

CITY INDEX LIMITED

REPORT AND FINANCIAL STATEMENTS
31 March 2003

Company Number 1761813

27-1-04
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CITY INDEX LIMITED

Report of the Directors

The directors present their report and audited financial statements of the Company for the year ended 31 March 2003

PRINCIPAL ACTIVITY

The principal activity of the Company during the year continued to be to provide market making services in a variety of financial indices to individuals and companies.

REVIEW OF BUSINESS

This year has seen an increase in turnover from £9m to £14m, following the increased investment in technology, marketing expenditure, and staff recruitment in the previous year, and this has helped the company to return to profitability

RESULTS AND DIVIDENDS

The profit for the year after taxation amounted to £1,363,458 (2002 – loss £1,538,924)

In view of the Company's current and future requirements for the maintenance and development of its business, the directors do not recommend that a dividend be declared but propose that the balance on the profit and loss account be carried forward

DIRECTORS

The directors who served during the year and were appointed since the year end and their interest in the share capital are shown below.

	As at 31 March 2003		As at 1 April 2002	
	Options	£1 ordinary Shares	Options	£1 ordinary Shares
M A Spencer	-	3,750	-	3,750
C Cooke (appointed 2 April 2002)	-	-	-	-
S J Price (appointed 2 April 2002 and resigned 21 January 2003)	-	-	-	-
F M Sharpe (appointed 2 May 2002)	-	-	-	-
D P Kelly (appointed 2 May 2002)	-	-	-	-
M Belsham (resigned 2 May 2002)	-	-	2,250	-
S H J Mansell (resigned 21 June 2002)	-	-	-	-
A D Tatham (resigned 27 June 2002)	-	-	-	-

CITY INDEX LIMITED

Report of the Directors

DIRECTORS (continued)

The interests of Mr M A Spencer, Mr D P Kelly and Mr S H J Mansell in the shares of Intercapital Private Group Limited, the company's ultimate parent company, are shown in the directors' report of that company. No other directors had interests that require disclosure.

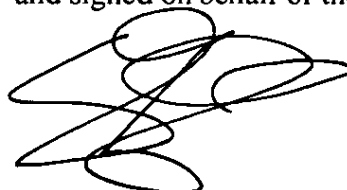
DONATIONS

During the year charitable donations made by the Company amounted to £4,250 (2002 - £4,938)

AUDITORS

MRI Moores Rowland LLP were appointed auditors to the company and, in accordance with section 385 of the Companies Act 1985, a resolution for their reappointment will be presented at the forthcoming Annual General Meeting.

By order of the Board of Directors
and signed on behalf of the Board



S H J Mansell
Secretary

Park House
16 Finsbury Circus
London
EC2M 7DJ

Dated 26 June 2003

CITY INDEX LIMITED**Statement of Directors' Responsibilities**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss for that year. In preparing those financial statements, 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,
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business

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

CITY INDEX LIMITED**Independent Auditors' Report to the Shareholders of City Index Limited**

We have audited the financial statements of City Index Limited on pages 6 to 15 for the year ended 31 March 2003. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out on page 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

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

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

CITY INDEX LIMITED

Independent Auditors' Report to the Shareholders of City Index Limited

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985

MRI Moores Rowland LLP

MRI Moores Rowland LLP
Chartered Accountants
Registered Auditor

3 Sheldon Square
Paddington
London W2 6PS

30 June 2003.

CITY INDEX LIMITED

Profit and Loss Account for the year ended 31 March 2003

	Notes	2003 £	2002 £
TURNOVER	2		
Continuing operations		14,034,091	9,150,684
Discontinued operations		-	10,937
		<hr/> 14,034,091	<hr/> 9,161,621
COST OF SALES			
Continuing operations		(2,114,352)	(1,020,903)
Discontinued operations		-	(67,860)
		<hr/> (2,114,352)	<hr/> (1,088,763)
GROSS PROFIT/(LOSS)			
Continuing operations		11,919,739	8,129,781
Discontinued operations		-	(56,923)
		<hr/> 11,919,739	<hr/> 8,072,858
ADMINISTRATIVE EXPENSES			
Continuing operations		(10,286,275)	(9,125,467)
Discontinued operations		-	(931,354)
		<hr/> (10,286,275)	<hr/> (10,056,821)
OPERATING PROFIT/(LOSS)	3		
Continuing operations		1,633,464	(995,686)
Discontinued operations		-	(988,277)
		<hr/> 1,633,464	<hr/> (1,983,963)
Interest receivable	5	886,943	980,361
Interest payable	6	(867,873)	(733,781)
		<hr/> 1,652,534	<hr/> (1,737,383)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION			
Tax on profit/(loss) on ordinary activities	7	(289,076)	198,459
		<hr/> 1,363,458	<hr/> (1,538,924)
RETAINED PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION			
Retained profit at 1 April		3,083,652	4,622,576
Retained profit at 31 March		<hr/> 4,447,110	<hr/> 3,083,652

The company made no recognised gains or losses for the current or preceding financial year other than those reported in the profit and loss account

CITY INDEX LIMITED

Balance Sheet as at 31 March 2003

	Notes	2003 £	2002 £
FIXED ASSETS			
Tangible assets	8	1,813,054	1,401,139
Investments	9	10,001	-
		<u>1,823,055</u>	<u>1,401,139</u>
CURRENT ASSETS			
Debtors	10	23,436,285	18,222,610
Cash at bank and in hand		9,813	-
		<u>23,446,098</u>	<u>18,222,610</u>
CREDITORS			
Amounts falling due within one year	11	(17,370,718)	(13,088,772)
		<u>6,075,380</u>	<u>5,133,838</u>
NET CURRENT ASSETS			
		<u>7,898,435</u>	<u>6,534,977</u>
TOTAL NET ASSETS			
CAPITAL AND RESERVES			
Called up share capital	12	75,000	75,000
Special capital reserve		3,376,325	3,376,325
Profit and loss account		4,447,110	3,083,652
		<u>7,898,435</u>	<u>6,534,977</u>
EQUITY SHAREHOLDERS' FUNDS			
	13	<u>7,898,435</u>	<u>6,534,977</u>

THE FINANCIAL STATEMENTS WERE APPROVED
BY THE BOARD OF DIRECTORS ON 26 June 2003

Signed on behalf of the Board of Directors



C COOKE



D P KELLY

CITY INDEX LIMITED

Notes to the Financial Statements - 31 March 2003

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards. The principal accounting policies which the directors have adopted are set out below.

- a) **Accounting Convention** - The financial statements have been prepared under the historical cost convention.

- b) **Tangible Fixed Assets** - Fixed assets are shown at historical cost.

Depreciation is provided, at the following annual rates in order to write off each asset over its estimated useful life:

Motor vehicles	25 % on cost
Fixtures and fittings	20 % on cost
Computer equipment	33 % on cost

- c) **Pension Costs** - The pension costs relate to contributions to employees' personal plans and are charged to the profit and loss account as incurred.

- d) **Foreign Exchange** - Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions denominated in foreign currencies are translated at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

- e) **Valuation of Open Bets** - In view of the nature of the Company's business, in order to give a true and fair view of the result for the year, the directors consider that it is necessary to vary the accounting requirements of the Companies Act 1985 by valuing open bets at market value. These bets are with customers and brokers and are included in trade debtors and trade creditors at market value. The unrealised profit recognised in the year under this policy was £2,984,247 (2002 - £1,455,523).

- f) **Leases** - Amounts payable under operating leases are charged to the profit and loss account as they are incurred.

CITY INDEX LIMITED

Notes to the Financial Statements - 31 March 2003

1. ACCOUNTING POLICIES (Continued)

- g) **Cash flow statement** – The company has taken advantage of the exemptions available to 90 % owned subsidiaries under Financial Reporting Standard 1 where the parent company produces consolidated financial statements including a consolidated cash flow statement showing the cash flows of the group. Therefore no cash flow statement has been produced.
- h) **Deferred taxation** – Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that they are regarded as being recoverable. Deferred tax assets and liabilities are not discounted.

2. TURNOVER

Turnover and profit/(loss) on ordinary activities before taxation are attributed to the principal activity of market making services in a variety of financial and sporting indices.

3. OPERATING PROFIT/(LOSS)	2003 £	2002 £
Operating profit/(loss) is stated after charging:		
Operating lease rentals		
- Land and buildings	220,175	254,950
Auditors' remuneration		
- Audit services	29,000	25,000
- Non-audit services	8,225	-
Depreciation	902,679	756,403
Loss on foreign exchange transactions	91,201	131,840

CITY INDEX LIMITED

Notes to the Financial Statements - 31 March 2003

4. DIRECTORS AND EMPLOYEES

Particulars of employees (including directors) are shown below.	2003	2002
	£	£
Staff costs during the year amounted to -		
Wages and salaries	5,012,747	3,801,482
Social security costs	363,758	367,247
Other pension costs	-	1,588
	<u>5,376,505</u>	<u>4,170,317</u>

The average number of employees during the year was as follows -	2003	2002
	Number	Number
Management and administration	46	41
Dealing	28	35
	<u>74</u>	<u>76</u>

	2003	2002
	£	£
Directors -		
Aggregate emoluments	521,510	424,284
	<u>352,677</u>	<u>150,933</u>

5. INTEREST RECEIVABLE	2003	2002
	£	£
Bank interest	627,182	636,107
Other interest	259,761	344,254
	<u>886,943</u>	<u>980,361</u>

6. INTEREST PAYABLE	2003	2002
	£	£
Bank interest	613,302	493,198
Other interest payable	254,571	240,583
	<u>867,873</u>	<u>733,781</u>

CITY INDEX LIMITED

Notes to the Financial Statements - 31 March 2003

7. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES	2003 £	2002 £
Taxation is based on profit/(loss) for the period at a rate equivalent to 30% (2002 30%)		
Corporation tax on taxable profit/(loss) for the year	355,920	-
Adjustments in respect of prior years	-	(48,459)
Prior year group relief	(405,844)	-
Group relief	189,000	-
Total current tax	139,076	(48,459)
Deferred taxation		
Origination and reversal of timing differences	150,000	(150,000)
Total deferred tax	150,000	(150,000)
Tax on profit/(loss) on ordinary activities	289,076	(198,459)

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30%. The current charge is less than the standard rate for the reasons set out in the following reconciliation

	2003 £	2002 £
Profit/(loss) on ordinary activities before tax	1,652,534	(1,737,383)
Tax on profit on ordinary activities at standard rate (30%)	495,760	-
<i>Factors affecting tax charge for the period</i>		
Depreciation for period in excess of capital allowances	25,686	-
Expenses not deductible for tax purposes	26,044	-
Change in pension fund accrual	(2,570)	-
Prior year group relief	(405,844)	-
Adjustments in respect of prior years	-	(48,459)
Total actual amount of current tax	139,076	(48,459)

CITY INDEX LIMITED

Notes to the Financial Statements - 31 March 2003

8. TANGIBLE FIXED ASSETS

	Fixtures & Fittings £	Computer Equipment £	Total £
Cost			
At 1 April 2002	979,960	1,865,508	2,845,468
Additions	1,004	1,313,590	1,314,594
At 31 March 2003	980,964	3,179,098	4,160,062
Depreciation			
At 1 April 2002	770,740	673,589	1,444,329
Charge for the year	94,264	808,415	902,679
At 31 March 2003	865,004	1,482,004	2,347,008
Net Book Value			
At 31 March 2003	115,960	1,697,094	1,813,054
At 31 March 2002	209,220	1,191,919	1,401,139

9. FIXED ASSET INVESTMENTS

	Unlisted investments £	Shares in Group undertakings £	Total £
COST			
At 1 April 2002	70,320	6	70,326
Additions	2	10,000	10,002
Disposal	-	(1)	(1)
At 31 March 2003	70,322	10,005	80,327
PROVISION			
At 1 April 2002	70,320	6	70,326
Provision for diminution in value	1	-	1
On disposal	-	(1)	(1)
At 31 March 2003	70,321	5	70,326
NET BOOK VALUE			
At 31 March 2003	1	10,000	10,001
At 31 March 2002	-	-	-

CITY INDEX LIMITED

Notes to the Financial Statements - 31 March 2003

9. FIXED ASSET INVESTMENTS (continued)

Under the provisions of Section 228 of the Companies Act 1985, the company does not prepare consolidated financial statements as it is a 95% owned subsidiary of Intercapital Private Group Limited, which the directors regard as the company's ultimate parent company. The company has one 100% subsidiary, City Index Market Makers Limited, incorporated in England & Wales which did not trade during the year.

10. DEBTORS	2003 £	2002 £
Trade debtors	23,019,723	17,384,581
Amounts owed by group undertakings	163,894	290,620
Other debtors	24,274	25,372
Corporation tax	51,256	-
Deferred tax	-	150,000
Prepayments and accrued income	177,138	372,037
	<u>23,436,285</u>	<u>18,222,610</u>

A deferred tax asset of £nil which relates to trading losses incurred during the year has been recognised at 31 March 2003 (2002 - £150,000).

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	2003 £	2002 £
Bank loans and overdrafts	14,208,336	11,460,027
Trade creditors	1,813,509	604,229
Amounts owed to group undertakings	343,549	-
Other taxes and social security costs	602,280	95,731
Corporation tax	-	96,383
Accruals and deferred income	403,044	832,402
	<u>17,370,718</u>	<u>13,088,772</u>

The bank loans and overdrafts are secured by a fixed and floating charge over the assets of the company.

The ultimate parent company, Intercapital Private Group Limited, has guaranteed bank loans and overdrafts to the value of £17,000,000 (2002 - £11,500,000).

CITY INDEX LIMITED

Notes to the Financial Statements - 31 March 2003

12. CALLED UP SHARE CAPITAL	2003	2002
	£	£
Authorised:-		
2,333,065 ordinary shares of £1 each	2,333,065	2,333,065
Allotted and fully paid -		
75,000 ordinary shares of £1 each	75,000	75,000
13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS	2003	2002
	£	£
Profit/(loss) for the financial year	1,363,458	(1,538,924)
Opening shareholders' funds	6,534,977	8,073,901
Closing shareholders' funds	7,898,435	6,534,977
14. FINANCIAL COMMITMENTS	Land and Buildings	
Operating leases	2003	2002
	£	£
Annual commitments at 31 March 2003 in respect of operating leases expiring In two to five years	123,375	123,375
15. CONTINGENT ASSET		

As at 31 March 2003, there is a contingent deferred tax asset of £205,663 (2002 - £446,000) relating to tax losses carried forward and to decelerating capital allowances

CITY INDEX LIMITED**Notes to the Financial Statements - 31 March 2003**

16. RELATED PARTIES

The directors consider the immediate parent company to be City Index (Holdings) Limited. The ultimate parent company and controlling party is Intercapital Private Group Limited. Copies of the group financial statements of Intercapital Private Group Limited are available from the Registrar of Companies, Companies House, Crown Way, Mandy, Cardiff CF4 3UZ.

Advantage has been taken of the exemption from disclosing transactions and balances with other group companies as permitted by Financial Reporting Standard No 8.

17. SEGREGATED FUNDS

As required by the Financial Services Act 1986, the company maintains balances held on behalf of clients in segregated bank accounts totalling £21,008,476 (2002 - £17,586,119). These amounts and the related liabilities to clients are not included in the company's balance sheet.