# INTERCAPITAL

Report and Accounts
for the 15 months ended
31st March 1999

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INTERCAPITAL
Report and Accounts for the 15 months ended 31st March 1999

Contents



## 1998/99 in brief

October 1998
Intercapital's broking operations and Exco plc merge to create Intercapital plc; Michael Spencer is appointed Group Chairman and Chief Executive

November 1998
Launch of strategy to focus business on high-value products, primarily derivatives

December 1998
Implementation of Asian strategy begins with the sale of moneybroking operations in Singapore to our Japanese partner, Nihon; following the sale, the Group's Singapore businesses are focused on currency options and commodity derivatives

December 1998
Implementation of North American strategy begins with the sale of Toronto operation to local management

February 1999
Consolidation of Intercapital and Exco businesses gathers pace in London as employees begin to transfer to new office space

March 1999
Intercapital releases interim results for 12 months ended 31st December 1998

June 1999
Intercapital releases results for 15 months ended 31st March 1999

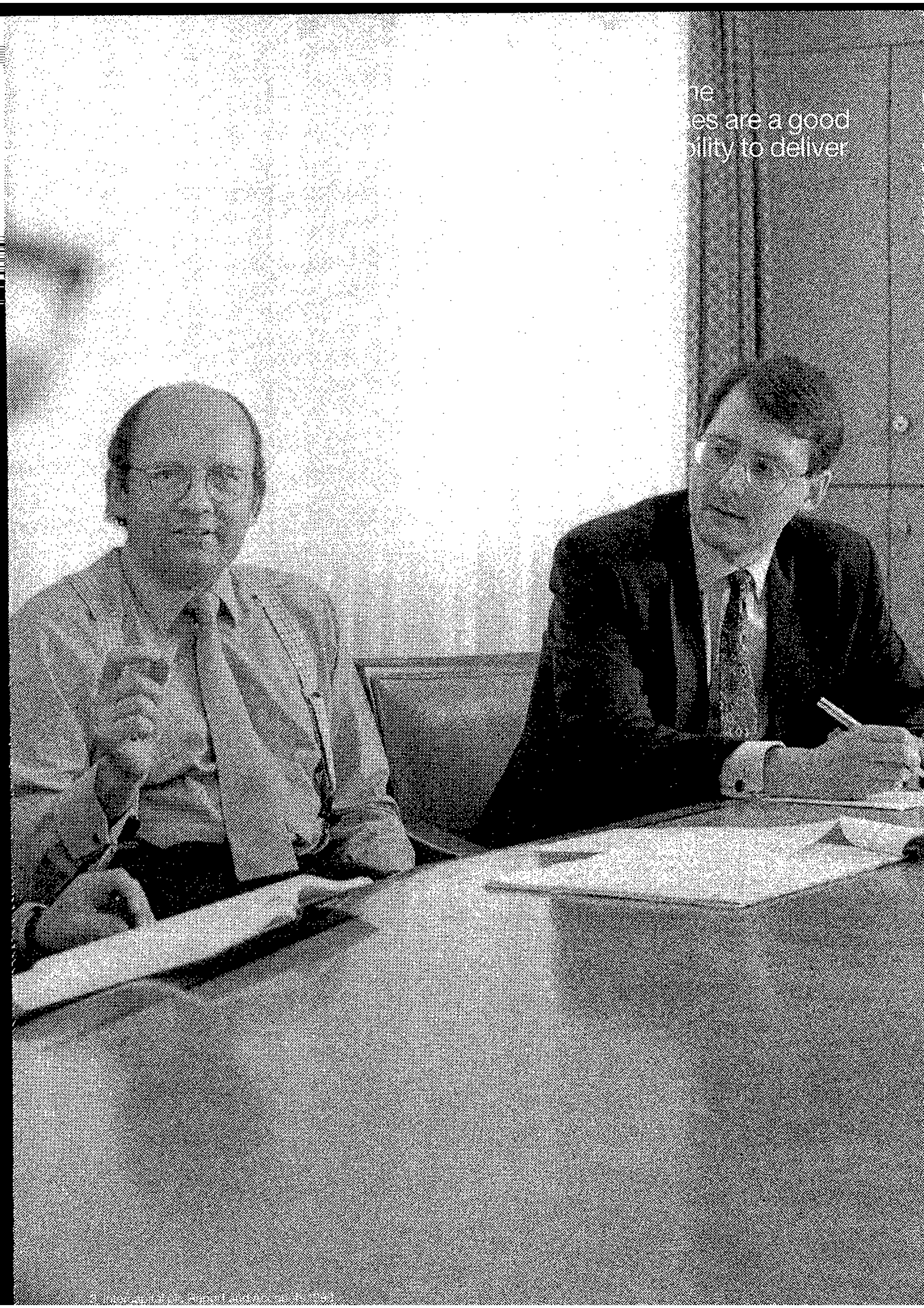
July 1999
Annual General Meeting to be held 22nd July 1999

In 1998 the company was transformed by the merger of Exco with Intercapital, a leading European derivatives broker, and was renamed Intercapital plc. The two companies have a number of complementary strengths. Their combined management and resources are capable of delivering good results in difficult markets and will ensure that the potential of the merger is realised. Looking ahead, the Group's strategy is to focus on high-value products and enhance its strong market position in these.

| | Intercapital plc Proforma results* for 12 months (1/4/98-31/3/99) £m | Intercapital plc Proforma results* for 12 months (1/4/97-31/3/98) £m |
|---|---|---|
| Turnover (sales) | 209.8 | 204.0 |
| Operating profit | 18.4 | 17.7 |
| Profit before tax | 20.9 | 20.3 |

*The proforma accounts set out above have been assembled from the following sources of information:
(i) results for the Exco businesses are available in the form of audited financial accounts for two accounting periods, 1st January 1997 to 31st December 1997 and 1st January 1998 to 31st March 1999. Results for these two accounting periods have been apportioned to create proforma results for two accounting periods ended 31st March 1998 and 1999. Results for businesses now discontinued have been removed from the financial accounts for the accounting periods in question in order to isolate the results of the surviving businesses only;
(ii) results for Intercapital businesses for the accounting period ended 31st March 1998 have been taken from the Accountant's Report on the Intercapital companies which was contained in the Listing Particulars dated 30th September 1998; and
(iii) results for the Intercapital businesses for the accounting period ended 31st March 1999 have been taken from the audited financial accounts for that accounting period.
The financial results from these three sources of information have been added together to create the proforma accounts set out in the above table. All exceptional items have been removed and the amortisation of goodwill is excluded. The above financial information does not constitute the statutory accounts of the Company nor has it been audited.

# Chairman/Chief Executive's Report
Michael Spencer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# Chairman/Chief Executive's Report
# Michael Spencer

Through the merger of Intercapital's and Exco's broking companies, Intercapital plc is now one of the world's leading over-the-counter derivatives brokers. Our product strengths, global coverage and technology, place us in an ideal position to support our clients' present and future needs in a changing market.

**Consolidation: a necessary correction**
Overcapacity in the moneybroking industry means that we can expect further consolidation as our competitors seek to ensure long-term viability. Due to continuing mergers in the banking sector, money and securities brokers are now competing for business from a diminishing number of clients. The advent of the Euro and continued advances in technology have added to these competitive pressures.

Intercapital and Exco were the first money and securities brokers to take action, and others will follow our lead. We are confident that this proactive initiative will create long-term value for our shareholders.

**Strategy going forward**
Intercapital is a leading wholesale derivatives broking firm in Europe, and this is a strong competitive platform on which to build. Our focus going forward is to gain market share by concentrating on our strong portfolio of high-margin products, where adding value and excellent service are key. We will not try to be all things to all people, but instead focus on the areas which deliver the greatest benefit to our clients. Over time, we intend to expand our product range in other regions to the same standards set in Europe, North America and Asia.

**Good fit**
The complementary nature of Intercapital's and Exco's businesses has ensured a smooth merger with relatively modest job losses. We have now centralised our operations in London, Sydney and New York. Some non-core businesses were sold; as a result of these and other measures, staff numbers have declined by approximately 300 people to 1,100 employees.

Many of the benefits of the merger are already being realised. These include:

- strong market position: the Company's strengths in a broad range of complementary products across our global network of offices have made Intercapital one of the market leaders;
- comprehensive service across the yield curve: by combining Exco's strengths in the short-term yield curve with Intercapital's strengths in longer-term yield curve products, the Company can now offer clients a more comprehensive service;
- lower expense levels: through consolidating our operations, overheads have been reduced and the Company will keep a firm grip on costs going forward.

## Benefiting from technology

Technology is an increasingly important tool for the broking industry. Electronic trading has already had a major impact on the Spot Foreign Exchange market and Intercapital is well placed to move quickly as opportunities arise. We see electronic trading as a way forward, enhancing traditional voice broking in a variety of products that may not be ideally suited to purely automated electronic matching.

Our existing technology enables us to provide rapid, accurate pricing across our product range, and to develop proprietary computer models and analytics. As one of the market leaders, our information pages are deemed the industry standard, particularly for interest rate swaps, interest rate options and foreign exchange options. We continue to explore other opportunities to utilise technology for the benefit of our clients.

## Reading this report

The merger has resulted in a number of accounting complexities that make our accounts difficult to interpret. The accounts in the body of this report are for the 15-month period from 1st January 1998 to 31st March 1999. This is because Exco and Intercapital had different year-ends; the Intercapital year-end has been selected. As the merger was not effective for accounting purposes until 26th October 1998, the accounts contain approximately ten months of Exco's results as an independent business and five months of the merged Intercapital plc's results. For this and other technical accounting reasons, year-on-year comparisons may not be meaningful and do not reflect the underlying financial performance of the Group. For an indicative view of our performance, a proforma showing what the results might have been like if Exco and Intercapital had merged on 1st April 1997 instead of 26th October 1998, is shown on page 1.

## Outlook

It is time to consolidate, streamline and become more forward looking. Although there was a slow start to the year, our merger positions us well in terms of size, product range and geographical coverage. We have already completed our restructuring and face the future with confidence and enthusiasm.

In closing, I would like to thank all our employees, who have ensured that the business has run so smoothly during this time of change.

Michael Spencer

Michael Spencer
Chairman/Chief Executive

**Consolidation: industry trend**
We were the first significant money and securities brokers to consolidate; it is a necessary market adjustment and others have followed our lead.

**Strategy**
Focus is the key to our strategy: we will focus on value-added products such as derivatives, where we have a high market share and excellent customer relations.

**Using technology**
Increasingly, we expect electronic commerce (EC) to impact the market for lower-value, high-turnover products. EC is not currently well suited to the complex products where we specialise. However, we will proactively seek to develop EC solutions for other products, either alone or in partnership.

**Good profit margins**
By clearly focusing on high-value products, we are already achieving improved profit margins.

# Intercapital at a Glance

Following the merger, Intercapital's and Exco's London operations have been consolidated, creating a major broking force in London.

Commodities
Credit Derivatives
Currency Options
Equity Derivatives
Equity Stock Broking
Forward Foreign Exchange
Forward Rate Agreements
Futures
Government Bonds
Interest Rate Options
Interest Rate Swaps
Money Markets
Overnight Index Swaps
Securities
US Government Bonds
WCLK Gilt IDB

Bonds
Equity Derivatives
Money Markets

Capital Markets
Currency Options
Forward Foreign Exchange
Forward Rate Agreements

Currency Options
Danish Krone Money Markets
Forward Foreign Exchange
International Money Markets
Spot Foreign Exchange

Following the merger, Intercapital's and Exco's New York operations have been consolidated. In December 1998, the Toronto operation was sold.

Convertible Bonds
Electricity, Natural Gas, Coal
Emerging Market FX
Forwards/Options

Emerging Market Securities
Energy Options
FX Currency Options
Illiquid bonds
Interest Rate Options
Interest Rate Swaps
Money Markets
Mortgage-Backed Securities and Derivatives

Petrochemicals
US Government Agencies
US Treasury Bills
US Treasury Notes and Bonds
US Treasury Repo's
Weather

Following the merger, Intercapital's and Exco's Sydney operations have been consolidated. The Group has refocused its Asian Pacific businesses on high-value products with the disposal of part of the Singapore business to Nihon.

Currency Options
Energy
Fixed Income
Forward Foreign Exchange
Illiquid Bonds
Credit Derivatives

Short and Medium Term IRS

*Nittan AP Marshalls (Singapore) Private Ltd*
Asian Capital Markets
Asian Currencies
G7/AUD Spot
International Money Markets

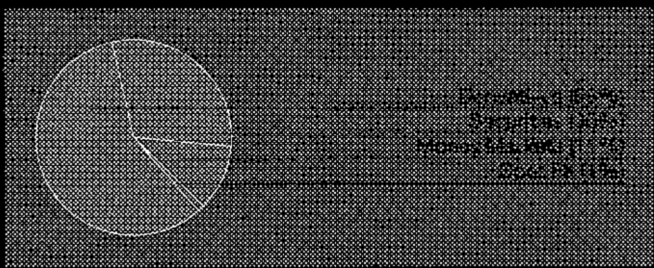
*ICAP-Nittan Pte Ltd*
Exotic Options
G10 and Regional Currencies

G10 Currency Options
Regional Currencies Options

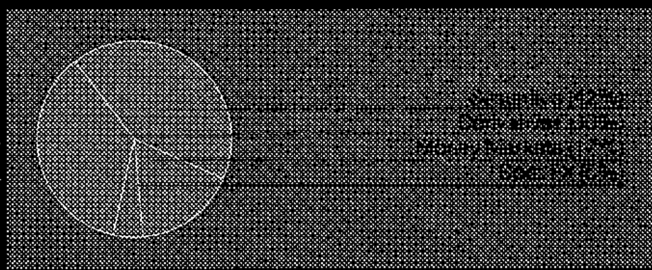
Currency Options
Equity Derivatives

# Intercapital is a leading derivatives, money and securities broker, created by the merger of Intercapital and Exco plc in October 1998. The Group is global with operations in Europe, America and Asia.

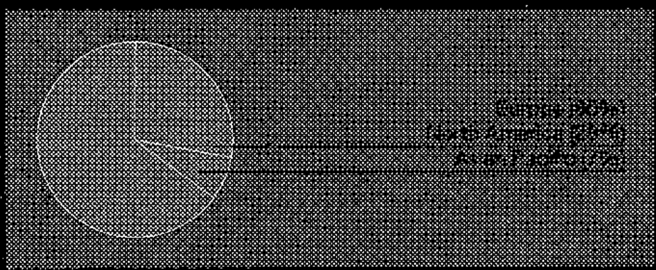
Post-merger product distribution



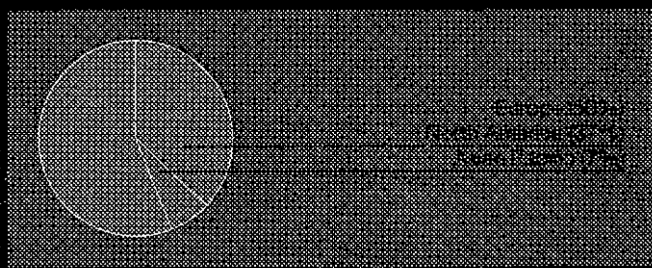
Pre-merger product distribution



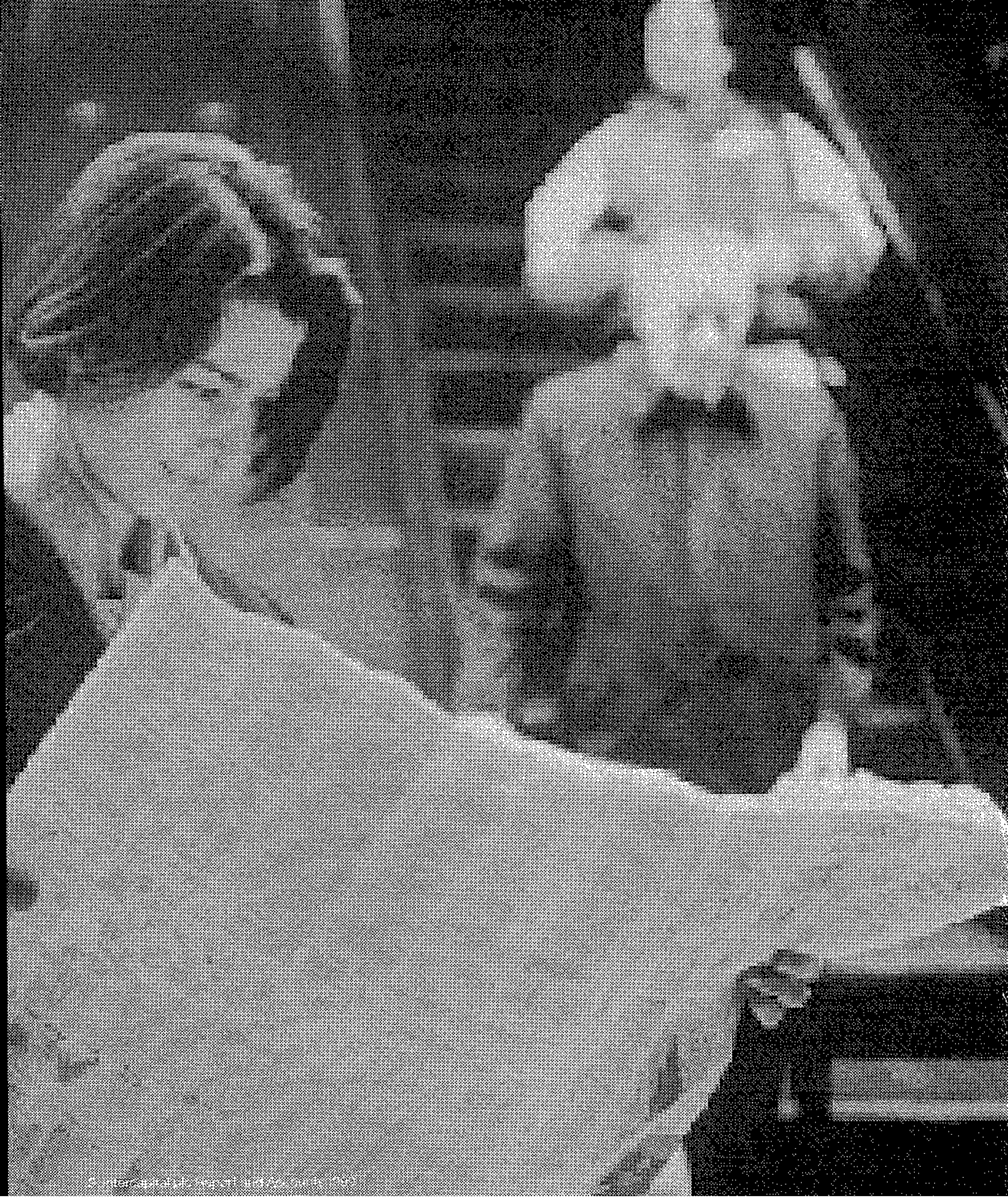
Geographical analysis of turnover (continuing business)
12 months to 31st March 1999



Geographical analysis of headcount
at 31st March 1999



Intercapital has strong coverage across Europe and an excellent reputation in high-value products. The Group has increased market share in key areas, despite periods of lower volumes. Our recent performance means that Intercapital is a leading European wholesale derivatives broker.



# Operating Review
# Europe

## London

Principally, the Euro has been good for our business in London. Whereas smaller, domestic competitors were often used for local currency trading, we are seeing a shift to the larger brokers for euro transactions.

In London, we continue to expand on our leading position in derivatives, such as Interest Rate Swaps, Interest Rate Options and Currency Options. Highly respected market surveys continue to rate us exceptionally well in these products.

The successful integration of the Intercapital and Exco businesses has created a major broking force in London. Furthermore, our investment in technology puts London at the forefront of broking excellence, and enhances our ability to seize new opportunities as technology continues to develop and influence the way business is conducted.

From November 1998 to March 1999, we focused on identifying and minimising duplication within the merged offices, rationalising front and back office systems and switching to one accounting system. All London operations are being consolidated into one existing property in Finsbury Circus. We now have a 350-position main dealing room, using state-of-the-art technology. Due to the complementary nature of the two companies, there have been only modest redundancies.

### Zurich

In Zurich, we are a market leader in CHF Interest Rate Swaps across the entire yield curve. 1998/99 was the best year in Zurich's history, despite a slowdown in activity during the first three months of 1999.

Next year, we aim to maintain and improve our market share in derivatives by continuing to focus on excellence in customer service. We will also extend our product range to include short-term Interest Rate Swaps and Euro SFR Futures.

### Frankfurt

Our Frankfurt operations are now profitable in several key products, such as Money Markets and Mortgage-backed Securities. We have undertaken a major restructuring of the office, which we anticipate will bear fruit this year, although it has resulted in a high one-off cost.

To become a leading house in this centre, we are making a number of organisational changes. After the merger, we embarked on a new strategy for the bond market, working in close cooperation with London. Intercapital has a proven track record of success even in difficult circumstances, and we will use this expertise to rebuild our bond activities. We will initially focus on developing a strong foothold in the Government Bond sector, then increase our market share of Euro Bond trading.

### Copenhagen

Lack of liquidity, consolidation in the banking sector and the rise of electronic dealing systems have created difficult conditions for Scandinavian brokers.

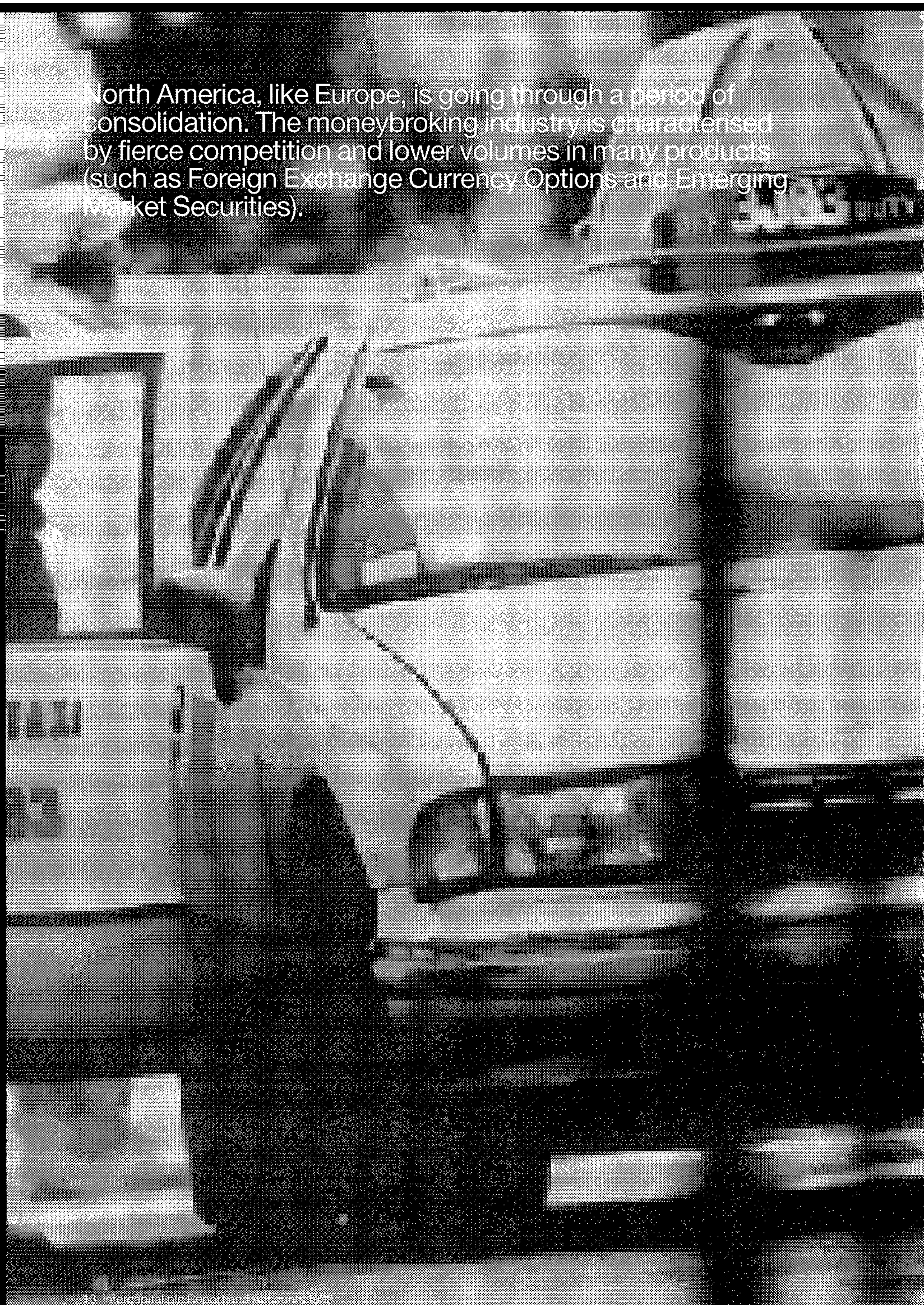
There is no initial indication of Norway, Sweden or Denmark joining the Single European Currency over the next three years. We therefore see potential to develop and enhance our services in the Scandinavian markets, utilising our European network of offices and client base. Market share and profitability should improve following our programme of tight control of costs.

Fast track

- London operations being consolidated and making a profit.
- Zurich is a market leader in Swiss (CHF) Interest Rate Swaps.
- Steps taken to improve performance in Frankfurt and Copenhagen.

# Operating Review
# North America

North America, like Europe, is going through a period of consolidation. The moneybroking industry is characterised by fierce competition and lower volumes in many products (such as Foreign Exchange Currency Options and Emerging Market Securities).



# Operating Review
# North America

## New York

Our New York office is a leading broker in Fixed Income Securities, Money Markets, Derivatives and Energy. Over the past 12 months we have increased our market share in successful products, such as Mortgage-backed products and their derivatives, US Agency Bonds, Repos, Cash Money Markets and Convertible Bonds.

However, trading conditions in other products, such as US Treasury Securities, Foreign Exchange Options and Emerging Market Bonds, continue to be difficult. Volumes for the Treasury market fell significantly in the first quarter of 1999, reflecting a lack of issuance by the US government and a lack of volatility.

As expected, the introduction of the Euro has led to a slowdown in Currency Options activity, although this market now shows signs of recovery. Similarly, uncertainty in emerging markets following market upsets in Brazil and Russia has affected trading volumes in these products. However, we have seen increased volumes in both Emerging Markets and Energy products in early 1999 and expect the trend of growth to continue.

Technology continues to play an important role in our industry. We firmly believe in the value of offering a hybrid service, where customers have the option to transact electronically or over the telephone. Electronic trading need not replace traditional voice broking; rather, they can be complementary services.

To improve efficiency, we have embarked on a number of cost management and reduction initiatives. These have largely focused on reducing overheads and improving the management of our telecommunications costs. We have made real progress in reducing overheads over the past two years, and now have a lean cost base.

In addition, we have scaled back a number of desks this year. Notably, we combined the ten-year, long bond and zero Treasury desks and exited some products that showed no sign of profitability in the near future.

Going forward, we believe that our strength in Mortgage-backed products and their derivatives, Energy, Cash Money Markets and Convertible Bonds will increase turnover over the next 12 months. These businesses are well run and have good market shares. We now have a manageable cost base, and have established a solid foundation for Energy and Emerging Market Bonds that will benefit the company when trading returns to more typical levels.

### Disposal

In December 1998, the Group sold its Canadian business, Exco Shorcan Limited, for CAN$434,455 (£178,000) to local management. There were a number of reasons for the sale. This business was peripheral to the core activities of the merged group and required fresh investment. It was therefore decided that it was in shareholders' interests to sell at this point.

**Fast track**

- Fierce competition; lower volumes in some products.
- Sold Toronto operation.
- Soon to offer both voice and electronic broking to North American customers.

# Operating Review
# Asian Pacific

Economic difficulties in Asia continue to affect business conditions, though Australia seems largely unaffected. We have excellent market positions in high-value products in Australia, and have refocused our Asian Pacific businesses on products in which we are one of the market leaders.

# Operating Review
# Asian Pacific

### Disposals

The Group completed a number of transactions in 1998 and the first quarter of 1999 to refocus its business in Asia on high-value products in which it was one of the market leaders. Intercapital has built a strong business relationship over a number of years with its Japanese partner, Nihon, a leading Tanshi house. Both companies believe these transactions will further improve the high level of service to customers within the region.

In December 1998 the Group sold its traditional moneybroking operations in Singapore to Nihon. The new company trades as Nittan AP Marshalls, in which Intercapital has acquired a 20% shareholding. This company is now operating profitably. We also sold a 50% stake in the Currency Options business to Nihon and the company now trades in the name ICAP-Nittan in Singapore and Tokyo.

### Sydney

In Australia, we hold a leading market position in a number of high-value products, including Fixed Income Securities, Currency Options and Interest Rate Swaps. We have excellent teams working together on Australian Government and Semi-Government Bonds, which contribute to the success of these businesses.

Consolidation between the Exco and Intercapital teams on Interest Rate Swaps has enhanced our market position. Our operations continue, however, to be extremely successful in both Australian and New Zealand dollar swaps.

Our position in forward foreign exchange has improved, and we are now in the top two. This is mainly forward Australian dollars and some New Zealand dollars; the other currencies are not widely traded. Electronic broking is not, at this stage, a competitive factor.

Other products we broke include energy. The electricity market in Australia was only recently deregulated and the gas market is expected to be deregulated soon, so we see this as a growth opportunity.

### Asia

Intercapital's Asian business interests include:

- Intercapital Commodity Swaps (Singapore), a market leader in Commodity Derivatives;
- ICAP-Nittan, which operates under this brand name in Singapore and is a leader in Currency Options with a newly formed office in Tokyo;
- two joint arrangements with Nihon Tanshi Group (Singapore, Tokyo) in equity derivatives and interest rate options.

During 1998 and the first quarter of 1999, the commodities and currency options businesses performed well, and it is expected that their position of market leadership will continue. We are well placed in our core products to grow these businesses when Asian markets begin their recovery.

**Fast track**

- A market leader in Australia for fixed income securities, currency options and interest rate swaps.
- Refocusing of Asian Pacific businesses on value-added products.
- A market leader in commodity derivatives and currency options in Singapore.

# Board of Directors








**Michael Spencer – Chairman/Chief Executive**
Michael Spencer, aged 44, is the founder of the Intercapital private group and is currently Chairman and Chief Executive of Intercapital plc. Between 1983 and 1986 he was a director at money broker Charles Fulton.

**John Nixon – Non-Executive Deputy Chairman**
John Nixon, aged 44, is Managing Partner of Veritas Capital Management Company. He worked for Tullett & Tokyo Forex International for 20 years and was Chief Executive Officer from 1995 to 1997.

**David Gelber – Chief Operating Officer**
David Gelber, aged 51, is Chief Operating Officer of Intercapital plc and has been Managing Director of the Intercapital private group since 1994. Prior to joining Intercapital he held the position of Chief Operating Officer for HSBC Global Markets.

**Peter Buckley – Non-Executive Director**
Peter Buckley, aged 56, was appointed a non-executive director in June 1992. He is Chairman of Caledonia Investments plc. He is also Chairman of Sterling Industries plc and English and Scottish Investors plc; and a non-executive director of Close Brothers Group plc, Sun International Hotels Limited and Offshore Logistics, Inc.

**Clive Cooke – Director**
Clive Cooke, aged 41, was one of the founders of Exco WCLK, the leading gilt inter-dealer broker in the London market. In 1993 he became Chief Executive of Intercapital Government Securities Inc. in New York and from 1996 he has also been Chief Executive of Intercapital America Inc.

**Jonathan Robson – Non-Executive Director**
Jonathan Robson, aged 40, was Senior Vice President of the International Management Group of Telerate Financial Information Network, Dow Jones Markets from 1987 to 1997.

**Kim Taylor – Finance Director**
Kim Taylor, aged 43, qualified as a Chartered Accountant in 1981. Having worked for KPMG for eight years, he joined the Group in 1986 and became Finance Director in 1992.

**Hiroshi Watanabe – Non-Executive Director**
Hiroshi Watanabe, aged 68, has been President of Nihon Tanshi Company Limited, the majority shareholder of Nittan Exco Limited, Intercapital plc's Japanese Partner, since 1992.

# Financial Review
# Kim Taylor

## Accounting Standards

In the preparation of these accounts the Company has adopted the provisions of Financial Reporting Standard (FRS) 9: Associates and Joint Ventures, 10: Goodwill and Intangible Assets, 11: Impairment of Fixed Assets and Goodwill, 12: Provisions, Contingent Liabilities and Contingent Assets, 13: Derivatives and Other Financial Instruments: Disclosures, and 14: Earnings, Per Share.

Where these new Accounting Standards have a significant impact upon the results presented in these accounts, this is explained in greater detail later on in this review and in the notes to the accounts themselves. The other impact of these standards is to require further disclosures in the notes to the accounts.

## Taxation

The Group's effective tax rate fluctuates from year to year and will always be higher than the standard UK corporation tax rate of 31%. The cause of this is partly that the Group operates in many countries where basic corporate tax rates are higher than in the UK. In addition, the nature of the Group's business involves it in a significant amount of expenditure such as entertainment, which in many countries is not wholly allowable for tax purposes.

### Exceptional Items

An analysis of exceptional operating expenses is given in note 4 to these accounts. As can be seen from the note, the bulk of these expenses has been incurred in merging the existing businesses of the group and the Intercapital companies acquired in October 1998. The merger of the businesses required considerable expenditure not only on professional fees, but also on rationalisation of staff and space, in particular in London, Sydney and New York.

In London FRS12 has required the Company to make provision as a result of the decision to concentrate the Group's London operations in one building in Finsbury Circus. This new accounting standard requires the Group to estimate the extent to which rental expense will exceed rental income in the buildings which are vacated over the remaining lease terms and to provide for this sum in these accounts. Although this provision has been discounted to its net present value, in accordance with the accounting standard, the result is a very substantial provision. The provision however does not mirror the cashflows. These will occur evenly over the remaining lease terms of the properties. The larger of these leases does not expire until 2009.

### Goodwill

Goodwill arising on the acquisition of the Intercapital companies has been capitalised in these accounts and is being amortised in the profit and loss account over its useful economic life. The Board has selected a life of ten years for this goodwill, having taken account of the nature of the business acquired, the stability and competitiveness of the industry and the typical life spans of the products to which the goodwill attaches. The Board felt in making its decision that a prudent approach ought to be adopted to establish the useful economic life of the acquired businesses.

In addition, the loss on sale of operations includes the sum of £17.9m in goodwill which the Group had previously written off to reserves. Before adoption of FRS10 the Group's accounting policy was to write off goodwill to reserves immediately on acquisition. As is permitted by FRS10, this goodwill has not been reinstated in the balance sheet, but it is required to be recognised in the disposal of any business. The corresponding credit entry is to be found in the movement in reserves for the same sum.

### Associated Undertakings

As a result of the reorganisation of the Group's holding in Nittan Exco Limited at the time of the merger on 26th October 1998, Nittan Exco Limited ceased to be treated as an associated undertaking of the Group. It was felt by the Board that it no longer had a significant influence over the affairs of Nittan Exco Limited, because the reduction in the Group's

# Financial Review
## Kim Taylor

shareholding in Nittan Exco Limited to 24% was combined with the termination of the Shareholders' Agreement which governed the business of that company.

At the end of 1998, when the moneybroking businesses of the Group in Singapore were sold to our Japanese partner, the Board came to the view that the other significant shareholdings of the Group in Indonesia, Malaysia and Thailand ceased to be associated undertakings, because the influence of the Group over the businesses of these companies had been reduced significantly by this transaction.

The Board does not consider that the Group has significant influence over the business of Nittan AP Marshalls (Singapore) Private Limited, in which the Group holds an interest of just over 20%, and accordingly this investment is not regarded as an associated undertaking.

### Cash Flow

Net cash inflow from operating activities amounted to £12.3m (1997: £3.1m). During the accounting period capital expenditure was incurred in completing the move to new offices in New York in the early part of 1998, building a new broking floor in London in the middle of that year and starting the consolidation of the London operations in Finsbury Circus in the early part of 1999.

The acquisition of the Intercapital companies brought with it £6.9m in cash. Further cash inflows of £8.4m resulted from the sales of subsidiary and associated undertakings.

As part of the merger with Intercapital £3.0m of new equity share capital was raised from our Japanese partner, Nihon Tanshi Co Limited, together with a further loan by its subsidiary Nittan Exco Limited of £3.0m. The overall effect of these inflows was that it was then possible to reduce long-term and short-term loans by £14.8m in aggregate so that bank borrowings at the balance sheet date stood at only £3.4m compared to £18.3m as at 31st December 1997. The loan from the associated undertaking, Nittan Exco Limited, was reduced by 31st March 1999 to £2.7m, the consideration for the sale of 16% of the group's shareholding in Nittan Exco Limited being satisfied by a partial reduction of the loan from that company.

### Balance Sheet

Goodwill arising on the acquisition of the Intercapital companies has been capitalised in Intangible Fixed Assets. Tangible Fixed Assets reflect the completion of the re-equipment of the New York office early in 1998 and the London offices in 1998 and 1999. As set out in note 16, the Company ceased in this accounting period to have any associated undertakings. Certain former associated undertakings were re-classified as fixed asset investments and an additional investment was made in Nittan AP Marshalls (Singapore) Private Limited.

Debtors have increased somewhat as a result of the enlarged business which arose from the merger; creditors reflect this, the reduction in loans from Nittan Exco Limited as a result of the transactions with it, and the reduction in bank loans and overdrafts, which also affects creditors due after more than one year. Capital and reserves reflect the results recorded in the profit and loss account together with the effect of the acquisition of the Intercapital companies and the transactions associated with it in October 1998.

### Risk

The Group holds or issues financial instruments for two main purposes:

(i) to finance its operations; and
(ii) to manage the interest rate and currency risks arising from those operations and sources of finance.

In addition various financial instruments, for example, debtors, creditors, accruals and pre-payments, arise directly from the Group's operations.

The Group finances its operations by a mixture of retained profits and bank borrowings. The Group borrows in a range of currencies at floating rates of interest and may use derivatives where appropriate to generate the desired currency profiles and interest rates. The derivatives used for these purposes are principally Forward Foreign Exchange contracts, Foreign Exchange Options and Interest Rate Swaps.

The Treasury Committee, which is described on page 32, carries out these activities on behalf of the Group, under the terms of reference and powers delegated to it by the Board.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and market price risk. The Board reviews and agrees policies for managing each of these risks regularly, as does the Treasury Committee, and these policies are summarised below. These policies and procedures have been in place for many years.

### Interest rate risk

The regulated nature of the industry in which the Group operates dictates that the Group holds in its balance sheet a substantial sum in cash and other near-cash investments, such as certificates of deposit and Treasury bills, which exceed in amount its liabilities for amounts borrowed. Since interest income on these deposits and short-term investments is therefore largely at floating rate, the Group's policy is also to leave its borrowings at floating rate. Given that the margin between

# Financial Review
# Kim Taylor

interest income at floating rates and interest expense at floating rates is a constant, the Group has no net exposure to fluctuations in interest rate expense. For this reason the Group has historically made little use of interest rate swaps.

### Liquidity risk

The Group's borrowings are essentially short term. At the time of the merger in October 1998, facilities were put in place which will be steadily repaid up to the time of their expiry on 30th April 2000. In addition to the term loan of £3.44 million, at 31st March 1999 the Group had undrawn but committed borrowing facilities of £12.0 million, which expire or reduce as follows:

| Date of repayment/ or reduction in facility | Term loan £m | Committed borrowing facilities £m |
|---|---|---|
| May 1999 | 0.560 | 2.0 |
| August 1999 | 0.880 | 3.0 |
| October 1999 | 0.560 | 2.0 |
| January 2000 | 0.560 | 2.0 |
| April 2000 | 0.880 | 3.0 |
| | 3.44 | 12.0 |

### Currency risk

Although the Group has its headquarters in the UK, it has significant operations in Australia, Denmark, Germany, Japan, Singapore, Switzerland and the USA. As a result the Group's balance sheet in sterling terms can be significantly affected by the movements in the respective currencies of these countries against sterling. The Group's policy in the past has been to reduce these currency exposures by borrowing in Dollars, Yen and Deutschmarks. As the Group's need for borrowings has declined, however, these currency hedges have been removed and at the balance sheet date all of the Group's bank borrowings were in Sterling.

Should the Group require in the future the use of significant borrowings, it would be the policy of the Treasury Committee once again to borrow in the currencies of its major overseas investments.

The Group also has transactional currency exposures. Such exposures arise from sales or purchases by an operating unit in a currency other than its own functional currency. The Group's policy is in the first instance to match inflows and outflows in the same currency across the Group's worldwide operations, then to consider any resulting currency mismatches. 41% of the Group's sales are denominated in currencies other than the functional currency of the operating unit making the sale, whilst approximately 91% of the costs are denominated in the operating unit's functional currency.

Through the Treasury Committee, the Group's policy is to take a view on whether exchange rate movements are likely to be favourable or unfavourable to the operating unit concerned. If it is the Committee's view that it is likely that the rates are going to move unfavourably, it will take cover over an appropriate period. This it will do by the use for example of Forward Foreign Exchange contracts or Foreign Exchange Options.

Since the Group's balance sheet exposure to sales or purchases of the operating units is largely short term, it does not commonly hedge the currency exposure on these balances. The Group's policy is also to allow locally earned profits to accumulate in local currency and, in the same way as brokerage income, to take out hedges against its exposure to those currencies if it is the view of the Treasury Committee that these currencies are likely to move unfavourably against Sterling.

### Market price risk

As set out above, the Group has significant exposures to non-Sterling currencies. These exposures can affect not only the net assets of the Group significantly, but also its turnover, operating costs and profits. Whilst the Group does seek to hedge against transactional currency exposures, it does not hedge against translational exposures. For the reasons described above, rising interest rates would actually increase the Group's profitability, and falling interest rates reduce it. Similarly a weakening of Sterling against the other currencies of the Group's operations would increase the Group's apparent profitability, and a strengthening of Sterling reduce it.

However, it must also be recognised that changes in relative interest and exchange rates in the world's financial markets are key determinants of the volumes in those markets. Therefore, as interest and exchange rates move relative to one another, the volumes transacted by the Group as a broker will change. Historical experience does not establish that there is a correlation between exchange and interest rate changes and volumes. Thus it would be misleading to attempt to extrapolate from an exchange rate effect the overall impact on the Group, since it is not possible to estimate what the effect on market volumes would be under these exchange rate conditions.

Kim Taylor
Finance Director

# Directors' Report
15 months ended 31st March 1999

1. The directors present their annual report together with the Group accounts for the 15-month period ended 31st March 1999.

### 2. Principal Activities
The principal activity of the Group is wholesale money and securities broking. The profit and loss account for the period is set out on page 41.

### 3. Review of Business
A review of the business of the Group and its development during the financial period is set out on pages 2 to 27.

### 4. Dividends and Transfers to Reserves
A dividend of 1p net per ordinary share, amounting to £3,675,937, payable on 27th August 1999 to shareholders on the register on 30th July 1999, will be proposed at the Annual General Meeting.

### 5. Change of Accounting Reference Date
The Company has changed its accounting reference date from 31st December to 31st March, to align itself with the accounting reference date of Intercapital Group Limited, the ultimate parent company. The relevant notice has been filed with the Registrar of Companies in accordance with section 225 of the Companies Act 1985.

### 6. Change of Accounting Reference Period
The accounting reference period has been extended to 31st March 1999. The 1999 accounts have been prepared in relation to the 15-month period to 31st March 1999, and references to 1997 prior year figures refer to the 12 months to 31st December 1997.

### 7. Directors
The directors as at the date of this report are set out on pages 20-21.

Peter Edge, John Heywood, Michael Johns and James Magee resigned as directors on 26th October 1998. David Hubbard resigned as Chairman on 26th October 1998. Michael Spencer was appointed Chairman and Chief Executive on 26th October 1998. David Gelber was appointed a director on 26th October 1998. John Nixon, Jonathan Robson and Hiroshi Watanabe were appointed directors on 1st December 1998. Marcel Wolf resigned as Chief Operating Officer on 26th October 1998 and David Gelber was appointed Chief Operating Officer on 1st December 1998. David Hubbard resigned as a director on 31st December 1998. Marcel Wolf resigned as a director on 8th June 1999.

### 8. Directors' Interests
The interests of the directors holding office at 31st March 1999 and their families in the shares of the Company, as required to be notified under the Companies Act 1985, are set out in the Board Report on Directors' Remuneration on pages 35 to 40.

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

### 9. Substantial Shareholdings

At 1st June 1999 the directors were aware of the following interests, each of which represent 3% or more of the issued share capital of the Company:

| | Number of ordinary shares | Percentage of issued share capital |
|---|---|---|
| Mr and Mrs Michael Spencer* (see note (i) on page 38) | 231,801,727 | 63.07 |
| Intercapital Group Limited* | 231,801,727 | 63.07 |
| Intercapital Brokerage Services Limited | 231,801,727 | 63.07 |
| The Caledonia No. 1 Settlement Trust | 33,693,175 | 9.17 |
| Nittan Capital Holdings Limited (a subsidiary of Nihon Tanshi Co. Limited) | 12,000,000 | 3.26 |
| Nittan Exco Limited (a subsidiary of Nihon Tanshi Co. Limited) | 6,323,318 | 1.72 |
| Nihon Tanshi Co. Limited | 18,323,318 | 4.99 |

*deemed interest

Nihon Tanshi Co. Limited is the parent company of Nittan Capital Holdings Limited and Nittan Exco Limited and accordingly interested in the shares owned by its subsidiaries.

### 10. Contracts of Significance with Controlling Shareholders

No contracts of significance to which the Group or its subsidiary undertakings were a party and in which a controlling shareholder had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year, except as disclosed in note 31 to the accounts.

### 11. Subsidiary and Associated Undertakings

Details of changes in fixed asset investments in subsidiary and associated undertakings are shown in note 16(a) to the accounts.

### 12. Donations

In the United Kingdom, the Group contributed £854,463 (1997: £750) to charitable organisations. In addition, subsidiary undertakings outside the UK contributed £535,598 to charitable organisations (1997: £69,105).

### 13. Corporate Governance

In January 1998 the Committee on Corporate Governance issued its final report, which was adopted by the Stock Exchange in the form of the Combined Code in June 1998. The extent to which the Company has achieved compliance with the Combined Code is therefore partly conditioned by its date of issue: certain of its requirements did not exist throughout the whole of the accounting period. The position of the Company in relation to the Code is further complicated by the fact that the merger with Intercapital was not effective until 26th October 1998. The information contained in this section of the annual report is therefore necessarily detailed and should be read in the light of the above factors.

The Company has considered the Principles of Good Governance and the Code of Best Practice set out in the Combined Code.

**(1) The Board**

The Company is headed by an effective board of directors which has wide experience both within the industry and in other fields. It meets regularly and has adopted a schedule of matters specifically reserved to it for decision. The Board has appointed a number of committees which meet regularly, have defined terms of reference and a formal constitution. The Board has delegated authority to these committees to deal with certain aspects of the management of the Group. These committees are described in more detail below.

There is an agreed procedure by which members of the Board may take independent professional advice and all directors have access to the advice and services of the Company Secretary.

# Directors' Report

15 months ended 31st March 1999

(2) The Chairman and Chief Executive

Since 26th October 1998 the roles of Chairman and Chief Executive have been combined and carried out by Michael Spencer. Before the merger with Intercapital, these roles were separated. The Board made a conscious decision to combine the roles of Chairman and Chief Executive because it was its experience that, in an industry where people, their morale and their relationships are so important to the success of the business, it is vital that there is a hierarchy clear to all. The Board felt that this was particularly true of the initial period after the merger of the Exco and Intercapital businesses, when there was a considerable amount of restructuring work to be carried out. Thus, in the interests of the Company and therefore the shareholders, it was decided to concentrate executive power into the hands of one person with a single focal point of operational decision making and authority. The Board does not feel that this gives Michael Spencer unfettered powers of decision. The independence and experience of the other members of the Board ensure that there is still a balance of power and authority within the Board. The situation will however be kept under review, and as, or if, circumstances change and the Board thinks that it is the appropriate time to separate the roles of Chairman and Chief Executive, then such proposals will be brought forward.

Since 1st December 1998, when John Nixon was identified in this role, the Company has had a senior independent director.

(3) Board Balance

The Board currently consists of four executive and four non-executive directors. The non-executive directors have been selected on the basis of their calibre, their experience and the contribution they can make to the development of the business. All are considered by the Board to be independent.

(4) Supply of Information

The Board is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

(5) Appointments to the Board

It is the function of the Remuneration and Nominations Committee, a fuller description of which is given below, to make recommendations to the Board on the appointment of new directors to the Board. The Committee consists exclusively of non-executive directors.

(6) Re-election

Since the merger with Intercapital (when the articles of association were amended) all directors are required to submit themselves for re-election at least every three years. Prior to the merger the articles gave the right to Caledonia Investments plc to appoint a non-executive director. At the time of the merger the articles were changed in this respect also and now all non-executive directors are appointed for specified terms and their re-appointment is not automatic.

(7) Directors' Remuneration

The report of the Board on Directors' Remuneration, which is set out on pages 35 to 40, gives full details of the manner in which the Company applies the principles and provisions of the Combined Code to this area.

(8) Relations with Shareholders

The Company meets regularly with its institutional shareholders to discuss the objectives of the business and the progress of the business towards those objectives. It also believes that the Annual General Meeting provides a useful forum to communicate with its private shareholders and encourages their participation.

(9) Accountability and Audit

The Board seeks to present a balanced and understandable assessment of the Company's position and prospects through its public announcements and the annual report. It also maintains a sound system of internal financial control as is described on page 32 below. In making this statement the Board has followed the further guidance on internal control given by the Stock Exchange in December 1998. In the absence of detailed guidance on how to apply the Code to the wider aspects of internal control, the Stock Exchange has permitted confirmation of compliance with the Code to be restricted to internal financial control only. The Company has long had an Audit Committee, comprised of two non-executive directors and the alternate to a non-executive director. The Board does not consider that being an alternate to a non-executive director makes that member of the Audit Committee any less independent. The Audit Committee oversees relationships with the Group's auditors, financial reporting and the maintenance of appropriate internal financial controls. The activities of the Audit Committee are more fully described on page 31 below.

Compliance with the Combined Code

The Company has identified that it does not or has not complied with the Combined Code during the accounting period in the following respects:

- Since 26th October 1998 the roles of Chairman and Chief Executive have been combined. The reasons for this are set out above.
- The Company has had a senior independent director only since 1st December 1998, when John Nixon was identified in that role.
- Between 26th October 1998, when certain of the former non-executive directors resigned on completion of the merger with Intercapital, and 1st December 1998, when three new non-executive directors were appointed, non-executive directors comprised less than one third of the Board.

- The Audit Committee consists of two non-executive directors and the alternate to a non-executive director. The reasons for this are set out above.
- Until the articles of association were amended on 26th October 1998, executive directors were not required to submit themselves for re-election at any time. Before 26th October 1998, the articles of association gave Caledonia Investments Plc the right to appoint a non-executive director who was not subject to rotation.
- As set out in more detail in the Report on Directors' Remuneration on page 37 below, new contracts were entered into with the executive directors when the merger with Intercapital became effective. These contracts incorporate initial contractual periods of greater than one year, though the notice periods in them are eventually one year or less. The reasons for this departure from the Code are set out in the Report on Directors' Remuneration. Some of the directors' service contracts in existence prior to the merger also did not comply with the Code in respect of their length and notice periods. All these contracts have been replaced or terminated as part of the merger.
- The Company will in future count all proxy votes and, except where a poll is called, indicate the level of proxies lodged on each resolution, and the balance for and against each resolution, after it has been dealt with on a show of hands. This is a change from previous practice.
- In previous years it was not the practice of the Company to give at least 20 working days', notice to shareholders of the Annual General Meeting. This provision of the Code has been followed in respect of the forthcoming Annual General Meeting.

The Board has formed the following Committees:

**Executive Committee**

Michael Spencer (Chairman)
Clive Cooke
David Gelber
Declan Kelly (a director of Intercapital Group Limited)
Kim Taylor

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

**Remuneration and Nominations Committee**

John Nixon (Chairman)
Peter Buckley
Jonathan Robson

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

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

**Audit Committee**

Jonathan Cartwright (Chairman)
John Nixon
Jonathan Robson

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

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

# Directors' Report
15 months ended 31st March 1999

**Treasury Committee**
Kim Taylor (Chairman)
Vanessa Cruwys (Group Financial Controller)
David Gelber
Simon Mansell (Finance Director of Intercapital Group Limited)

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

**Compliance Committee**
Kim Taylor (Chairman)
David Gelber
Edward Pank

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

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

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

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

The Board, through the Audit Committee, has reviewed the effectiveness of the system of internal financial control operated by the Group for the period from 1st January 1998 to 31st March 1999.

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

The Statement of Directors' Responsibilities for preparing accounts is set out on page 74.

## 14. Special business to be conducted at the Annual General Meeting – Notice: pages 76 to 78.

### Resolution 12 – Authority to allot ordinary shares for cash

Resolution 12 will be proposed, as in previous years, to renew the authority to allot unissued shares in the Company.

The balance of the Company's authorised ordinary share capital of 490,000,000 ordinary shares of 25p each which remains unissued is now 122,406,289 ordinary shares (approximately 33.3% of the issued share capital at 8th June 1999). It is proposed that the directors be authorised to allot shares up to this amount. The authority, if granted, will last until 21st October 2000. The directors have no present intention of exercising this authority.

### Resolution 13 – Directors' power to disapply pre-emption rights

This resolution, which will be proposed as a special resolution, seeks to renew the directors' flexibility to issue shares for cash other than strictly pro rata to existing shareholders and supplements the directors' authority to allot shares in the Company (given to them by resolution 12).

Under section 89 of the Companies Act 1985, if the directors wish to allot "equity securities", which includes ordinary shares, for cash (other than pursuant to an employee share scheme) they must in the first instance offer them to existing ordinary shareholders pro rata to their ordinary shareholdings. There may be occasions, however, when the directors will need the flexibility to finance business opportunities by the issue of ordinary shares without a pre-emptive offer to existing ordinary shareholders. Shareholders granted such an authority to the directors at the Extraordinary General Meeting held on 23rd October 1998. That authority will expire at the end of this Annual General Meeting and resolution 13 seeks to renew it. If resolution 13 is passed, the requirement imposed by section 89 will not apply to allotments by the directors in three cases:

(a) in connection with a rights (or similar) issue, where strict application of the principle in section 89 would (for example) either result in fractional entitlements to shares arising or require the issue of shares where this would be impractical because of local legal or regulatory requirements in any given overseas jurisdiction; and

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

(c) allotments of shares for cash up to a total number of 18,379,685 ordinary shares of 25p each (representing 5% of the Company's issued share capital at 8th June 1999). This gives the directors flexibility to take advantage of business opportunities as they arise, whilst the 5% limit ensures that existing shareholders' interests are protected, and is in line with guidelines issued by institutional investors' bodies.

The directors will comply with the guidelines of the Investment Protection Committees that no more than 7.5% of the issued share capital of the Company will be allotted for cash on a non-pre-emptive basis during any rolling three-year period.

This authority will lapse not later than 21st October 2000 except insofar as commitments to allot shares have been entered into before that date.

### Resolution 14 – Power to repurchase shares

Under resolution 14 which will be proposed as a special resolution, shareholders' approval will be sought to renew the Company's power to purchase its own ordinary shares given to it at the Extraordinary General Meeting held on 23rd October 1998. If the resolution is passed, it will empower the Company to purchase up to 36,759,371 ordinary shares (being approximately 10% of the Company's issued shares as at 8th June 1999) at a price not more than 5% greater than the average of the middle market quotations for such ordinary shares during the five business days preceding any such purchase. This power will be used only in circumstances where the directors, after careful consideration, believe that such a purchase would result in an increase in expected earnings per share or net assets per share and would be in the best interests of shareholders. Any shares purchased will be cancelled and the number of shares in issue will accordingly be reduced.

The authority sought will expire on 21st October 2000 or, if earlier, at the conclusion of the next Annual General Meeting of the Company.

# Directors' Report

15 months ended 31st March 1999

### 15. Year 2000 Compliance

The Group set up a project team in mid-1997 to assess the exposure of the Group to the Year 2000 issue and to put in place the necessary remedial action. Regular reports have been made to the Board. The Group has also been working closely with regulators, who have taken an active interest in the readiness of the industry to cope with the Year 2000 issue. The assessment has taken into account the review of both in-house systems and systems and services supplied by third parties. So far as in-house systems are concerned, the project team rapidly identified the work required to achieve Year 2000 compliance and this work is expected to be completed by mid-1999. Where necessary, core systems have been amended or replaced, but the work required has not been extensive and the total cost of the activities undertaken has been some £300,000.

As far as systems and services supplied by third parties are concerned, the Group, like many businesses, is reliant upon those third parties achieving their own Year 2000 compliance. The Group has undertaken a thorough process of consultation with key third parties and has received assurance of their Year 2000 compliance. These assurances do not, however, amount to guarantees. Just like all other participants in the wholesale financial markets, the Group is heavily reliant on effective and resilient voice and data telecommunications networks. Whilst there is no reason to believe that the assurances given by telecommunication networks suppliers are not to be relied upon, the remote possibility does exist of a major disruption of these networks at the end of this calendar year. Because there are no alternative methods of voice and data communications available, such disruption would affect the Group. The Group is otherwise in the process of establishing business continuity plans, should any key in-house systems or third party systems and services fail.

### 16. Policy on Payment to Creditors

The Company's policy for the 15-month period ended 31st March 1999, for all suppliers, is to fix terms of payment when agreeing the terms of each business transaction, to ensure that the supplier is aware of those terms, and to abide by the agreed terms of payment. At 31st March 1999 the Company had no trade creditors.

### 17. Auditors

The Company's auditors, Coopers & Lybrand, merged with Price Waterhouse on 1st July 1998, following which Coopers & Lybrand resigned and the directors appointed the new firm, PricewaterhouseCoopers, as auditors. A resolution to reappoint PricewaterhouseCoopers as auditors to the Company will be proposed at the Annual General Meeting.

By order of the Board

E. C. Pank
Secretary
London
16th June 1999

[illegible]

# Board Report on Directors' Remuneration

### 1. Composition of the Remuneration and Nominations Committee

The members of the Committee are set out on page 31 of these accounts.

### 2. Compliance

The Company has adopted the provisions of the Combined Code. The constitution and operation of the Remuneration and Nominations Committee complies with the principles and provisions set out in the Code. The Committee also confirms that full consideration has been given to the principles and provisions in determining the remuneration packages for directors for the year to 31st March 2000.

### 3. Policy on Remuneration of Executive Directors and Senior Executives

#### (a) Total level of remuneration

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

#### (b) Components of directors' remuneration

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

(i) Basic Salary

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

(ii) Annual Bonus

Bonuses can be awarded to the executive directors of the Company provided that certain financial targets are met. These financial targets are combined with personal targets given to the directors by the Committee. Failure to achieve these targets would lead to a reduction in bonus even if the financial targets are met. For the 15-month period to 31st March 1999 financial targets were inappropriate and therefore the Committee used its discretion in making bonus awards.

(iii) Share Options

The Company believes that share ownership by directors and senior executives strengthens the link between their personal interests and those of the shareholders. There are no incentive or share option plans currently open to directors. Two directors possess share options which were granted to them whilst the Company was in private ownership. These option schemes are explained further on pages 39 and 40 of this Report.

(iv) Benefits

The Group provides directors with pension, healthcare and life assurance benefits. In no cases is a car provided.

#### (c) Companies used for comparison

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

#### (d) Policy on service contracts

It is the experience of the Committee that in the money and securities broking industry it is difficult to attract and retain the services of competent management, the competition for whose services is fierce. Furthermore, custom in the industry (much of which lies outside the listed sector) is to lock in key members of staff by the use of contracts containing initial periods or notice periods of greater than one year's duration. In the light of these factors the Remuneration and Nominations Committee considered whether it was appropriate to reduce the contract or notice periods in directors' service contracts to one year or less at the time of the merger. The Remuneration and Nominations Committee decided that it was not appropriate to take such a step nor in the shareholders' interests. Accordingly it put in place the service contracts described in detail below. The Committee believes that it is necessary for it to retain the discretion to offer new directors contracts whose initial duration or notice periods are greater than one year. The Committee also believes it is necessary for it to retain the discretion to offer directors similar contract periods or notice periods at renewal of their contracts, given the characteristics of the industry set out above.

It may be possible to negotiate explicit compensation commitments in directors' service contracts, but this is very much a matter which will vary from case to case. The Committee has in the past sought to enforce the duty of a departing director to mitigate his loss and will continue to do so in the future. The Committee will always negotiate service contracts with the provisions of the Code in mind and will strive to meet them, if at all possible. The Committee recognises however that market practice makes it unlikely that these objectives will often be met.

# Board Report on Directors' Remuneration

**(e) Pension policy regarding executive directors**

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

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

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

**4. Directors' Emoluments**

The emoluments of the directors in office for all or part of the 15-month period to 31st March 1999 are set out below:

| | Notes | Salary & fees £'000 | Benefits £'000 | Annual Bonus £'000 | Comp-pensation for loss of office £'000 | Gains on exercise of share options £'000 | Payments to Defined Contribution Pension Schemes £'000 | Total 15 months to 31st Mar 1999 £'000 | Total 12 months to 31st Dec 1997 £'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | | |
| Michael Spencer | | 157 | 1 | 80 | – | – | 8 | 246 | – |
| Clive Cooke | | 501 | 5 | – | – | 28 | 62 | 596 | 447 |
| Peter Edge | (a) | 216 | 1 | – | 233 | – | 49 | 499 | 335 |
| David Gelber | | 98 | – | 45 | – | – | 5 | 148 | – |
| James Magee | | 108 | – | – | – | – | – | 108 | 163 |
| Kim Taylor | | 188 | 1 | 75 | – | 4 | 45 | 313 | 164 |
| Marcel Wolf | (b) | 333 | – | 94 | 542 | 71 | 100 | 1,140 | 344 |
| **Non-executive Directors** | | | | | | | | | |
| Peter Buckley | | 21 | – | – | – | – | – | 21 | 17 |
| John Heywood | | 15 | – | – | – | – | – | 15 | 17 |
| David Hubbard | (c) | 60 | 1 | – | 19 | – | – | 80 | 60 |
| Michael Johns | | 14 | – | – | – | – | – | 14 | 17 |
| John Nixon | | 8 | – | – | – | – | – | 8 | – |
| Jonathan Robson | | 7 | – | – | – | – | – | 7 | – |
| Hiroshi Watanabe | | 7 | – | – | – | – | – | 7 | – |
| Directors who resigned in 1997 | | | – | – | – | – | – | – | 114 |
| Total 1999 (15 months) | | 1,733 | 9 | 294 | 794 | 103 | 269 | 3,202 | 1,678 |
| Total 1997 (12 months) | | 1,415 | 41 | – | – | – | 222 | | 1,678 |

**Notes**

(a) Under an agreement dated 29th September 1998, drawn up as part of the merger process, Peter Edge will continue to receive his basic annual salary and benefits (but not bonus) until 10th July 1999. Provision has been made in the accounts for the liabilities under this contract.

(b) Under an agreement dated 29th September 1998, drawn up as part of the merger process, Marcel Wolf will continue to receive his basic annual salary and benefits (but not bonus) for 18 months after the termination of his contract. His contract was terminated on 16th May 1999. The outstanding liabilities under this agreement have been accrued in these accounts. The total figure represents 33 months' emoluments.

(c) In recognition of his services to the Company, the Board awarded David Hubbard an ex-gratia payment of £18,500 on 28th January 1999.

Clive Cooke discharges and Marcel Wolf until his resignation discharged their duties wholly or mainly outside the United Kingdom.

# Board Report on Directors' Remuneration

The key terms of the executive directors' service contracts which were put in place at the time of the merger are set out below. "Admission" is defined as 26th October 1998.

| Director | Term | Basic annual salary | Bonus arrangements | Annual pension contribution |
|---|---|---|---|---|
| Clive Cooke | 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 the 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 6 months' notice | £225,000 | Entitled to participate in a bonus pool to be set up after Admission by the Committee | 5% of 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 Committee | 5% of basic salary |
| Kim Taylor | Terminable on the day falling 18 months after Admission and on any anniversary thereof on 6 months' notice | £150,000 | Entitled to participate in a bonus pool to be set up after Admission by the Committee | £33,750 |
| Marcel Wolf | Terminable on two weeks' notice on or at any time after 1st January 1999. This contract was terminated on 16th May 1999 | £279,000 | £94,000 on 31st December 1998 | £82,000 up to 31st December 1998 and thereafter £150,000 to the period ended 30th June 1999, or pro rata should he leave earlier |

**Former Directors**

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

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

# Board Report on Directors' Remuneration

**5. Directors' Shareholdings**

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

| | Ordinary 25p shares | |
|---|---|---|
| | 31st March 1999 Beneficial | 1st January 1998 Beneficial |
| Michael Spencer | See note (i) | – |
| Peter Buckley | 100,000 | 100,000 |
| Clive Cooke | 266,030 | 139,857 |
| David Gelber | See note (ii) | – |
| John Nixon | – | – |
| Jonathan Robson | – | – |
| Kim Taylor | 72,962 | 52,962 |
| Hiroshi Watanabe | – | – |
| Marcel Wolf | 1,729,225 | 490,225 |

(i) Mr and Mrs Spencer are the beneficial owners of 306,780 shares in aggregate in Intercapital Group Limited, which is approximately 42% of the issued share capital. On 26th October 1998 Intercapital Brokerage Services Limited acquired 231,801,727 shares in Intercapital plc, which is 63.07% of the share capital of Intercapital plc. Intercapital Group Limited owns 88% of Intercapital Brokerage Services Limited. Michael Spencer also directly owns 120,000 shares in Intercapital Brokerage Services Limited.

Mr and Mrs Michael Spencer own approximately 42% of Intercapital Group Limited and by virtue of that holding, Michael Spencer is indirectly interested for the purposes of section 324 of the Companies Act 1985 in all shares in the Company held by Intercapital Group Limited and its subsidiaries.

(ii) David Gelber is the beneficial owner of 20,000 shares in Intercapital Group Limited, which is 2.72% of the issued share capital.

The interests set out above were unchanged at 1st June 1999, except where noted below.

The mid-market price of the ordinary shares of the Company at 31st March 1999 was 36.5p (31st December 1997: 31.5p).

**The Executive Directors**

For the purposes of section 324 of the Companies Act 1985, each of the executive directors is deemed to be interested in all the Intercapital plc shares held by Exco Trustees Limited as trustee of the No. 1 Employee Benefit Trust, as they are potential discretionary beneficiaries of that Trust. At 31st March 1999 that Trust held 2,160,794 shares and at 1st June 1999 that Trust held 1,999,594 shares in Intercapital plc.

For the purposes of section 324 of the Companies Act 1985, each of the executive directors is deemed to be interested in all the shares of Intercapital Group Limited held by the Barclays Private Bank & Trust Limited, as they are potential discretionary beneficiaries of that Trust. At 31st March 1999 that Trust held 117,111 shares and at 1st June 1999 that Trust held 114,604 shares in Intercapital Group Limited.

**The Non-Executive Directors**

For the purposes of section 324 of the Companies Act 1985, each of the non-executive directors is deemed to be interested in all the shares of Intercapital plc owned by Exco Trustees Limited as trustee of the No. 2 Employee Benefit Trust, as they are potential discretionary beneficiaries of that Trust. At 31st March 1999 that Trust held 40,000 shares and at 1st June 1999 that Trust held no shares.

# Board Report on Directors' Remuneration

### 6. Directors' Options

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

**1992 No. 1 Share Option Scheme**

| | At 1st January 1998 | Number of options during the year Granted | Exercised | At 31st March 1999 |
|---|---|---|---|---|
| Michael Spencer | – | – | – | – |
| Peter Buckley | – | – | – | – |
| Clive Cooke | 96,000 | – | (96,000) | – |
| David Gelber | – | – | – | – |
| John Nixon | – | – | – | – |
| Jonathan Robson | – | – | – | – |
| Kim Taylor | – | – | – | – |
| Hiroshi Watanabe | – | – | – | – |
| Marcel Wolf | 214,000 | – | (214,000) | – |

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

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

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

No directors' options lapsed unexercised during the period. The market price of the shares when the options were exercised by Clive Cooke was 23p and by Marcel Wolf 30p. Clive Cooke exercised these options whilst the shares of Intercapital plc were suspended and the market price given is the mid-market price on the day of suspension (10th July 1998).

**1992 No. 3 Share Option Scheme**

| | At 1st January 1998 | Granted | Number of options during the year exercised | At 31st March 1999 | Date from which exercisable | Expiry date |
|---|---|---|---|---|---|---|
| Michael Spencer | – | – | – | – | – | – |
| Peter Buckley | – | – | – | – | – | – |
| Clive Cooke | 150,000 | – | – | 150,000 | 17.02.97 | 16.02.2001 |
| David Gelber | – | – | – | – | – | – |
| John Nixon | – | – | – | – | – | – |
| Jonathan Robson | – | – | – | – | – | – |
| Kim Taylor | 150,000 | – | – | 150,000 | 17.02.97 | 16.02.2001 |
| Hiroshi Watanabe | – | – | – | – | – | – |
| Marcel Wolf | 150,000 | – | – | 150,000 | 17.02.97 | 16.02.2001 |

# Board Report on Directors' Remuneration

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

In normal circumstances, an option may be exercised:

(i) as to one third of the shares in respect of which it was granted on or after the third anniversary of its date of grant;

(ii) as to an additional one third of such ordinary shares on or after the fourth such anniversary; and

(iii) as to the remaining one third of such ordinary shares on or after the fifth such anniversary;

and in each case before the seventh such anniversary.

The exercise price is £1.00 per share. No directors' options lapsed unexercised during the period.

Long-Term Employee Share Plan

| | At 1st January 1998 | Number of options during the year Granted | Exercised | At 31st March 1999 |
|---|---|---|---|---|
| Michael Spencer | – | – | – | – |
| Peter Buckley | – | – | – | – |
| Clive Cooke | 25,000 | – | (25,000) | – |
| David Gelber | – | – | – | – |
| John Nixon | – | – | – | – |
| Jonathan Robson | – | – | – | – |
| Kim Taylor | 20,000 | – | (20,000) | – |
| Hiroshi Watanabe | – | – | – | – |
| Marcel Wolf | 25,000 | – | (25,000) | – |

This plan was intended to obtain a financial commitment from directors and selected employees to acquire a certain number of shares and to match that commitment with a right to acquire further shares subject to continued employment within the Group. No further options can be granted under this scheme.

The exercise price of the matching option was 1.0p per share. This feature meant that in most tax jurisdictions the market value of the shares at the date of exercise of the option was treated as being subject to income tax.

No directors' options lapsed unexercised during the period. The market price of the shares when the options were exercised by Clive Cooke and Kim Taylor was 23p and by Marcel Wolf 30p. Clive Cooke and Kim Taylor exercised these options whilst the shares of Intercapital plc were suspended and the market price given is the mid-market price on the day of suspension (10th July 1998).

### 7. Directors' Interests

Clive Cooke is a holder of Floating Rate Secured Convertible Loan Stock 2001 in the sum of £350,010 (1997: £350,010) and has the right to convert the stock into ordinary shares of the Company at their then market value. The right can be exercised at any time up to 27th June 2001, provided that the ordinary shares of the Company are listed on the London Stock Exchange.

16th June 1999

# Consolidated Profit and Loss Account

15 months ended 31st March 1999

**Intercapital plc and Subsidiary Undertakings**

| | Note | 15 months 31st March 1999 £'000 | (as restated) 12 months 31st December 1997 £'000 |
|---|---|---|---|
| Turnover | 2 | | |
| Continuing operations | | 166,314 | 146,794 |
| Acquisitions | | 35,703 | – |
| | | 202,017 | 146,794 |
| Discontinued operations | | 21,645 | 42,235 |
| Total turnover | | 223,662 | 189,029 |
| Total operating expenses (including amortisation of goodwill of £2.14m) | 3 | (222,006) | (183,868) |
| Exceptional operating expense | 4 | (20,140) | (7,782) |
| Operating (loss)/profit | | | |
| Continuing operations | | (19,968) | 2,654 |
| Acquisitions | | 5,148 | – |
| | | (14,820) | 2,654 |
| Discontinued operations | | (3,664) | (5,275) |
| Total operating loss | | (18,484) | (2,621) |
| (Loss)/income from interests in associated undertakings – discontinued operations | | (26) | 572 |
| Exceptional items in respect of associated undertakings – discontinued operations | 5 | – | (1,500) |
| Loss on sale of operations – discontinued operations | 6 and 16 | (16,035) | – |
| Loss on ordinary activities before interest | | (34,545) | (3,549) |
| Other interest receivable and similar income | 9 | 3,021 | 2,039 |
| Interest payable and similar charges | 10 | (1,605) | (1,634) |
| Loss on ordinary activities before taxation | | (33,129) | (3,144) |
| Tax on loss on ordinary activities | 11 | (5,930) | (2,771) |
| Loss on ordinary activities after taxation | | (39,059) | (5,915) |
| Equity minority interests | | 14 | (84) |
| **Loss for the financial period** | | (39,045) | (5,999) |
| Ordinary dividends | 12 | (3,676) | (924) |
| Retained loss for the financial period | 24(a) | (42,721) | (6,923) |
| Earnings per ordinary share | 13 | (18.87)p | (4.87)p |
| Diluted earnings per ordinary share | 13 | (18.87)p | (4.87)p |

# Statement of Total Recognised Gains and Losses

15 months ended 31st March 1999

Intercapital plc and Subsidiary Undertakings

| | 15 months 31st March 1999 £'000 | 12 months 31st December 1997 £'000 |
|---|---|---|
| Loss for the financial period | (39,045) | (5,999) |
| Exchange adjustments on foreign currency net investments | 1,008 | (2,176) |
| Unrealised surplus on revaluation of properties | – | 875 |
| Other recognised gains and losses relating to the period | 1,008 | (1,301) |
| Total recognised gains and losses since the last annual report | (38,037) | (7,300) |

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

The notes on pages 46 to 73 form part of these accounts.

Auditors' report – page 75.

# Consolidated Balance Sheet

15 months ended 31st March 1999

**Intercapital plc and Subsidiary Undertakings**

| | Note | 31st March 1999 £'000 | 31st March 1999 £'000 | 31st December 1997 £'000 | 31st December 1997 £'000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible fixed assets | 14 | | 46,773 | | – |
| Tangible fixed assets | 15 | | 18,493 | | 14,811 |
| Investments: | | | | | |
| Interests in associated undertakings | 16(b) | | – | | 12,899 |
| Other investments | 16(b) | | 4,091 | | 1,086 |
| | | | 69,357 | | 28,796 |
| **Current assets** | | | | | |
| Debtors: amounts falling due after one year | 17 | 4,364 | | 4,757 | |
| Debtors: amounts falling due within one year | 17 | 55,486 | | 41,625 | |
| Investments | 18 | 6,355 | | 10,986 | |
| Cash at bank and in hand | 19 | 28,192 | | 23,359 | |
| | | 94,397 | | 80,727 | |
| **Creditors:** amounts falling due within one year | 20 | | | | |
| Other creditors | | (68,997) | | (45,866) | |
| Convertible debt | | (563) | | (569) | |
| | | (69,560) | | (46,435) | |
| **Net current assets** | | | 24,837 | | 34,292 |
| Total assets less current liabilities | | | 94,194 | | 63,088 |
| Creditors: amounts falling due aftermore than one year | 21 | | (6,097) | | (22,184) |
| Provisions for liabilities and charges | 28 | | (9,394) | | – |
| **Net assets** | | | 78,703 | | 40,904 |
| Capital and reserves: | | | | | |
| Called-up share capital | 23 | | 91,888 | | 30,792 |
| Share premium account | 24(a) | | 5,760 | | 5,273 |
| Revaluation reserve | 24(a) | | 875 | | 875 |
| Other reserves | 24(a) | | (1,978) | | (4,049) |
| Profit and loss account | 24(a) | | (17,890) | | 8,002 |
| Equity shareholders' funds | 25 | | 78,655 | | 40,893 |
| Equity minority interests | | | 48 | | 11 |
| Total capital employed | | | 78,703 | | 40,904 |

Approved by the Board on 16th June 1999 and signed on its behalf by

MICHAEL SPENCER }
KIM TAYLOR } Directors

The notes on pages 46 to 73 form part of these accounts.

Auditors' report – page 75.

# Company Balance Sheet
15 months ended 31st March 1999

Intercapital plc

| | Note | 31st March 1999 £'000 | 31st March 1999 £'000 | 31st December 1997 £'000 | 31st December 1997 £'000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Investments: | | | | | |
| Shares in subsidiary undertakings | 16(b) | | 131,199 | | 71,416 |
| Other investments | 16(b) | | 54 | | 428 |
| | | | 131,253 | | 71,844 |
| **Current assets** | | | | | |
| Debtors: amounts falling due after one year | 17 | – | | 442 | |
| Debtors: amounts falling due within one year | 17 | 81,820 | | 75,591 | |
| Cash at bank and in hand | 19 | 779 | | 2,915 | |
| | | 82,599 | | 78,948 | |
| Creditors: amounts falling due within one year | 20 | | | | |
| Other creditors | | (89,901) | | (81,049) | |
| Convertible debt | | (563) | | (569) | |
| | | (90,464) | | (81,618) | |
| **Net current liabilities** | | | (7,865) | | (2,670) |
| Total assets less current liabilities | | | 123,388 | | 69,174 |
| Creditors: amounts falling due after more than one year | 21 | | (880) | | (18,282) |
| **Net assets** | | | 122,508 | | 50,892 |
| Capital and reserves: | | | | | |
| Called-up share capital | 23 | | 91,888 | | 30,792 |
| Share premium account | 24(b) | | 5,760 | | 5,273 |
| Other reserves | 24(b) | | 1,464 | | 1,520 |
| Profit and loss account | 24(b) | | 23,396 | | 13,307 |
| Equity shareholders' funds | | | 122,508 | | 50,892 |

Approved by the Board on 16th June 1999 and signed on its behalf by

MICHAEL SPENCER }
KIM TAYLOR } Directors

The notes on pages 46 to 73 form part of these accounts.

Auditors' report – page 75.

# Consolidated Cash Flow Statement

15 months ended 31st March 1999

Intercapital plc and Subsidiary Undertakings

| | Note | 15 months 31st March 1999 £'000 | 12 months 31st December 1997 £'000 |
|---|---|---|---|
| Net cash inflow from operating activities | 32 | 12,281 | 3,137 |
| Net cash inflow/(outflow) from returns on investments and servicing of finance | 33 | 404 | (20) |
| **Taxation** | | | |
| UK corporation tax paid | | (4,014) | (2,727) |
| Overseas tax paid | | (1,485) | (2,984) |
| Tax paid | | (5,499) | (5,711) |
| **Capital expenditure and financial investment** | | | |
| Purchase of tangible fixed assets | | (11,144) | (11,135) |
| Sale of tangible fixed assets | | 1,387 | 2,579 |
| Sale of fixed asset investments | | 366 | 292 |
| Purchase of fixed asset investments | | (910) | (147) |
| Net cash outflow from capital expenditure and financial investment | | (10,301) | (8,411) |
| **Acquisitions and disposals** | | | |
| Purchase of minority interests | | (100) | (1,146) |
| Deferred consideration in respect of subsidiary undertaking | | – | (2,118) |
| Sale of subsidiary undertakings/operations | 16(a) | 5,488 | – |
| Sale of associated undertaking | 16(a) | 3,003 | – |
| Net cash disposed of with subsidiary undertakings | | (70) | – |
| Cost of subsidiary undertakings acquired | | (1,083) | – |
| Net cash acquired with subsidiary undertakings | 16(a) | 6,916 | – |
| Net cash inflow/(outflow) from acquisitions and disposals | | 14,154 | (3,264) |
| Equity dividends paid | | – | (4,619) |
| Cash inflow/(outflow) before use of liquid resources and financing | | 11,039 | (18,888) |
| Net cash inflow from management of liquid resources | 34 | 2,630 | 5,186 |
| **Financing** | | | |
| Share issue costs | | (1,690) | – |
| Issue of ordinary share capital | | 3,006 | – |
| Increase in short-term loans | | 2,560 | – |
| (Decrease)/increase in long-term loans | | (17,456) | 347 |
| Loan from Nittan Exco Limited | | 3,003 | 7,371 |
| Payment of principal under finance leases | | (404) | (1,434) |
| Net cash (outflow)/inflow from financing | | (10,981) | 6,284 |
| Increase/(decrease) in cash | 36 | 2,688 | (7,418) |

# Notes to the Accounts

15 months ended 31st March 1999

## 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 and adoption of new Accounting Standards

The Company has adopted the provisions of Financial Reporting Standard No. 9 "Associates and Joint Ventures", No. 10 "Goodwill and Intangible Assets", No. 11 "Impairment of Fixed Assets and Goodwill", No. 12 "Provisions, Contingent Liabilities and Contingent Assets", No. 13 "Derivatives and Other Financial Instruments: Disclosures" and No. 14 "Earnings Per Share".

The Group in the period terminated permanently its operations in a number of geographical locations and certain products as described in the Financial Review. 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 period's comparatives have accordingly been restated.

### (b) Basis of accounting

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

### (c) Basis of consolidation

The consolidated profit and loss account and the balance sheet include the accounts of the Company and its subsidiary undertakings made up to 31st March.

The results of subsidiary undertakings acquired or disposed of during an accounting period are included in the consolidated profit and loss account from or up to 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, was written off to reserves in respect of acquisitions prior to 1st January 1998. The goodwill previously written off has not been reinstated in the balance sheet. In accordance with FRS10, goodwill arising on acquisitions since 1st January 1998 has been capitalised and is being amortised through the profit and loss account over its useful economic life. Given the volatile characteristics of the industry in which the Group operates, a life of ten years has been selected. Other purchased goodwill is eliminated by amortisation through the profit and loss account over its useful economic life. If a subsidiary associate or business is subsequently sold or closed, any goodwill arising on acquisition that was written off directly to reserves or that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

### (d) Associated undertakings

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

The consolidated profit and loss account includes the appropriate share of profits less losses of all material associated undertakings based on latest available audited accounts together with unaudited management accounts for the period from the date of the audited accounts to 31st March. 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 was written off to reserves in respect of acquisitions prior to 1st January 1998. The goodwill previously written off has not been reinstated in the balance sheet.

### (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 - 33⅓ |
| Motor vehicles | 25 - 33⅓ |

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.

1. Principal accounting policies (continued)

(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) Matched principal business
Certain companies in the Group are involved as matched principal in the purchase and simultaneous commitment to sell equities and securities between third parties. The trades are complete only when both sides of the deal are matched, and so risk for these companies arises in the event of one side of the transaction remaining unsettled. Substantially all the transactions settle within a short period of time and the settlement risk is considered to be minimal. To reflect the substance of the transactions and be in accordance with industry practice, the amounts due to and payable by counterparties are offset, and the net amount included in trade debtors. The gross position is disclosed in note 17 to the accounts.

(i) Unsettled transactions
Unsettled transactions are matched principal deals which have not settled in the normal course of trading. These amounts are shown gross and included within trade debtors and trade creditors in notes 17 and 20.

(j) 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.

(k) 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.

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

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

The Company has in the period matched external borrowings with its investment in a subsidiary undertaking.

(m) Derivative Instruments
The Group uses a range of Derivative Instruments, including Forward Foreign Exchange and Foreign Exchange Options contracts. These Derivative Instruments are used for hedging purposes. Such contracts are matched at their inception to expected future cash flows from specific income or expense. Gains and losses are released to the profit and loss account to match the income and costs of underlying transactions they are intended to hedge. At a period end outstanding Forward Foreign Exchange contracts used as a hedge are not revalued, but are carried forward to match against corresponding gains or losses from the original exposures.

(n) Brokerage income
Brokerage income is accounted for at the date of the transaction.

(o) 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.

# Notes to the Accounts
15 months ended 31st March 1999

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

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

The geographical analysis of turnover is as follows:

| | £'000 Continuing | £'000 Acquisitions | £'000 Discontinued | 15 months 31st March 1999 £'000 | (as restated) £'000 Continuing | (as restated) £'000 Acquisitions | (as restated) £'000 Discontinued | (as restated) 12 months 31st December 1997 £'000 |
|---|---|---|---|---|---|---|---|---|
| Europe | 79,993 | 32,408 | 5,884 | 118,285 | 71,481 | – | 10,666 | 82,147 |
| North America | 73,092 | 1,233 | 7,679 | 82,004 | 63,836 | – | 17,226 | 81,062 |
| Asian Pacific | 13,229 | 2,062 | 8,082 | 23,373 | 11,477 | – | 14,343 | 25,820 |
| | 166,314 | 35,703 | 21,645 | 223,662 | 146,794 | – | 42,235 | 189,029 |

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

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

| | £'000 Continuing | £'000 Acquisitions | £'000 Discontinued | 15 months 31st March 1999 £'000 | (as restated) £'000 Continuing | (as restated) £'000 Acquisitions | (as restated) £'000 Discontinued | (as restated) 12 months 31st December 1997 £'000 |
|---|---|---|---|---|---|---|---|---|
| Europe | (12,252) | 6,194 | (2,739) | (8,797) | 796 | – | (659) | 137 |
| North America | (7,755) | (726) | (17,835) | (26,316) | 471 | – | (2,032) | (1,561) |
| Asian Pacific | | | | | | | | |
| – subsidiary undertakings | 39 | (320) | 3,324 | 3,043 | 1,387 | – | (2,584) | (1,197) |
| – associated undertakings | – | – | (2,475) | (2,475) | – | – | (928) | (928) |
| (Loss)/profit before interest | (19,968) | 5,148 | (19,725) | (34,545) | 2,654 | – | (6,203) | (3,549) |

The geographical analysis of net operating assets is as follows:

| | 31st March 1999 £'000 | 31st December 1997 £'000 |
|---|---|---|
| Europe | 34,128 | 15,969 |
| North America | 19,874 | 22,119 |
| Asian Pacific – subsidiary undertakings | 3,289 | 6,666 |
| – associated undertakings | – | 12,899 |
| Net operating assets | 57,291 | 57,653 |
| Non-operating assets/(liabilities) | 21,412 | (16,749) |
| Net assets | 78,703 | 40,904 |

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

3. Total operating expenses

| | £'000 Continuing | £'000 Acquisitions | £'000 Discontinued | 15 months 31st March 1999 £'000 | (as restated) £'000 Continuing | (as restated) £'000 Acquisitions | (as restated) £'000 Discontinued | (as restated) 12 months 31st December 1997 £'000 |
|---|---|---|---|---|---|---|---|---|
| Staff costs (see note 8) | 107,361 | 19,818 | 15,177 | 142,356 | 93,480 | – | 28,627 | 122,107 |
| **Amounts written off fixed asset investments:** | | | | | | | | |
| Due to permanent diminution in value | 624 | – | – | 624 | 17 | – | – | 17 |
| Due to temporary fluctuations in value | 8 | – | – | 8 | 243 | – | – | 243 |
| | 632 | – | – | 632 | 260 | – | – | 260 |
| **Amounts written off current asset investments:** | | | | | | | | |
| Due to temporary fluctuations in value | – | – | – | – | (84) | – | 16 | (68) |
| **Depreciation and amounts written off:** | | | | | | | | |
| Tangible fixed assets | 4,901 | 280 | 634 | 5,815 | 3,084 | – | 1,212 | 4,296 |
| Assets held under finance leases | 288 | – | – | 288 | 240 | – | – | 240 |
| | 5,189 | 280 | 634 | 6,103 | 3,324 | – | 1,212 | 4,536 |
| Amortisation of goodwill | – | 2,140 | – | 2,140 | – | – | – | – |
| **Other operating expenses:** | | | | | | | | |
| Auditors' remuneration (including expenses) (Company: £92,675, 1997: £53,175) | 369 | 39 | 5 | 413 | 342 | – | 49 | 391 |
| Hire of plant and machinery | 201 | – | – | 201 | 19 | – | – | 19 |
| Hire of other assets – operating leases | 6,732 | 64 | 169 | 6,965 | 6,780 | – | 1,093 | 7,873 |
| Other expenses | 47,812 | 7,858 | 7,526 | 63,196 | 36,029 | – | 12,721 | 48,750 |
| | 55,114 | 7,961 | 7,700 | 70,775 | 43,170 | – | 13,863 | 57,033 |
| Total operating expenses | 168,296 | 30,199 | 23,511 | 222,006 | 140,150 | – | 43,718 | 183,868 |

The remuneration of the Group's auditors, PricewaterhouseCoopers, for provision of non-audit services to the Group in the United Kingdom was £929,000 (1997: £269,000). These non-audit services comprise tax advisory, compliance work and merger related expenses and includes £67,000 paid to Coopers & Lybrand prior to the date of appointment of PricewaterhouseCoopers as auditors. Non-audit fees in 1997 comprise solely amounts paid to the previous auditors Coopers & Lybrand.

# Notes to the Accounts

15 months ended 31st March 1999

### 4. Exceptional operating expense

| | £'000 Continuing | £'000 Acquisitions | £'000 Discontinued | 15 months 31st March 1999 £'000 | £'000 Continuing | £'000 Acquisitions | £'000 Discontinued | 12 months 31st December 1997 £'000 |
|---|---|---|---|---|---|---|---|---|
| Property relocation costs | (12,034) | – | (378) | (12,412) | (3,990) | – | – | (3,990) |
| Redundancy costs | (5,690) | (210) | (1,420) | (7,320) | – | – | (3,065) | (3,065) |
| Office closure costs | – | – | – | – | – | – | (727) | (727) |
| Acquisition costs | (262) | (146) | – | (408) | – | – | – | – |
| | (17,986) | (356) | (1,798) | (20,140) | (3,990) | – | (3,792) | (7,782) |

Reference should be made to the Financial Review for further explanation of the nature of these items.

### 5. Exceptional items in respect of associated undertakings

| | 15 months 31st March 1999 £'000 | 12 months 31st December 1997 £'000 |
|---|---|---|
| Provision for diminution in value of fixed asset investments | – | (1,500) |
| | – | (1,500) |

### 6. Loss on sale of operations – discontinued operations

The loss on the sale of operations of £16,035,000 includes the sum of £17,892,000 in goodwill, previously written off to reserves, transferred to the profit and loss account in respect of businesses disposed of. The taxation charge is increased by £571,000 as a result of the disposal of operations.

### 7. Directors' emoluments

The emoluments of directors of Intercapital plc were:

| | 15 months 31st March 1999 £'000 | 12 months 31st December 1997 £'000 |
|---|---|---|
| Fees as directors | 73 | 50 |
| Salary payments (including benefits in kind) | 1,669 | 1,406 |
| Pension contributions | 269 | 222 |
| Annual performance-related bonuses | 294 | – |
| Compensation for loss of office | 794 | – |
| Gains on exercise of share options | 103 | – |
| | 3,202 | 1,678 |

| | 15 months 31st March 1999 £ | 12 months 31st December 1997 £ |
|---|---|---|
| **Highest-paid director:** | | |
| Salary including benefits in kind | 426,534 | 402,559 |
| Pension contributions | 99,613 | 44,118 |
| Gains on exercise of share options | 71,449 | – |
| | 597,596 | 446,677 |

No directors waived emoluments in respect of the 15 months ended 31st March 1999 (1997: Nil).

Retirement benefits are accruing to four directors (1997: four directors) under the Group's defined contribution schemes.

Further details of directors' emoluments are set out in the Board Report on Directors' Remuneration on pages 35 to 40.

## 8. Staff costs

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

| | 15 months 31st March 1999 £'000 | 12 months 31st December 1997 £'000 |
|---|---|---|
| Wages and salaries | 130,239 | 111,935 |
| Social security costs | 9,502 | 7,923 |
| Other pension costs | 2,615 | 2,249 |
| | 142,356 | 122,107 |

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

| | 15 months 31st March 1999 £'000 | 12 months 31st December 1997 £'000 |
|---|---|---|
| Sales and broking | 966 | 1,130 |
| Administration | 317 | 365 |
| | 1,283 | 1,495 |

## 9. Other interest receivable and similar income

| | 15 months 31st March 1999 £'000 | 12 months 31st December 1997 £'000 |
|---|---|---|
| Income from fixed asset investments: | | |
| Unlisted overseas | 10 | 17 |
| Income from current asset investments: | | |
| Listed overseas | 35 | – |
| Unlisted | 653 | 325 |
| Bank interest and other income | 2,323 | 1,697 |
| | 3,021 | 2,039 |

# Notes to the Accounts

15 months ended 31st March 1999

### 10. Interest payable and similar charges

| | 15 months 31st March 1999 £'000 | 12 months 31st December 1997 £'000 |
|---|---|---|
| On finance leases | 222 | 153 |
| On bank loans and overdrafts repayable within 5 years | 1,383 | 1,481 |
| | 1,605 | 1,634 |

### 11. Taxation

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

| | 15 months 31st March 1999 £'000 | 12 months 31st December 1997 £'000 |
|---|---|---|
| UK corporation tax at a rate of 31% (1997: 31.5 %) | 2,884 | 2,011 |
| Advanced corporation tax written (back)/off | (1,260) | 500 |
| Deferred taxation | 2,711 | (532) |
| | 4,335 | 1,979 |
| Less: Relief for overseas taxation | (450) | (476) |
| Overseas taxation | 2,076 | 1,082 |
| Taxation arising on loss of the Group | 5,961 | 2,585 |
| Tax attributable to share of profits of associated undertakings | (31) | 186 |
| | 5,930 | 2,771 |

The Financial Review on pages 22 to 27 provides further explanation of the tax charge.

### 12. Dividends in respect of equity shares

| | 15 months to 31st March 1999 £'000 | 12 months to 31st December 1997 £'000 |
|---|---|---|
| Dividend of 0.75p per share paid on 31st October 1997 | – | 924 |
| Dividend proposed of 1p per share | 3,676 | – |
| | 3,676 | 924 |

### 13. Earnings per ordinary share

Earnings per share have been calculated based on the loss on ordinary activities after taxation and minority interests. The weighted average number of ordinary shares in issue during the period was 206,969,274 (1997:123,166,034). The effect of unexercised options and convertible loan stocks on earnings per share is anti-dilutive.

### 14. Intangible fixed assets

| | Goodwill £'000 |
|---|---|
| **Cost** | |
| At 1st January 1998 | – |
| Increase during the period | 48,913 |
| At 31st March 1999 | 48,913 |
| **Amortisation** | |
| At 1st January 1998 | – |
| Provided during the year | (2,140) |
| At 31st March 1999 | (2,140) |
| **Net book value** | |
| At 31st March 1999 | 46,773 |
| At 31st December 1997 | – |

Goodwill arising on the consolidation of the acquired Intercapital subsidiary undertakings is being amortised over the directors' estimate of its useful economic life of ten years.

# Notes to the Accounts
15 months ended 31st March 1999

## 15. Tangible fixed assets

| | Land and Buildings Freehold £'000 | Short leasehold £'000 | Furniture fixtures & equipment £'000 | Motor vehicles £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost or valuation** | | | | | |
| At 1st January 1998 | | | | | |
| Cost | 405 | 4,621 | 33,861 | 2,240 | 41,127 |
| Valuation | 1,136 | – | – | – | 1,136 |
| Exchange adjustments | 6 | 32 | 189 | 11 | 238 |
| Additions | – | 1,529 | 9,280 | 439 | 11,248 |
| Disposals | (30) | (266) | (10,837) | (1,444) | (12,577) |
| Subsidiaries acquired/(sold) | – | (436) | 3,530 | 61 | 3,155 |
| At 31st March 1999 | | | | | |
| Cost | 381 | 5,480 | 36,023 | 1,307 | 43,191 |
| Valuation | 1,136 | – | – | – | 1,136 |
| | 1,517 | 5,480 | 36,023 | 1,307 | 44,327 |
| **Depreciation** | | | | | |
| At 1st January 1998 | 150 | 1,429 | 24,778 | 1,095 | 27,452 |
| Exchange adjustments | 3 | (31) | 175 | 5 | 152 |
| Charge for the period | 8 | 346 | 5,328 | 421 | 6,103 |
| Disposals | (30) | (216) | (8,140) | (835) | (9,221) |
| Subsidiaries acquired/(sold) | – | (428) | 1,730 | 46 | 1,348 |
| At 31st March 1999 | 131 | 1,100 | 23,871 | 732 | 25,834 |
| **Net book value** | | | | | |
| At 31st March 1999 | 1,386 | 4,380 | 12,152 | 575 | 18,493 |
| At 31st December 1997 | 1,391 | 3,192 | 9,083 | 1,145 | 14,811 |

Motor vehicles include assets held under finance leases with a net book value of £Nil (1997: £203,000).
Furniture, fixtures and equipment include assets held under finance leases with a net book value of £1,626,000 (1997: £550,000).

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

**16. Fixed asset investments**

(a) Movement in subsidiary and associated undertakings

(i) On 26th October 1998, Exco plc acquired the broking operations of Intercapital in return for the issue of 231,801,727 ordinary shares, representing 63.07% of the enlarged issued share capital. Goodwill arising on the acquisition of the Intercapital companies during the period has been capitalised and is being amortised over the directors' estimate of its useful economic life of ten years.

The subsidiary undertakings acquired were as follows:-

Intercapital Commodity Swaps Ltd
Intercapital Equity Derivatives Ltd
Intercapital Securities Ltd
Intercapital Brokers Ltd
Intercapital Commodity Derivatives Inc.
Intercapital Securities Inc.
Intercapital Group (Australia) Pty Ltd

Analysis of the acquisition of the Intercapital companies:

| | Book value £'000 | Fair Value adjustments £'000 | Fair value £'000 |
|---|---|---|---|
| Tangible fixed assets | 1,938 | – | 1,938 |
| Investments | 1,651 | – | 1,651 |
| Debtors | 23,176 | – | 23,176 |
| Cash at bank and in hand | 6,916 | – | 6,916 |
| Creditors | (21,243) | – | (21,243) |
| Bank overdrafts | – | – | – |
| **Net assets** | 12,438 | – | 12,438 |
| Goodwill arising on acquisition | | | 48,913 |
| | | | 61,351 |
| Satisfied by: | | | |
| Fair value of shares issued | | | 60,268 |
| Costs associated with the acquisition | | | 1,083 |
| | | | 61,351 |

The directors are of the opinion that the investment in the acquired Intercapital companies has been included in the Company's balance sheet at its fair value at the date of acquisition and have not identified any adjustments to be made to the book value of assets acquired.

The acquired Intercapital companies earned a profit after tax of £9,432,000 in the year ended 31st March 1998. The summarised profit and loss account for the period 1st April 1998 to the effective date of acquisition is as follows:

| | £'000 |
|---|---|
| Turnover | 44,232 |
| Operating profit | 13,946 |
| Profit on ordinary activities before taxation | 15,484 |
| Taxation | (5,159) |
| Profit on ordinary activities after taxation | 10,325 |

Owing to the merger reorganisation and restructuring it has not been possible to identify separately the effects of the acquisition on cash flows.

# Notes to the Accounts
15 months ended 31st March 1999

**16. Fixed asset investments (continued)**

(ii) On 26th October 1998 the Group completed the sale of 9% of its shareholding in Nittan Exco Limited for ¥600 million (£3,003,000). The disposal is analysed as follows:

| | £'000 |
|---|---|
| Net assets disposed of: | 4,735 |
| Loss on disposal (including goodwill of £942,065 ) | (1,732) |
| | 3,003 |
| Satisfied by: | |
| Cash | 3,003 |

(iii) On 17th December 1998 the Group sold its shareholding in Exco Shorcan Limited for CAN $434,455 (£178,000). The disposal is analysed as follows:

| | £'000 |
|---|---|
| Net assets disposed of: | 15,401 |
| Loss on disposal (including goodwill of £14,193,901) | (15,223) |
| | 178 |
| Satisfied by: | |
| Cash | 178 |

In addition as part of the Sale Agreement, intercompany creditors were settled to the value of CAN $695,545 (£260,000).

(iv) On 31st December 1998 the Group sold its moneybroking operations in Singapore to its Japanese partner, Nihon Tanshi Co. Limited for Sin $14,603,470 (£5,310,353). The disposal is analysed as follows:

| | £'000 |
|---|---|
| Net assets disposed of: | 1,822 |
| Gain on disposal | 3,488 |
| | 5,310 |
| Satisfied by: | |
| Cash | 5,310 |

(v) On 31st March 1999 the Group completed the sale of 16% of its shareholding in Nittan Exco Limited for ¥1,532,037,206 (£7,882,958). The disposal is analysed as follows:

| | £'000 |
|---|---|
| Net assets disposed of: | 8,358 |
| Loss on disposal (including goodwill of £1,674,781) | (475) |
| | 7,883 |
| Satisfied by: | |
| Partial reduction of the loan from Nittan Exco Limited | 7,883 |

(vi) The Group is disposing of the spot foreign exchange business of Exco Bierbaum Devisen GmbH. The business is being acquired by local management for a consideration of DM50,000. The net loss arising on the transaction of £2,093,162 (including goodwill of £1,080,762) has been accrued in these accounts. The effective date of the transaction is 1st April 1999; the conditions to the contract were fulfilled prior to the signature of these accounts.

### 16. Fixed asset investments (continued)

(b) Investments

| | Group | | Company | |
|---|---|---|---|---|
| | 31st March 1999 £'000 | 31st December 1997 £'000 | 31st March 1999 £'000 | 31st December 1997 £'000 |
| Shares in subsidiary undertakings | – | – | 131,199 | 71,416 |
| Interests in unlisted investments | 4,043 | 1,039 | 54 | 428 |
| Interests in listed investments overseas | 48 | 47 | – | – |
| Interests in associated undertakings | – | 12,899 | – | – |
| | 4,091 | 13,985 | 131,253 | 71,844 |

The aggregate market value of unlisted investments was for the Group £4,043,000 (1997: £1,039,000) and the Company £54,000 (1997: £428,000).

| | Group | | Company | | |
|---|---|---|---|---|---|
| | Associates £'000 | Other investments £'000 | Associates £'000 | Shares in Group under-takings £'000 | Other investments £'000 |
| Cost: | | | | | |
| At 1st January 1998 | 16,353 | 1,805 | – | 87,134 | 1,116 |
| Exchange adjustments | 933 | (2) | – | – | – |
| Additions | – | 910 | – | 63,050 | 250 |
| Disposals | (4,594) | (8,775) | – | – | – |
| Share of retained profit for the period | (133) | – | – | – | – |
| Transfers | (12,559) | 12,559 | – | – | – |
| At 31st March 1999 | – | 6,497 | – | 150,184 | 1,366 |
| Amounts written off: | | | | | |
| At 1st January 1998 | (3,454) | (719) | – | (15,718) | (688) |
| Exchange adjustments | – | – | – | – | – |
| Disposals | 942 | 1,698 | – | – | – |
| Amounts written off during the period | – | (873) | – | (3,267) | (624) |
| Transfers | 2,512 | (2,512) | – | – | – |
| At 31st March 1999 | – | (2,406) | – | (18,985) | (1,312) |
| Net book value at 31st March 1999 | – | 4,091 | – | 131,199 | 54 |
| Net book value at 31st December 1997 | 12,899 | 1,086 | – | 71,416 | 428 |

Principal subsidiary undertakings of the Group are set out on page 73.

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

The net book value at 31st March 1999 is made up as follows:-

| | £'000 |
|---|---|
| Interests in participating investments | 727 |
| Other | 3,364 |
| | 4,091 |

# Notes to the Accounts
15 months ended 31st March 1999

**16. Fixed asset investments (continued)**

The Group's investment in associated undertakings comprises:

| | Group | |
|---|---|---|
| | 31st March 1999 £'000 | 31st December 1997 £'000 |
| **Interests in associates** | | |
| Cost less amounts written off | – | (702) |
| Share of retained reserves | – | 13,601 |
| Net book value | – | 12,899 |
| Representing: | | |
| Share of tangible net assets of associated undertakings | – | 12,899 |

**Fixed asset investments**

**(a) Participating interests**

| Name of undertaking | Shareholding | Country of incorporation | Nature of business | Issued ordinary share capital |
|---|---|---|---|---|
| PT Exco Nusantara Indonesia | 25% | Indonesia | Moneybroking | Rp 2,100,000,000 |
| KAF Astley & Pearce Sdn Bhd | 40% | Malaysia | Moneybroking | Ringgit 200,000 |
| S-One Exco Co Limited | 30% | Thailand | Moneybroking | Baht 30,000,000 |
| Nittan AP Marshalls (Singapore) Private Ltd | 20.06% | Singapore | Moneybroking | Sin$300,000 |

In the year ended 31st December 1997 PT Exco Nusantara Indonesia, KAF Astley & Pearce Sdn Bhd and S-One Exco Co Ltd were classified as associated undertakings. The reorganisation of the Group's interests in the Asian Pacific region has significantly reduced the Group's influence over the business of these companies and accordingly, in the period ended 31st March 1999 they have been reclassified as fixed asset investments.

Although the Group's interest in Nittan AP Marshalls (Singapore) Private Limited is just over 20%, the directors do not consider that the Group has significant influence over decisions of this Company and accordingly the Group's interest is treated as a fixed asset investment.

**(b) Other**

The Group's interest in Nittan Exco Limited stood at 8% of its issued ordinary share capital at the balance sheet date. Nittan Exco Limited ceased to be an associated undertaking of the Group on 26th October 1998 when, as a result of transactions which were part of the process of the merger, the Shareholders' Agreement governing the affairs of the Company was terminated and the Group ceased to have significant influence over the business of Nittan Exco Limited.

## 17. Debtors

| | Group 31st March 1999 £'000 | Group 31st December 1997 £'000 | Company 31st March 1999 £'000 | Company 31st December 1997 £'000 |
|---|---|---|---|---|
| Debtors due after one year | 4,364 | 4,757 | – | 442 |
| Debtors due within one year | 55,486 | 41,625 | 81,820 | 75,591 |
| | 59,850 | 46,382 | 81,820 | 76,033 |
| **Debtors due after one year:** | | | | |
| Other debtors | 3,235 | 3,340 | – | – |
| Prepayments and accrued income | 1,129 | 696 | – | – |
| Advance corporation tax recoverable | – | 442 | – | 442 |
| Deferred taxation (see note 22) | – | 279 | – | – |
| | 4,364 | 4,757 | – | 442 |
| **Debtors due within one year:** | | | | |
| Trade debtors (see note) | 40,049 | 27,929 | – | – |
| Amounts owed by subsidiary undertakings | – | – | 78,402 | 73,624 |
| Amounts owed by associated undertakings | – | 660 | – | – |
| Amounts owed by ultimate parent company | 746 | – | – | – |
| Other debtors | 6,705 | 4,383 | 165 | 116 |
| Prepayments and accrued income | 2,660 | 2,760 | – | – |
| Dividends receivable from subsidiary undertakings | – | – | 500 | – |
| Taxation receivable | 954 | – | – | – |
| Advance corporation tax recoverable | 2,753 | 1,851 | 2,753 | 1,851 |
| Deferred taxation (see note 22) | 1,619 | 4,042 | – | – |
| | 55,486 | 41,625 | 81,820 | 75,591 |

The Group is involved in the purchase and simultaneous sale of equities and securities. At 31st March 1999 the gross amount of purchase and sale commitments in respect of these transactions was £1,000,262,370 (1997: £334,790,000).

# Notes to the Accounts
15 months ended 31st March 1999

### 18. Current asset investments
The following amounts are included in the net book value of current asset investments:

| | Group | |
|---|---|---|
| | 31st March 1999 £'000 | 31st December 1997 £'000 |
| Unlisted | 6,355 | 10,986 |
| | 6,355 | 10,986 |
| Their aggregate market value was: | | |
| Unlisted at directors' valuation | 6,355 | 10,986 |
| | 6,355 | 10,986 |

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

### 19. Cash at bank and cash in hand
Cash at bank and in hand includes £562,604 (1997: £569,404) which is charged to a third party creditor (see note 23).

### 20. Creditors: amounts falling due within one year
The following amounts are included in creditors falling due within one year:

| | Group 31st March 1999 £'000 | Group 31st December 1997 £'000 | Company 31st March 1999 £'000 | Company 31st December 1997 £'000 |
|---|---|---|---|---|
| Bank loans and overdrafts repayable in one year or less | 2,848 | 372 | 2,560 | – |
| Trade creditors | 11,724 | 14,539 | – | – |
| Amounts owed to subsidiary undertakings | – | – | 78,187 | 72,502 |
| Amounts owed to associated undertakings | – | 42 | – | – |
| Amounts owed to ultimate parent company | 1,374 | – | – | – |
| Loan from Nittan Exco Limited | 2,720 | 6,787 | 2,720 | 6,787 |
| Obligations under finance leases | 504 | 404 | – | – |
| Other creditors: | | | | |
| Taxation payable | 9,587 | 174 | 819 | 107 |
| ACT on dividends paid and proposed | – | 231 | – | 231 |
| Social security and taxation | 4,007 | 1,871 | – | – |
| Other | 1,630 | 2,737 | 126 | 111 |
| Convertible Secured Loan Stock 2001 (see note 23) | 563 | 569 | 563 | 569 |
| Proposed dividends: | | | | |
| Company shareholders – final | 3,676 | – | 3,676 | – |
| Accruals and deferred income | 30,927 | 18,709 | 1,813 | 1,311 |
| | 69,560 | 46,435 | 90,464 | 81,618 |

## 21. Creditors: amounts falling due after more than one year

| | Group 31st March 1999 £'000 | Group 31st December 1997 £'000 | Company 31st March 1999 £'000 | Company 31st December 1997 £'000 |
|---|---|---|---|---|
| Bank loans | | | | |
| – repayable between one and two years | 880 | 11,282 | 880 | 11,282 |
| – repayable between two and five years | – | 7,000 | – | 7,000 |
| Obligations under finance leases payable within two and five years | 1,214 | 675 | – | – |
| Other creditors | 4,003 | 3,227 | – | – |
| | 6,097 | 22,184 | 880 | 18,282 |

# Notes to the Accounts
15 months ended 31st March 1999

**22. Deferred taxation**
The provision for deferred taxation comprises:

| | Group 31st March 1999 £'000 | Group 31st December 1997 £'000 | Company 31st March 1999 £'000 | Company 31st December 1997 £'000 |
|---|---|---|---|---|
| (a) Deferred taxation asset: | | | | |
| Amount recognised: | | | | |
| Capital and other investment allowances on fixed assets and finance leases | 427 | 228 | – | – |
| Other timing differences | 1,192 | 4,093 | – | – |
| Deferred taxation asset | 1,619 | 4,321 | – | – |
| Amount not recognised: | | | | |
| Capital and other investment allowances on fixed assets and finance leases | 158 | – | – | – |
| Losses | 3,707 | – | – | – |
| Other timing differences | 4,451 | 2,119 | – | – |
| | 8,316 | 2,119 | – | – |

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

| | Group £'000 | Company £'000 |
|---|---|---|
| At 1st January 1998 | 4,321 | – |
| Exchange adjustment | 159 | – |
| Subsidiary undertakings sold | (150) | – |
| Charged to profit and loss account | (2,711) | – |
| At 31st March 1999 | 1,619 | – |

The deferred taxation asset for the Group at 31st March 1999 and 31st December 1997 has been included in debtors.

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

## 23. Share capital

| | Group and Company | |
|---|---|---|
| | 31st March 1999 £'000 | 31st December 1997 £'000 |
| **Authorised:** | | |
| 490,000,000 ordinary shares of 25p each | 122,500 | 43,000 |
| | 122,500 | 43,000 |
| **Allotted, called-up and fully paid:** | | |
| 367,553,711 ordinary shares of 25p each | 91,888 | 30,792 |
| | 91,888 | 30,792 |

On 26th October 1998 the authorised share capital was increased by £79,500,000 by the creation of 318,000,000 ordinary shares of 25p each. Shares were allotted fully paid as follows:

(i) On 26th October 1998, 231,801,727 ordinary shares were issued at 26.0p per share in consideration of the acquisition of the Intercapital companies for £60,268,449. On 26th October 1998, 12,000,000 ordinary shares were issued at 25p per share to Nihon Tanshi Co. Limited for £3 million in cash.

(ii) During the 15-month period to 31st March 1999, 585,950 ordinary shares were allotted at 1.0p per share, totalling £5,860 upon the exercise of options under the Long-Term Employee Share Plan.

Holders of Floating Rate Secured Convertible Loan Stock 2001 in the sum of £562,604 (1997: £569,404) (included in creditors due within one year) have the right to convert their stock into ordinary shares of the Company at their then market value. The right can be exercised at any time up to 27th June 2001, provided that the ordinary shares of the Company are listed on the London Stock Exchange.

Of the total of 1,350,000 options outstanding under the 1992 No. 3 Share Option Scheme described in the Board Report on Directors' Remuneration on pages 39 and 40, at 31st March 1999, 4,254 were to subscribe for new ordinary shares of the Company. The options are exercisable up to 16th February 2001 at a price of £1.00 per share. At 31st March 1999, 456,300 matching share options were outstanding under the Long-Term Employee Share Plan. All these options are to subscribe for new ordinary shares of the Company. 106,000 of these options are exercisable up to 18th July 2001 and 350,300 of these options are exercisable up to 19th July 2004. 47,000 of the options are exercisable at a price of 25p per share and 409,300 at a price of 1.0p per share.

# Notes to the Accounts
15 months ended 31st March 1999

24. Reserves

(a) Group

| | Share premium account £'000 | Revaluation reserve £'000 | Other reserves £'000 | Profit & loss account £'000 |
|---|---|---|---|---|
| At 1st January 1998 | 5,273 | 875 | (4,049) | 8,002 |
| Exchange translation | – | – | 1,256 | (248) |
| Arising on share issues | 2,177 | – | – | – |
| Share issue costs | (1,690) | – | – | – |
| Goodwill reinstated on disposal of businesses | – | – | – | 17,892 |
| Transfer of realised exchange on subsidiary undertaking disposed | – | – | 815 | (815) |
| Loss for the year | – | – | – | (42,721) |
| At 31st March 1999 | 5,760 | 875 | (1,978) | (17,890) |

Of the exchange translation movement of £1,256,000 in the period, £145,000 (1997: gain of £170,000) relates to the net exchange loss on foreign currency borrowings.

Other reserves comprise:

| | Group 31st March 1999 £'000 | 31st December 1997 £'000 |
|---|---|---|
| Unrealised exchange losses | (2,150) | (4,221) |
| Other non-distributable reserves | 172 | 172 |
| | (1,978) | (4,049) |

(b) Company

| | Share premium account £'000 | Other reserves £'000 | Profit & loss account £'000 |
|---|---|---|---|
| At 1st January 1998 | 5,273 | 1,520 | 13,307 |
| Exchange translation | – | (56) | – |
| Arising on share issues | 2,177 | – | – |
| Share issue costs | (1,690) | – | – |
| Profit for the year after dividends | – | – | 10,089 |
| At 31st March 1999 | 5,760 | 1,464 | 23,396 |

As permitted by section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these accounts. The parent company's profit for the financial year was £13,765,000 (1997: loss of £15,676,000).

## 25. Reconciliation of movements in equity shareholders' funds

| | 15 months 31st March 1999 £'000 | 12 months 31st December 1997 £'000 |
|---|---|---|
| Loss for the financial period | (39,045) | (5,999) |
| Ordinary dividends | (3,676) | (924) |
| | (42,721) | (6,923) |
| Other recognised gains and losses relating to the period (net) | 1,008 | (1,301) |
| Nominal value of ordinary shares issued | 61,096 | – |
| Premium (net of issue expenses) on shares issued | 487 | – |
| Goodwill transferred to the profit and loss account in respect of disposals of businesses | 17,892 | – |
| Goodwill written off during the period | – | (3,623) |
| Net addition to/(deduction from) shareholders' funds | 37,762 | (11,847) |
| Opening shareholders' funds | 40,893 | 52,740 |
| Closing shareholders' funds | 78,655 | 40,893 |

## 26. Cumulative goodwill

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

| | Group £'000 |
|---|---|
| At 1st January 1998 | 127,671 |
| Eliminated on disposal | (17,892) |
| At 31st March 1999 | 109,779 |

### 27. 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 £2,249,000 (1997: £1,867,000) of which £308,000 (1997: £322,000) related to overseas schemes. At the year-end contributions accrued but not paid totalled £Nil (1997: £2,000).

(b) Defined benefit schemes

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

In the USA the pension costs are assessed in accordance with a qualified actuary's advice. The last actuarial assessment was performed by an independent actuary as at 31st March 1999 .

At the most recent formal valuation the main assumption was:

| | USA |
|---|---|
| Investment return | 8.5% |

This scheme was closed as at 1st July 1996.

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 £4,108,000 (1997: £4,341,000) 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 period defined benefit contributions charged to the profit and loss account were £366,000 (1997: £382,000) and at the year-end contributions accrued but not yet due to be paid totalled £Nil (1997: £832,000).

As at 31st March 1999 no deficiencies are considered to exist on the basis of current funding levels.

### 28. Provisions for liabilities and charges

As set out in the Financial Review on page 23 the Group has made provisions against the onerous contractual obligation created by the decision to move all existing operations in London to Finsbury Circus.

The total provision is £9.4m and is expected to be utilised as follows:-

| | £'m |
|---|---|
| Less than 1 year | 4.1 |
| 1 to 2 years | 1.6 |
| 2 to 5 years | 1.8 |
| Over 5 years | 1.9 |
| | 9.4 |

## 29. Contingent liabilities and commitments

(a) Capital commitments:

| | Group | |
|---|---|---|
| | 31st March 1999 £'000 | 31st December 1997 £'000 |
| Contracted for | 1,274 | 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 31st March 1999, the Group had annual commitments under operating leases as follows:

| | Group | |
|---|---|---|
| | 31st March 1999 £'000 | 31st December 1997 £'000 |
| In respect of leases for land and buildings expiring: | | |
| – within one year | 144 | 427 |
| – between two and five years | 526 | 772 |
| – in more than five years | 4,607 | 4,137 |
| | 5,277 | 5,336 |

In respect of other leases expiring:

| | 31st March 1999 £'000 | 31st December 1997 £'000 |
|---|---|---|
| – within one year | 852 | 585 |
| – between two and five years | 1,868 | 344 |
| – in more than five years | 23 | – |
| | 2,743 | 929 |

(c) Contingent liabilities

The Company has given guarantees on behalf of various subsidiary undertakings in respect of their business. In addition:

- A subsidiary undertaking has given a guarantee on behalf of a third party in respect of property with a current passing rent of £104,000 per annum, the lease of which expires in 1999.
- The Company has issued a counter-indemnity to a bank in respect of a guarantee of A$200,000 given by the bank for a property occupied by a subsidiary undertaking.
- The Company has entered into a guarantee to a bank in respect of a subsidiary's obligations under a clearing and custodian agreement.

A subsidiary undertaking is being sued by a former employee for alleged sexual harassment. 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.

A subsidiary undertaking in Germany is disposing of part of its business to local management. Under the terms of the agreement, should the local management's trading company become statutorily insolvent and cease to pay pension premiums to its defined benefit pension fund, the subsidiary undertaking would be liable for the pension premiums in respect of 2 members of the local management until they reach 55. The total liability for these premiums totalled DM367,309 at 31st March 1999. Also should the local management's trading company become statutorily insolvent the subsidiary undertaking would be liable to pay 75 per cent. of the guaranteed fixed salaries in respect of 3 members of the local management until 30th September 2000. This liability totalled DM1,098,630 at 31st March 1999.

### 29. Contingent liabilities and commitments (continued)

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 Marshall employees, claiming that they induced and procured breaches of contract by the Marshalls employees. The claim is for damages of £12 million. The defendants deny the claims and are vigorously defending the proceedings. Intercapital Brokerage Services Limited and Intercapital Group Limited have agreed to indemnify Intercapital Brokers Limited and the Group against any liabilities and expenses arising out of such legal proceedings. To this extent the claim constitutes both a contingent liability and a matching contingent asset. Intercapital Brokers Limited became a wholly owned subsidiary of the Company on 26th October 1999.

A subsidiary undertaking in New York relocated to the World Trade Center in 1997. As part of this relocation, the subsidiary undertaking received an employment incentive grant from the New York City Authorities. As a condition of this grant the subsidiary undertaking must meet certain employment targets over the 15 year period of the grant. If these targets are not met all or part of the grant may have to be repaid. The maximum potential repayment amount is $3.1 million.

### 30. Regulatory capital

Regulatory authorities in Denmark, Germany, 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.

### 31. Related party disclosures

It is considered that the related parties of the Group consist of the former associated undertakings and Intercapital Group Limited, its subsidiary Intercapital Brokerage Services Limited and their subsidiary companies, other than Intercapital plc and its subsidiaries. Intercapital Brokerage Services Limited owns 63.07 per cent. of the issued share capital of Intercapital plc. All transactions with these related parties are carried out on an arms length basis. Caledonia Investments plc was, until 7th December 1998 considered to be a related party of the Group by virtue of its 28.1 per cent. shareholding in the Company.

#### (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 £145,585 (1997: £2,611,000) in brokerage from customers in these circumstances. In addition to these amounts, the Group or its subsidiary undertakings received £81,763 (1997: £965,000) 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.

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

During the period the Group paid director's fees of £21,309 (1997: £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.

#### (c) Intercapital Group Limited

During the period a subsidiary undertaking, Intercapital Group Services Inc, entered into a contract with DART Pty Limited, a subsidiary undertaking of Intercapital Group Limited. The contract, for software customisation and associated licensing, totalled US$270,000 (£167,702) to be paid to DART in the year ending 31st March 2000. DART Pty Limited was also paid £341,326 for software support of the Group's London operations during the period.

Finisco Management Consulting Limited, a subsidiary undertaking of Intercapital Group Limited was paid £152,399 for software support of the London operations during the period.

A recharge of £15,261 to Intercapital Group Limited was made by a subsidiary undertaking in respect of Declan Kelly and Simon Mansell who are directors of both the subsidiary undertaking and Intercapital Group Limited and certain of its subsidiary undertakings.

Jonathan Robson, a non-executive director of the Company, is also a director of Moneyline Inc, an associated undertaking of Intercapital Group Limited. During the period, a subsidiary undertaking of the Group entered into a one year contract that will commence on 1st June 1999 with Moneyline Inc for the provision of market data services. The total value of the contract will vary with usage. During the period Moneyline Inc also provided services to the Group totalling US$62,792.

31. Related party disclosures (continued)

(d) Sale of Subsidiary Undertaking

On 17th December 1998 the Group sold its shareholding in Exco Shorcan Limited for CAN$434,455 (£178,000) to local management. The purchasers included Winnico Holdings Inc which is owned by, and has as its sole director, the spouse of James Magee who was a director of Intercapital plc until 26th October 1998 when he resigned.

The terms of the Purchase Agreement also included the settlement of CAN$695,545 (£260,000) as due by Exco Shorcan Limited to Intercapital plc and its subsidiary undertakings.

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

| | 15 months 31st March 1999 £'000 | 15 months 31st March 1999 £'000 | 12 months 31st December 1997 £'000 | 12 months 31st December 1997 £'000 |
|---|---|---|---|---|
| Loss on ordinary activities before interest | | (34,545) | | (3,549) |
| Depreciation of tangible fixed assets | | 6,103 | | 4,536 |
| Amortisation of intangible fixed assets | | 2,140 | | – |
| Goodwill previously written off to reserves | | 17,892 | | – |
| Share of losses/(profits) of associates | 26 | | (572) | |
| Exceptional items of associated undertakings | – | | 1,500 | |
| Dividends received from associated undertakings | 138 | | 50 | |
| Loss of associates less dividends received and exceptional items | | 164 | | 978 |
| Loss on sale of tangible fixed assets | | 233 | | 1,338 |
| Decrease/(increase) in operating debtors and prepayments | | 8,456 | | (9,246) |
| Increase in operating creditors and accruals | | 11,838 | | 9,080 |
| Net cash inflow from operating activities | | 12,281 | | 3,137 |

In relation to the exceptional operating expense of £20,140,000 (1997: £7,782,000), cash outflows of £6,385,000 (1997: £3,460,000) occurred in the period to 31st March 1999.

## 33. Returns on investments and servicing of finance

| | 15 months 31st March 1999 £'000 | 12 months 31st December 1997 £'000 |
|---|---|---|
| Interest received | 2,102 | 2,024 |
| Interest paid | (1,405) | (1,495) |
| Interest paid on finance leases | (157) | (152) |
| Income from fixed asset investments | 10 | 17 |
| Expenses paid in connection with long-term loans | (146) | (39) |
| Dividends paid to minorities | – | (375) |
| Net cash inflow/(outflow) from returns on investments and servicing of finance | 404 | (20) |

# Notes to the Accounts
15 months ended 31st March 1999

### 34. Management of liquid resources

| | 15 months 31st March 1999 £'000 | 12 months 31st December 1997 £'000 |
|---|---|---|
| Cash withdrawn from short-term deposits | 480 | 6,297 |
| Sale/(Purchase) of US treasury securities | 2,281 | (1,081) |
| Purchase of short-term investments | (131) | (30) |
| Net cash inflow from management of liquid resources | 2,630 | 5,186 |

### 35. Analysis of changes in financing during the year

| | Share capital (excluding premium) 1999 £'000 | Loans and finance lease obligations 1999 £'000 | Share capital (excluding premium) 1997 £'000 | Loans and finance lease obligations 1997 £'000 |
|---|---|---|---|---|
| At 1st January 1998/1st January 1997 | 30,792 | 26,148 | 30,792 | 20,782 |
| Cash inflows/(outflows) from financing | 3,006 | (12,297) | – | 6,284 |
| Issue of ordinary share capital | 58,090 | – | – | – |
| Reduction of loan from Nittan Exco Limited | – | (7,883) | – | – |
| Inception of finance lease contracts | – | 1,031 | – | 76 |
| Effect of foreign exchange rate changes | – | 879 | – | (994) |
| At 31st March 1999/31st December 1997 | 91,888 | 7,878 | 30,792 | 26,148 |

### 36. Reconciliation of net cash flow to movement in net funds

| | 15 months 31st March 1999 £'000 | 12 months 31st December 1997 £'000 |
|---|---|---|
| Increase/(decrease) in cash | 2,688 | (7,418) |
| Cash inflow from decrease in liquid resources | (2,630) | (5,186) |
| Decrease/(increase) in long-term loans | 17,456 | (347) |
| Increase in short-term loans | (2,560) | – |
| Loan from Nittan Exco Limited | (3,003) | (7,371) |
| Payment of principal under finance leases | 404 | 1,434 |
| Change in net cash resulting from cash flows | 12,355 | (18,888) |
| Reduction of loan from Nittan Exco Limited | 7,883 | – |
| New finance leases | (1,031) | (76) |
| Translation difference | (651) | 776 |
| Movement in net funds | 18,556 | (18,188) |
| Net funds as at 1st January 1998/1st January 1997 | 7,825 | 26,013 |
| Net funds as at 31st March 1999/31st December 1997 | 26,381 | 7,825 |

## 37. Analysis of net funds

| | At 1st January 1998 £'000 | Cash flow £'000 | Other non-cash changes £'000 | Exchange movements £'000 | At 31st March 1999 £'000 |
|---|---|---|---|---|---|
| Net cash: | | | | | |
| Cash at bank and in hand | 23,359 | | | | 28,192 |
| Less: deposits treated as liquid resources | (4,244) | | | | (6,367) |
| | 19,115 | 2,604 | – | 106 | 21,825 |
| Bank overdrafts | (372) | 84 | – | – | (288) |
| | 18,743 | 2,688 | – | 106 | 21,537 |
| Liquid resources: | | | | | |
| Deposits included in cash | 4,244 | 2,102 | – | 21 | 6,367 |
| Current asset investments | 10,986 | (4,732) | – | 101 | 6,355 |
| | 15,230 | (2,630) | – | 122 | 12,722 |
| Debt: | | | | | |
| Long-term loans | (18,282) | 17,456 | – | (54) | (880) |
| Short-term loans | – | (2,560) | – | – | (2,560) |
| Loan from Nittan Exco Limited | (6,787) | (3,003) | 7,883 | (813) | (2,720) |
| Finance leases | (1,079) | 404 | (1,031) | (12) | (1,718) |
| | (26,148) | 12,297 | 6,852 | (879) | (7,878) |
| Net funds | 7,825 | 12,355 | 6,852 | (651) | 26,381 |
| Analysed in balance sheet: | | | | | |
| Cash at bank and in hand | 23,359 | | | | 28,192 |
| Current asset investments | 10,986 | | | | 6,355 |
| Bank overdrafts | (372) | | | | (288) |
| Short-term bank loans | – | | | | (2,560) |
| Loan from Nittan Exco Limited | (6,787) | | | | (2,720) |
| Finance leases due within one year | (404) | | | | (504) |
| Finance leases due after one year | (675) | | | | (1,214) |
| Long-term bank loans | (18,282) | | | | (880) |
| | 7,825 | | | | 26,381 |

In addition to the non-cash changes shown above, the Company received consideration for the purchase of the Intercapital companies. The consideration was in the form of issued shares as set out in note 16(a).

## 38. Financial Instruments

Short-term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosures.

### (a) Interest rate risk profile of financial assets and liabilities

The financial assets of the Group comprise cash and short-term deposits all of which are invested at floating rates.

The interest rate risk profile of the Group's financial liabilities at 31st March 1999 was:

| | Floating rate financial liabilities £'000 | Fixed rate financial liabilities £'000 | Financial liabilities on which no interest is paid £'000 |
|---|---|---|---|
| Currency: | | | |
| Sterling | | | |
| – financial liabilities | 3,724 | 1,008 | – |
| – non-equity minority interests | – | – | – |
| US Dollars | – | 120 | – |
| EU currencies (excluding sterling) | 1,956 | 86 | – |
| Other currencies | – | – | 315 |
| At 31 March 1999 | 5,680 | 1,214 | 315 |

All the Group's creditors falling due within one year (other than bank and other borrowings) are excluded from the above table either due to the exclusion of short-term items or because they do not meet the definition of a financial liability, such as tax balances.

In addition to the above, the Group's provisions of £9,400,000 for vacant leasehold properties meet the definition of financial liabilities. These financial liabilities are considered to be floating rate financial liabilities as, in establishing the provisions, the cash flows have been discounted using a discount rate that is to be reappraised at each half-yearly reporting date to ensure that it reflects current market assessments of the time value of money and the risks specific in the liability.

### (b) Maturity of financial liabilities

The Group's financial liabilities are made up entirely of external bank borrowings and finance lease obligations. The maturity profile of the bank borrowings is set out in the Financial Review on page 26 and the maturity profile of the finance lease obligations is set out in notes 20 and 21.

### (c) Currency exposure of monetary assets and liabilities

The table below shows the Group's transactional exposure at 31st March 1999 that gives rise to the net currency gains and losses in the profit and loss account. These comprise the monetary assets and liabilities of the Group that are not denominated in the functional currency of the Group company. Intra-Group assets and liabilities have been excluded:

| Functional currency of Group operation | Sterling £'000 | US Dollars £'000 | EU currencies (excluding Sterling) £'000 | Japanese Yen £'000 | Other £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Sterling | – | 4,477 | 5,185 | (2,484) | 24 | 7,202 |
| US Dollars | 35 | – | – | 1,380 | 179 | 1,594 |
| EU currencies | | | | | | |
| (excluding sterling) | – | (647) | – | – | – | (647) |
| Swiss Francs | 41 | (166) | 19 | – | – | (106) |
| Danish Krone | 3 | (215) | (13) | – | 1 | (224) |
| Singapore Dollars | (4) | (348) | – | 1 | (21) | (372) |
| Australian Dollars | (1) | 432 | – | 69 | 94 | 594 |
| Total | 74 | 3,533 | 5,191 | (1,034) | 277 | 8,041 |

### (d) Fair values of financial assets and financial liabilities

There is no material difference between the fair value and book value of the Group's financial assets and liabilities.

### (e) Gains and losses on hedges

The Group's policy on transactional currency exposures is explained in the Financial Review on page 26. At 31st March 1999 the Group had an unrecognised loss on hedges of £11,521. This loss is expected to be recognised in the year ending 31st March 2000.

### 39. Ultimate Parent Company

The directors regard Intercapital Group Limited, which is registered in England and Wales, as the ultimate parent company. According to the register kept by the Company, Intercapital Group Limited owns 88% of the issued share capital of Intercapital Brokerage Services Limited, which owns 63.07% of the issued share capital of Intercapital plc, as at 31st March 1999. Copies of the latest published accounts of Intercapital Group Limited and Intercapital Brokerage Services Limited may be obtained from 16 Finsbury Circus, London EC2M 7UR.

### Subsidiary Undertakings
### Intercapital plc

The following were the principal operating subsidiary undertakings of the Group at 31st March 1999:

| Subsidiary undertakings | Country of incorporation or registration | Nature of business | Issued ordinary share capital |
|---|---|---|---|
| Intercapital Brokers (Australia) Limited | Australia | Moneybroking | Aus$500,000 |
| Intercapital Brokers Pty Limited | Australia | Moneybroking | Aus$600,000 |
| Intercapital Scandinavia A/S | Denmark | Moneybroking | Dkr2,700,000 |
| *Intercapital Equity Derivatives Limited | England | Moneybroking | £100,000 |
| Intercapital Europe Limited | England | Moneybroking | £14,071,156 |
| Exco Securities UK Limited | England | Moneybroking | £2,121,000 |
| Exco Bierbaum Devisen GmbH | Germany | Moneybroking | DM9,400,000 |
| ICAP-Nittan Pte Limited | Singapore | Moneybroking | Sin$1,500,000 |
| Intercapital CMS (Switzerland) Limited | Switzerland | Moneybroking | Sfr 300,000 |
| Intercapital America Inc | USA | Moneybroking | US$438,000 |
| Intercapital FIB Pty Limited | Australia | Securities Broking | Aus$300,000 |
| Intercapital Fixed Income (Australia) Pty Limited | Australia | Securities Broking | Aus$300,000 |
| Intercapital Securities Pty Limited | Australia | Securities Broking | Aus$100,000 |
| *Intercapital Securities Limited | England | Securities Broking | £95,000 |
| *Exco WCLK Limited | England | Securities Broking | £5,400,000 |
| Intercapital Securities Deutschland GmbH | Germany | Securities Broking | DM3,919,000 |
| Intercapital Government Securities Inc. | USA | Securities Broking | US$2,115 |
| *Intercapital Securities Inc. | USA | Securities Broking | US$341 |
| Intercapital Energy Pty Limited | Australia | Commodity Broking | Aus$10,000 |
| Alpha Brokers (Metals) Limited (75.1%) | England | Commodity Broking | £30,000 |
| *Intercapital Commodity Swaps Limited | England | Commodity Broking | £108,407 |
| Intercapital Commodity Swaps Pte Limited | Singapore | Commodity Broking | Sin$127,500 |
| *Intercapital Commodity Derivatives Inc. | USA | Commodity Broking | US$1 |
| Intercapital Australia Pty Limited | Australia | Central Services | Aus$12 |
| *Intercapital Management Services Limited | England | Central Services | £1,000 |
| Intercapital Group Services Inc | USA | Central Services | US$500,000 |

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

The financial year-end of the subsidiary undertakings of the Group is 31st March, except for the following subsidiaries for which it is 31st December:

Astley & Pearce BV, Astley & Pearce (International) BV, Astley & Pearce Investments BV, Astley & Pearce (Netherlands) BV, Astley & Pearce (Curacao) NV, Exco Overseas Limited, Exco (Moneybrokers) Limited, Alpha Brokers (Metals) Holdings Limited, Alpha Brokers (Metals) Limited, Valerie Chitty Services Limited, Exco Channel Islands Limited, Astley & Pearce (CI) Limited, Exco Trustees Limited, Astley & Pearce (Asia Pacific) Pte, Exco Moneybroking Hong Kong Limited, Astley & Pearce (Asian-Pacific) Limited, Exco Mauritius Limited.

# Statement of Directors' Responsibilities
15 months ended 31st March 1999

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

– select suitable accounting policies and then apply them consistently;

– make judgements and estimates that are reasonable and prudent;

– state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and

– prepare the accounts on the going concern basis, unless it is inappropriate so to do.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgement and estimates have been made in the preparation of the accounts for the period ended 31st March 1999. The directors also confirm that applicable accounting standards have been followed.

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

By order of the Board

**Edward Pank**
Secretary
London
16th June 1999

E. C. Pank

# Report of the Auditors
15 months ended 31st March 1999

To the Members of Intercapital plc.
We have audited the accounts on pages 41 to 73 which have been prepared under the historical cost convention and the accounting policies set out on pages 46 and 47.

## Respective responsibilities of directors and auditors
The directors are responsible for the preparation of the annual report, including, as described on page 74 the accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

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

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

We review whether the statement on pages 29 to 32 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report it if does not. We are not required to form an opinion on the effectiveness of the Company's corporate governance procedures or its internal controls.

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

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

## Opinion
In our opinion the accounts give a true and fair view of the affairs of the Company and the Group at 31st March 1999 and of the loss and cash flows of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
16th June 1999

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at the offices of Ashurst Morris Crisp at Broadwalk House, 5 Appold Street, London EC2A 2HA at noon on 22nd July 1999 to consider and if thought fit pass the following resolutions:

### Ordinary Business

1. That the Directors' Report and the Audited Accounts of the Company for the period ended 31st March 1999 be received and adopted.
2. That a final dividend of one penny per share in respect of the 15 months ended 31st March 1999 be declared.
3. That Mr M. A. Spencer be elected a director of the Company.
4. That Mr J. D. Nixon be elected a director of the Company.
5. That Mr D. Gelber be elected a director of the Company.
6. That Mr P. N. Buckley be elected a director of the Company.
7. That Mr C. Cooke be re-elected a director of the Company.
8. That Mr J. Q. Robson be elected a director of the Company.
9. That Mr K. M. Taylor be re-elected a director of the Company.
10. That Mr H. Watanabe be elected a director of the Company.

### Ordinary Business Requiring Special Notice

11. To consider, and if thought fit, pass the following resolution, special notice having been received of the intention to propose the resolution as an ordinary resolution:
    That PricewaterhouseCoopers be reappointed auditors of the Company (having previously been appointed by the Board to fill the casual vacancy arising by reason of the resignation of Coopers & Lybrand) to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that their remuneration be fixed by the directors.

### Special Business

To consider and, if thought fit, to pass the following resolutions, of which resolution 12 will be proposed as an ordinary resolution and resolutions 13 and 14 will be proposed as special resolutions.

12. That in substitution for any other authority previously conferred on them, the directors be and they are hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 ("the Act"), to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) up to an aggregate number of 122,406,289 ordinary shares of 25p each. This authority shall expire on 21st October 2000 save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

13. That, subject to the passing of resolution 12 above, the directors be and they are hereby empowered to allot equity securities (as defined in section 94(2) of the Act) of the Company pursuant to the authority conferred by resolution 12 above as if section 89(1) of the Act did not apply to such allotment, provided that this power shall be limited to the allotment of equity securities:

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

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

(c) otherwise than pursuant to (a) or (b) above for cash up to an aggregate number of 18,379,685 ordinary shares of 25p each representing approximately 5% of the issued ordinary share capital of the Company as at the date hereof.

This power shall expire on 21st October 2000, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

14. That:

(a) the Company be and is hereby generally and unconditionally authorised, pursuant to section 166 of the Companies Act 1985 to make market purchases (as defined in section 163 of the Companies Act 1985) of its own shares on such terms and in such a manner as the directors of the Company shall determine:

(b) the general authority conferred by this resolution shall;

(i) be limited to a maximum of 36,759,371 ordinary shares of 25p each (representing approximately 10% of the issued share capital of the Company at 8th June 1999);

(ii) not permit payment of a price per ordinary share, exclusive of expenses, of less than 25p or more than 105% of the average of the middle market quotations for the ordinary shares of the Company as derived from the London Stock Exchange Daily Official List for the five business days in respect of which that list is published immediately preceding the day on which the shares are contracted to be purchased;

(iii) expire on the conclusion of the next Annual General Meeting after the passing of this resolution or 21st October 2000 (whichever is the earlier) save that the Company may before the expiry of the authority hereby conferred contract to purchase its own ordinary shares on terms which require or might require the purchase of such ordinary shares to be executed wholly or partly after such expiry.

By order of the Board

**E.C. Pank**

Secretary

Registered Office:

16 Finsbury Circus

London EC2M 7UR

16th June 1999

# Notice of Annual General Meeting

1. A member of the Company entitled to attend and vote at the Meeting convened by the above Notice is entitled to appoint a proxy to attend and, on a poll, vote on his behalf. A proxy need not be a Member of the Company.

2. A form of proxy is enclosed for use in connection with the above Meeting. To be valid the instrument appointing a proxy and the Power of Attorney (if any) under which it is signed must be deposited at the office of the Company's Registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA, not later than noon on Tuesday 20th July 1999. Completion of the form of proxy will not affect the right of a shareholder to attend and vote at the above Meeting should he or she afterwards so decide.

3. The Company pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, specifies that only those shareholders registered in the register of members of the Company as at 6pm on Tuesday 20th July 1999 shall be entitled to attend or vote at the aforesaid general Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after this time shall be disregarded in determining the rights of any person to attend or vote at the Meeting.

4. The following documents will be available for inspection at the registered office of the Company during normal business hours on any weekday (Saturday and public holidays excluded) from the date of this notice until the date of the Annual General Meeting and at the venue of the Meeting from 11.45am on Thursday 22nd July 1999 until the conclusion of the Meeting:

   (i) copies of the service contracts of the directors; and

   (ii) the register of directors' interests in the share capital of the Company.

5. Note to resolution 11: Following the merger of Coopers & Lybrand and PriceWaterhouse on 1st July 1998, Coopers & Lybrand resigned as auditors in favour of the new firm, PricewaterhouseCoopers, and the directors appointed PricewaterhouseCoopers to fill the casual vacancy created by the resignation.

6. Information about the directors to be elected and re-elected as directors of the Company can be found on page 76 of the annual report and accounts.

# Form of Proxy

For use at the Annual General Meeting on 22nd July 1999.

I/We (Please complete in block capitals)

of (Address)

being (a) holder(s) of Shares in the above Company
hereby appoint Mr M. A. Spencer or failing him the Chairman of the Meeting/ (see note 5 below)

as my/our proxy to vote for me/us at the Annual General Meeting of the Company to be held on 22nd July 1999 and at any adjournment thereof.

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

| Ordinary Business | For | Against |
|---|---|---|
| 1. To receive and adopt the Directors' Report and the Audited Accounts for the 15-month period ended 31st March 1999. | ☐ | ☐ |
| 2. To declare a final dividend of one penny per ordinary share. | ☐ | ☐ |
| 3. That Mr M. A. Spencer be elected a director of the Company. | ☐ | ☐ |
| 4. That Mr J. D. Nixon be elected a director of the Company. | ☐ | ☐ |
| 5. That Mr D. Gelber be elected a director of the Company. | ☐ | ☐ |
| 6. That Mr P. N. Buckley be elected a director of the Company. | ☐ | ☐ |
| 7. That Mr C. Cooke be re-elected a director of the Company. | ☐ | ☐ |
| 8. That Mr J. Q. Robson be elected a director of the Company. | ☐ | ☐ |
| 9. That Mr K. M. Taylor be re-elected a director of the Company. | ☐ | ☐ |
| 10. That Mr H. Watanabe be elected a director of the Company. | ☐ | ☐ |

| Ordinary Business Requiring Special Notice | For | Against |
|---|---|---|
| 11. To reappoint PricewaterhouseCoopers as auditors of the Company and to authorise the directors to determine their remuneration. | ☐ | ☐ |

| Special Business | For | Against |
|---|---|---|
| 12. To authorise the directors to allot shares. | ☐ | ☐ |
| 13. Special resolution to disapply pre-emption rights. | ☐ | ☐ |
| 14. Special resolution to permit the Company to purchase its own shares. | ☐ | ☐ |

Signed Dated 1999

Notes:

1. A member who is entitled to attend and vote at the above Meeting is entitled to appoint a proxy or proxies to attend and, on a poll, to vote on his behalf. A proxy need not be a member of the Company.
2. Only one of joint holders needs to sign. In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of any other joint holder(s), and for this purpose seniority will be determined by the order in which the names stand in the Register of Members.
3. Corporations should affix their common seal or sign by a duly authorised officer or attorney.
4. To be valid, this Form of Proxy and the Power of Attorney or other authority (if any) under which it is signed or a duly certified copy of such power or authority must reach Lloyds TSB Registrars, the Registrars of the Company, at the address overleaf not later than noon on Tuesday 20th July 1999.
5. If you wish to appoint some person of your own choosing as your proxy you should complete in block capitals his or her full name in the space provided and delete the words "Mr M. A. Spencer or failing him the Chairman of the meeting". Such proxy need not be a member of the Company. Any alterations must be initialled.
6. Completion of this form will not preclude you from attending and voting at the Meeting in person if you so wish.
7. You should print your name and address in the space provided.
8. You should sign in the space provided.
9. Unless instructed otherwise, the proxy may also vote or abstain from voting as he or she thinks fit on any other business which may properly come before the Meeting (including amendments to resolutions).

Cut along dotted line

Fold

Fold

BUSINESS REPLY SERVICE
LICENCE NO. BR 3006

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Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DB

Tuck in