

CITY INDEX LIMITED

**REPORT AND FINANCIAL STATEMENTS
31 March 2000**

Company Number 1761813



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 2000.

PRINCIPAL ACTIVITY

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

REVIEW OF BUSINESS

The company has continued to grow the level of business and this year has seen turnover more than double . New staff have been employed to manage the increased transaction levels which have contributed to the increase in administrative expenses . However , the increase in turnover has resulted in a substantial increase in the company's profit before tax figure to nearly £2.5 million.

The company has so far not encountered any problems relating to the year 2000 issue. As part of the company's year 2000 action plan which included reviewing the company's business operations and its relationship with customers, suppliers and other relevant bodies, all key dates were considered and the board believes that it is unlikely that the company will encounter any problems. However, due to the complexity of the problem it is not possible for any organisation to guarantee that no problems will occur. The total costs of the year 2000 compliance work undertaken by the company are not deemed to be material, and no further costs are anticipated.

RESULTS AND DIVIDENDS

The profit for the year after taxation amounted to £1,619,437 (1999 - £63,611).

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 are shown below.

M A Spencer
S H J Mansell
M Belsham

The interests of Mr M A Spencer and Mr S H J Mansell in the shares of Intercapital Group Limited, the company's ultimate parent company, are shown in the directors' report of that company. The directors had no other interests required to be disclosed.

CITY INDEX LIMITED

Report of the Directors

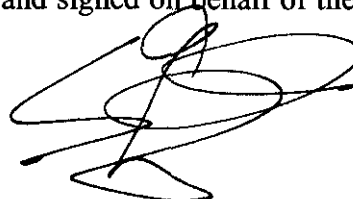
DONATIONS

During the year charitable donations made by the Company amounted to £300 (1999 - £100). The Company made political donations in the year to the Conservative and Unionist Party amounting to £5,000 (1999 - £10,000).

AUDITORS

MRI Moores Rowland have expressed their willingness to continue in office as auditors. 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 30 June 2000

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**Auditors' Report to the Members of City Index Limited**

We have audited the financial statements on pages 5 to 13.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 3 the Company's directors are responsible for the preparation of financial statements. It is our responsibility as auditors to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and 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 that we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

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

MRI Moores Rowland

Chartered Accountants

Registered Auditors

London

Date

30 June 2000

CITY INDEX LIMITED

Profit and Loss Account for the year ended 31 March 2000

	Notes	2000 £	1999 £
TURNOVER	2	12,614,853	5,881,694
Cost of sales		(2,172,262)	(662,975)
		<hr/>	<hr/>
GROSS PROFIT		10,442,591	5,218,719
Administrative expenses		(8,158,119)	(5,508,123)
		<hr/>	<hr/>
OPERATING PROFIT/(LOSS)	3	2,284,472	(289,404)
Interest receivable	5	606,464	436,515
Interest payable	6	(411,080)	-
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		2,479,856	147,111
Tax on profit on ordinary activities	7	(860,419)	(83,500)
		<hr/>	<hr/>
RETAINED PROFIT ON ORDINARY ACTIVITIES AFTER TAX		1,619,437	63,611
Retained profit at 1 April		2,595,485	2,531,874
		<hr/>	<hr/>
Retained profit at 31 March		£4,214,922	£2,595,485
		<hr/>	<hr/>

All disclosures relate only to continuing operations. 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 2000

	Notes	2000 £	1999 £
FIXED ASSETS			
Tangible assets	8	1,121,134	1,075,895
Investments	9	-	58,821
		<u>1,121,134</u>	<u>1,134,716</u>
CURRENT ASSETS			
Debtors	10	19,922,749	7,183,729
Cash at bank and in hand		583,040	-
		<u>20,505,789</u>	<u>7,183,729</u>
CREDITORS			
Amounts falling due within one year	11	(13,960,676)	(2,271,635)
		<u>6,545,113</u>	<u>4,912,094</u>
NET CURRENT ASSETS			
		<u>£7,666,247</u>	<u>£6,046,810</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		4,214,922	2,595,485
		<u>£7,666,247</u>	<u>£6,046,810</u>
EQUITY SHAREHOLDERS' FUNDS			
	13	<u>£7,666,247</u>	<u>£6,046,810</u>

THE FINANCIAL STATEMENTS WERE APPROVED
BY THE BOARD OF DIRECTORS ON 30 June 2000.

Signed on behalf of the Board of Directors


S H J MANSSELL


M BELSHAM

CITY INDEX LIMITED

Notes to the Financial Statements - 31 March 2000

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 carried forward in the balance sheet under this policy at 31 March 2000 was £1,575,807 (1999 - £719,269).
- 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 2000

1. ACCOUNTING POLICIES (Continued)

- g) **Cash flow statement** – The company has taken advantage of the exemptions available to wholly 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.

2. TURNOVER

Turnover and profit 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)	2000 £	1999 £
Operating loss is stated after charging:		
Operating lease rentals:		
- Office equipment	2,990	8,093
- Buildings	113,502	77,171
- Motor vehicles	-	15,550
Auditors' remuneration:		
- Audit services	20,000	20,000
- Non-audit services	3,250	3,000
Depreciation	448,963	401,859
Provision for diminution in value of investments	70,326	-
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4. DIRECTORS AND EMPLOYEES

Particulars of employees (including directors) are shown below:	2000 £	1999 £
Staff costs during the year amounted to:-		
Wages and salaries	3,720,033	2,191,161
Social security costs	359,373	215,480
Other pension costs	1,659	2,046
	<hr/>	<hr/>
	£4,081,065	£2,408,687

CITY INDEX LIMITED

Notes to the Financial Statements - 31 March 2000

4. DIRECTORS AND EMPLOYEES (Continued)

The average number of employees during the year was as follows:-

	2000 Number	1999 Number
Management and administration	28	27
Dealing	32	28
	<u>60</u>	<u>55</u>

	2000 £	1999 £
Directors:-		
Aggregate emoluments	546,667	107,343
Company pension contributions	-	2,046
	<u>£546,667</u>	<u>£109,389</u>

Emoluments of the highest paid director	<u>£488,745</u>	<u>£70,834</u>
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5. INTEREST RECEIVABLE

	2000 £	1999 £
Bank interest	389,441	298,836
Other interest	217,023	137,679
	<u>£606,464</u>	<u>£436,515</u>

CITY INDEX LIMITED

Notes to the Financial Statements - 31 March 2000

6. INTEREST PAYABLE	2000	1999		
	£	£		
Bank interest	166,858	-		
Interest on group balances	244,222	-		
	<u>£411,080</u>	<u>£ -</u>		
7. TAX ON PROFIT ON ORDINARY ACTIVITIES	2000	1999		
	£	£		
Taxation is based on profit for the period at a rate equivalent to 30% (1999-31%)				
Corporation tax on taxable profit for the year	890,000	108,000		
Overprovision in respect of prior years	(29,581)	(24,500)		
	<u>£860,419</u>	<u>£83,500</u>		
8. TANGIBLE FIXED ASSETS				
	Short Leasehold £	Fixtures & Fittings £	Computer Equipment £	Total £
Cost				
At 1 April 1999	86,302	933,860	1,205,044	2,225,206
Additions	-	59,394	434,808	494,202
Disposals	(86,302)	-	-	(86,302)
At 31 March 2000	<u>-</u>	<u>993,254</u>	<u>1,639,852</u>	<u>2,633,106</u>
Depreciation				
At 1 April 1999	86,302	495,710	567,299	1,149,311
Charge for the year	-	163,162	285,801	448,963
Written back on disposals	(86,302)	-	-	(86,302)
At 31 March 2000	<u>-</u>	<u>658,872</u>	<u>853,100</u>	<u>1,511,972</u>
Net Book Value				
At 31 March 2000	£ -	£334,382	£786,752	£1,121,134
At 31 March 1999	<u>£ -</u>	<u>£438,150</u>	<u>£637,745</u>	<u>£1,075,895</u>

CITY INDEX LIMITED

Notes to the Financial Statements - 31 March 2000

9. FIXED ASSET INVESTMENTS

	Unlisted investments	Shares in Group undertakings	Total
	£	£	£
COST			
At 1 April 1999	58,815	6	58,821
Additions	50,320	-	50,320
Disposals	(38,815)	-	(38,815)
Provision for diminution in value	(70,320)	(6)	(70,326)
At 31 March 2000	£-	£-	£-

Under the provisions of Section 228 of the Companies Act 1985, the company does not prepare consolidated financial statements as it is a 100% owned subsidiary of InterCapital Group Limited, which the directors regard as the company's ultimate parent company. The company has three 100% subsidiaries, City Index Market Makers Limited, City Index (Racing) Limited and City Index Sports Bars Limited, all of which were incorporated in England and none of which traded during the year.

10. DEBTORS

	2000 £	1999 £
Trade debtors	18,073,607	6,162,097
Amounts owed by parent company	856,495	856,438
Amounts owed by group undertakings	919,086	-
Other debtors	28,435	30,870
Prepayments and accrued income	45,126	134,324
	<u>£19,922,749</u>	<u>£7,183,729</u>

CITY INDEX LIMITED

Notes to the Financial Statements - 31 March 2000

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	2000 £	1999 £
Bank loans and overdrafts	9,042,595	1,004,533
Trade creditors	-	62,418
Amounts owed to group undertakings	802,950	134,610
Other creditors	170,732	63,801
Corporation tax	723,289	80,260
Accruals and deferred income	3,221,110	926,013
	<u>£13,960,676</u>	<u>£2,271,635</u>

The ultimate controlling party, Intercapital Group Limited, has guaranteed bank loans and overdrafts to the value of £5,000,000.

12. CALLED UP SHARE CAPITAL	2000 £	1999 £
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

	2000 £	1999 £
Profit for the financial year	1,619,437	63,611
Opening shareholders' funds	6,046,810	5,983,199
Closing shareholders' funds	<u>£7,666,247</u>	<u>£6,046,810</u>

CITY INDEX LIMITED

Notes to the Financial Statements - 31 March 2000

14. FINANCIAL COMMITMENTS

Operating leases	Buildings	
	2000	1999
	£	£
Annual commitments at 31 March 2000 in respect of operating leases expiring:		
Within one year	100,800	-
Between two and five years	-	100,800
Greater than five years	-	83,700
	<u>£100,800</u>	<u>£184,500</u>

At 31 March 2000, the company had entered into a capital commitment for the development and purchase of a new betting system to the value of US\$590,000 (equivalent £370,000).

15. RELATED PARTIES

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

16. SEGREGATED FUNDS

As required by the Financial Services Act 1986, the company maintains balances held on behalf of clients in segregated bank accounts totalling £14,119,573 (1999 - £5,816,765). These amounts and the related liabilities to clients are not included in the company's balance sheet.