors		143,944
Loss on sale of investment		388
Loss on disposal of shares in subsidiaries		126
		<hr/>
Net cash inflow from operating activities		14,356
		<hr/>
Cash flow statement		
Net cash inflow from operating activities		14,356
Return on investments and servicing of finance	14	903
Taxation		(6,044)
Capital expenditure	14	(8,433)
Equity dividends paid		(1,808)
Management of liquid resources	14	1,024
		<hr/>
(Decrease) in cash		(2)
		<hr/>

5. Intercapital statement of recognised gains and losses for the year ended 31 March 1998

	£'000
Profit for the financial year	3,387
Foreign exchange translation differences	(84)
	<hr/>
Total recognised gains and losses	3,303
	<hr/>

6. Accounting policies

The principal accounting policies of Intercapital are as follows:

(a) Accounting convention

The financial statements are prepared under the historical cost convention.

(b) Basis of consolidation

The group financial statements consolidate the financial statements of Intercapital and all subsidiaries for the three financial years ended 31 March 1998 and also include the financial statements of the Intercapital Group Limited Employee Benefit Trust. Overseas subsidiaries are consolidated using the closing rate method. Foreign exchange differences arising on consolidation are taken to reserves.

(c) Foreign exchange

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Income earned or expenses incurred in foreign currencies are translated at the rates ruling at the time of the transaction. Profits and losses on translation are taken to the profit and loss account.

(d) Pension costs

The Intercapital Group operates defined contribution pension schemes. Contributions are charged against profits as they fall due.

(e) Fixed assets and depreciation

Depreciation is calculated as follows:—

Short leasehold, motor cars, office equipment and furniture – to write off their cost by equal annual instalments over their estimated useful lives which are considered to be between two and five years.

(f) Deferred taxation

Deferred taxation is provided on timing differences, arising from the different treatment of items for accounts and taxation purposes, which are expected to reverse in the future, calculated at rates which it is estimated that tax will arise.

(g) Turnover

Turnover relates to commission on capital markets transactions, market making services, sales of software, recruitment fees and subscriptions. It is recognised in the financial statements when invoiced. In the spread index bookmaking subsidiaries, open bets are included in the financial statements at market value in order to give a true and fair view of the results for the year.

(h) Current asset investments

Investments are stated at the lower of cost or net realisable value except for listed investments which are stated at market value.

(i) Goodwill

Goodwill arising from the acquisition of subsidiaries is written off against reserves in the year of acquisition in the case of subsidiaries engaged in the Intercapital Group's core activities. Goodwill relating to the acquisition of subsidiaries engaged in other activities is capitalised on consolidation and amortised over the shorter of its useful economic life or five years.

(j) Leases

Amounts payable under operating leases are charged to the profit and loss account as they are incurred.

(k) Segmental information

No analysis of turnover between geographical and business segments is given as in the opinion of the directors this would be seriously prejudicial to the interests of the Intercapital Group.

7. Extracts from the notes to the accounts

1. Directors and employees

	1996 £'000	1997 £'000	1998 £'000
Directors:			
Aggregate emoluments	1,677	1,858	2,043
Company pension contributions	49	67	58
	<u>1,726</u>	<u>1,925</u>	<u>2,101</u>
Highest paid director:			
Aggregate emoluments	268	484	623
Company pension contributions	6	6	6
	<u>274</u>	<u>490</u>	<u>629</u>

All directors have benefits accruing under pension schemes.

Employees

	Number of Employees		
	1996	1997	1998
The average number of persons employed by the Intercapital Group was:	<u>290</u>	<u>336</u>	<u>373</u>

	1996 £'000	1997 £'000	1998 £'000
Staff costs			
Wages and salaries	22,857	30,197	34,965
Social security costs	1,854	2,319	2,868
Pension costs	490	696	789
Other costs	2,642	4,049	6,019
	<u>27,843</u>	<u>37,261</u>	<u>44,641</u>

2. Operating profit

	1996 £'000	1997 £'000	1998 £'000
Operating profit is stated after charging:			
Goodwill amortisation	195	195	247
Auditors' remuneration:			
Audit fees	146	136	132
Other services	118	350	124
Depreciation	2,220	1,982	2,412
	<u>2,579</u>	<u>2,522</u>	<u>2,915</u>

3. Interest receivable and similar income

	1996 £'000	1997 £'000	1998 £'000
Bank interest	1,654	1,266	1,907
Profit on sale of investments and foreign exchange transactions	544	698	105
Other interest	—	424	363
Income from interest in associated undertaking	—	11	139
	<u>2,198</u>	<u>2,399</u>	<u>2,514</u>

4. Interest payable

	1996 £'000	1997 £'000	1998 £'000
Bank interest	988	805	577
Hire purchase interest	7	—	—
	<u>995</u>	<u>805</u>	<u>577</u>

5. Tax on profit on ordinary activities

	1996 £'000	1997 £'000	1998 £'000
UK taxation is based on profit for the year at a rate equivalent to 31% (1997 - 33%, 1996 - 33%):			
Corporation tax on taxable profit for the year	5,053	6,798	4,542
Adjustment in respect of prior year	153	(19)	(692)
Overseas tax	935	(837)	(4)
	<u>6,141</u>	<u>5,942</u>	<u>3,846</u>

6. Dividends

	1996 £'000	1997 £'000	1998 £'000
Interim paid £1.70 per ordinary share (1997 - £2.50, 1996 - £1.00)	563	1,462	1,052
Proposed dividend of £1.80 per ordinary share (1997 - £1.25, 1996 - £2.00)	1,117	756	1,059
	<u>1,680</u>	<u>2,218</u>	<u>2,111</u>

7. Tangible fixed assets

	Short leasehold £'000	Office furniture & equipment £'000	Motor cars £'000	Total £'000
Cost				
At 1 April 1997	170	10,159	852	11,181
Additions	17	2,332	280	2,629
Disposals	(70)	(2,529)	(219)	(2,818)
Translation adjustments	—	(164)	(21)	(185)
At 31 March 1998	<u>117</u>	<u>9,798</u>	<u>892</u>	<u>10,807</u>
Depreciation				
At 1 April 1997	75	6,454	308	6,837
Provided in the year	43	2,131	238	2,412
Disposals	(59)	(2,359)	(224)	(2,642)
Translation adjustments	—	(126)	(9)	(135)
At 31 March 1998	<u>59</u>	<u>6,100</u>	<u>313</u>	<u>6,472</u>
Net book value at 31 March 1998	<u>58</u>	<u>3,698</u>	<u>579</u>	<u>4,335</u>
Net book value at 31 March 1997	<u>95</u>	<u>3,705</u>	<u>544</u>	<u>4,344</u>

8. Intangible assets

	£'000
Goodwill on consolidation	
At 31 March 1997	975
Arising in the year	847
	<hr/>
At 31 March 1998	1,822
	<hr/>
Amortisation	
At 31 March 1997	585
Charge for the year	247
	<hr/>
At 31 March 1998	832
	<hr/>
Net book value at 31 March 1998	990
	<hr/>
Net book value at 31 March 1997	390
	<hr/>

9. Fixed asset investments

As referred to in paragraph 6 above the financial statements of the Employee Trust have been incorporated in the consolidated financial statements in accordance with UITF 13. This has been done because, although the Employee Trust is controlled by independent trustees and its assets are held separately from those of the Intercapital Group, in practice the Intercapital Group's advice as to how the assets are used for the benefit of employees is generally accepted.

Contributions to the Employee Trust are determined by the board from time to time. The contributions made in respect of the current year were £1,042,000 (1997 - £192,000).

At 31 March 1998 the assets of the Employee Trust amounted to £1,778,000 (1997 - £1,428,000). These assets include 141,034 ordinary shares in Intercapital carried at cost. Other assets were primarily receivables from employees in connection with the purchase of shares in Intercapital and its liabilities were deferred consideration on the purchase of shares and bank borrowings. All dividends have been waived. The Employee Trust bears its own administration and financing costs.

	<i>Own shares</i>	<i>Associated undertakings</i>	<i>Other</i>	<i>Total</i>
	£'000	£'000	£'000	£'000
At 1 April 1997	3,840	263	340	4,443
Additions	2,987	—	1,495	4,482
Disposals	(1,770)	—	—	(1,770)
Share of post acquisition profits	—	139	—	139
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 1998	5,057	402	1,835	7,294
	<hr/>	<hr/>	<hr/>	<hr/>

The associated undertakings balance relates to a 22.2 per cent. interest in the ordinary shares of Sheffield Haworth Limited.

10. Debtors

	<i>1998</i>
	<i>£'000</i>
Trade debtors	230,730
Other debtors	7,814
Prepayments	3,258
Corporation tax	1,622
ACT recoverable after more than one year	325
	<hr/>
	243,749
	<hr/>

11. Investments held as current assets

	<i>1998</i>
	<i>£'000</i>
Other short term investments	5,749
	<hr/>
	5,749
	<hr/>

The Intercapital Group's bankers held a charge over £2,380,000 of the certificates of deposit in respect of borrowing facilities provided to The Intercapital Group Limited Employee Benefit Trust.

12. Creditors – Amounts falling due within one year

	<i>1998</i>
	<i>£'000</i>
Bank overdrafts	6,762
Trade creditors	218,323
Other creditors	1,985
Corporation tax	3,408
Other tax and social security	1,392
Accruals and deferred income	10,730
Proposed dividends	1,059
ACT payable	307
	<hr/>
	243,966
	<hr/>

13. Called up share capital

	<i>1998</i>
	<i>£'000</i>
Authorised	
1,000,000 ordinary shares of £1 each	1,000
	<hr/>
Allotted and fully paid	
736,000 ordinary shares of £1 each	736
	<hr/>

14. Gross cash flows

	<i>1998</i> <i>£'000</i>
Returns on investments and servicing of finance	
Interest received	2,270
Interest paid	(577)
Dividends paid to minorities	(790)
	<u>903</u>
Capital expenditure	
Payments to acquire tangible fixed assets	(2,629)
Receipts from sales of tangible fixed assets	176
Payment to acquire investments	(4,482)
Receipts from sales of investments	1,382
Purchase of subsidiary	(3,009)
Sale of subsidiary	129
	<u>(8,433)</u>
Management of liquid resources	
Sale of short term investments	<u>1,024</u>

15. Analysis of changes in net funds

	<i>At 1 April</i> <i>1997</i> <i>£'000</i>	<i>Cash flows</i> <i>£'000</i>	<i>Exchange</i> <i>movements</i> <i>£'000</i>	<i>At 31</i> <i>March</i> <i>1998</i> <i>£'000</i>
Cash at bank	19,970	65	(85)	19,950
Overdrafts	(6,695)	(67)	—	(6,762)
	<u>13,275</u>	<u>(2)</u>	<u>(85)</u>	<u>13,188</u>
Current asset investment	6,884	(1,024)	(111)	5,749
	<u>20,159</u>	<u>(1,026)</u>	<u>(196)</u>	<u>18,937</u>

16. Sale of shares in subsidiary undertakings

	1998 £'000
Net assets disposed:	
Minority interest	267
Goodwill reinstated	(12)
Loss on disposal	(126)
	<hr/>
Proceeds	129
	<hr/> <hr/>

17. Purchase of shares in subsidiary undertakings

	1998 £'000
Minority interest	1,901
Goodwill	1,108
	<hr/>
Cash consideration	3,009
	<hr/> <hr/>

18. Financial commitments

	1998 £'000
Leasehold property held under operating lease:	
Expiring within 1 year	381
Expiring within 2-5 years	1,820
Expiring after more than 5 years	84
	<hr/>
	2,285
	<hr/> <hr/>

19. Contingent liability

Since the balance sheet date, Intercapital Brokers Limited has been served with proceedings by MW Marshall (UK) Limited, a competitor, in relation to the hiring of a number of their employees. The company denies the claims and is vigorously defending the proceedings. On the basis of advice received, the directors of Intercapital Brokers Limited do not consider it necessary to make any provision in relation to such action.

PART 5
PRO FORMA STATEMENT OF NET ASSETS OF THE ENLARGED GROUP

1. Pro forma statement of net assets of the Enlarged Group

Set out below is an unaudited pro forma statement of the combined net assets of the Enlarged Group. The pro forma statement has been prepared for illustrative purposes only to show the effect on the consolidated net assets of Exco as at 30 June 1998 (as set out in Part 6 of this document) as adjusted by the acquisition of the Icap Companies (excluding Valerie Chitty Services Limited and its wholly owned subsidiaries Alpha Brokers (Metals) Limited and Alpha Brokers (Metals) Holdings Limited, which companies were acquired by the Intercapital Group after 31 March 1998), whose position is shown as at 31 March 1998, the Nittan Sale Agreement, the Subscription and other adjustments referred to in the notes. Because of its nature, the pro forma statement may not give a true picture of the Enlarged Group's financial position.

	<i>Adjustments</i>				
	<i>Exco at 30 June 1998 (note 1) £'000</i>	<i>Icap Companies at 31 March 1998 (note 2) £'000</i>	<i>Other adjustments related to the Merger (note 3) £'000</i>	<i>Transactions with Nihon (note 4) £'000</i>	<i>Pro forma (note 5) £'000</i>
Fixed assets					
Goodwill	—	—	54,745 ⁽ⁱ⁾	—	54,745
Tangible fixed assets	17,922	2,575	—	—	20,497
Investments:					
Interests in associated undertakings	11,471	—	—	(3,050) ⁽ⁱ⁾	8,421
Other investments	1,170	—	—	—	1,170
	<u>30,563</u>	<u>2,575</u>	<u>54,745</u>	<u>(3,050)</u>	<u>84,833</u>
Current assets					
Debtors: amounts falling due after more than one year	5,589	—	—	—	5,589
Debtors: amounts falling due within one year	55,598	33,450	(20,654) ⁽ⁱⁱ⁾	—	68,394
Investments	9,313	2,127	—	—	11,440
Cash at bank and in hand ..	15,664	13,913	(13,551) ⁽ⁱⁱⁱ⁾	7,518 ⁽ⁱⁱ⁾	23,544
	<u>86,164</u>	<u>49,490</u>	<u>(34,205)</u>	<u>7,518</u>	<u>108,967</u>
Creditors: amounts falling due within one year					
Other creditors	(56,429)	(17,243)	1,180 ^(iv)	(2,582) ⁽ⁱⁱⁱ⁾	(75,074)
Convertible debt	(563)	—	—	—	(563)
	<u>(56,992)</u>	<u>(17,243)</u>	<u>1,180</u>	<u>(2,582)</u>	<u>(75,637)</u>
Net current assets	<u>29,172</u>	<u>32,247</u>	<u>(33,025)</u>	<u>4,936</u>	<u>33,330</u>
Total assets less current liabilities	<u>59,735</u>	<u>34,822</u>	<u>21,720</u>	<u>1,886</u>	<u>118,163</u>
Creditors: amounts falling due after more than one year ..	<u>(22,740)</u>	<u>(500)</u>	<u>500^(iv)</u>	<u>—</u>	<u>(22,740)</u>
Net assets	<u><u>36,995</u></u>	<u><u>34,322</u></u>	<u><u>22,220</u></u>	<u><u>1,886</u></u>	<u><u>95,423</u></u>

Notes:

1. Extracted from the unaudited consolidated balance sheet at 30 June 1998 of Exco set out in Part 6 of this document.
2. These adjustments have been extracted from the combined balance sheets at 31 March 1998 of the Icap Companies (excluding Valerie Chitty Services Limited and its wholly owned subsidiaries Alpha Brokers (Metals) Limited and Alpha Brokers (Metals) Holdings Limited, which companies were acquired by the Intercapital Group after 31 March 1998) as set out in the Accountants' Report in Part 2 of this document.
3. In determining the other adjustments related to the Merger, the following assumptions have been made:
 - (a) the consideration will be satisfied by the issue of 231,801,727 new Ordinary Shares. For the purposes of the *pro forma* these are assumed to have a fair value of 25p each, and thus it is assumed that the fair value of the consideration is £57,950,000 which, together with the estimated expenses of the Merger of £1,118,000 (assumed to be 50 per cent. of the total estimated expenses of £2,526,000 less stamp duty of £290,000), gives a total consideration of £59,068,000.
 - (b) the net assets to be acquired are £4,323,000, being the net assets at 31 March 1998 of the relevant Icap Companies less £29,999,000 being the total balances on the profit and loss account reserves at 31 March 1998 of those Icap Companies declaring dividends (see note 13 to the Accountants' Report) which it is assumed form part of the aggregate dividends of £31,724,000 declared by the Icap Companies since 31 March 1998 (see note 13 to the Accountants' Report).

The other adjustments related to the Merger comprise:

- (i) goodwill arising on acquisition of £54,745,000, being the difference between the total consideration of £59,068,000 (see 3(a) above) and the net assets to be acquired of £4,323,000 (see 3(b) above). The final calculation of goodwill will be made with regard to the mid market price of the new Ordinary Shares and the fair value of the net assets acquired in the Icap Companies at the time that the Merger becomes unconditional. This will be accounted for in accordance with the provisions of FRS10.
- (ii) settlement of amounts due from the Retained Intercapital Group of £20,654,000.
- (iii) adjustments to cash comprising:

	£'000
that part of total dividends declared by the Icap Companies assumed to be out of reserves at 31 March 1998	(29,999)
part of which to be satisfied by the distribution to IBS of the benefit of a debt owed to Intercapital Brokers Limited by Intercapital, which at 31 March 1998 amounted to:	19,179
balance to be satisfied in cash	(10,820)
settlement of amounts owed to/by the Retained Intercapital Group at their 31 March 1998 amounts, representing:	
- creditors due within one year	(1,180)
- creditors due after more than one year	(500)
- debtors	1,475
- estimated expenses	(2,526)
	<u>(13,551)</u>

- (iv) settlement of amounts due to the Retained Intercapital Group of £1,180,000 due within one year and £500,000 due after more than one year.

4. The adjustments in respect of the transactions with Nihon (being the Nittan Loan Agreement, the Nittan Sale Agreement and the Subscription Agreement) comprise:

- (i) the sale by Exco of 540 shares in Nittan Exco, representing 9/33 of the total book value at 30 June 1998 of Exco's investment in Nittan Exco of £11,184,000;
- (ii) adjustments to cash comprising:

	£'000
proceeds of £2,582,000 (£600 million at ¥232.364=£1) from the sale of shares in Nittan Exco	2,582
Japanese tax arising on the sale of shares in Nittan Exco (estimated at ¥150 million at ¥232.364=£1)	(646)
receipt of additional loan from Nihon of £2,582,000 (£600 million at ¥232.364=£1)	2,582
the Subscription	3,000
	<u>7,518</u>

- (iii) additional loan from Nihon of £2,582,000 (£600 million at ¥232.364=£1).

5. No adjustment has been made to reflect trading or other transactions subsequent to 30 June 1998 for Exco and 31 March 1998 for the Icap Companies respectively.

2. Report on the pro forma statement of net assets of the Enlarged Group



PricewaterhouseCoopers
1 Embankment Place
London WC2N 6NN

The Directors and Proposed Directors
Exco plc
Sherborne House
119 Cannon Street
London EC4N 5AX

The Directors
NM Rothschild & Sons Limited
New Court
St Swithin's Lane
London EC4P 4DU

30 September 1998

Dear Sirs

We have reviewed the calculations and bases of preparation of the unaudited *pro forma* statement of net assets at 30 June 1998 of Exco plc ("the Company") and its subsidiary undertakings, as enlarged by the proposed acquisition of certain subsidiaries of Intercapital Group Limited, and explanatory notes (together "the *pro forma* financial information"). The *pro forma* financial information, for which the Directors and Proposed Directors of the Company are solely responsible and which has been prepared for illustrative purposes only, is set out in Part 5 of the Company's listing particulars dated 30 September 1998.

The *pro forma* financial information is based on the unaudited interim results of the Company set out in Part 6 of the listing particulars. We did not audit or review the interim results of the Company and accordingly we do not accept any responsibility for them.

Our review, which was substantially less in scope than an audit performed in accordance with Auditing Standards, consisted primarily of comparing the unadjusted financial information with the unaudited interim results of the Company, considering the evidence supporting the adjustments and discussing the *pro forma* financial information with the Directors and Proposed Directors of the Company.

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board.

In our opinion:

- (a) the *pro forma* financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Company; and
- (c) the adjustments are appropriate for the purposes of the *pro forma* financial information as disclosed pursuant to paragraph 12.29 of 'The Listing Rules' of the London Stock Exchange Limited.

Yours faithfully

PricewaterhouseCoopers
Chartered Accountants

PART 6

UNAUDITED INTERIM RESULTS OF THE EXCO GROUP FOR THE SIX MONTHS ENDED 30 JUNE 1998

Set out below is the full text of the unaudited interim results of the Exco Group for the six months ended 30 June 1998 which were released on 30 September 1998.

"The Exco Group has continued to face difficult trading conditions in 1998, with declines in turnover in many of the products which the Group brokes.

The London and New York offices, which provide two thirds of the Group's revenue, have suffered particularly from this trend. In these offices revenues in cash and short term interest rate products have fallen, together with those in US Treasury bonds and emerging market bonds. The offices in Denmark and Canada have also seen reduced revenues. All the offices in the Asian Pacific region have experienced revenue falls following the currency crises of 1997. For the six months ended 30 June 1998, the Group reported turnover of £80.5 million (1997: £101.2 million) and a loss before tax of £0.9 million (1997: profit before tax of £5.4 million). Shareholders' funds as at 30 June 1998 were £37.0 million (1997: £52.1 million).

The results for the six months ended 30 June 1998 benefited from an exceptional VAT refund of some £1 million but also include further redundancy costs of approximately the same amount.

This poor performance has resulted in Exco breaching certain of its banking covenants as at 30 June 1998. However, Exco has renegotiated the terms of its existing banking facilities, and obtained commitments for certain additional facilities in connection with, and conditional upon, *inter alia*, the proposed acquisition by Exco of the broking operations of Intercapital Group Limited (the "Merger"), the terms of which are set out in more detail in paragraph 5 of Part 7 of the listing particulars to be sent to shareholders today. The existing lending banks have also agreed to waive the breaches, conditional on completion of the Merger.

The Board is very pleased to have announced today the terms of agreement for the merger of Intercapital Group Limited's wholesale financial broking operations with the Company. A circular (convening an extraordinary general meeting of the Company for 23 October 1998) and listing particulars giving details of the merger and relevant transactions are being posted to Shareholders today. These results have been prepared on the basis that the merger described in the listing particulars is approved by the shareholders at the above mentioned extraordinary general meeting.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the six months ended 30 June 1998

	6 months to 30 June 1998			6 months 30 June 1997			12 months to 31 December 1997		
	Unaudited			Unaudited			Audited		
	Continuing £'000	Discontinued £'000	Total £'000	Continuing £'000	Discontinued £'000	Total £'000	Continuing £'000	Discontinued £'000	Total £'000
Turnover	80,497	—	80,497	97,863	3,318	101,181	181,606	7,423	189,029
Total operating expenses	(81,399)	—	(81,399)	(88,910)	(5,365)	(94,275)	(172,294)	(11,574)	(183,868)
Exceptional operating expense	—	—	—	—	(2,043)	(2,043)	(3,990)	(3,792)	(7,782)
Operating (loss)/profit	(902)	—	(902)	8,953	(4,090)	4,863	5,322	(7,943)	(2,621)
(Loss)/income from interests in associated undertakings			(172)			207			572
Exceptional items in respect of associated undertakings			—			—			(1,500)
(Loss)/profit on ordinary activities before interest			(1,074)			5,070			(3,549)
Other interest receivable and similar income			859			1,140			2,039
Interest payable and similar charges			(642)			(803)			(1,634)
(Loss)/profit on ordinary activities before taxation			(857)			5,407			(3,144)
Tax on (loss)/profit on ordinary activities			(1,427)			(3,769)			(2,771)
(Loss)/profit on ordinary activities after taxation			(2,284)			1,638			(5,915)
Minority interests			5			(87)			(84)
(Loss)/profit for the financial period			(2,279)			1,551			(5,999)
Ordinary dividends			—			(924)			(924)
Retained (loss)/profit for the financial period			(2,279)			627			(6,923)
Earnings per ordinary share			(1.85)p			1.3p			(4.87)p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	6 months to 30 June 1998 Unaudited £'000	6 months to 30 June 1997 Unaudited £'000	12 months to 31 December 1997 Audited £'000
(Loss)/profit for the financial period	(2,279)	1,551	(5,999)
Exchange adjustments on foreign currency net investments	(1,584)	648	(2,176)
Unrealised surplus on revaluation of properties	—	—	875
Other recognised gains and losses relating to the period (net)	(1,584)	648	(1,301)
Total recognised gains and losses for the financial period	(3,863)	2,199	(7,300)

CONSOLIDATED BALANCE SHEET

at 30 June 1998

	<i>30 June 1998 Unaudited £'000</i>	<i>30 June 1997 Unaudited £'000</i>	<i>31 December 1997 Audited £'000</i>
Fixed assets			
Tangible fixed assets	17,922	12,049	14,811
Investments:			
Interests in associated undertakings	11,471	16,642	12,899
Other investments	1,170	1,060	1,086
	<hr/> 30,563	<hr/> 29,751	<hr/> 28,796
Current assets			
Debtors: amounts falling due after one year	5,589	6,477	4,757
Debtors: amounts falling due within one year	55,598	41,128	41,625
Investments	9,313	10,665	10,986
Cash at bank and in hand	15,664	28,712	23,359
	<hr/> 86,164	<hr/> 86,982	<hr/> 80,727
Creditors: amounts falling due within one year			
Other creditors	(56,429)	(39,079)	(45,866)
Convertible debt	(563)	(569)	(569)
	<hr/> (56,992)	<hr/> (39,648)	<hr/> (46,435)
Net current assets	<hr/> 29,172	<hr/> 47,334	<hr/> 34,292
Total assets less current liabilities	59,735	77,085	63,088
Creditors: amounts falling due after more than one year	(22,740)	(24,641)	(22,184)
Net assets	<hr/> 36,995	<hr/> 52,444	<hr/> 40,904
Capital and reserves:			
Called up share capital	30,792	30,792	30,792
Share premium account	5,273	5,273	5,273
Revaluation reserve	875	—	875
Other reserves	(5,604)	(1,279)	(4,049)
Profit and loss account	5,653	17,310	8,002
	<hr/> 36,989	<hr/> 52,096	<hr/> 40,893
Equity shareholders' funds	6	348	11
Equity minority interests	<hr/> 6	<hr/> 348	<hr/> 11
Total capital employed	<hr/> 36,995	<hr/> 52,444	<hr/> 40,904

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 1998

	<i>6 months to 30 June 1998 Unaudited £'000</i>	<i>6 months to 30 June 1997 Unaudited £'000</i>	<i>12 months to 31 December 1997 Audited £'000</i>
Net cash (outflow)/inflow from operating activities	(4,873)	375	3,137
Net cash (outflow)/inflow from returns on investments and servicing of finance	(50)	208	(20)
Taxation			
UK Corporation tax paid	(231)	(462)	(2,727)
Overseas tax repaid/(paid)	719	(853)	(2,984)
Tax repaid/(paid)	488	(1,315)	(5,711)
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(4,920)	(1,780)	(11,135)
Sale of tangible fixed assets	192	851	2,579
Sale of fixed asset investments	—	17	292
Purchase of fixed asset investments	(100)	(47)	(147)
Net cash outflow from capital expenditure and financial investment	(4,828)	(959)	(8,411)
Acquisitions and disposals			
Purchase of minority interests	(44)	(134)	(1,146)
Purchase of subsidiary undertaking	—	(1,914)	(2,118)
Net cash outflow from acquisitions and disposals	(44)	(2,048)	(3,264)
Equity dividends paid			
Dividends paid	—	(3,695)	(4,619)
Cash outflow before use of liquid resources and financing	(9,307)	(7,434)	(18,888)
Net cash inflow from management of liquid resources	2,886	6,411	5,186
Financing			
(Decrease)/increase in long term loans	(486)	362	347
Loan from associated undertaking	—	—	7,371
Payment of principal under finance leases	(206)	(857)	(1,434)
Net cash (outflow)/inflow from financing	(692)	(495)	6,284
Decrease in cash	(7,113)	(1,518)	(7,418)

1. Accounting policies

The principal accounting policies of the Group, as set out on pages 23 and 24 of the accounts for the year ended 31 December 1997, are unchanged.

2. Analysis of turnover and profit/(loss) before interest

(a) Turnover

	6 months to 30 June 1998			6 months to 30 June 1997			12 months to 31 December 1997		
	Unaudited			Unaudited			Audited		
	Continuing £'000	Discontinued £'000	Total £'000	Continuing £'000	Discontinued £'000	Total £'000	Continuing £'000	Discontinued £'000	Total £'000
Europe	35,771	—	35,771	44,068	1,222	45,290	79,951	2,196	82,147
North America	35,319	—	35,319	39,816	1,327	41,143	79,731	1,331	81,062
Asian Pacific	9,407	—	9,407	13,979	769	14,748	21,924	3,896	25,820
Turnover	80,497	—	80,497	97,863	3,318	101,181	181,606	7,423	189,029

(b) (Loss)/profit before interest

	6 months to 30 June 1998			6 months to 30 June 1997			12 months to 31 December 1997		
	Unaudited			Unaudited			Audited		
	Continuing £'000	Discontinued £'000	Total £'000	Continuing £'000	Discontinued £'000	Total £'000	Continuing £'000	Discontinued £'000	Total £'000
Europe	1,333	—	1,333	3,813	(1,442)	2,371	2,314	(2,177)	137
North America - subsidiary undertakings	(1,804)	—	(1,804)	4,207	(2,384)	1,823	1,650	(3,211)	(1,561)
- associated undertaking	—	—	—	(142)	—	(142)	—	—	—
Asian Pacific - subsidiary undertakings	(431)	—	(431)	933	(264)	669	1,358	(2,555)	(1,197)
- associated undertakings	(172)	—	(172)	349	—	349	(928)	—	(928)
(Loss)/profit before interest	(1,074)	—	(1,074)	9,160	(4,090)	5,070	4,394	(7,943)	(3,549)

Turnover and profits/(loss) before interest for 1998 have been analysed to show separately the contribution from continuing and discontinued businesses. The prior year comparatives have been analysed to show how these same discontinued businesses contributed to turnover and profit in those accounting periods.

3. Reconciliation of movements in equity shareholders' funds

	6 months to 30 June 1998 £'000	6 months to 30 June 1997 £'000	12 months to 31 December 1997 £'000
(Loss)/profit for the financial period	(2,279)	1,551	(5,999)
Ordinary dividends	—	(924)	(924)
	(2,279)	627	(6,923)
Other recognised gains and losses relating to the period (net)	(1,584)	648	(1,301)
Goodwill written off during the period	(41)	(1,919)	(3,623)
Net deduction from shareholders' funds	(3,904)	(644)	(11,847)
Opening shareholders' funds	40,893	52,740	52,740
Closing shareholders' funds	36,989	52,096	40,893

4. Taxation

The taxation charge has been estimated on the basis that the six month period forms an integral part of the annual reporting period. This taxation estimate is analysed as follows:

	6 months to 30 June 1998 £'000	6 months to 30 June 1997 £'000	12 months to 31 December 1997 £'000
United Kingdom taxation	303	944	1,979
Overseas taxation	1,139	2,629	606
Taxation attributable to share of profits of associated undertakings	(15)	196	186
	<u>1,427</u>	<u>3,769</u>	<u>2,771</u>

The taxation charge reflects the level of profits which are earned outside the U.K. in tax jurisdictions where the rates of corporation taxation are higher than those of the U.K.

5. Earnings per share

Earnings per share has been calculated based on the profit on ordinary activities after taxation and minority interests. The weighted average number of ordinary shares in issue during the period was 123,166,034 (1997: 123,166,034). The dilutive effect of unexercised options and convertible loan stocks on earnings per share is not material.

6. Reconciliation of loss on ordinary activities before interest to net cash outflow from operating activities

	6 months to 30 June 1998 £'000	6 months to 30 June 1997 £'000	12 months to 31 December 1997 £'000
(Loss)/profit on ordinary activities before interest	(1,074)	5,070	(3,549)
Depreciation of tangible fixed assets	2,065	2,227	4,536
Share of losses/(profits) of associates	172	(207)	(572)
Exceptional items of associated undertakings	0	0	1,500
Dividends received from associated undertakings	66	0	50
Loss of associates less dividends received and exceptional items	238	(207)	978
Loss/(gain) on sale of tangible fixed assets	162	(243)	1,338
Increase in operating debtors and prepayments	(15,576)	(8,313)	(9,246)
Increase in operating creditors and accruals	9,312	1,841	9,080
Net cash (outflow)/inflow from operating activities	<u>(4,873)</u>	<u>375</u>	<u>3,137</u>

7. General

These interim results have been neither audited nor reviewed by the Exco Group's auditors.

The financial information set out in this document does not comprise the statutory accounts of the Exco Group within the meaning of Section 240(5) of the Companies Act 1985. The statutory audited accounts of the Exco Group for the year ended 31 December 1997, upon which the auditors have given an unqualified report, have been delivered to the Registrar of Companies in England and Wales."

PART 7

DETAILS OF THE PRINCIPAL AGREEMENTS

1. The Acquisition Agreement

Exco has entered into the Acquisition Agreement dated 30 September 1998 with IBS and Intercapital pursuant to which IBS has agreed to sell, and Exco has agreed to purchase, the entire issued share capitals of Intercapital Brokers Limited, Intercapital Securities Limited, Intercapital Equity Derivatives Limited, Intercapital Commodity Swaps Limited, Intercapital Securities, Inc, Intercapital Commodity Derivatives, Inc and Intercapital Group (Australia) Pty Limited. Certain of these companies also have subsidiaries, all of which are wholly-owned, other than Valerie Chitty Services Limited (which is 75.1 per cent. owned by Intercapital Commodity Swaps Limited and itself has two wholly-owned subsidiaries, Alpha Brokers (Metals) Holdings Limited and Alpha Brokers (Metals) Limited). (Further details of the Icap Companies are set out in paragraph 11(b) of Part 8 of this document.)

Intercapital Brokers Limited, Intercapital Commodity Swaps Limited, Intercapital Equity Derivatives Limited and Intercapital Securities Limited have declared dividends of £30,875,000 in aggregate, which are due to be paid on 30 November 1998. Under the terms of the Acquisition Agreement, IBS has agreed to sell the Icap Companies to Exco without the benefit of these dividends, which will accordingly be paid to IBS when due. These dividends are to be satisfied as to £20.6 million by the distribution to IBS of the benefit of a debt of that amount owed to Intercapital Brokers Limited by Intercapital, and as to the balance in cash.

1.1 Conditions

Under the terms of the Acquisition Agreement, completion of the Merger is subject, *inter alia*, to satisfaction of the following conditions not later than 3 November 1998:—

- (a) the passing of resolutions 1, 2, 3 and 5 to be proposed at the Extraordinary General Meeting;
- (b) the requisite approvals of The Financial Services Authority Limited and The Securities and Futures Authority Limited in the United Kingdom in relation to changes of control of certain members of the Enlarged Group regulated by them;
- (c) the Loan Facility Agreement and New Bank Facility Agreement becoming unconditional (save as regards completion of the Merger); and
- (d) Admission taking place not later than 3 November 1998.

It is expected that these conditions other than (a) and (d) will have been satisfied by the time of the Extraordinary General Meeting. Assuming that this is the case and that resolutions 1, 2, 3 and 5 are passed at the Extraordinary General Meeting, it is expected that completion of the Merger and the Subscription and Admission will take place on 26 October 1998, with dealings commencing in the Enlarged Issued Share Capital on that date.

Either party has the right to terminate the Acquisition Agreement before Admission in the event of a material breach by the other party of its warranties or obligations under the Acquisition Agreement, or a material change from the position reflected by the other party's warranties.

1.2 Consideration

The consideration for the acquisition by Exco of the Icap Companies will be the allotment and issue of an aggregate of 231,801,727 New Ordinary Shares to IBS (credited as fully paid up). The New Ordinary Shares will rank *pari passu* with the Ordinary Shares then in issue.

The Acquisition Agreement provides for IBS to make cash payments to Exco following completion of the Merger, by way of adjustment to the consideration for the Icap Companies, if and to the extent necessary to make good any shortfall in the regulatory capital position of the four principal Icap Companies in the UK (by reference to accounts prepared following completion as at 30 September and 31 October 1998, in accordance with certain agreed assumptions and adjustments) or to the extent that the liquid net assets of the Icap Companies as at 30 September calculated in accordance with the Acquisition Agreement show a deficit of more than £500,000. It is not currently expected that any material amount will be payable as a result of these provisions.

1.3 *Restrictions on transfer and further acquisitions of Ordinary Shares received by IBS*

The Acquisition Agreement provides that IBS will be permitted at any time after nine months after completion of the Merger to transfer up to 32 million Ordinary Shares in aggregate to or for the benefit of current or former directors and employees of the Enlarged Group or the Retained Intercapital Group and/or members of their families or family trusts. IBS may not transfer any of the remaining New Ordinary Shares issued to it outside the Intercapital Group for a period of 18 months from completion of the Merger without the prior consent of the Company, and for a further 6 months may make such transfers only through the Company's brokers. There is no other agreement, arrangement or understanding to transfer Ordinary Shares to any other persons.

This restriction on the transfer of New Ordinary Shares will not prevent IBS from accepting a takeover offer, or selling New Ordinary Shares to an offeror or a *bona fide* potential offeror, for all Ordinary Shares. In addition, IBS will also be able to sell any New Ordinary Shares issued to it in order to satisfy any claims in relation to the warranties and indemnities given by it in the Acquisition Agreement and the related tax deed.

IBS has agreed not to acquire additional Ordinary Shares, if that would result in Exco becoming unsuitable for listing on the London Stock Exchange (e.g. in view of the requirement of the listing rules that not less than 25 per cent. of the issued shares of a listed company be in "public" hands). This will not prevent IBS from taking up its rights in any rights offering or making a takeover offer for all remaining Ordinary Shares.

1.4 *Shared facilities, property and services*

Under the terms of the Acquisition Agreement the Company has agreed to assume responsibility for the leases relating to those sections of Intercapital's London premises currently used by the Icap Companies. Exco, Intercapital and IBS have entered into certain transitional arrangements with respect to, *inter alia*, equipment and services currently used both by the Icap Companies and the Retained Intercapital Group and the continuing provision of certain central services by personnel of the Icap Companies to the Retained Intercapital Group, on the basis of a fair apportionment of the costs involved.

Intercapital Brokers Limited, the principal member of the Icap Companies, has entered into an agreement with Intercapital whereby the Enlarged Group and the Retained Intercapital Group will each be entitled to continue to use the Intercapital name and trademarks in connection with their respective businesses, free of royalty obligations to the other group and Exco and Intercapital have agreed that members of the two groups will cooperate with each other in transitional arrangements relating to software and any other intellectual property rights currently used by both groups. In particular, Data Analysis Risk Technology Limited, a member of the Retained Intercapital Group, will continue to provide its pricing and risk management systems to the Enlarged Group, and to receive data from it, on an agreed basis.

1.5 *Warranties, indemnities and covenants*

The Acquisition Agreement contains warranties from IBS to Exco in respect of the Icap Companies and their respective businesses, assets and liabilities and indemnities from IBS to Exco in respect of any unprovided tax liabilities of the Icap Companies or tax liabilities which have arisen outside the ordinary course of trading since 31 March 1998. The Acquisition Agreement also contains certain warranties from Exco to IBS and Intercapital in relation to the Exco Group and its business, assets and liabilities. The liability of IBS and Exco under these warranties and indemnities is subject to certain financial and other limitations.

Exco and IBS have also agreed to indemnify each other and the members of the other group in respect of certain existing guarantees and similar obligations given by members of the Retained Intercapital Group in respect of obligations of the Icap Companies and vice versa. IBS has also agreed to indemnify Intercapital Brokers Limited and Exco against any liabilities and expenses arising out of the legal proceedings referred to in paragraph 15.2 of Part 8 of this document.

Intercapital has guaranteed all the obligations of IBS under the Acquisition Agreement.

On behalf of the Retained Intercapital Group, Intercapital has given a two year non-competition covenant for the protection of the businesses of the Icap Companies.

1.6 Costs

The Acquisition Agreement provides that:

- (a) if the Merger is completed, all of the costs and expenses of the parties and their advisers in connection with the Merger and Admission ("the Merger Costs") will be borne by the Enlarged Group; and
- (b) if the Merger is not completed for any reason (save as mentioned below), the Intercapital Group and the Exco Group have agreed to bear 50 per cent. each of the Merger Costs up to £1.2 million in aggregate (plus VAT thereon) with the excess (if any) to be borne by the Exco Group. However, if one party elects not to complete the Merger as a result of the other party being in material breach of its warranties or other obligations under the Acquisition Agreement, the defaulting party shall bear all of the Merger Costs.

2. The Relationship Agreement

It is a condition of admission of the Enlarged Issued Share Capital to the Official List of the London Stock Exchange that the Company must be capable at all times of operating and making decisions independently of any controlling shareholder and that all transactions and relationships in the future between the Company and any controlling shareholder must be at arms length and on a normal commercial basis to comply with these requirements.

Accordingly, Exco, Intercapital, IBS and Michael Spencer, the Chairman and largest shareholder of Intercapital, have (conditionally upon Admission) entered into the Relationship Agreement dated 30 September 1998, which is designed to regulate the relationship between them while the Retained Intercapital Group controls at least 30 per cent of the voting rights in Exco. The Relationship Agreement will also fall away in relation to Michael Spencer if and when he ceases to be interested (within the meaning of the Act) in shares carrying at least 30 per cent of the voting rights in Exco (e.g. due to a sufficient reduction in the level of his interest in Intercapital).

The Relationship Agreement provides that, subject to the transitional and other arrangements provided for by the Acquisition Agreement and other agreements mentioned in this Part 7, any transactions between members of the Retained Intercapital Group and the Enlarged Group will be at arm's length and on a normal commercial basis and that IBS, Intercapital and Michael Spencer will not undertake any activity in conflict with those of Exco which may render Exco unsuitable for listing under Rule 3.13 of the listing rules, unless a further relationship agreement, satisfactory to the London Stock Exchange, has been entered into with Exco.

The Relationship Agreement also contains provisions designed to enable the Retained Intercapital Group to subscribe for additional shares in the Company at the time of any future issue not made to shareholders on a pre-emptive basis, to the extent necessary to maintain the level of its voting rights in Exco's shares. These rights are subject to initial and annual approval by an independent vote of Shareholders.

3. The Nittan Agreements

Exco entered into a joint venture arrangement with Nihon in 1983 and since then Nihon and Exco have owned 67 per cent. and 33 per cent., respectively, of Nittan Exco which carries on the business of moneybroking in Tokyo. Exco's share of its results, as reflected in the accounts of Exco, has declined from a profit before tax of £253,000 in the year ended 31 December 1996 to a loss before tax of £1.3 million in the year ended 31 December 1997. As at 31 December 1997, Exco's share of Nittan Exco's net assets was £12.4 million.

Exco has agreed, subject to Shareholder approval, to sell a 9 per cent. interest in Nittan Exco to Nihon for ¥600 million (£2.6 million) in cash. The agreement provides for Nittan Exco and Exco to enter into a non-exclusive correspondent broking relationship in respect of moneybroking products currently handled by Nittan Exco and moneybroking products relating to the euro. Exco and Intercapital have also entered into certain restrictions for a period of 2 years preventing them from employing staff currently employed by Nittan Exco and from enticing Nittan Exco customers away from Nittan Exco. Subject to certain exceptions neither Exco nor Intercapital nor any of their subsidiaries may deal with or have an office in Japan which brokes products which will be the subject of the non-exclusive

corresponding broking relationship save for certain exceptions relating to their respective existing businesses.

The Directors consider that the value of the Company's interest in Nittan Exco justifies the price to be received in respect of the share sale taking account of the net asset value of the business which is unprofitable.

Exco has outstanding borrowings from Nittan Exco of ¥1,452 million (£6.2 million) and Nittan Exco has agreed to lend Exco an additional ¥600 million (£2.6 million), with the existing loan and new loan being consolidated and repayable on 23 October 1999.

In the event that Exco defaults on the repayment of these loans Nihon can request that the balance of Exco's shareholding in Nittan Exco be transferred to Nihon and Nihon will assume all liability in respect of the loans. The Directors believe that the provisions relating to default are fair given the value of those shares and the amount subject to the Nittan Loan Agreement.

The additional loan together with the proceeds of sale of the 9 per cent. interest in Nittan Exco will be used to fund the integration process following completion of the Merger and the ongoing working capital requirements of the Enlarged Group.

The agreements with Nihon and Nittan Exco strengthen long standing relationships in the Asian Pacific region with these entities. The Directors' objective is, where possible, to enhance further these relationships by closer collaboration with Nihon throughout the Asian Pacific Region.

4. The Subscription Agreement

Exco has entered into the Subscription Agreement with Nihon under which Nihon has agreed to subscribe (or procure its wholly owned subsidiary to subscribe) for 12 million of the New Ordinary Shares. The subscription price per Ordinary Share will be 25p in cash giving an aggregate subscription price of £3 million. The Directors believe the subscription price of 25p to be fair given the market quotations of Ordinary Shares prior to suspension from listing (details of which are set out in paragraph 17.5 of Part 8 of this document). The Subscription Agreement is conditional on Admission and also on the passing of resolution No. 5 of the Extraordinary General Meeting of which sub-paragraph (ii) seeks approval of shareholders to disapply their pre-emption rights in favour of Nihon. The proceeds of the Subscription will be used to provide the Enlarged Group with additional funding to progress the integration process following completion of the Merger and the working capital requirements of the Enlarged Group. Nihon has agreed not to dispose of 10 million of the New Ordinary Shares subscribed for 6 months after completion of the Subscription.

5. Loan Facility Agreements

In connection with the Merger, Exco has re-negotiated its current financing arrangements and negotiated certain additional financing arrangements in order to provide sufficient working capital for the Enlarged Group:

- (a) Exco's existing bank facility with Lloyds Bank Plc and others remains in place and, conditionally, *inter alia*, upon Admission the lending banks have agreed to amend the covenants in that bank facility to bring them in line with the requirements of the Enlarged Group and to waive all previous breaches. Following Admission the existing banks will provide a facility of up to £14 million.
- (b) In addition, Exco has entered into the New Bank Facility Agreement with Barclays PLC ("Barclays") under which Barclays has agreed, conditionally, *inter alia*, upon Admission, to provide a facility of up to £4 million to the Enlarged Group for general corporate purposes.

The new bank facility has a maturity date of 30 April 2000 and is scheduled to amortise fully over the term of the facility.

The repayment schedule is set out below:

February 1999	£560,000
May 1999	£560,000
August 1999	£880,000
October 1999	£560,000
January 2000	£560,000
April 2000	£880,000
	<hr/>
	£4,000,000
	<hr/>

Interest is payable on each advance under the facility at a rate of 1.5 per cent. per annum over LIBOR, exclusive of associated costs. The arrangement fee was 1 per cent. The facility contains various usual financial covenants and events of default. On the occurrence of an event of default the amounts borrowed could be declared immediately due and payable.

There is also provision for the payment of a quarterly back-end fee of £15,000, should the loan remain outstanding, payable as from 30 May 1999 to 30 April 2000.

- (c) In addition, Exco has entered into a standby loan facility agreement with Intercapital, conditionally, *inter alia*, upon Admission and the payment by some of the Icap Companies of the dividends referred to in paragraph 1 of this Part 7, whereby Intercapital provides a standby loan facility of up to £1.3 million to Exco for general corporate purposes. This revolving facility will be available to be drawn down at any time up to 29 June 2000 and will be repayable in full on that date. Interest will be payable on each advance at the rate of 1.5 per cent. per annum above Barclays' base rate. The standby loan facility agreement contains usual events of default on the occurrence of which the amounts borrowed could be declared immediately due and payable.

PART 8

ADDITIONAL INFORMATION

In this Part 8, references to:

- (a) 10 July 1998 are to the date on which the boards of Exco and Intercapital announced that they were in discussions which might or might not lead to a merger of Intercapital's broking operations with Exco; and
- (b) 29 September 1998 are to the latest practicable date prior to the printing of this document.

1. RESPONSIBILITY STATEMENTS

The Exco Directors, whose names appear in paragraph 6.1(a) of this Part 8 and the Proposed Directors, whose names appear in paragraph 6.1(b) of this Part 8, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Exco Directors and the Proposed Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Intercapital Directors, whose names appear in paragraph 6.2 of this Part 8, accept responsibility for the information contained in this document, except that relating to the Exco Group, the Exco Directors and the persons connected with the Exco Directors. To the best of the knowledge and belief of the Intercapital Directors (who have taken all reasonable care to ensure that such is the case), such information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. THE COMPANY

The Company was incorporated and registered in England on 24 May 1979 with registered number 1423001 under the Companies Acts 1948 to 1976 as a private limited company under the name Monksilk Limited. On 20 July 1979 the Company changed its name to Exco Securities (1979) Limited and on 26 June 1981 to Exco International Limited. On 21 September 1981 the Company re-registered as a public limited company and changed its name to Exco International Public Limited Company. On 29 May 1992 the Company re-registered as a private limited company with the name Exco International Limited. On 12 June 1992 the Company re-registered as a public limited company with the name Exco International p.l.c and on 26 April 1994 the Company changed its name to Exco plc. The registered office, head office and the principal place of business in the United Kingdom of the Company is at Sherborne House, 119 Cannon Street, London EC4N 5AX. A resolution to change the name of the Company to Intercapital plc conditional upon Admission is to be proposed at the Extraordinary General Meeting.

3. SHARE CAPITAL

3.1 The Ordinary Shares are in registered form and are listed on the London Stock Exchange. New certificates in the name of Intercapital plc will be issued as and when transfers are lodged for registration. Ordinary Shares in uncertificated form will be eligible to be traded through the CREST system on Admission, on the same basis as Ordinary Shares were traded through the CREST system before the listing of the Ordinary Shares was suspended on 10 July 1998. Application has been made for Admission and it is expected that dealings in the Ordinary Shares will commence on 26 October 1998. None of the Ordinary Shares has been sold or is available in whole or in part to the public in conjunction with the application for the Ordinary Shares to be admitted to the Official List.

3.2 During the three years immediately preceding the date hereof there have been the following changes in the authorised share capital and the issued and fully paid share capital of the Company:

On 3 September 1998 227,500 Ordinary Shares and on 23 September 1998 5,500 Ordinary Shares were issued as fully paid 1.0p per share paid in cash and 24p per share credited by the reduction of the share premium account in respect of the exercise of options in relation to the Matching Share Option Scheme.

3.3 At the Extraordinary General Meeting an ordinary resolution will be proposed:

- (a) to increase the authorised share capital of the Company to £122,500,000 by the creation of an additional 318,000,000 Ordinary Shares;
- (b) to authorise the directors generally and unconditionally for the purposes of section 80(1) of 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 £91,650,242 such authority to expire on 23 October 2003 but so that the Company may before such expiry make an offer or agreement which would or might require the allotment of all or any of those relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired such authority to supersede all existing authorities conferred upon the directors in relation to the allotment of relevant securities.

3.4 Also at the Extraordinary General Meeting a special resolution will be proposed conditional upon the approval of the Merger to empower the directors until the conclusion of the Company's annual general meeting in 1999 (or, if sooner, 23 October 1999) to allot equity securities (as defined in section 94(2) of the Act) (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 pursuant to any such offer or agreement as if the power conferred thereby had not expired) pursuant to the authority referred to in paragraph 3.3(b) above as if section 89 of the Act did not apply to any such allotment, such power being limited to:

- (i) subject to the passing of a resolution at the Extraordinary General Meeting approving the relevant provisions of the Relationship Agreement, the allotment of equity securities in accordance with the terms of the Relationship Agreement;
- (ii) the allotment of equity securities up to an aggregate nominal amount of £3 million to Nihon pursuant to the Subscription;
- (iii) the allotment of equity securities in connection with an offer or issue to holders of Ordinary Shares where the equity securities respectively attributable to the interests of all such holders are proportionate (as nearly as may be practicable) to the respective numbers of Ordinary Shares held by them but including in connection with such an issue, the making of such arrangements as the directors may deem necessary or expedient to deal with fractional entitlements or problems under the laws of any territory or the requirements of any regulatory body or any stock exchange; and
- (iv) the allotment (other than pursuant to the powers referred to in sub-paragraphs (i), (ii) and (iii) above) of equity securities up to an aggregate nominal amount of £4,590,010;

3.5 On 26 October 1998, subject to Admission 231,801,727 Ordinary Shares will be issued pursuant to the Merger credited as fully paid and 12,000,000 Ordinary Shares will be issued pursuant to the Subscription, credited as fully paid.

- 3.6 (a) As at the date of this document, the Company has an authorised share capital of £43,000,000 divided into ordinary shares of 25p each.
- (b) The authorised share capital of the Company following the passing of the resolutions referred to at paragraph 3.3 above will be £122,500,000 divided into 490,000,000 Ordinary Shares of which following completion of the Merger and the Subscription, 367,200,761 Ordinary Shares will have been issued and will be fully paid or credited as fully paid.
- (c) The authorised but unissued share capital following the passing of the resolutions referred to at paragraph 3.3 above and following the completion of the Merger and the Subscription will be £30,699,810, representing approximately 34.8 per cent. of the authorised share capital, of which £206,063 will be reserved in respect of the exercise of existing options and £562,604 will be reserved for the conversion of the Loan Stock. The maximum nominal amount of relevant securities which the Directors will have authority to allot is £91,650,242 (366,600,966 Ordinary Shares), representing 297.08 per cent. of the total issued ordinary share capital as at 30 September 1998. The Directors do not have any present intention of exercising this authority other than pursuant to the Merger and the Subscription and to satisfy obligations in respect of existing options and conversion rights.

is entered in the register in respect thereof. All transfers shall be effected by instrument in writing in any usual or common form or any other form which the directors may approve. The directors may, in their absolute discretion and without giving any reason, refuse to register the transfer of a share which is not fully paid. The directors may likewise refuse to register any transfer in favour of more than four persons jointly. The directors may decline to recognise any instrument of transfer unless it is left at the registered office of the Company, accompanied by the relevant certificate and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer, and unless the instrument is in respect of only one class of share. The registration of transfers may be suspended by the directors for any period (not exceeding 30 days in any year).

(e) **Directors**

- (i) The business of the Company shall be managed by the directors, who may exercise all such powers of the Company subject to the provisions of the Articles and the Statutes and to such directions as may be given by the Company in general meeting by special resolution.
- (ii) Unless and until the Company in general meeting shall otherwise determine, the number of directors shall not be subject to any maximum but shall not be less than two. A director shall not be required to hold any shares in the capital of the Company. A director who is not a member shall nevertheless be entitled to receive notice of and attend and speak at all general meetings of the Company and all separate general meetings of the holders of any class of shares in the capital of the Company.
- (iii) No director shall be disqualified by his office from entering into any contract, arrangement, transaction or proposal with the Company either with regard to his tenure of any other office or place of profit or acting in a professional capacity for the Company or as a vendor, purchaser or otherwise. Subject to the provisions of the Statutes and save as therein provided, no such contract, arrangement, transaction or proposal entered into by or on behalf of the Company in which any director or person connected with him is in any way interested, whether directly or indirectly, shall be liable to be avoided, nor shall any director who enters into any such contract, arrangement, transaction or proposal or who is so interested be liable to account to the Company for any profit or other benefit realised by any such contract, arrangement, transaction or proposal by reason of such director holding that office or of the fiduciary relationship thereby established, but such director shall declare the nature of his interest in accordance with the Statutes.
- (iv) A director shall (in the absence of some other material interest than is indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:
 - (A) the giving of any guarantee, security or indemnity or by any other person in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiary undertakings;
 - (B) the giving of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
 - (C) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiary undertakings for subscription or purchase in which offer he is, or may be entitled to, participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;
 - (D) any contract, arrangement, transaction or other proposal concerning any other body corporate in which he is interested, directly or indirectly and whether as an officer or shareholder or otherwise howsoever, provided that he does not hold an interest (within the meaning of Part VI (of the Act) in one per cent. or more of

any class of the equity share capital of such body corporate or of the voting rights available to members of the relevant body corporate;

- (E) any contract, arrangement, transaction or other proposal which does not award him any privilege or benefit not generally awarded to the employees to whom the proposal relates; and
 - (F) any proposal concerning any insurance which the Company is to purchase and/or maintain for the benefit of directors or for the benefit of persons who include directors.
- (v) If any question shall arise at any meeting as to the materiality of a director's interest or as to the entitlement of any director to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the Chairman of the meeting and his ruling in relation to any other director other than himself shall be final and conclusive except in a case where the nature or extent of the interests of the director concerned have not been fairly disclosed.
- (vi) Save as provided in the Articles, a director shall not vote or be counted in the quorum present on any motion in respect of any contract, arrangement, transaction or any other proposal in which he has an interest which (together with any interest of any person connected with him within the meaning of section 346 of the Act) is a material interest otherwise than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through the Company.
- (vii) The directors shall be paid out of the funds of the Company by way of fees for their services as Directors such sums (if any) as the directors may from time to time determine (not exceeding in the aggregate an annual sum (excluding amounts payable under any other provision of the Articles) of £200,000 or such larger amount as the Company may by ordinary resolution determine). Such remuneration shall be divided between the directors as they shall agree or, failing agreement, equally. Such remuneration shall be deemed to accrue from day to day.
- (viii) Subject to the provisions of the Statutes, the directors may from time to time appoint one or more of their body to the office of 'Managing Director' or to hold such executive office as they may decide for such period and on such terms as they think fit, and, subject to the terms of any service contract entered into in any particular case and without prejudice to any claims for damages such director may have for breach of any such service contract, may revoke such appointment. His appointment shall be automatically determined if he ceases from any cause to be a director, without prejudice to any claim for damages such director may have for breach of any service contract between him and the Company. The salary or remuneration of any such executive director shall, subject as provided in any contract, be such as the directors may from time to time determine, and may either be a fixed sum of money, or may altogether or in part be governed by the business done or profits made, and may include the making of provisions for the payment to him, his widow or other dependants, of a pension on retirement from the office or employment to which he is appointed and for the participation in pension and life assurance and other benefits.
- (ix) The directors may entrust to and confer upon a managing director or any such executive Director any of the powers and discretions exercisable by them upon such terms and conditions and with such restrictions as they may think fit, and either collaterally with or to the exclusion of their own powers and discretions and may from time to time revoke, withdraw, alter or vary all or any of such powers or discretions.
- (x) Any director who is appointed to any executive office or who serves on any committee or who devotes special attention to the business of the Company or who otherwise performs services which, in the opinion of the directors, are outside the scope of the ordinary duties of a director, may be paid such extra remuneration by way of salary, percentage of profits or otherwise as the directors may determine.

- (xi) The directors may be paid all reasonable travelling, hotel and other expenses properly incurred by them in attending and returning from meetings of the directors or general meetings of the Company or otherwise in connection with the business of the Company.
- (xii) A director may be or continue as or become a director or other officer, servant or member of, or otherwise interested in, any body corporate promoted by the Company or in which the Company may be interested as shareholder or otherwise, and no such director shall be accountable to the Company for any remuneration or other benefits received or receivable by him as a director or other officer, servant or member of, or from his interest in, such other body corporate and shall be entitled to exercise all powers of voting in connection therewith. Subject to the provisions of the Act, a director may hold any other office or place of profit under the Company, except that of auditor, in conjunction with the office of director and may act by himself or through his firm in a professional capacity for the Company, and in any such case on such terms as to remuneration and otherwise as the directors may arrange. Such remuneration shall be in addition to any remuneration otherwise provided by the Articles.
- (xiii) Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment) of two or more directors to offices or employments with the Company or any body corporate in which the Company is interested, such proposals may be divided and considered in relation to each director separately and in such cases each of the directors concerned (subject to the Articles) shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.
- (xiv) Section 293 of the Act (which regulates the appointment and continuation in office of directors who have attained the age of 70) shall not apply to the Company.
- (xv) Each director shall have the power at any time to appoint as an alternate director either (i) another director or (ii) any other person approved for that purpose by a resolution of the directors, and, at any time, to terminate such appointment.
- (xvi) At each annual general meeting of the Company one-third of the directors shall retire from office. The directors to retire will be those who have been longest in office, or in the case of those who were appointed or re-appointed on the same day, will be (unless they otherwise agree) determined by lot.
- (xvii) Without prejudice to the provisions of the Articles, the directors may exercise all the powers of the Company to purchase and maintain insurance for or for the benefit of any persons who are or were at any time directors, officers, employees or auditors of the Company, or of any other body (whether or not incorporated) which is or was its parent undertaking or subsidiary undertaking or another subsidiary undertaking of any such parent undertaking (together "Group Companies") or otherwise associated with the Company or any Group Company or in which the Company or any such other Group Company has or had any interest, whether direct or indirect, or of any predecessor in business of any of the foregoing, or who are or were at any time trustees of, or directors of trustees or, any pension, superannuation or similar fund, trust or scheme or any employees' share scheme or other scheme or arrangement in which any of the Company or any such other body are interested, including (without prejudice to the generality of the foregoing) insurance against any costs, charges, expenses, losses or liabilities suffered or incurred by such persons in respect of any act or omission in the actual or purported execution and/or discharge of their duties and/or the exercise or purported exercise of their powers and discretions and/or otherwise in relation to or in connection with their duties, powers or offices in relation to the Company or any such other body, fund, trust, scheme or arrangement.
- (xviii) The directors may exercise all the powers of the Company to give or award pensions, annuities, gratuities or other retirement superannuation, death or disability allowance or benefits to, *inter alia*, any directors, ex-directors, employees or ex-employees of the

Company or of any subsidiary undertaking or parent undertaking of the Company or to the wives, widows, children, other relatives and dependants of any such person and may establish, maintain, support, subscribe to and contribute to all kinds of schemes, trusts and funds for the benefit of any such persons.

- (xix) Caledonia Investments Plc has the right to appoint or remove one non-executive director of Exco until it or any of its subsidiaries ceases to be interested in at least 20 per cent. of Exco's issued ordinary share capital.

(f) Borrowing Powers

- (i) The directors may, save as the Articles otherwise provide, exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property, assets (present and future) and uncalled capital, or any part thereof, and, subject to the provisions of the Statutes and the Articles, to issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.
- (ii) The directors shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings (if any) so as to secure (so far, as regards subsidiary undertakings, as by such exercise they can secure) that the aggregate amount for the time being remaining outstanding of all monies borrowed by the Company and any subsidiary undertakings for the time being (in this paragraph, the "Group") and for the time being owing to persons outside the Group shall not at any time, without the previous sanction of an ordinary resolution of the Company in general meeting, exceed a sum equal to two times the aggregate of (i) the amount paid up on the issued share capital of the Company and (ii) the total of the capital and revenue reserves of the Group (including any share premium account, capital redemption reserve and credit balance on the profit and loss account) all as shown in the latest audited and consolidated balance sheet of the Group but after such adjustments and deductions (including any amounts attributable to intangibles) as are specified in the relevant Article.

(g) Dividends and Distributions on Liquidation to Shareholders

- (i) The Company in general meeting may by ordinary resolution declare dividends, but no dividend shall exceed the amount recommended by the directors. Subject to any priority, preference or special rights, all dividends shall be declared and paid according to the amounts paid up on the shares and shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion of the period in respect of which the dividend is paid.
- (ii) The directors may pay such interim dividends as they think fit and may pay the fixed dividends payable on any shares of the Company half-yearly or otherwise on fixed dates.
- (iii) No dividend or interim dividend shall be paid otherwise than in accordance with the provisions of the Statutes.
- (iv) On a liquidation, the liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by the Statutes, divide amongst the members in specie or in kind the whole or any part of the assets of the Company and may, for such purpose, set such value as he deems fair upon any property to be divided and may determine how such division shall be carried out.
- (v) The directors may, with the sanction of an ordinary resolution of the Company in general meeting, offer the holders of Ordinary Shares the right to elect to receive new Ordinary Shares credited as fully paid instead of cash in respect of the whole or part of any dividend.
- (vi) Any dividend unclaimed for a period of 12 years after it became due for payment shall be forfeited and shall revert to the Company.

- 4.3 A resolution to amend the Articles (as extracted above) to the following effect is to be proposed at the Extraordinary General Meeting.

The proposed amendments to the Articles of Association are mainly designed to update the Articles and, in one respect, to reflect the changes in major shareholdings in Exco following completion of the Merger.

New Article 63 permits the directors to postpone the holding of a general meeting if it is impractical or unreasonable, with a requirement that the date, time and place of the postponed meeting has to be placed in at least two national newspapers.

New Article 67 gives the directors power to arrange for simultaneous attendance and participation by members at general meetings at other places. New Article 68 gives the directors powers to make security arrangements in relation to meetings and exclude those persons not complying with them. The proposed addition to the existing Article 67 and new Article 71 give the Chairman additional powers to facilitate the orderly conduct of general meetings.

The amendment to Article 94 provides, following the coming into effect of FRS 10, that sums attributable to goodwill or other intangible assets in the balance sheet of the Company shall not be deducted in computing the Company's borrowing base.

The amendment to Article 106 reflects requirements for the resignation of directors every three years under The Combined Code - Principles of Good Governance and Code of Best Practice.

Sub clauses B, C and D of Article 114 currently permit Caledonia Investments plc, so long as it (or any subsidiary) owns not less than 20 per cent. of the ordinary share capital of the Company, to appoint a non executive director of the Company. These sub clauses of this Article are now proposed to be deleted, subject to Admission.

The addition to Article 149 permits the directors to fix a record date for delivery of notices not more than 15 days before the date of delivery.

New Article 159 makes provisions to deal with the introduction of CREST.

5. SHARE OPTION AND INCENTIVE SCHEMES

5.1 The Principal Terms of the Exco plc (No.1) and (No.2) 1992 Share Option Schemes (the "1992 Share Option Schemes")

The 1992 Share Option Schemes were established in connection with a Deed of Trust dated 29 April 1992 in respect of the No.1 scheme and a Deed of Trust dated 28 April 1992 in respect of the No.2 scheme of which Exco Trustees Limited (the "Trustee") is the trustee. They have not been submitted to the Inland Revenue for approval under Schedule 9 to the Income and Corporation Taxes Act 1988. No further options will be granted under the Schemes.

(a) Grant and Exercise Price

The grant price was nil for each option. The exercise price is £1 per occasion of exercise.

(b) Exercise of Options

All options are now exercisable and expire on 31 May 1999.

(c) Voting, Dividend, Transfer and other rights

(i) Until options are exercised, optionholders have no voting rights in respect of the shares covered by their options.

(ii) A participant who exercises an option shall be entitled to receive all dividends and other distributions paid in relation to the ordinary shares so acquired by reference to a record date falling on or after the date of the participant's registration as a holder of shares.

(iii) Options are non-transferable.

(d) Administration and amendment

- (i) The 1992 Share Option Schemes are administered under the direction of the Board who may amend or augment the rules of the Schemes by resolution provided that no amendment shall operate to affect adversely in any way any rights already acquired by a participant without the approval of that participant and further provided that no amendment which would affect the terms of options may be made without the consent of the Trustee. Certain amendments require prior approval of the Company in general meeting. In particular, approval in general meeting will be required to any amendment to the advantage of participants or employees affecting:
 - (A) the determination of the exercise price or the class of eligible employees;
 - (B) the maximum number of shares which may be placed under option in respect of any one eligible employee;
 - (C) any transfer or other rights attaching to options;
 - (D) the basis on which any adjustment may be made to the exercise price or the number of shares subject to an option;
 - (E) the rule relating to amendments to the 1992 Share Option Scheme; and
 - (F) rules relating to the receipt of dividends in relation to a participant who has already exercised an option.
- (ii) The Board may at any time, with the consent of the Trustee, make any amendment by resolution which may be:
 - (A) necessary to obtain or maintain Inland Revenue or other regulatory approval to the 1992 Share Option Schemes; or
 - (B) necessary or desirable to take advantage of any rule prevailing in any jurisdiction in which the 1992 Share Option Schemes operate provided that no such amendment as is referred to in paragraph (i)(A) to (F) above shall be made without the prior approval of the Company in general meeting.

5.2 The Principal Terms of the Exco plc 1992 (No.3) Share Option Scheme (the "No.3 Share Option Scheme")

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. No further options will be granted under this Scheme.

(a) Grant and Exercise Price

- (i) The grant price was nil for each option. The exercise price is £1.00 per share.
- (ii) The exercise price may be adjusted in the event of a rights issue, bonus issue, share split and certain other alterations of share capital subject to the written certificate of the auditors that such adjustment is fair and reasonable and provided that the exercise price of an option to subscribe for shares is not adjusted below the nominal value of an ordinary share.

(b) Exercise of Options

Two thirds of the existing options are now exercisable and the remaining third become exercisable on 17 February 1999. All the existing options expire on 16 February 2001.

Options will become exercisable immediately on the death of a participant or on his ceasing to be an eligible employee by reason of injury, disability, redundancy or retirement and shall remain exercisable for a period of 12 months after such date. The Board also has a discretion to permit exercise where the participant ceases to be an eligible employee for any other

reason. Rights of exercise will also arise in the case of certain corporate events, such as takeover.

(c) **Voting, Dividend, Transfer and other rights**

- (i) Until options are exercised, optionholders have no voting rights in respect of the shares covered by their options.
- (ii) Shares issued pursuant to the No.3 Share Option Scheme will rank *pari passu* in all respects with the shares already then in issue except that they will not rank for any dividend or other distribution paid or made by reference to a record date falling prior to the date of exercise of the option.
- (iii) Options are non-transferable.

(d) **Administration and amendment**

- (i) The No.3 Share Option Scheme is administered by the Board who may amend or augment the same by resolution provided that no amendment may be made to the advantage of participants without the approval of the Company in general meeting affecting:
 - (A) the calculation of the exercise price;
 - (B) the calculation of the total number of shares available for the No.3 Share Option Scheme;
 - (C) the maximum number of shares which may be placed under option in respect of any one eligible employee;
 - (D) the definition of eligible employees;
 - (E) any transfer or other rights attaching to options;
 - (F) the basis on which any adjustment may be made to the exercise price or the number of shares subject to an option;
 - (G) the rules relating to the grant or exercise of options; and
 - (H) the rule relating to amendments to the No.3 Share Option Scheme.
- (ii) The Board may make any amendment by resolution which may be:
 - (A) necessary to obtain or maintain Inland Revenue or other approval to the No.3 Share Option Scheme; or
 - (B) necessary or desirable to take advantage of any rule prevailing in any jurisdiction in which the No.3 Share Option Scheme operates.

5.3 The Principal Terms of the Exco plc Long Term Employee Share Plan (the "Plan")

This plan was designed to obtain a commitment from selected employees to take or (in the case only of the first operation of the Plan) to retain an interest in 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 a certain extent, to the Group fulfilling certain performance conditions. 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 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 nominee arrangements ("matching options"). Identical (though separate) arrangements were made for employees of the associated undertakings. Accordingly, the description of the Plan applies equally to these separate arrangements so that participation is restricted to employees of the associated undertakings who are beneficiaries or potential beneficiaries of the employee benefit trust established by trust deed dated 28 April 1992 made between British & Commonwealth Holdings PLC (in Administration) and Exco Trustees Limited.

Options held under the 1992 Share Option Schemes were used instead of a purchased share option if the holder undertook to the Trustee not to exercise such option except in circumstances in which a purchased share option could have been exercised, and shares held prior to the establishment of the nominee arrangements were submitted to the nominee arrangements, so as, in each case, to lead to the grant of a matching option. No further options will be granted under the Plan.

The principal terms of each of the schemes which have options outstanding (there now being none outstanding under the nominee arrangements) are as follows:

(a) The Principal Terms of the Exco plc Purchased Share Option Scheme (the "Purchased Option Scheme")

(i) Grant and Exercise Price

The grant price was nil for each option. The amount payable in relation to the exercise of an option is 0.1 penny per share.

(ii) Exercise of Options

All options are now exercisable and expire on 18 July 2001 for UK residents and 19 July 2004 for overseas residents.

(iii) Voting, Dividend, Transfer and other rights

Options are non-transferable.

Shares acquired under the Purchased Option Scheme rank *pari passu* in all respects with shares then in issue and shall be transferred by the Trustee on the exercise of an option with all rights and benefits attaching thereto.

(iv) Administration and amendment

The Company with the consent of the Trustee may amend the rules of the Purchased Option Scheme, provided that:

(A) normally, no amendment shall operate to affect adversely any rights already acquired by an optionholder except with such consent on their part as would be required by the Company's Articles of Association if the existing options were exercised and the shares so acquired constituted a separate class of share capital; and

(B) the Trustee may alter the administration procedure applying to the Purchased Option Scheme or amend the terms or impose further conditions on the grant and exercise of options to take account of overseas taxation and securities or exchange control laws.

(b) The Principal Terms of the Exco plc Matching Share Option Scheme (the "Matching Scheme")

(i) Grant and Exercise Price

The grant price was nil for each option. The amount payable in relation to the exercise of an option shall be 1 penny per share.

The provisions of section 89(1)(iv) of the Act (to the extent not disapplied pursuant to section 95 of the Act) confer on shareholders rights of pre-emption in respect of the allotment of equity securities (as defined in section 89(2) of the Act) which are, or are to be, paid up in cash and apply to the authorised but unissued share capital except to the extent disapplied by the resolution referred to in paragraph 3.4 above. This disapplication will give the directors limited flexibility to issue shares for cash following the Merger and the Subscription and other than as required pursuant to clause 4 of the Relationship Agreement.

- 3.7 By an instrument dated 27 June 1991 Exco created £1,752,499 of Loan Stock of which £562,604 is outstanding as at 29 September 1998. This stock is secured by charges over cash deposited in the amount of the Loan Stock outstanding. Interest is payable on the Loan Stock at the rate of LIBOR less 1 per cent. by equal half yearly instalments on 27 June and 27 December in each year. The Loan Stock is convertible into Ordinary Shares on any interest payment date up to 27 December 2001, the number of shares to be issued upon conversion being calculated by dividing the nominal value of the stock to be converted by the average middle market quotations of the Ordinary Shares as derived from the Stock Exchange Daily Official List for the five dealing days immediately prior to the interest payment date.
- 3.8 Exco Trustees Ltd is the registered holder of 3,096,541 Ordinary Shares. Exco USA is the beneficial owner of 167,400 Ordinary Shares which were pledged to it in connection with a loan to an employee.
- 3.9 Save as disclosed in this Part 8:
- (a) there has been no change in the amount of the issued share or loan capital of the Company and no material change in the amount of the issued share or loan capital of any of its subsidiaries (other than intra-group issues by wholly owned subsidiaries) in the three years preceding the date of this document;
 - (b) no commissions, discounts, brokerages or other special terms have been granted by the Company or any of its subsidiaries in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries in the three years preceding the date of this document; and
 - (c) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.

4. MEMORANDUM AND ARTICLES OF ASSOCIATION

- 4.1 The Memorandum of Association of the Company provides that the Company's principal object is to carry on the business of a holding company. The objects of the Company are set out in full in clause 4 of the Memorandum of Association which is available for inspection at the address specified in paragraph 18 below.
- 4.2 The Articles of Association of the Company (the "Articles") contain provisions, *inter alia*, to the following effect:
- (a) **Voting Rights**
 - (i) Shareholders shall have the right to receive notice of, to attend and to vote at all general meetings of the Company. Save as otherwise provided in the Articles, on a show of hands each holder of shares present in person and entitled to vote shall have one vote and upon a poll each such holder who is present in person or by proxy and entitled to vote shall have one vote in respect of every share held by him.
 - (ii) No member shall be entitled to vote at any general meeting if any call or other sum presently payable by him in respect of shares remains unpaid or if a member has been served by the directors with a restriction notice in the manner described in paragraph (b) below.
 - (b) **Restrictions on Ordinary Shares**

If a member or any person appearing to be interested in shares in the Company has been duly served with a notice pursuant to Section 212 of the Act and is in default in supplying to

the Company information thereby required within 14 days from the date of service of such notice the directors may serve on such member or on any such person a notice (a "restriction notice") in respect of the shares in relation to which the default occurred and any other shares held at the date of the restriction notice by the member ("restricted shares") directing that the member shall not be entitled to be present or to vote at any general meeting or class meeting of the Company. Where the default shares represent at least 0.25 per cent. (in nominal value) of the issued shares the restriction notice may in addition direct, *inter alia*, that any dividend or other money which would otherwise be payable on such shares shall be retained by the Company without liability to pay interest, any election by the member for any scrip dividend alternative shall not be effective and no transfer of any of the shares held by the member shall be registered unless the member is not himself in default in supplying the information requested and the transfer is part only of the member's holding and is accompanied by a certificate given by the member in a form satisfactory to the directors to the effect that after due and careful enquiry the member is satisfied that no person in default is interested in any shares subject to the transfer or the transfer is a permitted transfer.

(c) Variation of Class Rights and Alteration of Capital

- (i) If at any time the share capital of the Company is divided into different classes of shares, the rights attached to any class of shares may, subject to the Act and any other act relating to companies (the "Statutes"), be modified, abrogated or varied either with the consent in writing of the holders of three-fourths of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of sections 369, 370, 376 and 377 of the Act and the provisions of the Articles relating to general meetings shall apply, *mutatis mutandis*, but so that the necessary quorum at any such meeting other than an adjourned meeting shall be two persons holding or representing by proxy at least one-third in nominal value of the issued shares of the relevant class and at an adjourned meeting one person holding shares of the class or his proxy. Any holder of shares of the relevant class present in person or by proxy may demand a poll upon which every holder of shares of that class shall be entitled to one vote for every such share held by him. The rights attached to any class of shares shall, unless otherwise expressly provided by the terms of issue of such shares or by the terms upon which such shares are for the time being held, be deemed not to be modified, abrogated or varied by the creation or issue of further shares ranking *pari passu* therewith.
- (ii) The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of larger amount, sub-divide its shares into shares of smaller amount and cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person.
- (iii) Subject to the provisions of the Statutes, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account in any way.
- (iv) Subject to the provisions of the Statutes or the Articles, all unissued shares of the Company are at the disposal of the directors.
- (v) Subject to the provisions of the Statutes, any shares may be issued on terms that they are redeemed or liable to be redeemed at the option of the Company or the shareholders on the terms and in the manner provided for by the Articles.
- (vi) Subject to the provisions of the Act, the Company may purchase its own shares (including any redeemable shares).

(d) Transfer of shares

The instrument of transfer of a share shall be signed by or on behalf of the transferor (and, in the case of a share which is not fully paid, by or on behalf of the transferee) and the transferor shall be deemed to remain the holder of the share until the name of the transferee

(ii) Exercise of Options

All options are exercisable and expire on 18 July 2001 for UK residents and 19 July 2004 for overseas residents.

An option shall not be exercisable in any circumstances unless the participant continues to hold the relevant option under the Purchased Option Scheme (the "Qualifying Option") or the relevant ordinary shares pursuant to the Nominee Scheme ("Qualifying Shares"), as the case may be, in respect of which the option was granted under the Matching Scheme. To the extent that a Qualifying Option is exercised, or Qualifying Shares are sold, the related option granted under the Matching Scheme shall lapse.

(iii) Voting, Dividend, Transfer and other rights

Options are non-transferable.

Ordinary shares issued under the Matching Scheme shall rank *pari passu* in all respects with shares then in issue except that they will not rank for any dividend or other distribution paid or made by reference to a record date falling prior to the date of exercise of the relevant option.

(iv) Administration and amendment

The Company may amend the rules of the Matching Scheme provided that prior approval of the Company in general meeting will be required to any significant change to the advantage of a participant.

No amendment shall operate to affect any rights already acquired by a participant except with such consent on their part as would be required by the Company's Articles of Association if the existing options were exercised and the shares so acquired constituted a separate class of share capital.

The Company may make any amendment without the prior approval of the Company in general meeting which the Company considers is necessary or desirable to take account of proposed or existing legislation, or to obtain or maintain favourable taxation treatment for the Company or its subsidiaries or any option holder provided any such alteration does not affect the basic principles of the Matching Scheme.

The Remuneration Committee of the Board may alter the administration of the Scheme and amend the terms or impose conditions on the grant and exercise of options to take account of overseas taxation and securities or exchange control laws provided such changes are not inconsistent with the provisions of the Matching Scheme.

- 5.4 Of the options exercisable under the No.3 Option Scheme 1,089,678 are over existing issued shares. Accordingly up to 410,322 Ordinary Shares may fall to be issued under this scheme. A maximum of 824,250 Ordinary Shares may fall to be issued on the exercise of options under the Matching Scheme. All other options are over existing issued shares. The total number of shares subject to options is 3,327,150.

5.5 The Icap Companies

Two employees of Intercapital Commodity Swaps Pte Limited have an option arrangement with Intercapital Commodity Swaps Pte Limited and Intercapital Commodity Swaps Limited. Under this arrangement, the two employees may (at any time) purchase 5 per cent. and 10 per cent. respectively of Intercapital Commodity Swaps Pte Limited's shares from Intercapital Commodity Swaps Limited.

The Icap Companies do not otherwise have any share option schemes or incentive schemes involving shares in the Icap Companies. A number of directors and employees of the Icap Companies do, however, hold shares in IBS and/or shares in or options over shares in Intercapital.

6. DIRECTORS

6.1 *Exco Directors and Proposed Directors*

- (a) The current Exco Directors and their respective functions are as follows:

David Hubbard	Chairman
Peter Edge*	Chief Executive
Peter Buckley	Non-Executive
Clive Cooke	Director - USA
John Heywood*	Non-Executive
Michael Johns*	Non-Executive
James Magee*	Director - Canada
Kim Taylor	Finance Director
Marcel Wolf	Chief Operating Officer - Switzerland

* These Directors will resign from the Board following completion of the Merger.

In addition, Jonathan Cartwright, the Finance Director of Caledonia Investments plc, has been appointed as alternate director for Peter Buckley.

- (b) The Proposed Directors are Michael Alan Spencer and David Moses Gelber who are also Intercapital Directors.
- (c) The proposed members of the Enlarged Group Board are set out on page 6 of this document and are those Exco Directors not marked with an asterisk in paragraph 6.1(a) above and the Proposed Directors referred to in paragraph 6.1(b) above. Their brief biographical details are as follows:

Chairman and Chief Executive

Michael Spencer. Aged 43. The original founder and currently Chairman and Chief Executive of Intercapital and the Icap Companies.

He is also a director of Moving Image Restaurants Plc, On-Line Finance Holdings Ltd, On-Line Holdings Ltd, Voltapalm Ltd and Weekend City Press Review Limited. He is also a trustee of the Development Trust.

Non-executive Deputy Chairman

David Hubbard, OBE. Aged 62. Elected to the Board as a non-executive director and Deputy Chairman in 1995. He was appointed Chairman on 18 April 1996. He was previously Chairman of London & Manchester Group PLC and Powell Duffryn plc and is a non-executive director of The City of London Investment Trust PLC and Slough Estates plc. He has indicated that he will be prepared to leave the Board on 31 December 1998.

Non-executive Director

Peter Buckley. Aged 55. Appointed a non-executive director of Exco in June 1992. He is Chairman of Caledonia Investments plc and is currently 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 and Sun International Hotels Limited.

Director

Clive Cooke. Aged 40. 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 Exco USA in New York and from 1996 he has also been Chief Executive of Exco USA Inc.

Director

David Gelber. Aged 51. Group Managing Director of Intercapital since 1994 and will become Chief Operating Officer of the Enlarged Group. He is also a non-executive director of Krupaco Finance (UK) Limited, First Front Plc, First Front (Wimbledon) Limited, Motorway Limited and Trade Promotion Travel Limited.

Finance Director

Kim Taylor FCA. Aged 43. He has worked in the Group since 1986 and became Finance Director in 1992.

Director

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 1987 having been a director from 1979 to 1981 and has been Chief Operating Officer since 1995. He will remain an executive director for a period expiring not later than 30 June 1999 following Admission to oversee the integration of the businesses of Exco and the Icap Companies after the Merger.

6.2. Intercapital Directors

The current Intercapital Directors are as follows:

David Anthony Casterton
David Moses Gelber*
Declan Pius Kelly
Russell Ian Lees
Simon Henry Mansell
Paul Newman
Peter John O'Toole
Michael Alan Spencer*

Those marked with an asterisk are the Proposed Directors.

The registered office of Intercapital and the address of all the Intercapital Directors is Park House, 16 Finsbury Circus, London EC2M 7UR.

7. DISCLOSURE OF INTERESTS AND DEALINGS IN SHARES

7.1 Interests in Ordinary Shares

- (a) As at 29 September 1998 and immediately following Admission, the interests of the Exco Directors (all of which are beneficial unless otherwise stated) in the issued share capital of the Company which:
- (i) are required to be notified by each Exco Director pursuant to section 324 or section 328 of the Act;
 - (ii) are required pursuant to section 325 of the Act to be entered into the register referred to therein; or
 - (iii) are interests of a Connected Person of an Exco Director which would, if the Connected Person were an Exco Director, be required to be disclosed under paragraph (i) or (ii) above and the existence of which is known to or could with reasonable diligence be ascertained by that Exco Director, are and will be, immediately following Admission, as follows:

	<i>Number of Ordinary Shares at 29 September 1998</i>	<i>Percentage of issued Ordinary Shares at 29 September 1998</i>	<i>Number of Ordinary Shares following Admission</i>	<i>Percentage of Enlarged Issued Share Capital following Admission</i>
<i>Exco Director</i>				
David Hubbard	7,340	0.006	7,340	0.002
Peter Buckley*	100,000	0.081	100,000	0.027
Clive Cooke	139,857	0.113	139,857	0.038
Peter Edge	882,225	0.715	882,225	0.240
John Heywood	40,000	0.032	40,000	0.011
James Magee	500,243	0.405	500,243	0.136
Kim Taylor	52,962	0.043	52,962	0.014
Marcel Wolf	490,255	0.397	490,255	0.134

* Peter Buckley is the chairman and chief executive of Caledonia Investments plc whose shareholding is shown below.

As at 29 September 1998 details of the share options granted to the Exco Directors are as follows:

1992 No.1 Share Option Scheme:

<i>Exco Director</i>	<i>Number of Options</i>	<i>Date from which exercisable</i>	<i>Total Exercise price (on each exercise of an option) (£)</i>	<i>Expiry Date</i>
Clive Cooke	96,000	19.7.94	1.00	31.5.99
Peter Edge	22,000	19.7.94	1.00	31.5.99
Marcel Wolf	214,000	19.7.94	1.00	31.5.99

1992 No.3 Share Option Scheme

<i>Exco Director</i>	<i>Number of Options</i>	<i>Date from which exercisable</i>	<i>Exercise price (per share) (£)</i>	<i>Expiry Date</i>
Clive Cooke	150,000	17.2.97	1.00	16.2.2001
Peter Edge	150,000	17.2.97	1.00	16.2.2001
James Magee	150,000	17.2.97	1.00	16.2.2001
Kim Taylor	150,000	17.2.97	1.00	16.2.2001
Marcel Wolf	150,000	17.2.97	1.00	16.2.2001

Long Term Employee Share Plan

<i>Director</i>	<i>Number of Options</i>	<i>Date from which exercisable</i>	<i>Exercise price (per share) (p)</i>	<i>Expiry Date</i>
Clive Cooke	25,000	19.7.98	1.0	19.7.2004
Peter Edge	11,000	19.7.98	1.0	18.7.2001
James Magee	25,000	19.7.98	1.0	19.7.2004
Kim Taylor	20,000	19.7.98	1.0	18.7.2001
Marcel Wolf	25,000	19.7.98	1.0	19.7.2004

Clive Cooke is a holder of £350,010 of Loan Stock and has the right to convert the stock into Ordinary Shares at their then market value. The right can be exercised on any 27 December or 27 June up to 27 June 2001, provided that the Ordinary Shares of the Company are listed on the London Stock Exchange.

- (b) As at 29 September 1998 and immediately following Admission, the interests of the Proposed Directors which are all beneficial (including their connected persons as referred to in paragraph 7.1(a) above) in the issued share capital of the Company including those that will be required to be notified to Exco pursuant to sections 324 and 328 of the Act and entered in Exco's register of director's interests maintained under section 325 of the Act respectively are and will be as follows:

	<i>Number of Ordinary Shares on 29 September 1998</i>	<i>Number of Ordinary Shares following Admission</i>	<i>Percentage of Enlarged Issued Share Capital following Admission</i>
†Michael Spencer	Nil	231,801,727	63.13
David Gelber	Nil	Nil	Nil

† Michael Spencer will be interested in all Ordinary Shares owned by IBS and the 231,801,727 shares referred to in this paragraph (b) (in respect of his name) and in paragraph (c) below (in respect of IBS) are the same.

- (c) As at 29 September 1998 and immediately following Admission the following persons respectively are and will be interested in three per cent. or more of the issued share capital of the Company and in respect of existing shareholdings these are the numbers notified to the Company:

<i>Name</i>	<i>Number of Ordinary Shares on 29 September 1998</i>	<i>Percentage of issued Ordinary Shares on 29 September 1998</i>	<i>Number of Ordinary Shares following Admission</i>	<i>Percentage of Enlarged Issued Share Capital following Admission</i>
†IBS	Nil	Nil	231,801,727	63.13
††Caledonia*	34,693,175	28.1%	34,693,175	9.45
†††Caledonia Trust	33,693,175	27.3%	33,693,175	9.18
Fidelity International Ltd	7,110,400	5.8%	7,110,400	1.94
Nittan Exco	6,323,318	5.1%	6,323,318	1.72
Nihon	Nil	Nil	12,000,000	3.27

† IBS is owned as to approximately 88 per cent. by Intercapital, which is owned as to approximately 42 per cent. by Michael Spencer and his family; accordingly Michael Spencer and Intercapital are also treated as interested in the Ordinary Shares which will be held by IBS.

††Caledonia is a subsidiary of Caledonia Investments plc and Caledonia Investments plc is accordingly also treated as interested in the Ordinary Shares held by Caledonia.

†††The Caledonia Trustees have conditionally contracted to acquire 33,693,175 of the Ordinary Shares from Caledonia and Caledonia is accordingly also treated as interested in the shares as detailed above. Upon the contract becoming unconditional and the acquisition of such Ordinary Shares being completed Caledonia and Caledonia Investments plc will cease to have a notifiable interest in those 33,693,175 Ordinary Shares. However subsidiaries of Caledonia Investments plc will be amongst the discretionary beneficiaries of the Caledonia Trust subject to the terms on which the Caledonia Trustees holds the Ordinary Shares.

All of the directors of Exco named in 7.1(a) above and those Shareholders marked with an asterisk have irrevocably committed to vote in favour of the Transaction.

- (d) Following Admission Michael Spencer and his wife will have an underlying interest equivalent to approximately 23 per cent. of the Enlarged Issued Share Capital, by virtue of their 42 per cent. shareholding in Intercapital and shareholding of 0.05 per cent. in IBS. Details of Michael Spencer's other directorships are set out in paragraph 6.1(c) of Part 8 of this document.

Following Admission, Geoffrey Conway-Henderson, a director of Intercapital Brokers Limited and head of its Basis Swap Desk, will have an underlying interest equivalent to approximately 4.4 per cent. of the Enlarged Issued Share Capital, by virtue of his 8 per cent. shareholding in Intercapital. He has been employed by the Intercapital Group for over 10 years.

Following Admission, 66 employees of the Intercapital Group will have underlying interests in the Enlarged Issued Share Capital, by virtue of their shareholdings in Intercapital and/or IBS or options over issued shares in Intercapital held by the Trust referred to below. None of these individuals will have underlying interests equivalent to 5 per cent. or more of the Enlarged Issued Share Capital.

Following Admission, Barclays Private Bank & Trust Limited, a Jersey trust company, as trustee of the Intercapital Group Limited Employee Benefit Trust ("the Trust"), will have an underlying interest in approximately 9 per cent. of the Enlarged Issued Share Capital, by virtue of its 16 per cent. shareholding in Intercapital. The Trust is a discretionary trust for the benefit of directors and employees of the Intercapital Group and their families and a number of the shares held by the trustee are the subject of options granted by the trustee. The trustee normally does not hold shares in companies outside the Intercapital Group.

- (e) Save as set out in paragraphs (b), (c) and (d) above, the Exco Directors and the Proposed Directors are not aware of any person who is as at 29 September 1998 or will, immediately following Admission, be interested (within the meaning of the Act) directly or indirectly in three per cent. or more of the issued share capital of the Company or could directly or indirectly, jointly or severally, exercise control over the Company.

- (f) Save as disclosed in paragraphs 7(a) and 7(b), none of the Exco Directors or the Proposed Directors had, as at 29 September 1998 any interest (beneficial or non-beneficial) in the Ordinary Shares or will have any interest (beneficial or non-beneficial) in the New Ordinary Shares. So far as the Exco Directors and the Proposed Directors believe none of their respective connected persons had, as at 29 September 1998 any interest, the existence of which is known or could with reasonable diligence be ascertained by the Exco Directors and the Proposed Directors (beneficial or non-beneficial) in the Ordinary Shares or will have any interest (beneficial or non-beneficial) in New Ordinary Shares which interest will then be required to be notified to the Company pursuant to section 324 or section 328 of the Act or entered in the register maintained by the Company under the provisions of section 325 of the Act.

7.2 *Dealings in Ordinary Shares*

The following dealings for value in Ordinary Shares (including the exercise of options under the Exco share option schemes) by the Exco Directors (and their connected persons) have taken place during the period from 11 July 1997 to 29 September 1998 ("the disclosure period"):

<i>Name</i>	<i>Date</i>	<i>Nature of Transaction</i>	<i>Number of Ordinary Shares</i>	<i>Price per Ordinary Share (p)</i>
Peter Edge	26 September 1997	Purchase	250,000	31.0
Marcel Wolf	26 September 1997	Purchase	250,000	31.0
Peter Buckley	26 September 1997	Purchase	37,500	31.0
Mrs Peter Buckley	26 September 1997	Purchase	37,500	31.0
John Heywood	16 October 1997	Purchase	40,000	40.5

There have been no dealings in the Ordinary Shares during the disclosure period by Caledonia which has given irrevocable undertakings to vote in favour of the Merger (other than the Exco Directors).

- 7.3 (a) Save as disclosed herein, neither Exco or any of its subsidiaries, nor any pension fund of Exco or of any such subsidiary, nor the Exco Directors (or any of their connected persons), nor any bank, stockbroker, financial or other professional adviser of Exco, nor any person controlling, controlled by or under the same control as any such adviser (other than an exempt market maker) nor any person whose investments are managed on a discretionary basis by fund managers (other than exempt fund managers) connected with Exco, owns or controls, or is interested in any Ordinary Shares or any securities convertible into, rights to subscribe for, or options in respect of, or derivatives referenced to any Ordinary Shares, neither have any of the Exco Directors (or any of their connected persons) dealt therein, for value in the disclosure period.
- (b) Neither Exco nor any of its subsidiaries, nor any pension fund of Exco or of any such subsidiary, nor the Exco Directors (or any of their connected persons), nor any bank, stockbroker, financial or other professional adviser of Exco, nor any person controlling, controlled by or under the same control as any such adviser (other than an exempt market maker) nor any person whose investments are managed on a discretionary basis by fund managers (other than exempt fund managers) connected with Exco, owns or controls, or is interested in any shares in Intercapital or any securities convertible into, rights to subscribe for, or options in respect of, or derivatives referenced to any shares in Intercapital, neither has any Exco Director (or any of their connected persons) dealt therein, for value in the disclosure period.
- (c) Neither Intercapital nor the Intercapital Directors (or any of their connected persons) nor any pension fund of Intercapital or any of its subsidiaries or any bank, stockbroker, financial or other adviser of Intercapital nor any person controlling, controlled by or under the same control as any such adviser (other than an exempt market maker) nor any person whose investments are managed on a discretionary basis by fund managers (other than exempt fund managers) connected with Intercapital nor any person acting in concert with Intercapital nor any person who has irrevocably undertaken to vote in favour of the Merger, owns or controls, or is interested in any Ordinary Shares or any Exco securities convertible into, rights to subscribe for, or options in respect of or derivatives referenced to any Ordinary Shares, nor has any such person dealt therein for value during the disclosure period.

- 7.4 (a) No arrangement exists between any person and Intercapital or any person acting in concert with Intercapital, in relation to relevant securities, including, in addition to indemnity and option arrangements, any agreement or understanding, formal or informal, of whatever nature, which may be an inducement to deal or refrain from dealing.
- (b) No arrangement exists between any person and Exco or any associate of Exco in relation to relevant securities including, in addition to indemnity and option agreements, any agreement or understanding, formal or informal, of whatever nature which may be an inducement to deal or refrain from dealing.

In this paragraph 7.4 "an associate" of Exco means any of:

- (i) Exco's subsidiaries, its associated companies and companies of which any such subsidiaries or associated companies are associated companies;
- (ii) the banks, financial or other professional advisers (including stockbrokers) to Exco or any company referred to in (i) above, including persons controlling, controlled by or under the same control as such banks, financial or other professional advisers;
- (iii) the directors, together with their connected persons of Exco or of any company referred to in (i) above; and
- (iv) the pension funds of Exco or any company referred to in (i) above.

In this paragraph 7.4, ownership or control of 20% or more of the equity share capital is regarded as the test of associated company status and "control" means a holding, or aggregate holdings of shares carrying 30% or more of the voting rights attributable to the share capital of a company which are currently exercisable at a general meeting, irrespective of whether the holding or aggregate holding gives de facto control.

References to a "bank" do not include a bank whose sole relationship with Exco is the provision of normal commercial banking services or such activities in connection with the Transaction such as handling forms of proxy and other registration work; and

"relevant securities" means Ordinary Shares, and securities convertible into, rights to subscribe for and options (including traded options) in respect of, and derivatives referenced to, any of the foregoing.

8. ENLARGED GROUP DIRECTORS' SERVICE AGREEMENTS AND TERMS OF APPOINTMENT

8.1 The Enlarged Group Directors have the following proposed service contracts which will come into effect upon Admission.

<i>Director</i>	<i>Term</i>	<i>Basic Annual Salary</i>	<i>Bonus Arrangements</i>	<i>Annual Pension Contribution</i>
Executive Directors				
Clive Cooke ⁽¹⁾⁽²⁾	Terminable on second anniversary of Admission or thereafter on any anniversary of Admission on 6 months' notice	US\$525,000	5% of the first US\$7.5 million of the profits before interest and tax of Exco's US operating companies and 7.5% of profits before interest and tax in excess of US\$7.5 million	not applicable
David Gelber	Terminable on second anniversary of Admission or any time thereafter on six months' notice	£225,000	Entitled to participate in a bonus pool to be set up after Admission by the Remuneration Committee	5% basic salary
Michael Spencer	Terminable on second anniversary of Admission or any time thereafter on 12 months' notice	£360,000	Entitled to participate in a bonus pool to be set up after Admission by the Remuneration Committee	5% basic salary
Kim Taylor ⁽³⁾	Terminable on the day falling 18 months after Admission and on any anniversary thereof on six months' notice	£175,000	Entitled to participate in a bonus pool to be set up after Admission by the Remuneration Committee. Also, entitled to £50,000 on completion of the Merger.	5% basic salary
Marcel Wolf ⁽¹⁾⁽⁴⁾	Terminable on two weeks' notice on or at any time after 1 January 1999 failing which it expires on 30 June 1999	£279,000	not applicable	£82,000 and in addition, £100,000 on 31 December 1998 and thereafter £150,000 to the period ended 30 June 1999, or pro rata should he leave earlier
Non-Executive Directors				
David Hubbard ⁽⁵⁾	Terminable on the giving of reasonable notice	£60,000	none	none
Peter Buckley ⁽⁵⁾	Terminates on 28 June 1999	£18,000	none	none

- (1) Clive Cooke and Marcel Wolf discharge their duties wholly or mainly outside the United Kingdom.
- (2) This service contract will, subject to Admission, supersede Mr Cooke's existing contract which provides for a basic annual salary of US\$600,000, bonus arrangements in respect of the combined annual profit before tax, interest and management expenses ("Profit Before Tax") of Exco USA Securities Inc. and Exco USA Inc. of 3 per cent. of the first US\$ 10 million provided the combined Profit Before Tax exceeds US\$ 8 million and 5 per cent. of such combined Profit Before Tax in excess of US\$ 10 million, and deferred compensation of US\$75,000 per annum.
- (3) This service contract will, subject to Admission, supersede Mr Taylor's existing service contract which provides for a basic annual salary of £150,000 and annual pension contributions of approximately 25 per cent. of basic salary, and which is terminable on 12 months notice.
- (4) This service contract will, subject to Admission, vary Mr Wolf's existing service contract which provides for a basic annual salary of SF655,000 and annual pension contributions of approximately 30 per cent. of basic salary, and which is terminable on 18 months notice.
- (5) These service contracts are the existing service contracts of the respective directors which will continue in force notwithstanding Admission. Mr. Buckley's salary was increased from £17,000 to £18,000 with effect from 1 May 1998.

The Enlarged Group Directors (with the exception of Clive Cooke) will be employed from Admission by Exco Management Services Limited, a wholly owned subsidiary of the Company. Clive Cooke will be employed from Admission by Exco USA Holdings Inc.

Michael Spencer and David Gelber have interests outside the Enlarged Group but will devote such time as is necessary to fulfil their duties to the Enlarged Group.

- 8.2 In addition to the benefits set out above, executive directors of the Enlarged Group are entitled to participate in the Company's permanent health insurance and private medical insurance schemes and are entitled to life assurance cover at the rate of four times salary.
- 8.3 By an agreement between Peter John Edge and the Company dated 29 September 1998, Mr Edge's employment by the Company will terminate on 30 September 1998. Mr Edge will continue to receive contractual salary and benefits (not including bonus) until 10 July 1999, subject to certain mitigating factors, and he will be bound by certain restrictive covenants which operate over various periods of between 12 and 24 months.
- 8.4 Under the agreement between Marcel Wolf and the Company referred to above, on termination of Mr Wolf's contract he will continue to receive contractual salary and benefits (not including bonus) for 18 months, subject to certain mitigating factors, or at the option of Mr Wolf or the Company, he will be paid a lump sum in lieu of such salary and benefits and he will be bound by certain restrictive covenants which operate over the 18 months during which he continues to be paid.
- 8.5 Save as set out in this paragraph 8, there are no existing or proposed service contracts between the Directors and any member of the Exco Group or the Enlarged Group Directors and any member of the Enlarged Group other than contracts expiring or determinable by the employing company without payment of compensation (other than statutory compensation) within one year or which have more than 12 months to run. Save as disclosed in this paragraph 8, no such contract has been entered into or amended within 6 months of the date of this document.
- 8.6 Joseph Sciametta, a former director had a contract of employment with Exco USA entered into on 1 January 1994, lasting from that date until 31 December 1998 at an annual rate of \$600,000. This contract was terminated on 6 March 1996.
- 8.7 Philip D'Angelo, who resigned as a director on 31 December 1991, continued to be paid at an annual rate of \$500,000 under a compensation agreement with Exco USA covering his loss of executive office on 31 December 1990. This agreement covered the period from 1 January 1991 to 8 April 1998.
- 8.8 In the financial year ended 31 December 1997, the total aggregate of the remuneration paid and benefits in kind granted (under any description whatsoever) to the Exco Directors by members of the Group was £1,678,000. The aggregate of the remuneration payable (excluding benefits in kind) to the Exco Directors and the Proposed Directors by members of the Enlarged Group in respect of the 15 month period ending 31 March 1999 under the arrangements in force at the date of this document (assuming Admission occurs), is expected to amount to approximately £2,174,000.

- 8.9 There is no arrangement under which any Enlarged Group Director has agreed to waive future emoluments nor has there been any waiver of emoluments during the financial year immediately preceding the date of this document.
- 8.10 No Exco Director has or has had any interest in any transactions which are or were unusual in their nature or conditions or are or were significant to the business of the Group and which were effected by any member of the Group in the current or immediately preceding financial year or which were effected during an earlier financial year and which remain in any respect outstanding or unperformed.
- 8.11 As at 29 September 1998 there were no outstanding loans granted by any member of the Group to any Exco Director nor has any guarantee been provided by any member of the Group for their benefit.
- 8.12 The Company has agreed to indemnify Michael Spencer and David Gelber against liabilities (if any) incurred in their capacity as Proposed Directors, to the same extent as the Company is permitted under Section 310 of the Act and the Articles to indemnify the Exco Directors against liabilities incurred as Directors.

9. UNITED KINGDOM TAXATION

The following statements are intended only as a general guide to current United Kingdom tax legislation and to what is understood to be the current practice of the United Kingdom Inland Revenue (the "Inland Revenue") and may not apply to certain classes of shareholder. Any person who is in any doubt as to his tax position is strongly recommended to consult his professional advisers immediately.

9.1 *Taxation of Dividends*

Under current United Kingdom taxation legislation, no tax will be withheld at source from dividend payments made by the Company. However, when paying a dividend, the Company has to account to the Inland Revenue for an amount of advance corporation tax ("ACT") currently at the rate of 25 per cent. of the cash dividend paid. ACT will not have to be accounted for by the Company on dividends paid by it on or after 6 April 1999.

Dividends paid by the Company on or before 5 April 1999 will carry an associated tax credit equal to 25 per cent. of the cash dividend or 20 per cent. of the aggregate of the cash dividend and the associated tax credit. For dividends paid on or after 6 April 1999, the amount of the tax credit associated with dividends paid by the Company will be reduced to one ninth of the cash dividend paid or 10 per cent. of the aggregate of the cash dividend and the associated tax credit (the "10 per cent. tax credit").

In respect of dividends paid on or before 5 April 1999, an individual United Kingdom resident shareholder will be liable to income tax on the aggregate of the dividend and the associated tax credit. Dividend income will be treated as the top slice of an individual's income and will be liable to income tax (if at all) at either the lower rate (currently 20 per cent.) or the higher rate (currently 40 per cent.) depending upon the individual's circumstances. The tax credit will discharge the liability to income tax of an individual shareholder who is subject to United Kingdom income tax at the lower or basic rate only. Higher rate taxpayers will be able to offset the tax credit against their liability to income tax on the aggregate of the dividend and the associated tax credit and, at the current rates of tax, will have a further liability to income tax of 20 per cent. of that amount to the extent that such amount, when treated as the top slice of his income, falls above the threshold for higher rate tax. To the extent that a United Kingdom resident individual shareholder's total tax credits in respect of dividends exceed his overall United Kingdom income tax liability, that shareholder may claim to have any excess paid to him by the Inland Revenue.

In respect of dividends paid on or after 6 April 1999, United Kingdom resident shareholders who are individuals will be liable to income tax (if at all) on the aggregate of the dividend and the tax credit at the Schedule F ordinary rate (10 per cent.) or the Schedule F upper rate (32.5 per cent.). As at present, the effect will be that taxpayers who are otherwise liable to tax at only the lower rate or the basic rate of income tax will have no further liability to income tax. Higher rate taxpayers will, after taking into account the tax credit, have an additional tax liability of an amount which,

when deducted from the cash dividend, will result in their being in the same after tax position as for a dividend under the current rules. Individual shareholders whose income tax liability is less than the tax credit will not be entitled to claim a repayment of all or part of the tax credit associated with dividends paid by the Company on or after 6 April 1999. However, if such shareholders hold their investment in the Company through an Individual Savings Account (ISA) or under a personal equity plan, under current proposals the ISA and/or the personal equity plan will be entitled to payment of the 10 per cent. tax credit referred to above, until 5 April 2004.

A United Kingdom resident corporate shareholder (other than a dealer in shares) is not generally liable to corporation tax in respect of dividends received from the Company and such dividends (together with the associated tax credit) will usually be available to frank dividends paid by such a corporate shareholder. However, a United Kingdom resident corporate shareholder (other than a charitable company to which special rules apply) will not be able to obtain a repayment of the tax credit associated with dividends received by a setoff of losses against that income.

United Kingdom pension funds are not entitled to claim all or part of the tax credit associated with dividends paid by the Company. Special rules apply to charities and trusts.

Whether shareholders in the Company who are not United Kingdom resident are entitled to a payment from the Inland Revenue of a proportion of the tax credit in respect of dividends paid to them depends, in general, upon the provisions of the double tax treaty (if any) between their country of tax residence and the United Kingdom. Shareholders who are not resident in the United Kingdom but are either Commonwealth citizens, residents of the Isle of Man or the Channel Islands, nationals of states within the European Economic Area or fall into certain other categories of persons are entitled to a tax credit which they may set off against their total United Kingdom income tax liability or, in appropriate cases, reclaim in cash. The changes to the amount of the tax credit associated with dividends paid by the Company on or after 6 April 1999 will affect (and in most cases eliminate) the amount of any repayment which can be claimed. Non-United Kingdom tax resident shareholders may be subject to foreign taxation on dividend income in their country of residence. Shareholders who are tax resident outside the United Kingdom should consult their own professional advisers on the possible application of such provisions, the procedure for claiming repayment and what relief or credit (if any) may be claimed for such tax credit in the jurisdiction in which they are tax resident.

The above summary is based on the assumption that the Company will not elect for any of its dividends to be treated as foreign income dividends. The Company has no current intention of electing for any dividend paid by it to be treated as a foreign income dividend for tax purposes. The rules introduced in the Finance Act 1997, under which distributions made in relation to share buybacks or in connection with transactions in securities are treated as foreign income dividends, should not apply to ordinary dividends paid on Ordinary Shares. These rules will be repealed with effect from 6 April 1999.

9.2 Other Taxation

The Exco Directors have been advised that, in the context of Admission, no material liability for inheritance tax is likely to fall upon the Company.

Exco has been advised that it is not considered likely that any additional tax liabilities will be incurred by the Company in relation to accounting periods commencing before Admission in excess of those provided for in the accounts or indemnified.

10. MATERIAL CONTRACTS

10.1 The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company and/or its subsidiaries since 10 July 1996 and are or may be material:

- (a) a loan agreement between the Company (1), Nittan Exco (2), and Nihon (3) dated 6 November 1997 under which Nittan Exco made available part of its excess cash reserves to members of the group of companies owned by either Exco or Nihon. Under the terms of this agreement the Company presently has borrowings as follows:
 - (i) ¥1,155 million at a rate of interest of Yen LIBOR plus $\frac{1}{2}$ per cent. repayable on three months' notice from Nittan Exco; and

- (ii) ¥297 million at a rate of interest of Yen LIBOR plus $\frac{1}{4}$ per cent. repayable on three months' notice from Nittan Exco.

Both of the above loans may be repaid in part or in full on five days' notice from the Company.

- (b) the Acquisition Agreement the provisions of which are summarised in paragraph 1 of Part 7 of this document;
- (c) the Relationship Agreement the provisions of which are summarised in paragraph 2 of Part 7 of this document;
- (d) the Nittan Agreements the provisions, of which are summarised in paragraph 3 of Part 7 of this document;
- (e) the Subscription Agreement the provisions of which are summarised in paragraph 4 of Part 7 of this document;
- (f) the Loan Facility Agreement the provisions of which are summarised in paragraph 5(a) of Part 7 of this document;
- (g) the New Bank Facility Agreement the provisions of which are summarised in paragraph 5(b) of Part 7 of this document; and
- (h) the Standby Loan Facility Agreement the provisions of which are summarised in paragraph 5(c) of Part 7 of this document.

10.2 The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by Icap Companies since 10 July 1996 and are or may be material:

- (a) an Agreement dated 29 September 1998 made between Intercapital and Intercapital Brokers Limited ("IBL"), whereby IBL (being the registered proprietor of certain UK trademark registrations of the "Intercapital" and "I-CAP" names) and Intercapital agreed, *inter alia*, that Intercapital and other members of the Retained Intercapital Group would remain entitled to use these names in connection with debt brokering services, clearing house services, corporate finance advisory services and aviation chartering, broking and sales services, and that IBL and its group companies (other than members of the Retained Intercapital Group) would remain entitled to use these names in connection with financial product derivative brokering services without payment of any royalties;
- (b) a data licence agreement and software licence and support agreement, each dated 29 September 1998 and made between Data Analysis Risk Technology Limited ("DART"), a member of the Retained Intercapital Group, and IBL, pursuant to which DART will continue to provide its pricing and risk management systems to the Enlarged Group and to receive certain data from IBL; and
- (c) an Investment Agreement dated 26 June 1998 made between Intercapital (1), Intercapital Commodity Swaps Limited ("Icap Commodity") (2), V.A. Chitty (3) and B. Reason (4) ("the Management Shareholders") and Valerie Chitty Services Limited ("VCSL") (5), whereby Intercapital subscribed for shares in VCSL representing 30.1% of its issued shares for £140,280, Icap Commodity subscribed for shares in VCSL representing 45% of its issued shares for £209,720 and the Management Shareholders subscribed for the remaining shares at par. The Investment Agreement contains certain provisions regulating the rights of the parties as shareholders in VCSL; and an agreement dated 16 September 1998 made between Intercapital and Icap Commodity, whereby Icap Commodity purchased the 30.1% shareholding in VCSL from Intercapital for £99,000.

10.3 The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Retained Intercapital Group since 10 July 1996 and are or may be material:

- (a) the agreements referred to at paragraph 10.1(b), (c) and (i) above, the Nittan Sale Agreement referred to at paragraph 10.1(d) above and the agreements referred to at paragraphs 10.2(a) and (b) above; and

- (b) a subscription agreement dated 11 March 1998 made between Incap Netherlands (Holdings) B.V. ("Incap") (a subsidiary of Intercapital) and Moneyline Network, Inc., pursuant to which Incap has subscribed US\$50,000 for common stock and US\$2.45 million for preferred stock of Moneyline Network Inc;
- (c) a share purchase agreement dated 28 October 1997 made between Jemma Trust Company Limited as trustee of the Bellvue Trust, pursuant to which Incap acquired 2,827 shares in On-line Finance Holdings Limited ("OLF") for £300,000; a share purchase agreement dated 28 October 1997 made between Sterling Westminster Trustees Limited as trustee of the Good Hope Trust, pursuant to which Incap acquired 2,827 shares in OLF for £300,000; a subscription agreement dated 26 November 1997 pursuant to which Incap applied for a further 3,103 shares in OLF at a subscription price of £99.57 per share; and a share purchase agreement dated 26 May 1998 made between Sterling Westminster Trustees Limited as trustee of the Good Hope Trust, pursuant to which Incap acquired 5,778 shares in OLF for £1,060,000 (these agreements in aggregate involving the acquisition by the Intercapital Group of a 10 per cent. interest in OLF); and
- (d) an agreement dated 30 July 1997 made between J. Sparke and Intercapital and an Agreement dated 22 January 1998 made between A. Wollenberg and Incap, pursuant to which Intercapital and Incap purchased the shareholdings in City Index Holdings Limited not already owned by the Intercapital Group for £1.5 million and £1.1 million, respectively.

10.4 Nittan Exco has not entered into any contracts (not being contracts entered into in the ordinary course of business) that are or may be material since 10 July 1996 save for the Loan Agreements referred to at paragraph 10.1(d).

11. SUBSIDIARIES AND ASSOCIATES

(a) Exco Group

The Company acts as the holding company of the Group, the principal activities of which are money and securities broking. The Company has the following principal subsidiaries:

<i>Subsidiary undertakings</i>	<i>Country of Incorporation and Operation</i>	<i>Nature of Business</i>
Exco Moneybroking Australia Pty Limited	Australia	Moneybroking
Exco Scandinavia A/S	Denmark	Moneybroking
Exco Bierbaum Securities GmbH	Germany	Fixed Income Securities and Moneybroking
Exco Bierbaum Devisen GmbH	Germany	Foreign Exchange Broking
Exco Moneybroking UK Limited	England	Moneybroking
Exco Securities UK Limited	England	Moneybroking
Exco AP Singapore Pte Limited	Singapore	Moneybroking
Exco CMS (Switzerland) Limited	Switzerland	Moneybroking
Exco USA Inc	U.S.A.	Moneybroking
Exco FIB Pty Limited	Australia	Fixed Income Securities Broking
Exco Shorcan Limited (99.58%)	Canada	Fixed Income Securities Broking
Exco Bierbaum Securities GmbH	Germany	Fixed Income Securities Broking
*Exco WCLK Limited	England	Fixed Income Securities Broking
Exco USA Securities Inc.	U.S.A.	Fixed Income Securities Broking
*Exco Management Services Limited	England	Management Services

The Group's interest in the nominal value of issued ordinary shares is 100 per cent., unless otherwise stated, and those companies marked with an asterisk are owned directly. Those not marked with an asterisk are owned indirectly. All companies incorporated in the UK are registered in England and Wales and (save for Exco WCLK Limited) the registered office of each is Sherborne House, 119 Cannon Street, London EC4N 5AX. The registered office of Exco WCLK Limited is 30 Cornhill, London EC3V 3ND. The registered office of Exco Moneybroking Australia Pty Limited and Exco FIB (Australia) Pty Limited is 9th Floor, 9-13 Castlereagh Street, Sydney NSW 2000, Australia. The registered office of Exco AP Singapore Limited is 6 Battery Road, 41-01 Singapore 0104 and of Exco CMS (Switzerland) Limited, A.G. Badenerstrasse 170, 8004 Zurich, Switzerland. The registered office of Exco Scandinavia A/S is Vestergade 33 DK 1456, Copenhagen K. and Exco USA Inc. and Exco USA Securities Inc. is One World Trade Centre, 25th Floor, New York, New York 10048, USA. The registered office of Exco Shorcan Limited is 20 Adelaide Street East, Suite 1000, Toronto, Ontario, Canada M5C 2T6. The registered office of Exco Bierbaum Devisen GmbH and Exco Bierbaum Securities GmbH is Stephanstrasse 3, 60313, Frankfurt, Germany.

<i>Associated Undertakings</i>	<i>Country of Incorporation and Operation</i>	<i>Nature of Business</i>	<i>Issued Ordinary Share Capital</i>
PT Exco Nusantara Indonesia (25%) ⁽¹⁾	Indonesia	Moneybroking	Rp2,100,000,000
Nittan Exco Limited (33%) ⁽²⁾	Japan	Moneybroking	¥300,000,000
KAF Astley & Pearce Sdn Bhd (40%) ⁽³⁾	Malaysia	Moneybroking	Ringgit 200,000
S-One Exco Co. Limited (30%) ⁽⁴⁾	Thailand	Moneybroking	Baht 30,000,000

(1): The remaining 75 per cent. of the shares is held by third party investors; the registered office is Gedung BR1 11 Suite 807 JL1, Jendral Sudirman no. 44-46 Jakarta 10210, Indonesia.

(2): The remaining 67 per cent. of the shares is held by Nihon. Nittan Exco's shareholding in Exco is referred to in paragraph 3 of Part 7; the registered office is 3-14, 3-chome, Nihonbashi Hongoku-cho, Chuo-ku, Tokyo 103, Japan.

(3): The remaining 60 per cent. of the shares is held by third party investors; the registered office is 18th floor, Menara Boustead, Jalan Raja, Chulan, JO200 Kuala Lumpur, Malaysia.

(4): The remaining 70 per cent. of the shares is held by:

S-One Public Company Limited	50%
S-One Capital Co., Ltd.	10%
Thai Thamrong Finance Co., Ltd.	10%

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

Exco has outstanding borrowings from Nittan Exco of ¥1,452 million (£6.2 million). Pursuant to the Nittan Loan Agreement a further loan of ¥600 million (£2.6 million) has been provided, details of which are set out in paragraph 3 of Part 7 of this document. There are no other material loans between Exco and its associated undertakings.

(b) The Icap Companies

The Icap Companies comprise the following:

<i>Name</i>	<i>Registered office</i>	<i>Nature of Business</i>	<i>Proportion of capital to be acquired</i>
UK			
Intercapital Brokers Limited	Park House 16 Finsbury Circus London EC2M 7DJ	Moneybroking	100%
Intercapital Securities Limited	Park House (as above)	Fixed Income Securities and Moneybroking	100%
Intercapital Equity Derivatives Limited	Park House (as above)	Equity Derivatives broking	100%
Intercapital Commodity Swaps Limited ("ICSL")	Park House (as above)	Commodity broking	100%
Valerie Chitty Services Limited ("VCSL")	Park House (as above)	Holding company	75.1% (held by ICSL)
Alpha Brokers (Metals) Holdings Limited ("ABMH")	Park House (as above)	Holding company	75.1% (wholly owned by VCSL)
Alpha Brokers (Metals) Limited	Park House (as above)	Commodity broking	75.1% (wholly owned by ABMH)
USA			
Intercapital Commodity Derivatives Inc.	153 East 53rd Street 38th Floor New York NY 10022	Commodity broking	100%
Intercapital Securities Inc.	153 East 53rd Street (as above)	Fixed Income Securities broking	100%
Australia			
Intercapital Group (Australia) Pty Limited ("IGA")	Level 33 AMP Centre 50 Bridge Street Sydney NSW 2000	Holding company	100%
Intercapital Brokers Australia Limited	AMP Centre	Moneybroking	100% (held by IGA)
Intercapital Fixed Income Pty Limited	AMP Centre	Fixed Income Securities broking	100% (held by IGA)
CM ICAP Pty Limited	AMP Centre	Fixed Income Securities and Moneybroking	100% (held by IGA)
Singapore			
Intercapital Commodity Swaps Pte Limited	19-01 Suntec Tower 1 7 Tamesk Boulevard Singapore 03898	Commodity broking	100% (held by ICSL)

12. PRINCIPAL ESTABLISHMENTS

The principal establishments owned or occupied by the Enlarged Group are as follows:

(a) Exco Group

<i>Establishment</i>	<i>Nature of establishment</i>	<i>Area (sq. ft.)</i>	<i>Leasehold</i>
80 Cannon Street, London	Office	18,668	expires variously December 2002 to March 2003
Sherborne House, 119 Cannon Street, London	Office	33,718	expires variously September to December 2009
One World Trade Centre 25th & 26th Floors New York NY 10048	Office	60,528	expires January 2013

(b) Icap Companies

<i>Establishment</i>	<i>Nature of establishment</i>	<i>Area (sq. ft.)</i>	<i>Leasehold</i>
Fourth Floor North (rear) Park House, 16 Finsbury Circus, London EC2	Office	3,315	expires 21 March 2001
Third floor, Park House	Office	8,542	expires 24 March 2001
Second Floor North, (rear) Park House	Office	3,110	expires 24 December 2001
Level 33 AMP Centre 50 Bridge Street Sydney NSW 2000	Office	3,452	expires 11 November 2002

13. WORKING CAPITAL

The Company is of the opinion that, having regard to the cash balances, the Nittan Loan Agreement and existing and new bank and other facilities available to the Enlarged Group, following completion of the Transactions, the Enlarged Group has sufficient working capital for its present requirements.

14. INDEBTEDNESS

At the close of business on 31 August 1998, the Exco Group as enlarged by the acquisition of the Icap Companies had secured/unsecured borrowings and indebtedness as follows:

	<i>Exco Group</i> <i>£'000</i>	<i>Icap Companies</i> <i>£'000</i>	<i>Total</i> <i>£'000</i>
Unsecured bank loans and overdrafts	16,509	—	16,509
Unsecured loans from the Retained Intercapital Group	—	500	500
Unsecured loan from Nittan Exco	6,142	—	6,142
Loan Stock (secured)	563	—	563
Obligations under finance leases and other borrowings	2,843	—	2,843
Deferred purchase consideration	787	—	787
Total	26,844	500	27,344

Loan stock

Holders of Loan Stock in the sum of £562,604 have the right to convert their stock into ordinary shares of the Company at their then market value. The right can be exercised on any interest date being 27 June and 27 December in each year up to 27 December 2001, provided that the ordinary shares of the Company are listed on the London Stock Exchange.

Deferred purchase consideration

During 1997, the Exco Group acquired the remaining minority interest in an existing subsidiary undertaking, Exco Scandinavia A/S, for £1,562,000. Of the consideration, £787,000 was deferred and is payable in equal instalments in December 1998 and December 1999.

Contingent liabilities

At the close of business on 31 August 1998, the Exco Group as enlarged by the acquisition of the Icap Companies had the following contingent liabilities.

Exco Group

The Exco Group had given guarantees of approximately £177,000 on behalf of third parties in respect of properties occupied by the Exco Group. The Exco Group has also given bank guarantees totalling £83,000.

Icap Companies

The Icap Companies are involved in litigation with M W Marshall (Financial Services) Limited ("Marshalls") and M W Marshall (UK) Limited concerning the hiring of individuals from Marshalls. The claim alleges damages of £12 million. Further details of this litigation and the indemnity given pursuant to the Acquisition Agreement are set out in paragraph 15.2 below.

In addition the Exco Group as enlarged by the acquisition of the Icap Companies had contingent liabilities arising in the normal course of business from which no material liability is expected to arise.

General

Save as disclosed above, and apart from intra-group indebtedness and guarantees, the Exco Group as enlarged by the acquisition of the Icap Companies did not have outstanding, as at the close of business on 31 August 1998, any loan capital (whether issued or created but unissued), term loans, borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments and lease finance obligations, mortgages, charges, guarantees or other contingent liabilities.

In addition, at the close of business on 31 August 1998, the Exco Group as enlarged by the acquisition of the Icap Companies had cash at bank as follows:

	<i>Exco Group £'000</i>	<i>Icap Companies £'000</i>	<i>Total £'000</i>
Cash at bank	21,449	15,279	36,728

Cash at bank of the Exco Group included £562,604, which is charged to the holders of the Loan Stock.

Cash at bank of the Icap Companies included a Certificate of Deposit of £1,420,000 required as collateral for a Tri-partite funding agreement. This agreement is between Barclays, Cedel and Intercapital Securities Limited and provides for a US\$30 million clearing line to cover market risk on failed trades.

Regulatory requirements in various companies require that a minimum amount be maintained in liquid assets.

Dividends totalling £456,000 were declared by Intercapital Commodity Swaps Limited and Intercapital Equity Derivatives Limited on 1 September 1998 and paid on 28 September 1998. A dividend of £393,000 was declared and paid by Intercapital Group (Australia) Pty Limited on 25 September 1998. Dividends totalling £30,875,000 were declared by Intercapital Brokers Limited, Intercapital Commodity Swaps Limited, Intercapital Equity Derivatives Limited and Intercapital Securities Limited on 29 September 1998 and are to be paid on 30 November 1998. These have been or will be settled partly by cash and partly by transfer or settlement of inter-company balances

with the Retained Intercapital Group which, except for the loan of £500,000 from the Retained Intercapital Group, have been excluded from indebtedness above. The shares in the Icap Companies are being acquired by Exco without the benefit of those dividends. The cash at bank shown above in respect of the Icap Companies will be reduced by £11.1 million in respect of such dividends.

Nittan Exco

None of the shares in Nittan Exco being sold under the Nittan Sale Agreement held by Exco as at close of business on 31 August 1998 was the subject of any term loan, borrowing or indebtedness in the nature of borrowing, including bank overdrafts, mortgages, charges, guarantees or other contingent liabilities.

15. LITIGATION

15.1 Exco Group

No member of the Exco Group is involved in any legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on the financial position of the Exco Group nor, so far as the Exco Directors are aware, are any such proceedings pending or threatened by or against any member of the Exco Group.

15.2 Icap Companies

In February 1998, Intercapital Brokers Limited ("IBL") recruited 13 sterling swap brokers who were at that time employed by MW Marshall (Financial Services) Limited ("Marshalls"). In August 1998, Marshalls and MW Marshall (UK) Limited, both subsidiaries of MW Marshall & Company Limited, served proceedings on IBL, Michael Spencer and one of the former Marshalls employees, claiming that they induced and procured breaches of contract by the Marshalls employees. The claim alleges damages of £12m. The defendants deny the claims and are vigorously defending the proceedings. Pursuant to the Acquisition Agreement, IBS and Intercapital have agreed to indemnify IBL and Exco against any liabilities and expenses arising out of such legal proceedings.

Other than as described in this paragraph 15.2, none of the Icap Companies is involved in any legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on the financial position of the Icap Companies nor, so far as the directors of Intercapital are aware, are any such proceedings pending or threatened by or against any of the Icap Companies.

15.3 Nittan Exco is not involved in any legal or arbitration proceedings which may have or have had during the 12 months preceding the date of this document, a significant effect on the financial position of the Exco Group, nor so far as the Exco Directors are aware, are there any such proceedings pending or threatened by or against Nittan Exco.

16. SIGNIFICANT CHANGES

16.1 Exco Group

Save as disclosed in paragraph 6.1 of Part 1 and Part 6 of this document, since 31 December 1997, being the date to which the Exco Group's annual accounts have been published, there has been no significant and no material change in the financial or trading position of the Exco Group.

16.2 Icap Companies

Save as disclosed in Note 20 of Part 2 of this document, since 31 March 1998, being the date to which the accountants' report set out in Part 2 of this document was prepared, there has been no significant and no material change in the financial or trading position of the Icap Companies.

16.3 Intercapital

Since 31 March 1998, being the date to which Intercapital's annual accounts have been published, there has been no significant and no material change in the financial or trading position of Intercapital.

16.4 Nittan Exco

Since 31 December 1997, being the date to which the Exco Group's annual accounts have been published, there has been no significant and no material change in the financial or trading position of Nittan Exco.

17. GENERAL

17.1 Market Quotations

The following table shows the closing middle-market quotations for an Ordinary Share, as derived from the daily Official List, on the first dealing day of each month from March 1998 to July 1998 (inclusive) and on 10 July 1998 (the date on which (i) it was announced that Exco and Intercapital were in discussions which led to a merger and (ii) dealings in the Ordinary Shares were accordingly suspended):

<i>Date 1998</i>	<i>Ordinary Share price (p)</i>
2 March	23.0
1 April	25.0
1 May	23.0
1 June	22.0
1 July	21.0
10 July	23.0

- 17.2 (a) The financial information set out in this document relating to the Company does not constitute statutory accounts of the Company within the meaning of section 240 of the Act. Coopers & Lybrand, Chartered Accountants and Registered Auditors, of 1 Embankment Place, London WC2N 6NN, the Company's auditors, have audited and reported upon the statutory accounts of the Company for each of the three financial years ended 31 December 1997 within the meaning of section 235 of the Act. Each such report was unqualified within the meaning of section 262(1) of the Act and did not contain a statement under sections 237(2) or (3) of the Act. Statutory accounts of the Company for each of such financial years have been delivered to the Registrar of Companies in England and Wales pursuant to section 242 of the Act. Coopers & Lybrand (details as above) are the current auditors of Exco.
- (b) The financial information set out in this document relating to Intercapital and the Icap Companies does not constitute statutory accounts of Intercapital or those of the Icap companies incorporated in the UK within the meaning of Section 240 of the Act. Moores Rowland, Chartered Accountants and Registered Auditors, of Cliffords Inn, Fetter Lane, London EC4A 1AS, have audited and reported upon the statutory accounts of Intercapital for each of the three financial years ended 31 March 1998 within the meaning of Section 235 of the Act. Each such report was unqualified within the meaning of Section 262(1) of the Act and did not contain a statement under Sections 237(2) or (3) of the Act. Statutory accounts of Intercapital for each of the financial years ended 31 March 1997 have been delivered, and for the financial year ended 31 March 1998 will in due course be delivered, to the Registrar of Companies in England and Wales pursuant to Section 242 of the Act.
- 17.3 The Company has taken out key-man life assurance policies in respect of Marcel Wolf and Kim Taylor for sums assured of £1,000,000, and £250,000 respectively.
- 17.4 M.C. Johns is a partner of Ashurst Morris Crisp which will be receiving a fee for legal services rendered to the Company in connection with the Transactions.
- 17.5 The Exco Directors and Proposed Directors consider that the Enlarged Group has effected satisfactory insurance cover for all material risks facing the Enlarged Group which would reasonably be expected to be the subject of insurance cover.
- 17.6 In common with most other groups which have been in business for some time the Enlarged Group has contingent liabilities under leases it has assigned.
- 17.7 In the opinion of the Directors, the Company is a close company within the meaning of Part XI of the Income and Corporation Taxes Act 1988.
- 17.8 The total costs and expenses to be borne by the Company in connection with the Transactions, including stamp duty and any irrecoverable VAT, are estimated to amount to £2,526,000 million.

- 17.9 There are no agreements, arrangements or understandings (including any compensation arrangements) existing between Intercapital, IBS or any party acting in concert with them and any of the directors, recent directors, shareholders or recent shareholders of the Exco Group having any connection or dependence upon the Merger.
- 17.10 (i) J A Heywood was a non executive director of Ferranti International plc when that company invited its bankers to appoint receivers in December 1993. The company is still in receivership and has an estimated deficiency of assets as regards creditors of £58 million.
- (ii) J A Heywood was a director of Hanson Green Group plc when the company entered into a creditors' voluntary winding up in April 1991. The company was dissolved in February 1997 with unsecured creditors receiving 0.657p in the £. The estimated deficiency of assets as regards creditors was £1,102,454.
- (iii) J A Heywood was a director of Crammond International Limited until his resignation on 24 December 1992. The Company entered into a creditors' voluntary winding up on 26 February 1993. The company was dissolved in June 1994 with an estimated deficiency of assets as regards creditors of £93,963.
- 17.11 PricewaterhouseCoopers have given and not withdrawn their written consent to the inclusion of their reports as set out in Parts 2 and 5 of this document and the references thereto and to their name in the form and context in which they are included and they have authorised the contents of their reports for the purposes of section 152(1)(e) of the Financial Services Act 1986.
- 17.12 Rothschild has given and not withdrawn its written consent to the issue of this document and the Circular and the references to their name in the form and context in which they are included.
- 17.13 For the purposes of this document, percentages of the Enlarged Issued Share Capital have been calculated on the assumption that no further Ordinary Shares will be issued prior to Admission on exercise of outstanding options under the Exco share option schemes or under the Loan Stock.
- 17.14 No fee or other remuneration or consideration is to be paid or given to any director, officer or adviser of Exco in connection with the listing of the Ordinary Shares made otherwise than in cash.

18. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the Company's registered office at Sherborne House, 119 Cannon Street, London EC4N 5AX and at the offices of Ashurst Morris Crisp at Broadwalk House, 5 Appold Street, London EC2A 2HA up to and including 23 October 1998:

- (i) the Memorandum and existing Articles of Association (and the Articles of Association as proposed to be amended) of the Company and Intercapital;
- (ii) the audited consolidated accounts of Exco Group for the two financial years ended 31 December 1997;
- (iii) the audited consolidated accounts of Intercapital for the two financial years ended 31 March 1998;
- (iv) the report by PricewaterhouseCoopers set out in Part 2 of this document and the statement of adjustments (and reasons therefor) made by them in arriving at the figures set out in their report;
- (v) the report by PricewaterhouseCoopers set out in paragraph 2 of Part 5 of this document;
- (vi) the service agreements of the Exco Directors and the Proposed Directors referred to in paragraph 8.1 above;

- (vii) the material contracts referred to in paragraph 10 above;
- (viii) the rules of the Exco Share Option Schemes;
- (ix) the trust deeds dated 29 April 1992 and made between British & Commonwealth Holdings PLC (in Administration), the Company and Abacus (CI) Limited constituting the 1992 Share Option Schemes;
- (x) the letters of consent referred to in paragraphs 17.11 and 17.12 above;
- (xi) the undertakings to vote in favour of the resolutions to be proposed at the Extraordinary General Meeting which are necessary to enable the Acquisition to be completed and are referred to in paragraph 13 of Part 1 of this document and in paragraph 16 of Part 1 of the Circular; and
- (xii) this document and the Circular.

30 September 1998 ✓