

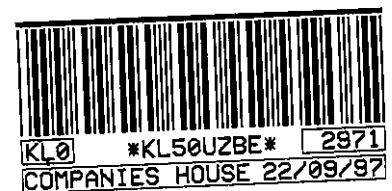
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Annual report and accounts 1997

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GERRARD GROUP PLC



**Gerrard Group plc is one of the leading broking and fund management groups in the UK.**

**Combined with a significant presence in the UK money markets, the Group is now a major force in the UK financial services sector.**

1	Financial Highlights	27	Directors' Statement on Corporate Governance
4	Chairman's Statement	28	Report of the Remuneration Committee
6	Group Structure	32	Consolidated Profit and Loss Account
7	Chief Executive's Review	32	Statement of Total Recognised Gains
	Gerrard & King	33	Consolidated Balance Sheet
	Greig Middleton Group	34	Consolidated Cash Flow Statement
	Gerrard Vivian Gray	35	Company Balance Sheet
	GNI Group	36	Notes to the Accounts
	Other Activities	60	Other Information
	Conclusion	61	Notice of Meeting
20	Financial Review	63	Form of Proxy
23	Report of the Directors		
25	Directors' Statement of Responsibility		
25	Report of the Auditors		
26	The Board of Gerrard Group plc		

	1997	1996
Group profit for the financial year before tax	£17.8m	£22.2m
Group profit for the financial year before tax and exceptionals	£22.3m	£22.2m
Group profit for the financial year after tax, attributable to members	£10.9m	£15.7m
Group profit for the financial year before exceptionals after tax, attributable to members	£14.3m	£15.7m
Dividends per share	16.0p	23.0p
Earnings per share		
basic	20.1p	32.1p
fully diluted	19.1p	32.1p
Earnings per share excluding exceptionals		
basic	26.3p	32.1p
fully diluted	24.8p	32.1p
Group equity shareholders' funds	£147.9m	£128.8m
Net assets per share	207p	264p

**The integration of Gerrard & National and King & Shaxson this year has created a powerful new group with a leading position in the City for equity and derivatives broking.**





A cursory glance at the accounts for the year to 31st March 1997 would seem to indicate a year similar to its predecessor. However, this would belie two significant developments, both of which augur well for the future of the Group. One is the marked improvement in the underlying profitability of the three main subsidiaries which occurred in the second half of the year, and the other is the offer for King & Shaxson Holdings PLC which led in December to a successful merger of both Groups' operations.

These advances are explained in detail in the Chief Executive's Review and the Financial Review, but it is worth emphasising in this statement the great change which has occurred in each of the main operating subsidiaries.

The chart and descriptions on page 6 go some way to explaining the new structure and balance of the Group which, as followers of the Company will realise, has been the ambition of management for some time.

The specialist banking subsidiary, Gerrard & King Limited, brings together in one company a number of activities planned long ago in anticipation of the Bank of England's reorganisations of the sterling gilt and money markets, which were introduced in January

1996 and March of this year. It is encouraging that this company has already become a prominent and profitable participant in the new markets, in competition with both domestic and foreign banks.

GNI Holdings Limited has also been the beneficiary of reorganisation, and it now encompasses all the Group's broking activities in foreign exchange, commodities, financial futures, metals and international stock lending, as well as fund management based on those markets. It is, as a result, a much more broadly based business than heretofore.

Greig Middleton & Co Limited, now incorporating Gerrard Vivian Gray, is the largest company in the Group, and Britain's leading private client stockbroker. It also undertakes other activities, which combine to make it a powerful contender in the market for managing savings and investments – a sector which we believe will grow, and where we clearly hope to capitalise on the skills within the newly integrated company.

I believe that the reorganisation of the Group, led by Mark Davies the chief executive, has been conducted with a firmness and sense of purpose which has been transmitted throughout the Group.

In the offer document for King & Shaxson we said we would implement a new dividend policy, designed to achieve a satisfactory dividend cover, and to lay the foundation for future dividend growth. As anticipated the dividend payment for the year is 16p a share – a reduction of 30% on the previous year, but with the enlarged number of shares in issue the cost in a full year would be £11.2 million, as against £11.3 million last year.

There have been a number of Board changes during the year. Norman Andrews, Mark Kemp-Gee, Ian Perkins and Mark Sherriff, all executive directors of King & Shaxson, joined the Board in December, and they have been invaluable in ensuring that our high expectations of a successful and happy merger were fulfilled.

Tommy Fellowes, deputy chairman and the longest serving executive director, retired from the Group at the end of March – 30 years after joining Gerrard & Reid as a bill broker. He leaves us having become one of the best known experts of the money markets in the City.

Professor Charles Goodhart became a non-executive director in 1986 having been economic adviser at the Bank of England. In the year which sees him leave us he has been appointed a Commander of the Order of the British Empire and, more recently, a member of the Bank of England's powerful new Monetary Policy Committee. Others will now become familiar with his steady hand in undulating times.

David Dugdale, a non-executive director at King & Shaxson, joins us in his place, and has already made a considerable mark. As this has been an exceptionally busy year for our independent directors we are more than usually grateful to them.

Another CBE was announced in the June Birthday Honours: to Tim Congdon, our economic adviser and head of Lombard Street Research.

Fred Packard, who since 1974 has been a partner of Banco de Investimento Garantia, a leading Brazilian investment bank, will be joining the Board on 1st July. He has all round experience of the international fund management industry, most recently as chairman of Foreign & Colonial Emerging Markets Limited.

Evelyn Wright will retire on 30th June 1997. He was a founding

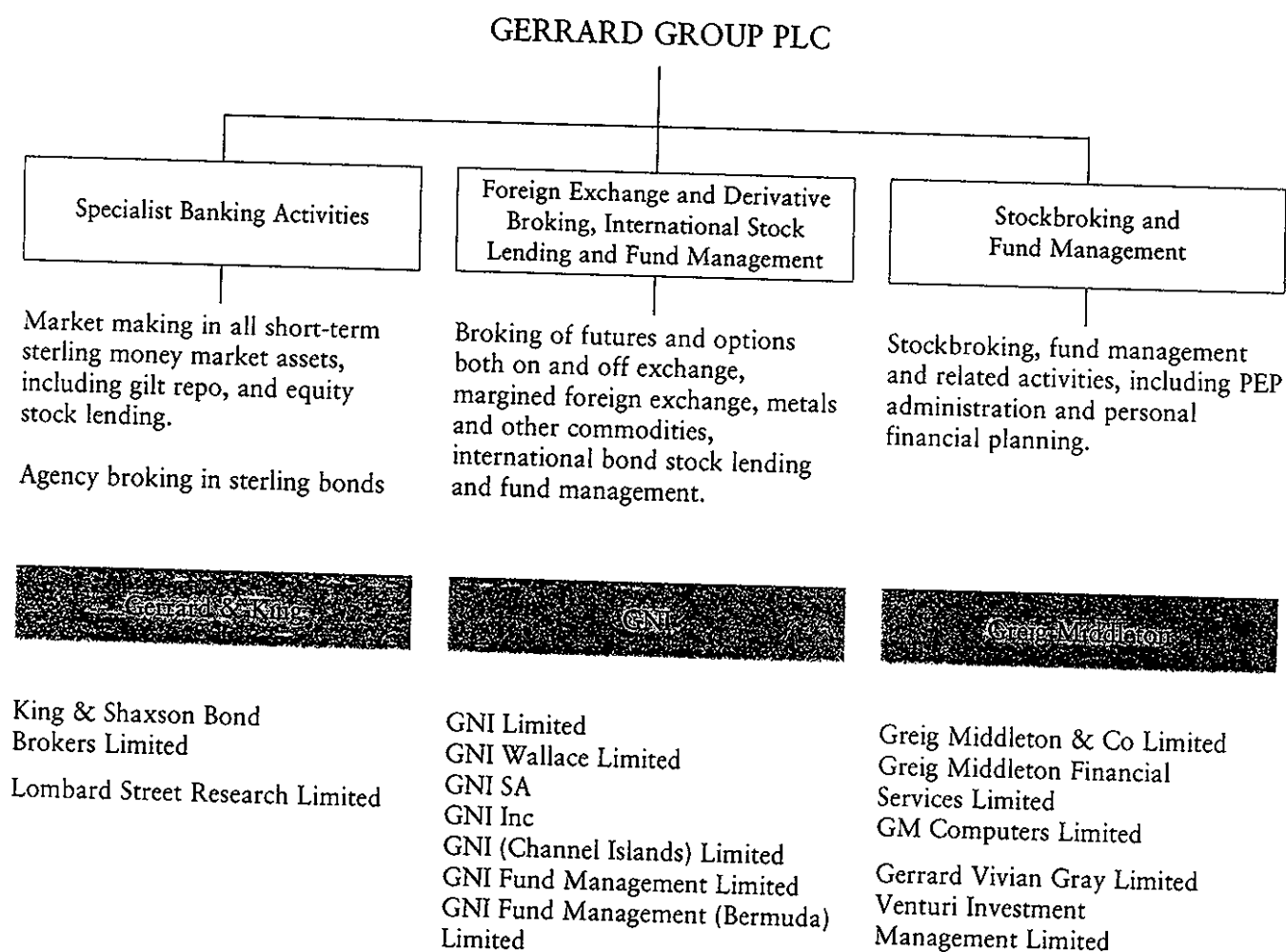
executive of GNI in 1982 – then a joint company between Gerrard & National Discount Company and Intercommodities Limited, and it was his enthusiasm and perseverance that led to GNI's success.

Sadness at losing colleagues who retire is as nothing compared with facing the death this year of Stephen Cooke at the age of 47. In ten years, as chief executive of Gerrard Vivian Gray, he developed that business, and then enthusiastically forged the alliance with Greig Middleton. It is a poignant irony that he died on the day he had looked forward to most; when the headquarters of those two firms joined together in Lombard Street. In both his business and personal life he set an inspiring and courageous example.

The basis has been laid for future growth and the sense of optimism amongst Board members is shared by the 1,550 men and women with whom we work together.



Brian Williamson  
Chairman





Trading conditions were generally unhelpful during the first half of our year. We foresaw better trading conditions in the later part of the year, however, and were able to position ourselves accordingly. The improved circumstances enabled all the main trading divisions to report better results in the second half.

More importantly, though, this was a year of major structural change for the Gerrard Group. The sterling money markets, for so many years the core of our business, were fundamentally restructured; the response of our proprietary businesses is explained on the following pages. Other structural changes, less dramatic but no less inexorable, continued to shape the development of our agency businesses. Most significant of all, however, was the decision to merge our operations with those of the King & Shaxson Group, which united two of the City's Discount Houses and which brought Greig Middleton & Co Limited, one of the UK's leading private client stockbrokers, to the Group. Greig Middleton had itself recently absorbed the Allied Provincial network. With the additional strengths of Gerrard Vivian Gray folded in, the merger means that we can now place a substantial network of regional stockbroking offices alongside the overseas broking activities of GNI and the

sterling markets strengths of the newly amalgamated Gerrard & King Limited, to add up to a formidable force in financial markets both nationally and internationally.

The merger of Greig Middleton and Gerrard Vivian Gray took place at the end of May, concurrently with the move of the majority of the London-based stockbroking personnel into 30 Lombard Street, Gerrard & National's former offices. It is currently planned to merge computer systems in August, after which some of the economies of scale envisaged at the time of the acquisition of Greig Middleton will start to materialise. The merger has resulted in an entity which is a market leader in private client stockbroking and in the provision of financial advice and planning, with the largest independent regional stockbroking network in the country. The merged operation has some £10 billion of funds under management, is broker to more than 70 companies, and has a significant institutional team.

This move represents a substantial step towards our long-term goal of an improved quality of earnings and continues the theme of reducing our dependency on principal position-taking as a core activity. It also constitutes a substantial strengthening of our position in the UK retail markets, to complement our traditional wholesale markets strengths.

**We have continued to evolve  
the business to incorporate  
changes in the structure of  
the sterling markets.**



Gerrard & King Limited our sterling money markets principal trading operation earned operating income of £11.5 million against £8.6 million for the previous year, and pre-tax profit before exceptional costs was £4.5 million against £3.3 million.

The restructuring of the sterling money markets anticipated in last year's Report and Accounts took place on 3rd March 1997.

The major changes involved the introduction of gilt repo into the Bank of England's open market-operations and the broadening of their list of dealing counterparties. Gerrard & King Limited (the name adopted by Gerrard & National Limited following the merger with King & Shaxson Limited in January) remains a counterparty to the Bank of England, and we have continued to evolve the business to incorporate changes in the structure of the sterling markets.

The focus of our business is now in the shorter end of the sterling money market, with strict limits on exposure over four months. Our role is that of a market maker in all instruments that make up sterling liquidity – principally gilt repo, certificates of deposit, bills of exchange and secured money – combined with that of collateral managers, giving us the ability to meet the differing demands for collateral from our counterparties.

Complementing this are the UK gilt and equity stock lending operations.

The trading performance of Gerrard & King can be split into two. During the first half of the year, when the company was building a market position in gilt repo, profitability was affected by a predominantly hostile yield curve. During the majority of the second half interest rate expectations had the effect of creating a more positive yield curve, and this resulted in a satisfactory return. Overall, the result can be regarded as an encouraging performance, bearing in mind the degree of change that has had to be assimilated.

The UK equity stock lending department has experienced substantial growth in its business as an intermediary between institutional stockholders and equity market makers, although some of this growth is likely to be temporary as a result of market-wide problems with CREST, the new settlement system for UK equities. The introduction of equity repo some time in the future is not seen as a threat to this business. We believe that it could actually strengthen our position in the market place, as the demand for the expertise of an intermediary will remain.

The last two years have seen a major restructuring of the areas of business in which Gerrard & King operates. Our position at the centre of the sterling money markets has not been altered by these changes; if anything, it has been strengthened. It is our belief that by providing a specialised service in all aspects of sterling liquidity to a wide and diverse range of counterparties with a need for such a service, Gerrard & King Limited has the opportunity of producing a more consistent return on capital than has been achievable in the past.

**Greig Middleton has had a good year, with each of its three divisions performing well, reflecting in part enhanced stock market volumes.**





Following the merger between Gerrard Group plc and King & Shaxson Holdings PLC, the Greig Middleton Group (GMG) is reporting on an 11 month period to end-March 1997 compared with a full year to end-April 1996.

Operating income for GMG was £51.9 million for the 11 months against £43.2 million for the previous year, which included eight months of trading from Allied Provincial Securities (APS). The FTSE All Share Index rose by 10% during this reporting period and outside commentators have suggested that UK retail stockbroking commissions and fees, which account for some 65% of GMG's revenue, rose by approximately 10% for the industry in calendar 1996.

GMG's pre-tax profit was £9.4 million for the 11 months before exceptional costs. This compares with £6.5 million for the previous year. The previous year's figure was struck after adding back £0.6 million of exceptional expenses in connection with the merger with APS and deducting £1.0 million of profit from the disposal of Greig Middleton (CI) Limited.

**Greig Middleton & Co Limited (GM)**

This is the largest operating company within GMG and at the end of the Group's year employed 780 people. It is a member of the London Stock Exchange, is regulated by the SFA and includes GMG's stockbroking and investment management activities. The company has three divisions – investment management (incorporating private client stockbroking), institutional stockbroking and research services for national and international clients, and corporate finance. These activities are supported by the settlement department which is based in Glasgow, but with a small unit in London.

GM has had a good year, with each of its three divisions performing well, reflecting in part enhanced stock market volumes during the period. It is particularly pleasing to have achieved this result in the first full period of incorporating APS into GM. This was a major undertaking which has been successfully achieved through the hard work and dedication of all those directly involved, together with the goodwill and support of everyone in the company. The benefits of the cost savings forecast last year have filtered through, but they were offset by higher volumes and expansion of some parts of the business, leaving costs approximately 7% higher than budgeted.

**Investment management and private client stockbroking** In the first full period including all the APS branches the division overall performed well. There are 21 offices nationwide, most of which produced a good performance. However, we have taken the decision to close our small, loss making Norwich office, mindful of the fact that Gerrard Vivian Gray's Ipswich office provides a strong presence in East Anglia.

GM manages, on an advisory or discretionary basis, in excess of £7.5 billion for a wide range of clients, encompassing private individuals, trusts, charities and pension funds. PEP funds under management increased to £500 million spread over 24,000 plans.

New systems are currently being introduced to enhance reporting levels for our growing business managing some £700 million of charitable and pension fund accounts.

Demutualisations in excess of £20 billion are now predicted over the course of 1997, adding over 3% to the UK's total stock market capitalisation. Although GM is not primarily an execution-only stockbroker, this will add substance to surveys that suggest that retail revenues will rise again by some 10% in 1997 as they did in 1996.

**Institutional stockbroking and research** This division, which has offices in London, Edinburgh and Birmingham, has produced a successful result for the period. Apart from the basic sales activity with UK institutions, further penetration of the European institutional market was achieved. Whilst good volumes were seen in the basic business, the corporate broking team was particularly active. Following the merger with Gerrard Vivian Gray, the division services some 500 institutional investors throughout the world with dedicated research facilities covering 75% by market capitalisation of the FT Actuarial Index.

**Corporate finance** This division has produced a very good result. It completed some 36 transactions of differing types during the 11 month period under review, compared with 18 for the previous year. Whilst this level of activity is unlikely to be repeated in the current year, the spring and early summer months have not been affected by the General Election as much as had been anticipated. Opportunities were taken during the period to recruit experienced people to this division in both Glasgow and London.

**Settlement** The settlement department has faced a considerable volume of business for the whole of the 11 month period, and has delivered a good level of service. It has been an incredibly busy year, with not only volume to contend with, but also the transfer of several thousand APS clients from the old APS nominee companies into the Greig Middleton nominee company. Furthermore, we have transferred all of the original Greig Middleton PEP plans from the Sherwood Computer Bureau onto our computer system, and have recently completed the transfer of the APS PEPs in the same manner. All of this activity was set against the introduction of CREST which, as has been well documented in the press, has been a troubled implementation. The CREST system was very much designed with global institutional business in mind, and although it copes adequately with dematerialised private client business, it is somewhat inflexible when compared to former Stock Exchange settlement systems, which were designed and able to cope with the vagaries of higher volumes of lower value transactions. In spite of these problems we have continued to transact and settle a higher volume of business than previously, but CREST has undoubtedly delayed

some of the efficiency benefits we had anticipated a year ago.

**Greig Middleton Financial Services Limited (GMFS)**

GMFS, regulated by the PIA, specialises in the provision of pension planning, inheritance planning and long-term care provision. The keen and independent management is supported by a well trained and committed team of independent advisers, who are dedicated to providing exceptional value to clients.

GMFS has had its most successful and profitable period to date, with a strong demand for professional advice, particularly in regard to contribution, investment and benefit strategy in personal pension planning. There has been a significant increase in demand for self invested pensions, which provide cost effective and customised solutions to clients with existing pension funds greater than £100,000.

There is continued strategic focus on the creation of recurring income, and further progress has been made during the year, which will provide an increased contribution to fixed costs in the current year.

A great deal of effort has been invested in refining the marketing process to ensure that the competitive value of our activities

is well understood in our chosen niche markets. In particular, the continued enlargement of the GM private client team offers GMFS an opportunity to assist in the protection and enhancement of their clients' assets.

**GM Computers Limited**

GM Computers provides investment management and settlement services software for clients in the securities industry.

The company has had a successful period and has traded profitably. Much of the activity has centred around the further development of the integrated CREST and PEP systems. A new automatic dealing interface has also been developed and successfully released. Sales activity has continued to be very quiet while many potential customers are fully occupied with CREST implications and high volumes of business.



**The merger of Greig  
Middleton and Gerrard  
Vivian Gray creates a  
powerful force in  
stockbroking and in the  
market for personal  
savings.**





## GERRARD VIVIAN GRAY

The company achieved improved profits before exceptional costs for the full year after a slow first half. Operating income was £21.5 million against £20.8 million for the previous year, and pre-tax profit was £3.5 million against £3.3 million. The merger with Greig Middleton was announced in October, and the process of meshing the two businesses began shortly afterwards, starting in the research, corporate finance, and institutional broking areas.

The stockbroking and fund management division continued to prosper, against a background of higher stock market volumes, and assisted by the acquisition in October of MacIntyre Hudson Portfolio Management and of Grangehouse Investment Management, which brought with them a high quality portfolio of charities and private clients.

Whilst commission income has been stable, income from fee paying clients has continued to develop strongly. Fee income for 1997 rose by 23% compared with 1996. Fee paying clients benefited from a range of services, including the use of Gerrard Vivian Gray's nominee company, which considerably eased the transition to CREST for both our clients, our intermediaries, and ourselves.

PEP business was another growth area. Our own efforts to promote the use of PEPs were assisted by the announcement of the General Election shortly before the end of the tax year, allowing us to add significantly to PEP funds under management.

Gerrard Vivian Gray's presence in East Anglia continued to develop with regard to both profitability and funds under management. The steady growth in this area has enabled the Ipswich office to expand into modern open plan accommodation next door to its old premises. Taken together with Greig Middleton's offices at Cambridge and Peterborough, this confirms the great regional strength of the Group in this area.

The significant IT issues which confronted us during the period will continue to be a feature of the coming year for the merged business. The new order driven Stock Exchange electronic trading system (SETS) will start to trade in FTSE 100 shares in October 1997, and it is anticipated that a significant amount of the liquidity in the top hundred shares will migrate to the new trading method. On the settlements side CREST, the system which replaced Talisman, settled its first transactions in August 1996. During the phased transition period which ran until April 1997, settlement was

transferred from Talisman stock-by-stock. All CREST users have had to devote considerable resources to the software changes made necessary by the new system, and will continue to do so during the year ahead as further enhancements are introduced.

**As financial derivative markets mature, we see a natural convergence of OTC and exchange traded products, from which the Group is well placed to benefit.**



Operating income for the GNI Group was £57.6 million against £59.9 million for the previous year, and pre-tax profit before exceptionals was £9.6 million against £13.0 million. GNI group companies are members of a number of futures exchanges, and GNI Limited is regulated by the SFA. The GNI companies cover the Group's futures, foreign exchange, international stock lending, and over-the-counter (OTC) broking activities, as well as certain specialist fund management areas.

**FX** GNI's foreign exchange desk has had another successful year, against a background of rather uninspiring markets. The desk operates as a client-driven matched principal brokerage, and has found room for expansion of its client base by means of successful marketing efforts in new areas, particularly in our offices in Geneva and Chicago.

**Financial futures** Profit margins in the futures business at large have come under considerable pressure this year, even though volumes continued to grow. For our financial futures division the effect was compounded by the continuing tendency for banks to set up their own brokerage operations and for overseas brokers to expand their global coverage into our traditional territories. Commission rates suffered as a result of this increased

competition. As margins have declined we have undertaken a wide-ranging review of our operations and implemented effective cost reductions, focusing more sharply on higher margin business and ensuring that we retain our reputation as a quality, value-added, futures and options broker.

LIFFE's linkage agreements with the Tokyo International Financial Futures Exchange and with the Chicago Board of Trade provided new areas of opportunity, and in February 1997 we joined the Deutsche Terminbörse (DTB), taking the screens which enable us to trade directly from the London office. Initial volumes have been encouraging.

**OTC broking** GNI's emphasis has traditionally been on the exchange-traded futures markets, which have seen explosive growth over the past 15 years. The very strong position built up by the company over that time is now ready to be built upon by the development of our OTC capability. The client base is common to both markets, and most significant users of OTC's are existing customers of GNI. As financial derivative markets mature, we see a natural convergence of OTC and exchange traded products, from which the Group is well placed to benefit.

GNI's strengths of adding value, outstanding research capability and our experience in clearing derivative products will all be critical in developing our niche in this competitive area. This is already profitable, and is anticipated to have significant potential for future development.

This was also the first full year of the integration of the LM (Moneybrokers) international stock lending and repos business into GNI. This is another good growth area, which had a successful year and produced increased profits.

**Fund management** The year was characterised by very strong global stock markets. Whilst this was grist to the mill of our stockbroking subsidiaries, it did make the case for investment in managed futures and hedge funds rather less than compelling in the short term. The fund management division is accordingly investing considerable effort in research and development and the establishment of new initiatives for future development of the product range. The core business continues to revolve around funds which invest in the foreign exchange, financial futures and commodity contracts, traded either on the interbank or futures markets. However, our first equity-based hedge fund, The Mistral European Fund, was launched on 1st May 1996, and further expansion into niche investment sectors is planned.

**Private clients & commodities** GNI's general futures desk covers private client broking, institutional commodity futures broking, execution and clearing services for market professionals such as commodity trading advisers and introducing brokers, and now the broking to the shipping industry of OTC Forward Freight Agreements (FFAs) through our association with the shipbrokers Howe Robinson.

We remain actively involved in commodity futures and forward trading, with teams covering metals, oil, and electricity as well as the traditional 'softs' markets of the LCE, which merged with LIFFE during the year.

**Overseas offices** Over the past year GNI SA in Geneva has been particularly successful in extending the range of its activities and the spread of clients for which it acts. However, in general we are acting to reduce the resources committed to the outlying GNI offices, preferring to concentrate our efforts on London-based operations, from which we are able to provide a service to our overseas clients. GNI continues to maintain an execution capability on all overseas futures exchange, but will in future have a structured network of overseas offices. The cost of this retrenchment has necessitated a provision in this year's figures, but will generate immediate cost savings.

**King & Shaxson Bond Brokers Limited** King & Shaxson Bond Brokers Limited is now in its second year of trading as a broker of cash bonds, mostly on a matched principal basis. The company performed well and increased its profits. About 80% of its revenue is derived from the gilt market, the remaining 20% coming from fixed-rate eurosterling and floating rate notes. In both cases the company acts as an intermediary between institutions and market makers. The team believes that the synergies offered by the association with GNI's existing bond broking capability and with the Gerrard Group in general will be particularly helpful in growing this business.

**Lombard Street Research Limited** Our economic research subsidiary continued to operate profitably, and grew in terms of both turnover and client base during the year. Major projects were undertaken on behalf of the Personal Investment Authority, analysing the returns on retail savings products, and for the Corporation of London, looking at future growth prospects for the City of London.

Lombard Street Research is headed by Brian Reading and Professor Tim Congdon, who remained a member of the chancellor's panel of independent economic advisers throughout the year.

The fundamental changes in the corporate structure of the Group present us with a challenging environment in which to operate over the year. We believe that we have made a substantial move towards our stated goal of reducing our dependency on proprietary trading income, and that the Group is now better balanced as well as having potential for growth, particularly in the UK savings market. The Group now has leading market positions in its three chosen areas, and we are confident that satisfactory returns can be achieved so long as market conditions permit.

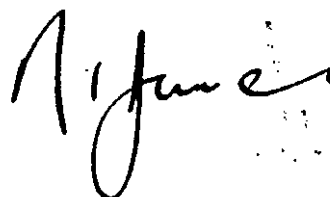
Financial markets continue to see rapid structural change. Over the last two years the advent of the gilt repo market has transformed our money market operations, and GNI is now undergoing a period of intense change as margins have contracted in its traditional markets. In these circumstances we see benefits of our size: we have significant expertise and market share in each of our chosen areas but at the same time are small enough to act radically and quickly.

The short-term outlook for the Group remains dependent on activity in markets and at this early stage in the Group's year it is premature to make any predictions for the year as a whole.

Turnover in the Group's broking companies normally tends to be higher in the second half of the Group's financial year ending 31st March. Following the merger with the King & Shaxson Group, the Gerrard Group's stockbroking interests have increased substantially and so has the seasonality inherent in the Group's trading. Shareholders should expect that, in the future, a larger proportion of Group profits will be earned in the second half of the Group's year than in the first.

Our managers in particular, from both sides of the merged entity, have had to cope with bringing together the diverse elements which now make up the Gerrard Group, whilst remaining sharply focused on maintaining profitability and growth in their own areas. They have risen to the task with enthusiasm, so that we now find ourselves better placed than ever before to exploit developments in the markets in which we operate. The merger has brought together distinct streams of market expertise and has boosted the client base available to all parts of the business. It is now our task to maximise the benefit we can secure, whilst taking care to see that there is no diminution in the attention we pay to our internal control systems.

In summary, I am optimistic for our prospects. The need for a dynamic but carefully judged response to developing financial markets remains, but we are now much better equipped to handle successfully the challenges we face. I thank my colleagues on the Board and all employees in the Gerrard Group worldwide for their support in getting us to this point.



M E T Davies  
*Chief executive*

**Financial highlights of the year**

	1997 £m	1996 £m
<b>Profit before tax</b>		
before exceptionals	22.3	22.2
after exceptionals	17.8	22.2
<b>Profit after tax and minorities</b>		
before exceptionals	14.3	15.7
after exceptionals	10.9	15.7
<b>Earnings per share based upon profit before exceptionals</b>		
current	26.3p	32.1p
fully diluted	24.8p	32.1p
<b>Earnings per shares based upon profit after exceptionals</b>		
current	20.1p	32.1p
fully diluted	19.1p	32.1p
<b>Dividends per share</b>	16.0p	23.0p

**Merger with King & Shaxson Holdings PLC**

The offer for King & Shaxson Holdings PLC was declared unconditional as to acceptances on 29th November 1996. Therefore the results of the King & Shaxson Group have been consolidated from 1st December 1996.

The merger has been accounted for using acquisition accounting, but the Group has utilised the merger reliefs permitted under Section 131 of the Companies Act 1985. A merger reserve has been set up against which the goodwill and acquisition expenses have been written off.

The total number of shares issued as consideration at completion was 17,947,106. In addition to these shares issued, the Group has committed to issue up to a total of 5,548,603 further shares. These additional shares relate to the consideration agreed by King & Shaxson Holdings for the acquisitions of Greig Middleton and Allied Provincial Securities. The price per Gerrard share used to determine the consideration was £2.72. Net assets of £20.4 million were acquired resulting in goodwill of £45.3 million after acquisition expenses are taken into account. Goodwill has been written off against the merger reserve.

**Operating income**

	1997 £m	1996 £m
GNI Holdings Limited	57.6	59.9
Gerrard Vivian Gray Limited	21.5	20.8
Gerrard & King Limited	11.5	8.6
LM (Moneybrokers) Limited	-	6.0
Greig Middleton Holdings Limited	20.1	-
Other	4.7	3.5
<b>Group</b>	<b>115.4</b>	<b>98.8</b>

Group operating income for the year totalled £115.4 million. This was an increase of £16.6 million on the previous year. This increase in income reflects

the inclusion of the King & Shaxson Group for four months. The former King & Shaxson companies contributed income of £21.2 million for this period. The total operating income of the comparable Gerrard Group companies was £94.2 million, a reduction of £4.6 million compared with the previous year.

The Group's stockbroking subsidiaries Gerrard Vivian Gray and Greig Middleton profited from the buoyant conditions in the stock market. At Gerrard Vivian Gray the overall rise in revenue was made up of a substantial increase in income from the private client division, partially offset by a decrease in the institutional division. Greig Middleton's three key divisions of private clients, institutional broking and corporate finance all produced good profits.

Total income at GNI fell by 3.8%. This decline reflected pressure on commissions in the exchange traded broking activities and a decline in funds managed.

Gerrard & King Limited, which incorporated King & Shaxson Limited from 6th January 1997, benefited from increasing volumes in domestic equity stock lending and from improved margins in the money markets and in gilt repo in the second half of the year.

**Administrative expenses***Current*

Current Group administrative expenses for the year were £93.1 million. This was an increase of £16.5 million compared with the previous year. The rise in expenses was also attributable to the inclusion of the King & Shaxson Group companies. The current expenses of the comparable Gerrard companies fell £0.2 million. Average staff numbers for the year were 1,101 compared with 751 in the previous year, and current staff numbers now total over 1,550.

*Exceptional and reorganisation*

This year total administrative expenses include a number of exceptional costs. These primarily relate to costs arising following the merger with King & Shaxson Holdings and include the cost of redundancies totalling £1.6 million, a provision against unoccupied properties of £4.1 million and a write down of surplus fixed assets and other reorganisation costs of £0.4 million. The directors considered it most important to make full provisions in order to minimise effects on profits in future years. Reorganisation costs for the comparable group include a provision of £1.0 million against the restructuring of a number of GNI's overseas offices.

The exceptional costs are partially offset by an exceptional credit of £2.6 million. This represents the profit on the sale of GNI's shares in ICV Limited. Of the £2.6 million, £1.4 million has been received in cash while the balance is held in shares in Primark Corporation, which, under the terms of the offer for ICV, cannot be sold before 25th October 1997.

The Primark shares have prudently been valued at \$19, a discount of 20% to their value at 31st March 1997. Greig Middleton and Gerrard Vivian Gray recently moved into the Group's previously unoccupied property in Lombard Street. During the year the provision made in the year ended 31st March 1995 against unoccupied property has continued to be utilised against the current costs of the unoccupied property. This policy continued until the end of May when Lombard Street was reoccupied by Group companies, and the balance of the provision remaining will then be used to defray those refurbishment costs that represent the cost of bringing that property to a basic occupiable standard.

#### Profit before tax

Group profit before tax and the exceptional costs and non-operating income (exceptionals) was £22.3 million, similar to the previous year. Profits after exceptionals were £17.8 million. Profits before exceptionals included a contribution of £4.4 million from the King & Shaxson Group companies for the period from 1st December 1996.

A summary of the profits, before exceptionals, of the principal Group operating companies is shown below:

#### Profits before tax and exceptionals

	1997 £m	1996 £m
GNI Holdings Limited	9.6	13.0
Gerrard Vivian Gray Limited	3.5	3.3
Gerrard & King Limited	4.5	3.3
LM (Moneybrokers) Limited	—	3.6
Greig Middleton Holdings Limited	4.6	—
Other	0.1	(1.0)
<b>Group</b>	<b>22.3</b>	<b>22.2</b>

#### Seasonality

The profits before exceptionals of the comparable Gerrard Group for the year totalled £17.8 million. Of this, £6.3 million arose in the first half of the year and £11.5 million in the second half. The improvement in the second half, particularly that at Gerrard & King, largely represented an improvement in trading conditions arising from changes in volumes and the yield curve, but part represented a normal seasonal pattern. Turnover in the Group's broking companies naturally tends to be higher in the second half of the Group's financial year. Following the merger with King & Shaxson Holdings the Group's broking interests have grown substantially with the inclusion of Greig Middleton in the Group, and this will have increased the seasonality inherent in the Group's profits.

#### Earnings per share

This year, earnings per share (EPS) figures have been shown based on profits including and excluding the

exceptionals. Also, following the merger with King & Shaxson Holdings PLC, the obligation to issue additional shares in the future has arisen. EPS figures have therefore also been shown based on average shares in issue for the period and a fully diluted basis, pro rated for the period for which the King & Shaxson Group has been consolidated.

A total of 1.8 million shares are currently held by the Employee Share Ownership Trust. As the Trustees of the Plan have waived the rights to dividends on these shares, the number of shares in issue for the calculation of earnings per share has been adjusted to exclude the shares held by the trust.

#### Underlying profits

	£m
Profit before tax (excluding exceptionals)	22.3
Profit after tax and minorities (excluding exceptionals)	14.3
Earnings per share:	
current	26.3p
fully diluted	24.8p

The results this year are complicated by the merger with King & Shaxson Holdings and by the exceptionals. The directors believe that the most appropriate guide to underlying profitability is represented by profits excluding exceptionals.

#### Taxation

The tax charge for the period was £6.5 million or 36.7% compared to 27.7% in 1996. The tax charge this year has been affected by the exceptional costs. Excluding the exceptional costs the rate of tax would have been 34.4%. A deferred tax asset has been recognised in respect of part only of the exceptional costs, and this asset has been offset against other deferred tax liabilities. The lower effective rate in the previous period was due to the availability of one-off benefits.

#### Dividends

As outlined at the time of the merger with the King & Shaxson Group, the final dividend for the year has been reduced to 8p per share. The total dividend for the year therefore is 16p per share, compared with 23p in the previous year. The total cost of the dividend this year is £9.5 million, and at the same level of distribution would increase to £11.2 million next year. Dividend cover this year is distorted and needs to be considered with care. Profits are distorted by the exceptionals, and also a full final dividend will be paid to holders of the new Gerrard shares issued on the merger, and on the shares issued in respect of the GMEZT2 settlement, whilst the profits arising from the King & Shaxson Group have only been included for four months.

## Profit before tax and exceptional costs, and return on capital of principal operating subsidiaries

	1997			1996		
	Profit plus loan interest £m	Group capital (average) £m	Return on capital %	Profit plus loan interest £m	Group capital (average) £m	Return on capital %
GNI	10.0	53.6	18.7	13.4	44.0	30.5
Greig Middleton & Gerrard Vivian Gray	8.1	15.3	52.9	3.4	9.5	35.8
Gerrard & King	4.6	52.9	8.7	3.3	50.4	6.5
LM (Moneybrokers)	—	—	—	4.5	33.9	17.7
Group	22.3	137.5	16.2	22.2	126.4	17.6

**Segmental analysis**

Segmental information continues to be shown in the format used in previous years which largely reflects the operating companies in the Group. Following the merger Greig Middleton is included under stockbroking with Gerrard Vivian Gray.

**Consolidated balance sheet**

At 31st March 1997 total consolidated current assets totalled £15.9 billion. This represented an increase of £5.3 billion compared with 31st March 1996. The principal areas of growth were in stock lending and repo in debtors and in holdings of CDs and bills in investments. The growth in the balance sheet therefore exclusively arose from increases in very liquid assets. The greatest increase was in Gerrard & King Limited whose gross assets totalled £13.3 billion, which compared with £9.5 billion at 31st March 1996.

**Regulation and use of capital**

During the year the Group has continued to report under the Capital Adequacy Directive. The Group overall has a comfortable margin of capital to permit growth, although at times during the year Gerrard & King Limited fully utilised its regulatory capital. The merger with King & Shaxson released capital through the merger of King & Shaxson Limited with Gerrard & National Limited. Some £2.9 million will be used to repay the outstanding preference shares in King & Shaxson Holdings PLC and Smith St Aubyn PLC and the balance will be retained to permit modest acquisitions and to support organic growth. The directors are seeking to redeem the preference shares in order to reduce the costs associated with their listing and also to permit a rationalisation of the Group structure.

The directors place great emphasis on maintaining a strong Group balance sheet to support the activities of the Group, and intend to retain all the available resources to support group operations.

**Integration of King & Shaxson Holdings**

Following the completion of the acquisition in January the Group and money market activities of King &

Shaxson Limited were merged with those of Gerrard & National Limited on 6th January 1997, and the merged money market company began trading as Gerrard & King Limited. The merger of the stockbroking activities has taken more time. The transfer of data has required careful planning and the Group's offices in Lombard Street have needed to be refurbished. The first stage of the merger took place over the weekend of 25th May when the staff of Greig Middleton and Gerrard Vivian Gray both moved into Lombard Street. From 27th May the combined entity has traded as Greig Middleton.

**Other acquisitions**

During the year, the Group acquired the business of MacIntyre Hudson Portfolio Management Limited and Grangehouse Investments Limited and the minority interests in Gerrard Vivian Gray Institutional Limited. For MacIntyre Hudson and Grangehouse the Group paid cash of £2.4 million and acquired funds under management of £143 million. For the minority of Gerrard Vivian Gray Institutional the Group has paid £1.7 million in cash and convertible loan stock and will pay deferred consideration of up to £1.6 million in cash and convertible loan stock.

**Greig Middleton Enterprise Zone Trust 2**

At its year end of 30th April 1996, King & Shaxson Holdings had fully written down the Greig Middleton convertible loan stock. Agreement has now been reached with the Action Group to settle the outstanding claim. To date £4.2 million of the loan stock has been cancelled, £4.2 million of the provision released and 1,241,471 Gerrard Group shares issued to the vendors of Greig Middleton, which have been placed in the market on their behalf, enabling them to fulfil the obligations of the agreement to put the Group in the funds required to meet the claim. A provision of £4.2 million remains in the balance sheet at 31st March 1997. To date the settlement has had no effect on Group profits but has increased net assets by £4.2 million. There will be no effect on Group profits when all matters are concluded but net assets will increase by a further £4.2 million.



The directors present the audited accounts of the Group for the year ended 31st March 1997.

### Change of name

Following approval of shareholders at an Extraordinary General Meeting held on 25th November 1996, the Company changed its name from Gerrard & National Holdings plc to Gerrard Group plc.

### Activities of the Group

The Company carries on business as a holding and group management company. A detailed description of the activities of the principal subsidiary undertakings is contained in note 14 on page 46.

### Results

The Group profit for the year, arrived at after providing for taxation and minority interests is £10,883,000 and is set out in the consolidated profit and loss account on page 32. The results of King & Shaxson Holdings PLC and its subsidiaries are included for the four month period to 31st March 1997. Details of the acquisition are set out in note 28 on page 56. Movements in reserves are set out in note 22 on page 53. A review of the business of the Group during the year, and a review of the activities, performance and future developments of the Group are set out in the Chief Executive's Review on pages 7 to 19 and in the Financial Review on pages 20 to 22. Segmental information is set out in note 2 on page 38.

### Dividends

The directors recommend a final dividend on the ordinary 25p shares of 8p per share in respect of the year ended 31st March 1997, making a total distribution of 16p per share (see note 9 on page 41). If approved, the final dividend will be paid on 28th July 1997. The directors propose to transfer the retained profit of £1,396,000 to reserves.

### Donations

The total charitable donations made during the year amounted to £103,744. £32,172 was paid to the Conservative Board of Finance.

### Directors

The directors are set out on page 26. T W Fellowes, a director at 1st April 1996, retired from the Board on 30th October 1996. Professor C A E Goodhart, a director at 1st April 1996, retired from the Board on 18th December 1996. Following the announcement on 18th December 1996 that the merger of Gerrard Group plc and King & Shaxson Holdings PLC had been declared unconditional in all respects, N F Andrews, M N Kemp-Gee, I R B Perkins, R M Sherriff and D J Dugdale were appointed to the Board. All other directors served throughout the year. On 27th May 1997 the Board were saddened to learn of the death of S P Cooke. On 30th June 1997 E Wright retires from

the Board. On 1st July 1997 F A R Packard will be appointed to the Board. In accordance with the Articles of Association, R B Williamson, M E T Davies and T J R Sheldon retire from the Board and, being eligible, offer themselves for re-election. In accordance with the Articles of Association, N F Andrews, M N Kemp-Gee, F A R Packard, I R B Perkins, R M Sherriff and D J Dugdale retire from the Board and, being eligible, offer themselves for election.

R B Williamson has a service contract with Gerrard Group plc. M E T Davies and T J R Sheldon have service contracts with GNI Holdings Limited. Each of the contracts is a one year rolling contract subject to service of notice not being permitted prior to 1st April 1998. Details of the non-executive directors are set out on page 26.

Details of directors' interests in the shares of the Company and of options exercised during the year are set out in the Report of the Remuneration Committee on pages 28 to 31.

No director is, or was, interested in any contract relating to the Group's business during the year ended 31st March 1997.

### Changes in share capital

Details of changes in share capital during the year are set out in note 21 on page 51.

### Employment policy

The Group considers that its employees are its most valuable resource, without whose commitment it would not achieve its objectives. The Group's employment policies are designed to create an environment which encourages employees to be aware of, and involved in, the performance of the Group.

To encourage employees to identify themselves more fully and directly with profitability, a Profit Related Pay Scheme is in place. In addition bonuses may be paid on the operating profits of the division for which an employee works. The Group operates a savings-related Share Option Scheme, which was introduced in 1992, and also operates a company share option scheme which seeks to provide incentives to senior employees by offering them the opportunity to share in the success of the Group. Appropriate performance targets have been set which must be achieved before options granted under the latter scheme may be exercised.

The Group is committed to providing equal opportunities for all, irrespective of sex, ethnic origin, religious beliefs, disabilities, age or sexual orientation. The Board's aim is to encourage and assist in the employment, training, promotion and personal and career development of disabled people.

The Group gives proper consideration to applications for employment when they are received from disabled people.

The Group is committed to providing high standards of health and safety performance within its businesses. A health and safety policy statement has been produced to emphasise the principle that active involvement and awareness by every employee are necessary if standards are to be achieved and maintained.

#### Employees

The average number of employees and the costs in respect of those employees are disclosed in note 5 on page 39.

#### Substantial shareholdings

As at 12th June 1997, the Company had been notified that the following have an interest in the Company's shares amounting to 3% or more of the issued share capital:

LGT Asset Management plc (beneficial)	10.4%
Santa Barbara Limited (beneficial)	5.1%
GT Income Fund (beneficial)	4.9%

Santa Barbara Limited is jointly owned by the individual shareholders of Banco de Investimentos Garantia, acting collectively but totally independently of the bank.

#### Creditor payment policy

The Company's current policy concerning the payment of its trade creditors is to:

- settle the terms of payment with suppliers when agreeing the terms of each transaction;
- ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- pay in accordance with its contractual and other legal obligations.

The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services without exception. Wherever possible UK subsidiaries follow the same policy and overseas subsidiaries are encouraged to adopt similar policies, by applying local best practices.

#### Auditors

A resolution to reappoint the auditors, Coopers & Lybrand, and to authorise the directors to approve their remuneration will be proposed at the Annual General Meeting.

#### Special Business at the Annual General Meeting

##### *Resolution 12: Purchase of own shares*

The Company has shareholders' authority to purchase its own shares. Under that authority the Company may purchase up to 7,300,000 shares of 25p each for an amount excluding expenses, equal to 105% of the average of the middle market quotations for the ten business days immediately preceding the date of

purchase. The authority expires at the date of the Annual General Meeting.

Although such authority has not been used and there is no immediate intention of using it, the directors continue to believe that the authority is beneficial, and provides flexibility in the management of the Group's capital resources. The directors confirm that purchases would be made only if the Board was satisfied that such purchases were in the best interests of the Company, and would result in an increase in expected earnings per share.

Accordingly, shareholders are asked to approve the purchase of up to 10,700,000 shares (equivalent to approximately 15% of the current issued share capital) at a price, excluding expenses, within 5% of the middle market quotation as determined in the resolution, such authority to run for a period of up to 18 months from the date of the resolution.

Purchases pursuant to the authority would be financed from distributable reserves and would be notified to the London Stock Exchange and the Registrar of Companies and disclosed in the Company's Report & Accounts.

##### *Resolution 13: Allotment of shares and pre-emption rights*

A special resolution will be proposed at the Annual General Meeting to renew the general authority to allot shares granted to the directors under Section 80 of the Companies Act 1985, and to obtain authority from shareholders to allot shares for cash otherwise than to existing shareholders pro rata to their holdings.

The authority would be for a period of 15 months, or expiring at next year's Annual General Meeting if earlier. This resolution would permit the directors to allot unissued shares in the capital of the Company up to a maximum nominal amount of £4,088,000 (approximately equal to 23% of the current issued share capital of the Company). This authority covers the issue of further shares to the vendors of Greig Middleton Holdings Limited and Allied Provincial PLC under proposals put to them at the same time as the Company's offer for King & Shaxson Holdings PLC. Assuming full implementation of these proposals the directors would have authority to issue approximately 15% of the then issued share capital.

It would further allow the allotment of shares for cash under a rights issue, with power to make adjustments to deal with overseas shareholders, fractional entitlements and other similar problems; and also to make other issues for cash up to a nominal amount of £890,000 representing approximately 5% of the present issued share capital.

By order of the Board

  
N C Wallis

Secretary

18th June 1997

The directors are required by UK company law to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year, and of the profit or loss of the Group for that year. They are responsible for maintaining proper accounting records, for safeguarding the assets of the Company and of the Group, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

#### To the Members of Gerrard Group plc

We have audited the accounts on pages 32 to 59.

#### Respective responsibilities of directors and auditors

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

#### Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and 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 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 accounts.

#### Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group at 31st March 1997 and of the profit, total recognised gains and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
Coopers & Lybrand

Chartered Accountants and Registered Auditors

London

18th June 1997

**Brian Williamson, CBE (52)**

*Chairman*

Appointed a director in 1978 and Group chairman since 1989; chairman of the London International Financial Futures Exchange 1985-88; director of the Securities and Investments Board; member of the Court of the Bank of Ireland; director of The Fleming Worldwide Income Investment Trust plc and Electra Investment Trust plc.

**Mark Davies (49)**

*Group chief executive*

Appointed Group chief executive in 1995; director of Gerrard Group plc since 1986 and of GNI Limited since 1972; director of The Rank Foundation and of Franklin Property & Investments Limited.

**Robert Elkington (47)**

*Group finance director*

Director of Gerrard Group plc since 1978 and director of Gerrard Vivian Gray Limited since 1987.

**Norman Andrews (59)**

*Chief executive, Greig Middleton*

Appointed a director in December 1996 following the merger of Gerrard Group plc and King & Shaxson Holdings PLC where he had been a director since 1994. Previously a partner of WN Middleton & Co and of Greig Middleton & Co. Director of Greig Middleton & Co Limited since incorporation in 1986.

**Ross Jones (38)**

*Chief executive, Gerrard & King Ltd*

Director of Gerrard Group plc since 1986.

**Mark Kemp-Gee (51)**

*Chairman, Greig Middleton & Co Ltd*

Appointed a director in December 1996 following the merger of Gerrard Group plc and King & Shaxson Holdings PLC where he had been a director since March 1994. Previously senior partner of WN Middleton & Co and of Greig Middleton & Co. Appointed chairman of Greig Middleton & Co Limited on incorporation in 1986.

**Ian Perkins (47)**

*Chairman, Gerrard & King Ltd*

Appointed a director in December 1996 following the merger of Gerrard Group plc and King & Shaxson Holdings PLC where he had been chief executive since 1994. Previously a director of James Capel & Co Limited and head of its Fixed Interest Division. Appointed a director of Greig Middleton Holdings Limited in March 1994.

**Jamie Sheldon, ACA (40)**

*Chief executive, GNI Ltd*

Director of Gerrard Group plc since 1994 and of GNI Limited since 1987.

**Mark Sherriff, CBE (61)**

*Deputy chairman, Greig Middleton*

Appointed a director in December 1996 following the merger of Gerrard Group plc and King & Shaxson Holdings PLC where he had been a director since March 1994. Previously a partner of RC Greig & Co and of Greig Middleton & Co Limited since incorporation in 1986.

**Sir David Money-Coutts, KCVO (65)**

*Non-executive director*

Director of Gerrard Group plc since 1968, having previously been a director of National Discount since 1963. Director of Coutts & Co 1958-96 and of Charities Investment Managers Limited (Charifund) since 1964 (chairman since 1984). Director of M&G Group PLC 1987-97 (chairman 1990-97).

Chairman of the Audit Committee and the Remuneration Committee.

**Antony Beevor (57)**

*Non-executive director*

Appointed in 1995. Executive director of Hambros Bank Limited since 1982 and of Hambros Plc since 1990; director general of the Takeover Panel, 1987-88; non-executive director of Rugby Group plc and Croda International plc.

Member of the Audit Committee and the Remuneration Committee.

**David Dugdale, FCA (54)**

*Non-executive director*

Appointed a non-executive director in December 1996 following the merger of Gerrard Group plc and King & Shaxson Holdings PLC, where he had been a non-executive director since 1992. Formerly joint chief executive and deputy chairman of James Capel & Co Limited. Presently chairman of Trifast plc, and a non-executive director of Dwyer Estates Plc, Ivory & Sime Baronsmead Holdings Limited and Matcon Group Plc.

Member and chairman elect of the Audit Committee and member of the Remuneration Committee.

**Fred Packard (48)**

*Non-executive director*

To be appointed on 1st July 1997, he has been non-executive chairman of GNI Fund Management Limited since May 1997. Partner of Banco de Investimentos Garantia, director of Foreign & Colonial Emerging Markets Limited 1987-96 and chairman of The Jaguar Fund.

The Board fully endorses the principles contained in the Report of the Cadbury Committee on the Financial Aspects of Corporate Governance and the Group complies with the provisions contained in the Code of Best Practice.

The Group is directed and controlled by the Board of Directors and a formal schedule of matters reserved to the Board has been adopted. Committees of the Board responsible for audit and remuneration made up of non-executive directors are in operation. The membership of the Board and its committees are described on page 26 and the directors' contractual arrangements are described in the Report of the Remuneration Committee on pages 28 to 31.

The Board currently consists of nine executive and four non-executive directors. The directors are satisfied that the non-executive directors have brought sufficient independence to the Board and the committees.

#### Going concern

The directors are satisfied that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

#### Internal financial control

The Board of Directors is responsible for the Group's systems of internal financial control, which is designed to ensure effective and efficient operations, financial control and compliance with laws and regulations. In establishing the system of internal financial control the directors have regard to the extent of the relevant financial risk, the likelihood of a loss being incurred and the costs of control. Therefore the system of internal financial control can provide only reasonable, not absolute, assurance against the risk of financial misstatement or loss.

The Board of Directors, which meets monthly, has overall responsibility for the Group's systems of internal financial control, and maintains a schedule of matters reserved to the Board. Day-to-day responsibility is in the hands of the Executive Board which meets weekly.

On behalf of the Board the Audit Committee examines the effectiveness of controls on an ongoing basis. This is carried out primarily by a review of the internal audit programme and the results of its work, reviews of the half year and annual financial statements and a review of the scope and findings of the annual external audit.

A Group internal audit function audits all Group operations on a continuing basis, and the frequency of audit is determined by an assessment of the risk underlying each operation.

The control of the major risks facing the Group is through a system of limits. Limits are produced for position risk and for counterparty and credit risk.

These limits are the responsibility of the Group Risk Department but monthly reports are made to the Board.

Annual budgets are produced for each operating company and for the Group as a whole. The budgets are then approved by the Board. Day-to-day management information is monitored at operating subsidiary level, from which monthly management accounts are prepared. These accounts contain information on current and historic performance, and are reviewed monthly by the Board.

The Group Compliance Department monitors compliance with Rules and Codes of Conduct on a continual basis. The Group attaches great importance to minimising reputational risk. A monthly factual compliance report is made to the Board and an annual report on compliance principles and practice is made to the Audit Committee.

#### Report of the Auditors on Corporate Governance Matters

In addition to our audit of the accounts for the year ended 31st March 1997, we have reviewed the directors' statement on the Group's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which is not disclosed.

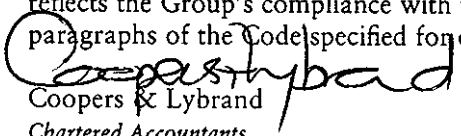
#### Basis of opinion

We carried out our review in accordance with Bulletin 1995/1 'Disclosures relating to corporate governance' issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or its corporate governance procedures, nor on the ability of the Company and the Group to continue in operational existence.

#### Opinion

With respect to the directors' statements on internal financial control and going concern, in our opinion the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and such statements are not inconsistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain directors and officers of the Group, and examination of relevant documents, in our opinion the directors' statement appropriately reflects the Group's compliance with the other paragraphs of the Code specified for our review.

  
Coopers & Lybrand  
Chartered Accountants  
London  
18th June 1997

The Company has adopted the provisions of the Greenbury Code. The remuneration of executive directors is determined by the Remuneration Committee. In framing its policy, the Committee has complied with Section A and has fully considered Section B of the best practice provisions annexed to the Listing Rules of the London Stock Exchange.

## 1 The Remuneration Committee

The Remuneration Committee is appointed by the Board and its primary role is to determine the remuneration and other terms and conditions of employment of the Company's executive directors, and the chairman.

The committee is comprised of the non-executive directors of the Company, other than the chairman. The committee is chaired by Sir David Money-Coutts, and the other members are Antony Beevor and David Dugdale. The chairman and chief executive may attend meetings on invitation.

The remuneration of non-executive directors is decided by the whole Board, within the limits set in the Company's Articles of Association.

## 2 Policy on remuneration of executive directors

Following the merger of King & Shaxson with the Gerrard Group the Committee has reviewed the remuneration of all executive directors. It has concluded that in a larger and more diverse Group it is appropriate that the remuneration of each executive director should reflect the remuneration policy of the operating subsidiary in which he is employed and be determined by the marketplace relating to that company. This policy may lead to differences in remuneration between executive directors, and represents a change from the policy outlined last year.

### *a) Total level of remuneration*

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

The Committee determines the structure and content of executive directors' remuneration packages by reference to a number of factors. These include business practice and conditions within the Group company in which the executive director is employed and throughout the financial industry. The Committee considers the packages offered by competitor companies and may take external advice on the choice of comparator companies. Such companies are chosen to reflect size, diversity and complexity within the same industry.

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

#### *i) Basic salary*

The basic salary for each director is approved each year by the Remuneration Committee, by taking into account the responsibilities and performance of the individual and the remuneration for similar positions in comparable companies.

#### *ii) Annual bonus*

It has been a traditional feature of the industries in which much of the Group operates that a significant proportion of remuneration consists of a discretionary bonus derived from a pool which is directly related to profit. Annual bonuses are considered to be a powerful motivating force and they enable the level of salary and therefore fixed overhead to be kept down. Annual bonuses therefore remain an important part of total remuneration. Following the merger of King & Shaxson and the Gerrard Group the Remuneration Committee has approved a change of policy. There will no longer be a single bonus pool in which all executive directors participate. Directors whose primary responsibility is the management of operating subsidiaries will participate in bonus schemes linked to the profits of those companies. Those directors whose responsibility is the management of the Group as a whole will continue to participate in a scheme linked to the profits and return on capital of the Group. Bonuses will be paid to the directors only at the discretion of the Remuneration Committee, which will take into account individual performance.

#### *iii) Benefits*

The Group provides directors with pension, healthcare and permanent health and life assurance cover. In addition a company car, or a payment in lieu, is provided, and for some directors a mortgage subsidy is available.

#### *iv) Share incentives*

Executive directors hold options on shares in the Company, as listed on page 31. These options relate to a number of different option schemes, some of which have been adopted directly by the Gerrard Group and some which were over shares in King & Shaxson Holdings, which have now been converted to options over Gerrard shares.

The Group continues to believe that share ownership by directors and senior executives creates a community of interest between management and shareholders. In this Report last year it was stated that efforts were being made to design new share incentive schemes to provide extra incentives for directors and senior executives. After extensive review it was decided that there were considerable problems in designing such a share scheme, and that it was more appropriate to permit executive directors to participate in the Company Share Option Plan in line with other executives. This was approved by shareholders at an Extraordinary General Meeting in November 1996.

*v) Profit related pay*

The enlarged Group now contains a number of Profit Related Pay Schemes. Some executive directors may participate in this alongside the vast majority of members and staff in the operating subsidiary in which they are employed.

*c) Policy on service contracts*

As stated in this Report last year the Committee has considered the recommendation of the Greenbury Committee that contracts should be reduced to one year's notice and has determined that the contracts of all executive directors will become one year's notice from 1st April 1998, when the current contract period ceases. Non-executive directors are appointed for an initial term of three years but have no service contract.

Of the executive directors who will offer themselves for appointment or reappointment at the Annual General Meeting of the Company in 1997, at that date M E T Davies and T J R Sheldon have service contracts with an unexpired term of one year eight months, whilst N F Andrews, M N Kemp-Gee, I R B Perkins, and R M Sherriff have contracts terminable at one year's notice.

*d) Termination payments*

Arrangements for the early termination of contracts are carefully considered by the Committee. When calculating termination payments, the Committee takes into account a variety of factors including age, years of service and the individual director's obligation to mitigate his own loss by seeking new employment.

D A Brayshaw retired from the Board on 31st March 1996. At that date he had a two year rolling contract. The Committee agreed to make a termination payment of £139,000 and not to apply any additional actuarial discount to his pension when he draws it early at age 50 in 1998. R B Williamson retired as executive chairman in December 1996. He received a termination payment of £100,000 and was granted a full pension even though he had not reached the Normal Retirement Age. T W Fellowes retired in November 1996 and was also granted a full pension even though he had not reached the Normal Retirement Age.

*e) Pension policy for executive directors*

A number of different pension schemes exist within the Group and executive directors may be members of different schemes, some of which are defined benefit schemes and some defined contribution schemes. It is intended that executive directors will continue to have differing pension arrangements. Greig Middleton makes payments representing 15% of salary into individual pensions on behalf of N F Andrews, M N Kemp-Gee and R M Sherriff. The Gerrard & National Retirement Benefit Scheme, of which M E T Davies, T J R Sheldon, R J Elkington, A S R Jones and E Wright are members, is a funded defined benefit scheme providing a pension of two-thirds of final salary at a retirement age of 55, although, at its discretion, the Remuneration Committee may permit variations to the basic rules. The Group makes contributions totalling 23% of salary to personal pension arrangements on behalf of I R B Perkins. During the year contributions were made to S P Cooke's retirement annuity policies.

## 3 Directors emoluments

	Salary & fees £000	Benefits £000	Annual Bonus £000	Total 1997 £000	Total 1996 £000	Pensions 1997 £000	Pensions 1996 £000
<b>Executive directors</b>							
M E T Davies	199	10	150	359	405	14	41
R J Elkington	183	6	92	281	278	13	13
N F Andrews	41	4	27	72	—	5	—
S P Cooke	169	10	72	251	284	—	—
A S R Jones	165	4	112	281	317	11	11
M N Kemp-Gee	38	4	22	64	—	5	—
I R B Perkins	44	1	37	82	—	—	—
T J R Sheldon	159	15	112	286	378	11	38
R M Sherriff	30	4	9	43	—	4	—
E Wright	167	1	72	240	374	11	10
T W Fellowes	130	10	—	140	295	9	13
<b>Non-executive directors</b>							
R B Williamson	155	8	—	163	322	11	15
Sir D B Money-Coutts	26	—	—	26	21	—	—
A R Beevor	23	—	—	23	9	—	—
D J Dugdale	7	1	—	8	—	—	—
Professor C A E Goodhart	13	—	—	13	18	—	—

The figures for pensions shown above are the cash contributions paid by the Group. In some cases these contributions are currently reduced because of the actuarial surplus in the Gerrard & National Retirement Benefit Scheme, and do not represent the real value of pension entitlements. Part of the remuneration of R B Williamson relates to the period during which he served as executive chairman of the Group.

## 4 Directors' interests in shares

The interests of the directors in the ordinary shares of the Company were:

	At 31st March 1997			At 1st April 1996 (or date of appointment if later)		
	Beneficially held	Otherwise held	Under option	Beneficially held	Otherwise held	Under option
R B Williamson	34,817	14	180,296	34,817	14	180,296
M E T Davies	3,156,600	—	53,296	3,156,600	—	8,296
R J Elkington	33,938	2,000	156,596	33,938	2,000	109,548
N F Andrews	221,181	—	—	55,294	—	—
S P Cooke	10,000	—	53,296	10,000	—	8,296
A S R Jones	17,609	—	182,252	17,609	—	137,252
M N Kemp-Gee	238,673	5,100†	—	59,743	5,100†	—
I R B Perkins	67,340	—	31,600	17,340	—	81,600
T J R Sheldon	420,000	—	53,296	420,000	—	8,296
R M Sherriff	203,161	—	—	50,790	—	—
E Wright	385,000	—	8,296	385,000	—	8,296
Sir D B Money-Coutts	10,730	9,752	—	10,730	9,752	—
A R Beevor	1,100	—	—	1,100	—	—
D J Dugdale	17,000	—	—	17,000	—	—

†Also included under the shares beneficially held by M N Kemp-Gee

I R B Perkins is beneficially interested in 100 King & Shaxson Holdings PLC cumulative participating preferred ordinary shares of £1 at the date of the balance sheet and was so interested at the date of his appointment.

D J Dugdale is beneficially interested in 100 King & Shaxson Holdings PLC 5% cumulative second preference shares of £1 at the date of the balance sheet and was so interested at the date of his appointment.



#### 4 Directors' interests in shares continued

The following directors are beneficially interested in shares which may be issued on the conversion of the subordinated convertible unsecured 7.5% loan stock (see note 27 on page 55). The maximum number of shares is as follows:

At 31st March 1997 and at date of appointment

N F Andrews	193,537
M N Kemp-Gee	191,252
R M Sherriff	177,767

On 16th April 1997 N F Andrews was issued with and sold 63,097 shares, M N Kemp-Gee was issued with and sold 62,352 shares, and R M Sherriff was issued with and sold 57,955 shares. All shares were issued on cancellation of loan stock in relation to the GMETZ 2 settlement as detailed in note 27 on page 55, and the maximum figures stated above are consequently reduced.

#### 5 Other than described above, there were no changes in directors' interests up to 18th June 1997.

#### Details of directors' options

	At 1st April 1996 (or date of appointment if later)	Exercised during the year	At 31st March 1997	Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
R B Williamson	29,000	–	29,000	255.0p	–	29 Jun 92	28 Jun 99
	52,500	–	52,500	279.0p	–	12 Jul 93	11 Jul 00
	40,000	–	40,000	286.0p	–	4 Jul 94	3 Jul 01
	12,500	–	12,500	300.0p	–	20 Jun 95	19 Jun 02
	8,296	–	8,296	226.0p	–	1 Sep 97	28 Feb 98
	38,000	–	38,000	459.0p	–	6 Jan 97	5 Jan 04
M E T Davies	8,296	–	8,296	226.0p	–	1 Sep 97	28 Feb 98
	–	–	45,000	320.5p	–	28 Jan 00	28 Jan 07
R J Elkington	32,500	–	32,500	279.0p	–	12 Jul 93	11 Jul 00
	30,000	–	30,000	286.0p	–	4 Jul 94	3 Jul 01
	4,900	–	4,900	300.0p	–	20 Jun 95	19 Jun 02
	4,148	–	4,148	226.0p	–	1 Sep 97	28 Feb 98
	38,000	–	38,000	459.0p	–	6 Jan 97	5 Jan 04
	–	–	45,000	320.5p	–	28 Jan 00	28 Jan 07
	–	–	2,048	238.0p	–	1 Feb 02	31 July 02
S P Cooke	8,296	–	8,296	226.0p	–	1 Sep 97	28 Feb 98
	–	–	45,000	320.5p	–	28 Jan 00	28 Jan 07
A S R Jones	44,356	–	44,356	401.0p	–	20 Jun 90	19 Jun 97
	11,800	–	11,800	279.0p	–	12 Jun 93	11 Jul 00
	30,000	–	30,000	286.0p	–	4 Jul 94	3 Jul 01
	4,800	–	4,800	300.0p	–	20 Jun 95	19 Jun 02
	8,296	–	8,296	226.0p	–	1 Sep 97	28 Feb 98
	38,000	–	38,000	459.0p	–	6 Jan 97	5 Jan 04
	–	–	45,000	320.5p	–	28 Jan 00	28 Jan 07
T J R Sheldon	8,296	–	8,296	226.0p	–	1 Sep 97	28 Feb 98
	–	–	45,000	320.5p	–	28 Jan 00	28 Jan 07
E Wright	8,296	–	8,296	226.0p	–	1 Sep 97	28 Feb 98
I R B Perkins	81,600	50,000	31,600	116.1p	317.5p	22 Jun 95	22 Jun 02

The options have been granted over shares in the Company under option schemes entered into by the Company in 1986, 1992 and 1996 and by King & Shaxson Holdings PLC in 1990. During the year M E T Davies, T J R Sheldon, R J Elkington, S P Cooke and A S R Jones were each granted 45,000 options under the Company Share Option Plan 1996, and R J Elkington was granted 2,048 options under the Sharesave Scheme 1996 invitation. No options lapsed during the year. The market price of the shares at 31st March 1997 was 351p and its range during the year was from 264p to 403p. Further details regarding all the Group's share option schemes are set out in note 21 on page 51.

For the year ended 31st March 1997

	Note	1997 Comparable business £000	1997 Acquisition £000	1997 Total £000	1996 Total £000
Net interest receivable	3	14,189	331	14,520	13,766
Dealing profits		176	40	216	2,032
Fees and commissions		77,471	20,270	97,741	82,023
Dividend income		329	10	339	302
Other operating income		2,019	589	2,608	706
Operating income		94,184	21,240	115,424	98,829
Administrative expenses		(76,374)	(16,791)	(93,165)	(76,608)
Exceptional administrative expenses	6	(1,000)	(6,085)	(7,085)	-
Operating profit/(loss)		16,810	(1,636)	15,174	22,221
Profit on disposal of fixed asset investments		2,577	-	2,577	-
Profit/(loss) on ordinary activities before taxation	3-7	19,387	(1,636)	17,751	22,221
Tax on ordinary activities	8	(5,477)	(1,031)	(6,508)	(6,157)
Profit/(loss) on ordinary activities after taxation		13,910	(2,667)	11,243	16,064
Non-equity minority interests		-	(80)	(80)	-
Equity minority interests		(280)	-	(280)	(383)
Profit/(loss) for the financial year		13,630	(2,747)	10,883	15,681
Dividends	9	(9,487)		(9,487)	(11,258)
Retained profit/(loss) for the year		4,143	(2,747)	1,396	4,423
Earnings per ordinary share					
- Basic	10			20.1p	32.1p
- Fully diluted	10			19.1p	32.1p
Earnings per ordinary share excluding exceptional costs and non-operating items					
- Basic	10			26.3p	32.1p
- Fully diluted	10			24.8p	32.1p

**Statement of Total Recognised Gains**

For the year ended 31st March 1997

	Note	1997 £000	1996 £000
Group profit for the year attributable to members		10,883	15,681
Exchange translation differences	22	(612)	319
Total recognised gains relating to the year		10,271	16,000

There is no difference between either the operating profit on ordinary activities before tax or the retained profit stated above and their historical cost equivalents.

All profits and losses are generated from continuing operations.

The reconciliation of movements in Group shareholders' funds is set out in note 23 on page 53.

At 31st March 1997

	Note	£000	1997 £000	1996 £000
Fixed assets				
Tangible fixed assets	11		13,553	9,803
Fixed asset investments	12		14,743	6,973
			28,296	16,776
Current assets				
Debtors	16	11,356,688	6,650,522	
Investments	17	4,495,758	3,925,747	
Cash at bank and in hand		85,000	66,741	
		15,937,446	10,643,010	
Creditors: amounts falling due within one year	18	(15,790,323)	(10,519,392)	
Net current assets			147,123	123,618
Total assets less current liabilities			175,419	140,394
Creditors: amounts falling due after more than one year	19		(10,816)	(3,131)
Provisions for liabilities and charges	20		(13,925)	(7,951)
			150,678	129,312
Capital and reserves				
Called up share capital	21		17,555	12,221
Shares to be issued	23		4,801	–
Share premium account	22	65,117	64,879	
Merger reserve	22	7,945	–	
General reserve	22	15,000	15,000	
Profit and loss account	22	37,530	36,746	
			125,592	116,625
Equity shareholders' funds	23		147,948	128,846
Equity minority interests			110	466
Non-equity minority interests	15		2,620	–
			150,678	129,312

These accounts were approved by the Board of Directors on 18th June 1997 and signed on its behalf by

M E T Davies  
Chief executive

R J Elkington  
Finance director

For the year ended 31st March 1997

	Note	1997 £000	1996 £000
Net cash inflow from operating activities	29	17,757	19,923
Returns on investments and servicing of finance	30	(558)	(388)
Taxation		(9,343)	(11,628)
Capital expenditure and financial investment	30	(13,916)	(5,588)
Acquisitions and disposals	30	14,126	1,028
Equity dividends paid		(11,244)	(10,983)
Cash outflow before financing		(3,178)	(7,636)
Financing			
Issue of ordinary shares	21	269	638
Increase in debt	31	7,685	971
Increase/(decrease) in cash in the period		4,776	(6,027)

Reconciliation of net cash flow to movement in net funds

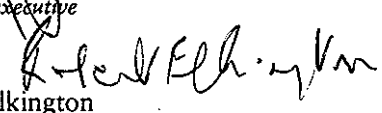
		1997 £000	1996 £000
Increase/(decrease) in cash in the period	31	4,776	(6,027)
Cash inflow from increase in debt and lease financing	31	(7,685)	(971)
Change in net funds resulting from cash flows other than debt and lease financing	31	(2,909)	(6,998)
Net funds at 1st April 1996	31	50,296	57,294
Net funds at 31st March 1997	31	47,387	50,296

At 31st March 1997

	Note	1997 £000	1996 £000
Fixed assets			
Tangible fixed assets	11	-	510
Fixed asset investments	12	4,692	-
Shares in Group undertakings	13	169,876	85,024
		174,568	85,534
Current assets			
Debtors: amounts falling due after one year	16	31,950	6,750
Debtors: amounts falling due within one year	16	39,220	54,675
Cash at bank and in hand		14,763	-
Investments	17	7,089	-
		93,022	61,425
Creditors: amounts falling due within one year	18	(61,402)	(52,227)
Net current assets		31,620	9,198
Total assets less current liabilities		206,188	94,732
Creditors: amounts falling due after more than one year		(2,270)	-
		203,918	94,732
Capital and reserves			
Called up share capital	21	17,555	12,221
Shares to be issued	23	4,801	-
Share premium account	22	43,349	43,081
Merger reserve	22	57,817	-
Profit and loss account	22	80,426	39,430
Equity shareholders' funds		203,918	94,732

These accounts were approved by the Board of Directors on 18th June 1997 and signed on its behalf by

  
M E T Davies  
Chief executive

  
R J Elkington  
Finance director

## 1 Principal Accounting Policies

### *Basis of preparation*

The accounts of the Company and the Group have been prepared under the historical cost convention, in accordance with applicable UK Accounting Standards and in accordance with Schedule 4 of the Companies Act 1985 except as explained below. The directors consider that the following departures from the Companies Act 1985 are necessary to give a true and fair view and that disclosing the effect of non-compliance would not be meaningful.

Marketable securities, loans and deposits held by the Company and Gerrard & King Limited as current trading assets or liabilities are stated at market value, and profits and losses arising from this valuation are taken to the profit and loss account. This is not in accordance with Schedule 4 to the Companies Act 1985, which requires that such assets be stated at the lower of cost and net realisable value, or that if revalued any revaluation differences be taken to revaluation reserve. The directors consider that these requirements would fail to give a true and fair view of the profit for the year of the Group, since the marketability of the securities enables decisions to be taken continually about whether to hold or sell them, and hence the economic measure of profit in any period is properly made by reference to market values.

Turnover, cost of sales and gross profit do not have any meaningful equivalents in the securities business and are therefore not shown in the profit and loss account. Dealing profits represent the net profit on buying and selling securities and off balance sheet instruments and the net profit arising on positions held.

The directors consider that as Gerrard Group plc is a financial institution, the requirement under FRS1 to show cash flows arising from the management of liquid resources would be misleading. Accordingly, movements in current asset investments have been included in the net cash flow arising from operating activities as is permitted for banks.

### *Basis of consolidation*

The consolidated profit and loss account, balance sheet and cash flow statement include the accounts of the parent company and of its subsidiaries made up to 31st March 1997.

### *Merger reserve*

During the year, the Company acquired the whole of the share capital of King & Shaxson Holdings PLC in exchange for shares in Gerrard Group plc. The Company has taken advantage of the merger relief provisions set out in S.131 and S.132 of the Companies Act 1985 and has set up a merger reserve for the difference between the nominal value of the shares issued and the fair value of those shares.

### *Fees and commissions*

Fees and commissions are included in the profit and loss account on an accruals basis.

### *Operating lease rentals*

Costs in respect of operating leases are charged on a straight line basis over the lease term.

### *Pensions and other post-retirement benefits*

Following the acquisition of King & Shaxson Holdings PLC, the Group operates seven pension schemes.

Defined benefit schemes are operated for certain employees of the Company and certain former employees of King & Shaxson Limited and Allied Provincial Securities Limited now employed within Gerrard & King Limited and Greig Middleton Holdings Limited and its subsidiaries respectively.

For the defined benefit schemes actuarial valuations are undertaken on a regular basis. The contributions paid into the schemes, at rates recommended by qualified actuaries, are charged direct to the profit and loss account. Variations from the regular costs, where applicable, are spread over the remaining service lives of current employees in the schemes.

King & Shaxson Holdings PLC, GNI Holdings Limited and its subsidiaries, Gerrard Vivian Gray Limited and its subsidiaries and Greig Middleton Holdings Limited and its subsidiaries operate defined contribution schemes covering eligible employees. The pension costs for these funds are charged direct to the profit and loss account in the accounting period in which they are incurred.

The defined contribution schemes have assets which are held separately from those of the companies involved, and are independently administered.

The future costs of providing other post-retirement benefits are determined by actuarial valuation.

### *Provisions for bad and doubtful debts*

Provisions for bad and doubtful debts are based on an appraisal of the recoverability of debtor balances, loans and advances. When there is no realistic prospect of full recovery, loans are written down to estimated realisable value.

### *Current asset investments*

Current asset investments are marked to market and are included on a trade date basis.

## 1 Principal Accounting Policies continued

### *Assets and liabilities subject to repurchase arrangements*

Repurchase arrangements are treated as financing transactions. Securities purchased under such arrangements are treated as secured loans, and securities sold are treated as secured deposits.

### *Off balance sheet instruments*

Open positions in futures and options, forward rate agreements and traded options are valued on a mark to market basis.

### *Deferred taxation*

Provision is made for taxation deferred as a result of differences in the timing of the recognition of income and expenditure for accounting and taxation purposes, unless the asset or liability is unlikely to crystallise.

### *Foreign currency translation*

Foreign currency assets and liabilities are translated into sterling at the rates ruling at the year end. Income and expenditure in foreign currency is translated at an annual average rate and differences on exchange arising from such translation are included in the profit and loss account. Differences on exchange arising from the retranslation of the opening reserves of foreign subsidiaries are taken to reserves.

### *Tangible fixed assets*

Tangible fixed assets are depreciated on a straight line basis. Leasehold improvements are depreciated over the lesser of their expected useful lives and the length of lease. The rates of depreciation on other assets are as follows:

Freehold premises	2%
Equipment, fixtures and fittings	20% – 33%
Motor vehicles	25%

### *Finance leases*

Assets held under finance leases and hire purchase contracts are capitalised at their fair value on the inception of the leases and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding.

### *Fixed asset investments*

Market memberships consist of payments made to acquire seats as members of futures markets and other obligations related to such memberships, both in the UK and overseas. These, and other fixed asset investments, are stated at cost less any provision for permanent diminution in value.

### *Own shares*

In accordance with UITF Abstract 13, shares held by the Gerrard Group Employee Share Ownership Trust, for the purpose of satisfying obligations under Group share option plans, are held as fixed asset investments at cost less any provision for permanent diminution in value. Any such diminution in value is charged as an operating cost. Finance and administrative costs are charged to operating costs on an accruals basis. Shares for which the Trustees have waived dividends are excluded from undiluted earnings per share calculations.

### *Goodwill*

Goodwill or capital reserve arising on the acquisition of subsidiary undertakings, being the difference between cost and the fair value of net assets acquired, is taken directly to reserves in the year of acquisition.

## 2 Segmental Information

As stated in the accounting policies, it is the opinion of the directors that turnover is not applicable as a measure of the performance of the Group. Operating income is considered a better measure of performance and is stated below.

	Operating income		Net assets	
	1997 £000	1996 £000	1997 £000	1996 £000
Foreign exchange and derivative broking, international stock lending and fund management	57,564	59,859	59,782	49,578
Stockbroking, fund management and related services	41,635	20,810	23,620	9,990
Moneybroking	–	6,009	–	–
Money market and related services	11,550	8,576	4,438	50,625
Central finance and other services	4,675	3,575	20,838	19,119
	115,424	98,829	150,678	129,312

	Operating profit before exceptional costs		Exceptional costs		Operating profit after exceptional costs	
	1997 £000	1996 £000	1997 £000	1996 £000	1997 £000	1996 £000
Foreign exchange and derivative broking, international stock lending and fund management	9,605	12,977	(1,000)	–	8,605	12,977
Stockbroking, fund management and related services	8,118	3,353	(4,705)	–	3,413	3,353
Moneybroking	–	3,601	–	–	–	3,601
Money market and related services	4,451	3,272	(1,380)	–	3,071	3,272
Central finance and other services	85	(982)	–	–	85	(982)
	22,259	22,221	(7,085)	–	15,174	22,221

In the opinion of the directors the profits of the Group are derived substantially from European operations, and the assets and liabilities of the Group reside substantially within Europe. No other geographical category is material in terms of disclosure in these accounts.

Net assets are stated after adding back subordinated debt issued by the Company.

The acquisition of King & Shaxson Holdings PLC in the period had the effect on stockbroking, fund management and related services of increasing the operating income by £20.1 million, increasing operating profit before exceptional costs by £4.6 million and increasing net assets by £14.6 million.

## 3 Net Interest Receivable

	1997 £000	1996 £000
Interest receivable and similar income	429,912	206,417
Interest payable and similar charges on borrowings repayable within five years	(415,392)	(192,651)
	14,520	13,766

Interest receivable and payable is principally generated from day-to-day trading assets and liabilities.



#### 4 Directors' Emoluments

Emoluments of the highest paid director are as follows:

	1997 £	1996 £
Aggregate emoluments excluding pension contributions	359,001	404,666
Company pension contributions to money purchase scheme	-	40,500
Defined benefit pension scheme:		
Accrued pension at end of year	103,226	
Accrued lump sum at end of year	-	

Total emoluments of all directors are as follows:

	1997 £	1996 £
Aggregate emoluments	2,332,451	2,939,727
Gains made on exercise of share options	100,700	38,351
Company pension contributions to money purchase schemes	14,000	79,000
Compensation for loss of office	100,000	215,000

Retirement benefits are accruing to three directors under money purchase arrangements and to five directors under a defined benefit scheme.

Details of directors' remuneration by director, and details of their interests in the share capital of the Company are set out in the Report of the Remuneration Committee on pages 28 to 31.

#### 5 Employee Information

The average number of persons employed by the Group (including directors) during the year is analysed below:

	1997 Number	1996 Number
Broking and dealing	593	434
Administration	508	317
	1,101	751

Costs for the year in respect of those employees were:

	1997 £000	1996 £000
Wages and salaries	48,325	40,514
Social security costs	4,927	4,257
Other pension costs	2,746	1,798

**6 Exceptional Administrative Expenses**

Included within administrative expenses are the following exceptional expenses:

	1997 £000	1996 £000
Provision in respect of unoccupied property	4,131	–
Redundancy costs	1,597	–
Fixed assets written off	247	–
Provisions for restructuring of overseas offices	1,000	–
Reorganisation and integration costs	110	–
	<b>7,085</b>	<b>–</b>

**7 Profit on Ordinary Activities Before Taxation**

Profit is stated after charging/(crediting):

	1997 £000	1996 £000
Operating lease rentals	3,667	3,339
Depreciation	3,667	2,825
Provision against fixed asset investments	319	70
Loss on sale of fixed asset investments	–	6
(Profit)/loss on sale of tangible fixed assets	(619)	16

*Auditors' remuneration*

The auditors' remuneration paid to Coopers & Lybrand was £354,000 (1996: £356,000) of which £80,000 (1996: £60,000) related to Gerrard Group plc. Fees paid to Coopers & Lybrand in respect of non-audit services to the Company and its UK subsidiary undertakings were £510,000 (1996: £422,000). Deloitte & Touche also act as auditors to several Group companies and received remuneration of £31,000 for the period since the merger with King & Shaxson Holdings PLC.

*Pension schemes*

There are seven funded pension schemes operated by the Group, comprising three defined benefit and four defined contribution schemes, with assets held in separate trustee administered funds. Not all Group employees are members of a pension scheme.

The Company's defined benefit scheme was assessed by a professionally qualified independent actuary, using both the projected unit and the attained age methods of valuation, as appropriate to the status of individual members, as at 5th April 1995.

The assumptions which have the most significant effects on the results of the valuation are those relating to the future return on investments and the future rates of increases in salaries and pensions. It has been assumed that the investment return would be at a rate of 9% per annum compound, that salary increases would average 8% per annum, inclusive of an allowance for promotional increases and that pensions would increase at 5% per annum.

At the date of the latest actuarial valuation, the market value of the scheme's assets was £39,300,000.

The excess of the actuarial value of those assets over benefits that had accrued to members, after allowing for expected future increases in pensionable remuneration, is being spread over the average remaining service lives of current employees by reducing contributions to the scheme.

The pension cost for the Company's defined benefit scheme amounted to £205,253 (1996: £192,122).

Pension costs of the King & Shaxson Holdings PLC defined benefit pension scheme are assessed in accordance with the advice of professionally qualified actuaries using the attained age method. Actuarial valuations of this scheme are performed triennially. The most recent valuation was made as at 1st August 1996, and the assumptions which had the most significant effect on the results of this valuation were that present and future pensions would increase at an average rate of 5% per annum compound and that the excess of the average rate of return on investments over average pensionable salary increases would be 0.5%.

## 7 Profit on Ordinary Activities Before Taxation continued

At the date of the most recent actuarial valuation the total actuarial value of the scheme assets was sufficient to cover 108% of the benefits which had accrued to pension scheme members after allowing for future increases in earnings.

The total market value of the defined benefit pension scheme assets including the value of annuity contracts already purchased for existing pensioners was £2,183,000 as at the date of the most recent actuarial valuation. The pension cost for the four months in respect of this scheme is £31,986 (1996: Nil).

Certain employees of the Greig Middleton Group are also members of a defined benefit scheme.

Pension costs of the Greig Middleton Group defined benefit pension scheme are assessed in accordance with the advice of professionally qualified actuaries using the projected unit method. Actuarial valuations of this scheme are performed triennially. The most recent valuation was made as at 1st April 1995, and the assumptions which had the most significant effect on the results of this valuation were that investment returns would be 9% per annum, salary increases would be 7% per annum and that dividend growth would be 4.5% per annum compound.

At the date of the most recent actuarial valuation the total value of the scheme assets was sufficient to cover 96% of the benefits which had accrued to pension scheme members after allowing for future increases in earnings. This deficit will be eliminated over the average expected lifetime of members.

The total market value of assets including the value of annuity contracts already purchased for existing pensioners was £6,106,000 as at the date of the most recent actuarial valuation.

The pension cost for the four months in respect of this scheme is £60,354 (1996: Nil).

For defined contribution schemes the pension cost is accounted for on an accruals basis. There were no material amounts outstanding at the year end. The total pension cost for the various defined contribution schemes amounted to £2,266,730 (1996: £1,522,103).

## 8 Tax on Profit on Ordinary Activities

	1997 £000	1996 £000
UK corporation tax at 33% (1996: 33%)	5,580	4,306
Double taxation relief	–	(87)
UK tax on franked investment income at 20% (1996: 20%)	27	44
Deferred tax	495	1,729
Overseas tax	406	424
	6,508	6,416
Adjustment to prior years	–	(259)
	6,508	6,157

## 9 Dividends

	1997 £000	1996 £000
Dividends on equity shares:		
Ordinary – Interim paid of 8p per share (1996: 8p per share)	3,910	3,925
Ordinary – Proposed final of 8p per share (1996: 15p per share)	5,577	7,333
	9,487	11,258

## 10 Earnings Per Share

Earnings per share are based upon profit after deducting taxation and minority interests. In addition, adjusted earnings per share figures are shown based upon earnings excluding the exceptional costs and non-operating items, arising in 1997, after tax. This is included to provide a better understanding of the underlying trading performance of the Group. The weighted average number of shares excludes 1,764,000 shares held by the Gerrard Group Executive Share Ownership Trust on which entitlement to dividends has been waived.

	1997	1996
Earnings per ordinary share are calculated as follows:		
Basic:		
Profit attributable to members of the Group	£10,883,000	£15,681,000
Weighted average number of ordinary shares in issue	54,269,791	48,801,823
Earnings per ordinary share	20.1p	32.1p
Fully diluted:		
Adjusted profit attributable to members of the Group	£11,254,000	£15,681,000
Adjusted weighted average number of ordinary shares	58,992,026	48,801,823
Earnings per ordinary share	19.1p	32.1p
Adjusted basic:		
Adjusted earnings	£14,251,000	£15,681,000
Weighted average number of ordinary shares in issue	54,269,791	48,801,823
Adjusted earnings per ordinary share	26.3p	32.1p
Adjusted fully diluted:		
Adjusted fully diluted earnings	£14,622,000	£15,681,000
Adjusted weighted average number of ordinary shares	58,992,026	48,801,823
Adjusted earnings per ordinary share	24.8p	32.1p

*Reconciliation of adjusted earnings*

	1997 £m	1997 Per share	1996 £m	1996 Per share
Profit attributable to members:	10.9	20.1p	15.7	32.1p
Adjustments:				
Exceptional costs	7.1	13.1p	-	-
Profit on disposal of fixed asset investments	(2.6)	(4.8)p	-	-
Attributable taxation	(1.1)	(2.1)p	-	-
Adjusted earnings (above)	14.3	26.3p	15.7	32.1p

## 11 Tangible Fixed Assets

Group	Freehold premises £000	Short leasehold improvements £000	Equipment fixtures & fittings £000	Motor vehicles £000	Assets in the course of construction £000	Total £000
<b>Cost</b>						
Brought forward at 1st April 1996	854	6,570	12,620	558	-	20,602
Arising from acquisitions	-	976	12,127	1,469	-	14,572
Additions	-	207	3,204	130	813	4,354
Effect of exchange rate movement	-	-	(102)	-	-	(102)
Disposals	(532)	-	(7,610)	(570)	-	(8,712)
Carried forward at 31st March 1997	322	7,753	20,239	1,587	813	30,714
<b>Depreciation</b>						
Brought forward at 1st April 1996	50	1,896	8,450	403	-	10,799
Arising from acquisitions	-	636	9,177	556	-	10,369
Charge for the year	4	679	2,919	65	-	3,667
Effect of exchange rate movement	-	-	(51)	-	-	(51)
Disposals	(25)	-	(7,296)	(302)	-	(7,623)
Carried forward at 31st March 1997	29	3,211	13,199	722	-	17,161
Net book value at 31st March 1997	293	4,542	7,040	865	813	13,553
Net book value at 31st March 1996	804	4,674	4,170	155	-	9,803

The net book value of tangible fixed assets includes an amount of £1,209,000 (1996: Nil) in respect of assets held under finance leases.

Company	Freehold premises £000	Total £000
<b>Cost</b>		
Brought forward at 1st April 1996	531	531
Additions	-	-
Disposals	(531)	(531)
Carried forward at 31st March 1997	-	-
<b>Depreciation</b>		
Brought forward at 1st April 1996	21	21
Charge for the year	4	4
Disposals	(25)	(25)
Carried forward at 31st March 1997	-	-
Net book value at 31st March 1997	-	-
Net book value at 31st March 1996	510	510

## 12 Fixed Asset Investments

Group	Associated undertaking £000	Unlisted equity investments £000	Market memberships £000	Own shares and other investments £000	Total £000
Cost					
Brought forward at 1st April 1996	962	1,986	5,013	339	8,300
Arising from acquisitions	–	300	–	39	339
Additions	239	332	3,294	4,958	8,823
Revaluations	(62)	(47)	(231)	–	(340)
Disposals	–	(433)	(292)	–	(725)
Carried forward at 31st March 1997	1,139	2,138	7,784	5,336	16,397
Provisions					
Brought forward at 1st April 1996	148	981	–	198	1,327
Arising from acquisitions	–	–	–	8	8
Provided in the year	214	68	–	37	319
Carried forward at 31st March 1997	362	1,049	–	243	1,654
Net book value at 31st March 1997	777	1,089	7,784	5,093	14,743
Net book value at 31st March 1996	814	1,005	5,013	141	6,973

## Associated Undertaking

	Country of incorporation and operation	Principal activity	Group interest in ordinary shares
Trifutures SA	France	Futures broking	49%

Shares in Trifutures SA are held by GNI Holdings Limited.

*Unlisted Equity Investments*

Through Gerrard Vivian Gray Limited, the Group has a 45% interest in GVT Limited, a fund management company registered in Bermuda. Gerrard Vivian Gray Limited does not exercise any significant management control over the company, and the directors do not regard the company as an associate.

Through Majestic Investments Limited, the Group has a 28% interest in Just Ice (UK) Limited, an ice producing company. Majestic Investments Limited does not exercise any significant management control over the company, and the directors do not regard the company as an associate.

## 12 Fixed Asset Investments continued

*Own shares and other investments*

Other investments include £4,692,240 (1996: £Nil) in respect of 1,764,000 (1996: Nil) ordinary 25p shares in Gerrard Group plc held at cost by the Gerrard Group Employee Share Ownership Trust (ESOT) for the purpose of satisfying obligations under share option plans for the benefit of the Group's employees. The market value of the ESOT's shares as at 31st March 1997 was £6,191,640 (1996: Nil). The purchase of the shares on the open market was funded by a loan granted by Gerrard Group plc. Dividend income from the shares held by the ESOT has been waived by the trust.

Company	Own shares and other investments £000	Total £000
Cost and net book value		
Brought forward at 1st April 1996	-	-
Additions	4,692	4,692
Carried forward at 31st March 1997	4,692	4,692

## 13 Shares in Group Undertakings

Company	Note	£000
At 1st April 1996		85,024
Acquisitions:		
King & Shaxon Holdings PLC	28	93,920
Gerrard Vivian Gray Institutional Ltd	28	2,897
Disposals:		
Gerrard & King Limited		(11,965)
At 31st March 1997		169,876

The shares in Gerrard & King Limited were sold during the year to King and Shaxson Holdings PLC, consideration for which included an issue of shares of £28,300,000. This amount is included in the acquisition amount stated above.

## 14 Subsidiary Undertakings

The Group's principal operating subsidiaries are as follows:

	Percentage owned at 31st March 1997	Description of shares	Principal country of operation
Gerrard & King Limited carries on business as a specialist bank and counterparty to the Bank of England in its open market operations. The company also carries on the trade of UK equity and gilt stock lending and borrowing. The company is an Authorised Institution under the Banking Act 1987 and is regulated by the Bank of England and the SFA. It is a member of the London Discount Market Association and the London Stock Exchange.	100	25p ordinary	UK
GNI Holdings Limited and its subsidiary undertakings carry on business as brokers and fund managers in the futures, options and foreign exchange markets. The company also carries on the trade of international bond lending and borrowing. Certain subsidiaries are regulated by the SFA, and are members of LIFFE, the London Stock Exchange, ISMA and various London and overseas futures exchanges.	100 100 100	10p deferred £1 preference US\$0.01 warrants on ordinary	UK
Greig Middleton Holdings Limited and its subsidiary undertakings carry on business as private client and institutional stockbrokers, fund managers and providers of related financial services including corporate finance. Greig Middleton & Co. Limited is regulated by the SFA and is a member of the London Stock Exchange. Greig Middleton Financial Services Limited is a member of the PIA.	100	£1 ordinary	UK
Gerrard Vivian Gray Limited and its subsidiary undertakings carry on business as stockbrokers and fund managers and as providers of related financial services. The company is regulated by the SFA and is a member of the London Stock Exchange. One of its subsidiaries is regulated by IMRO. The business of Gerrard Vivian Gray was transferred to Greig Middleton with effect from 27th May 1997.	100	£1 ordinary	UK
King & Shaxson Bond Brokers Limited carries on business as brokers in UK gilts and other UK bonds. The company is regulated by the SFA.	100	£1 ordinary	UK
Lombard Street Research Limited carries on business as a provider of economic research.	51	£1 ordinary	UK

The preference shares held in GNI Holdings Limited are convertible redeemable preference shares. Any preference shares remaining unconverted may be redeemed at the option of GNI Holdings Limited prior to 2000.

On 29th November 1996, the acquisition of the whole of the share capital of King & Shaxson Holdings PLC by the Company was declared unconditional as to acceptances (see note 28).

A complete list of subsidiary undertakings can be obtained on request from the Company Secretary.



## 15 Non-Equity Minority Interests

Smith St Aubyn (Holdings) PLC has in issue 270,000 4.2% non-cumulative preference shares of £1 each and 1,350,000 9.5% cumulative preference shares of £1 each, both classes of which are listed on a recognised stock exchange. King & Shaxson Holdings PLC has in issue 350,000 5% cumulative preference shares of £1 each, 350,000 5% cumulative second preference shares of £1 each and 300,000 cumulative participating preferred ordinary shares of £1 each. Each class of share is listed on a recognised stock exchange. The shares do not entitle the holders to any rights against other Group companies. None of these shares are held by Group companies.

Following the year end, it has been announced that it is intended to cancel the non-equity minority shares by way of a reduction of capital.

## 16 Debtors

	1997 £000	Group 1996 £000	1997 £000	Company 1996 £000
Amounts falling due after one year:				
Amounts due from subsidiary undertakings	-	-	31,950	6,750
Amounts falling due within one year:				
Trade debtors	400,623	107,863	-	-
Net amounts available in segregated accounts	49,899	130,381	-	-
Loans and advances	469,733	662,943	-	-
Secured stock borrowing	6,067,674	3,543,779	-	-
Securities purchased under agreements to resell	4,315,925	2,180,280	-	-
Amounts due from subsidiary undertakings	-	-	30,787	50,326
Amounts due from associated undertaking	46	-	-	-
Taxation recoverable	902	1,111	7	1,105
Other debtors	16,817	8,045	4,221	-
Prepayments and accrued income	28,128	12,333	-	-
ACT recoverable	6,941	3,787	4,205	3,244
	11,356,688	6,650,522	39,220	54,675

Loans and advances include loans by a banking subsidiary undertaking to two directors of the Company amounting to £114,000.

Net amounts available in segregated accounts comprise cash, amounts due from brokers and amounts due to and from clients in respect of the futures and options broking business.

Client settlement money and client free money arising from the stockbroking business which is in the process of being paid to clients or transferred to their deposit accounts is included in the balance sheet.

Excluded from the balance sheet are bank deposits held on behalf of clients which are kept in client deposit accounts. These deposits amounted to £205,161,000 (1996: £43,225,000).

## 17 Investments

	1997 £000	Group 1996 £000	1997 £000	Company 1996 £000
Bills discounted				
Treasury bills	19,612	277,096	-	-
Other eligible bills	2,725,424	1,884,768	-	-
Debt securities				
Interest bearing certificates of deposit	1,740,664	1,512,080	-	-
Discounted certificates of deposit	-	249,950	-	-
Other listed investments				
UK investments	11	958	-	-
Foreign investments	1,527	201	-	-
Other unlisted investments				
UK investments	-	563	-	-
Foreign investments	8,520	131	7,089	-
	4,495,758	3,925,747	7,089	-
Total listed investments, all of which are listed on a recognised stock exchange	1,538	1,159	-	-

## 18 Creditors: Amounts falling due within one year

	1997 £000	Group 1996 £000	1997 £000	Company 1996 £000
Bank loans and overdrafts	26,884	13,401	-	-
Secured deposits	5,707,839	4,047,504	-	-
Securities sold under agreements to repurchase	5,426,546	4,006,046	-	-
Secured stock lending	3,653,568	1,661,675	-	-
Unsecured deposits	355,495	337,312	-	-
Trade creditors	449,394	246,513	-	-
Short position in securities	-	25,859	-	-
Corporation tax	7,684	6,741	28	-
ACT payable	1,437	1,888	1,394	1,833
Amounts due to subsidiary undertakings	-	-	53,296	42,448
Other creditors	107,556	136,287	-	613
Taxation and social security	2,358	1,207	-	-
Accruals and deferred income	45,423	27,626	1,107	-
Dividends payable	5,577	7,333	5,577	7,333
Obligations under finance leases	562	-	-	-
	15,790,323	10,519,392	61,402	52,227

Dealing securities and securities received against money and stocks lent to third parties are used to secure deposits, repurchase liabilities and borrowed stock amounting to £14,787,953,000 (1996: £9,715,225,000).

Other creditors includes an amount of £4,221,000 payable to the Greig Middleton Enterprise Zone Trust 2 Action Group (see note 27).

## 19 Creditors: Amounts falling due after more than one year

	1997 £000	Group 1996 £000
Deferred consideration	1,195	–
Bank loans and overdrafts	2,097	3,044
Overseas tax	87	87
	3,379	3,131
Subordinated convertible unsecured 7.5% loan stock	4,179	–
Less: Write down (see below)	(4,179)	–
	–	–
Subordinated loan stock	5,800	–
Convertible unsecured 5.75% loan stock	1,075	–
Obligations under finance leases	562	–
	10,816	3,131

*Deferred consideration*

Deferred consideration represents contingent consideration payable for the acquisition of Gerrard Vivian Gray Institutional Limited (see note 28).

*Bank loans and overdrafts*

Bank loans and overdrafts falling due after one year are repayable as follows:

	1997 £000	Group 1996 £000
Between one and two years	689	749
Between two and five years	1,393	2,250
In five years or more	15	45
	2,097	3,044

Included in bank loans and overdrafts are:

A US\$250,000 unsecured loan. Interest is payable at 7/8% over London interbank Euro-currency market rate.

A DM125,000 unsecured loan. Interest is payable at 7/8% over London interbank Euro-currency market rate.

A £90,000 loan, secured by a registered bond over a freehold property at 14 Britannia Place, Bath Street, St. Helier, Jersey. Interest is payable at 1½% over Lloyds Bank plc base rate.

An unsecured loan agreement with Royal Bank of Scotland plc for US\$2,500,000. Interest is payable at a rate equivalent to 1½% per annum above the Royal Bank of Scotland plc LIBOR rate.

A Sing\$3,500,000 unsecured loan. Interest is payable at 1% over the Singapore interbank market rate.

All of the above loans have been granted to GNI Holdings Limited and its subsidiary undertakings.

## 19 Creditors: Amounts falling due after more than one year continued

*Subordinated convertible unsecured 7.5% loan stock*

	Brought forward at 1st April 1996 £000	Arising on acquisition £000	Written back/(off) in period £000	Carried forward at 31st March 1997 £000
Subordinated convertible unsecured 7.5% loan stock	-	8,400	(4,221)	4,179
Write down	-	(8,400)	4,221	(4,179)
Total	-	-	-	-

The loan stock was issued at par on 9th March 1994 by King & Shaxson Holdings PLC as part consideration for the acquisition of Greig Middleton Holdings Limited. A summary of the terms of the issue and its conversion are set out in note 27.

In the opinion of the directors it is necessary, in order to present a true and fair view of the financial position of the Company and the Group, for the nominal value of the loan stock to be written down to an extent corresponding to the amount of the provision described in note 27.

*Other subordinated loan stock*

Repayable as follows:

	1997 £000	Group 1996 £000
a) £500,000 annually from 31st July 1998, final £400,000 payment due 31st July 2003	2,900	-
b) £250,000 annually from 31st July 1998, final £200,000 payment due 31st July 2003	1,450	-
c) £250,000 annually from 31st July 1998, final £200,000 payment due 31st July 2003	1,450	-

Interest is charged on the above loans at Royal Bank of Scotland PLC base rate plus 2%.

Early repayment is possible only with the permission of the SFA.

The loans are to Greig Middleton & Co. Limited.

*Finance leases*

Obligations under finance leases:

	1997 £000	Group 1996 £000
Amounts falling due		
within one year	562	-
between one and two years	352	-
between two and five years	210	-
	1,124	-

Finance lease obligations are secured on the relevant leased assets.

## 20 Provisions for Liabilities and Charges

	Greig Middleton Enterprise Zone Trust 2 (see note 27) £000	Deferred tax £000	Post- retirement healthcare £000	Property £000	Group Total £000
Brought forward at 1st April 1996	-	2,439	1,112	4,400	7,951
Arising on acquisition	8,400	(344)	-	-	8,056
Charge to profit and loss account for the year	-	495	-	4,131	4,626
Transferred to creditors falling due within one year	(4,221)	(531)	-	-	(4,752)
Expenditure in the year	-	-	(36)	(1,920)	(1,956)
Carried forward at 31st March 1997	4,179	2,059	1,076	6,611	13,925

Deferred tax has not been provided in respect of accumulated earnings of foreign subsidiaries which would be subject to United Kingdom taxation, less double tax relief, amounting to £2,886,000 (1996: £1,719,000), if the earnings were distributed as dividends, on the basis that no such distribution will be made in the foreseeable future. Other than the tax that would arise on these earnings, the amounts above represent the full potential liability of the Group.

At 31st March 1997 full provision continues to be made for liabilities in respect of post-retirement healthcare in accordance with the advice of a qualified actuary.

*Deferred Taxation*

	1997 £000	Group 1996 £000
Accelerated capital allowances	(492)	(457)
Timing differences on trading assets and liabilities	2,551	2,896
	2,059	2,439

## 21 Called up Share Capital

	Authorised 1997 £000	1996 £000	Issued and fully paid up 1997 £000	1996 £000
Ordinary shares of 25p each	30,000	20,000	17,555	12,221

Details of options outstanding over 25p ordinary shares to be issued by Gerrard Group plc under share option schemes at 31st March 1997 are set out below.

Issue number	Detail	Date granted	Number of options	Price per share	Exercisable between
Gerrard Group 1986 executive share option scheme					
Five		19 Jun 87	60,727	401.0p	1990 and 1997
Eight		28 Jun 89	29,000	255.0p	1992 and 1999
Nine		11 Jul 90	149,300	279.0p	1993 and 2000
Ten		3 Jul 91	140,000	286.0p	1994 and 2001
Eleven		19 Jun 92	33,700	300.0p	1995 and 2002
Twelve		5 Jan 94	152,000	459.0p	1997 and 2004

## 21 Called up Share Capital continued

Issue number	Detail	Date granted	Number of options	Price per share	Exercisable between
King & Shaxson 1990 executive share option scheme					
One		1 Jun 90	10,469	217.6p	1993 and 2000
Two		4 Jun 91	32,984	197.0p	1994 and 2001
Three		22 Jun 92	52,000	116.1p	1995 and 2002
Four		28 Jul 94	265,880	197.0p	1997 and 2004
Five		26 Jan 96	352,920	213.2p	1999 and 2006
King & Shaxson 1996 executive share option scheme					
One	Unapproved	27 Mar 96	371,960	223.5p	1999 and 2003
Gerrard Group 1996 Company share option scheme					
Two		28 Jan 97	32,784	320.5p	2000 and 2007
Two	Unapproved	28 Jan 97	192,216	320.5p	2000 and 2007

Details of options over 25p ordinary shares to be issued by Gerrard Group plc under the Group's Sharesave Schemes at 31st March 1997 are set out below.

Issue	Detail	Date granted	Number of options	Price per share	Exercisable
One		11 Aug 92	559,770	226.0p	1997 to 1998
Two	3 year saving	29 Nov 96	210,480	238.0p	1999 to 2000
Two	5 year saving	29 Nov 96	330,885	238.0p	2001 to 2002
King & Shaxson	3 year saving	23 Aug 96	87,942	220.6p	2000
King & Shaxson	5 year saving	23 Aug 96	423,131	220.6p	2002

Details of 25p ordinary shares in Gerrard Group plc issued during the year are set out below.

Detail	Note	Number of shares	Price per share	Aggregate consideration £
Gerrard Group 1986 executive share option scheme issue nine		32,500	279.0p	90,675
Gerrard Group 1986 executive share option scheme issue ten		30,000	286.0p	85,800
Gerrard Group 1986 executive share option scheme issue eleven		4,900	300.0p	14,700
Sharesave issue one		8,853	226.0p	20,008
King & Shaxson 1990 executive share option scheme issue three		50,000	116.1p	58,050
Acquisition of King & Shaxson Holdings PLC	a	17,947,106	—	—
Greig Middleton deferred consideration	a	3,226,711	—	—
King & Shaxson options exercised and exchanged	a	35,360	—	—
		21,335,430		269,233

## Note a

Shares issued as fully paid in exchange for King & Shaxson Holdings PLC ordinary shares in accordance with the offer dated 1st November 1996.

## 22 Reserves

Group	General reserve £000	Share premium account £000	Merger reserve £000	Profit and loss account £000	Total £000
At beginning of year	15,000	64,879	–	36,746	116,625
Premium on issue of shares (nominal value £31,563)	–	238	57,817	–	58,055
Retained profit for the year	–	–	–	1,396	1,396
Goodwill written off (see note 24)	–	–	(49,872)	–	(49,872)
Exchange movement on retranslation of reserves of foreign subsidiary undertakings	–	–	–	(612)	(612)
At end of year	15,000	65,117	7,945	37,530	125,592

Company	Share premium account £000	Merger reserve £000	Profit and loss account £000	Total £000
At beginning of year	43,081	–	39,430	82,511
Premium on issue of shares (nominal value £31,563)	238	57,817	–	58,055
Retained profit for the year	–	–	40,996	40,996
At end of year	43,319	57,817	80,426	181,562

The profit after tax for the year which is attributable to Gerrard Group plc is £50,484,000 and it has been dealt with in the accounts of that company. Under Section 230 of the Companies Act 1985 Gerrard Group plc is exempt from publishing a separate profit and loss account.

## 23 Reconciliation of Movement in Group Shareholders' Funds

	1997 £000	1996 £000
Profit for the financial year	10,883	15,681
Dividends	(9,487)	(11,258)
Share capital allotted for cash	1,396	4,423
Nominal value of shares allotted other than for cash	269	638
Shares to be issued	5,303	–
Goodwill written back	4,801	–
Merger reserve (see note 22)	–	164
Exchange movement on retranslation of reserves of foreign subsidiary undertakings	7,945	–
	(612)	319
Net additions to equity shareholders' funds	19,102	5,544
Opening equity shareholders' funds	128,846	123,302
Closing equity shareholders' funds	147,948	128,846

The effect of a notional conversion of all the convertible unsecured loan stock at 31st March 1997 would be to increase shareholders' funds by £4,179,000.

Shares to be issued comprise 1,241,471 ordinary 25p shares issued in exchange for 1,825,693 King & Shaxson Holdings PLC 20p exchangeable shares subscribed for by the vendors of Greig Middleton Holdings Limited in accordance with the terms of the issuance of the subordinated convertible 7.5% loan stock (see note 27).

In addition up to 3,410,198 exchangeable 20p shares in King & Shaxson Holdings PLC remain to be issued, which in accordance with the terms of the agreement dated 1st November 1996 may be exchanged for shares in the Company.

## 24 Goodwill Written Off to Reserves

	Goodwill £000	Capital reserve £000	Total £000
At 1st April 1996	38,089	(1,416)	36,673
Amounts written off in the year	49,872	–	49,872
At 31st March 1997	87,961	(1,416)	86,545

## 25 Contingent Liabilities and Capital Commitments

	1997 £000	Group 1996 £000
Contingent liabilities of subsidiary undertakings on commercial bills	2,086,384	536,077
Capital commitments: contracted for but not provided	5,300	–

There were also forward contracts and other commitments arising in the normal course of business.

*Financial instrument contracts*

Set out below is an analysis of derivative contracts outstanding at 31st March 1997. All contracts are held wholly for dealing purposes.

*Interest rate contracts*

	1997			1996		
	Notional principal £000	Gross positive fair value £000	Gross negative fair value £000	Notional principal £000	Gross positive fair value £000	Gross negative fair value £000
Contracts outstanding	2,987,500	752	(7)	119,150	56	(189)

The residual maturity and location of counterparty exposure arising from non-margined non-exchange traded contracts included above are set out below. The risk weighted amounts have been calculated in accordance with the Bank of England's guidelines for implementing the European Union Capital Adequacy Directive. Replacement cost is defined as the cost of replacing all transactions that have a positive fair value.

*Forward rate agreements*

	1997			1996		
	Notional principal £000	Replacement cost £000	Risk weighted amount £000	Notional principal £000	Replacement cost £000	Risk weighted amount £000
Expiring within one year	1,720,000	696	11	–	46	–

All exposures are with OECD financial institutions.

*Other contingent liabilities*

A class action has been filed in the New Jersey District Court in the United States against a number of defendants including a subsidiary of the Group in relation to alleged breaches of the United States law. These proceedings will be vigorously defended, and accordingly no provision has been made in the accounts.



## 26 Operating Lease Commitments

The annual rental commitments under operating leases entered into by certain subsidiary undertakings of the Group are as follows:

	1997		1996	
	Land and buildings £000	Other assets £000	Land and buildings £000	Other assets £000
Expiring within one year	207	251	–	103
Expiring between one and two years	1,972	–	684	–
Expiring between two to five years	136	423	–	82
Expiring after five years	4,982	–	3,657	453
	7,297	674	4,341	638

## 27 Subordinated Convertible Unsecured 7.5% Loan Stock

A summary of the terms of the issuance and the conversion of the £4,179,000 King & Shaxson Holdings PLC subordinated convertible unsecured 7.5% loan stock arising from the acquisition of Greig Middleton Holdings Limited by King & Shaxson Holdings PLC is:

- The loan stock is convertible into a maximum of 2,786,000 King & Shaxson Holdings PLC exchangeable shares of 20p each. At the option of the company or of the shareholder, these shares may be converted immediately into 25p ordinary shares in Gerrard Group plc in the ratio of 17 Gerrard Group plc shares to 25 King & Shaxson Holdings PLC exchangeable shares. Such shares will rank pari passu with other Gerrard Group plc ordinary shares in issue upon such conversion except that they will not rank for that proportion of any dividend which is referable to a period in respect of which interest has been paid on the loan stock.
- Such conversion will not take effect unless and until it is agreed or determined that there shall be no further liability in respect of potential claims against the Greig Middleton Holdings Limited vendors in relation to the Greig Middleton Enterprise Zone Trust 2 (a 'Trust Claim'). Special provision has been made to cover the liabilities which may arise in respect of the potential litigation (see note 20).
- In the event of any Greig Middleton Holdings Limited vendors being required to subscribe for new King & Shaxson Holdings PLC exchangeable shares, a nominal amount of the loan stock equal to the liabilities in question will be cancelled.
- The loan stock is not redeemable for cash.
- Interest will be payable on the nominal value of the loan stock outstanding from time to time at the rate of 7.5% per annum in equal instalments on 31st January and 31st July in each year. Interest will cease to accrue on loan stock cancelled or converted.

If King & Shaxson Holdings PLC or Greig Middleton Holdings Limited or any of its subsidiaries is liable to pay any amount in respect of a Trust Claim, or if Greig Middleton Holdings Limited vendors have any liability under the warranties and covenants given in the Loan Stock Trust Deed, such liabilities shall be dealt with, subject to agreed limitations on liabilities, as follows:

- a nominal amount of loan stock equal to the liabilities in question will be cancelled;
- to place King & Shaxson Holdings PLC in funds, the Greig Middleton Holdings Limited vendors will be required to subscribe for new King & Shaxson Holdings PLC exchangeable shares, the total subscription value being the amount of the relevant liabilities.

Prior to the year end, provisional agreement was reached with the Greig Middleton Enterprise Zone Trust 2 Action Group. Consequently, under the terms of the issuance of the subordinated convertible unsecured 7.5% loan stock, the Greig Middleton Holdings Limited vendors were required to subscribe for 1,825,693 new King & Shaxson Holdings PLC exchangeable shares and a nominal amount of loan stock amounting to £4,221,000 was cancelled (see note 19). Accordingly, the special provision referred to in (b) above was adjusted by the same amount. This subscription took place on 16th April 1997. The shares were immediately exchanged for ordinary shares of 25p in Gerrard Group plc.

## 28 Acquisitions

### *King & Shaxson Holdings PLC*

The acquisition of King & Shaxson Holdings PLC was declared unconditional as to acceptances on 29th November 1996. Accordingly, the results of King & Shaxson Holdings PLC have been included in the Group results from 1st December 1996.

On 31st January 1997, the Company completed the acquisition of the whole of the issued share capital of King & Shaxson Holdings PLC. The consideration was satisfied by the issue of 17,947,106 ordinary shares of 25p each whose fair value was deemed to be £2.72. Further consideration of up to 5,548,603 ordinary shares may be payable in respect of further shares in King & Shaxson Holdings PLC that may be issued under arrangements arising from the acquisition by King & Shaxson Holdings PLC of Greig Middleton Holdings Limited and Allied Provincial PLC. In addition 35,360 shares with a nominal value of £8,840 were issued in exchange for 52,000 King & Shaxson Holdings PLC shares issued on exercise of options over that company. The total value of consideration given therefore amounted to £63,917,174. The acquisition expenses amounted to £1,702,875. The Group has used acquisition accounting to account for the purchase.

The summarised unaudited profit and loss account and statement of total recognised gains and losses for King & Shaxson Holdings PLC for the period from 1st May 1996, the beginning of the subsidiary's financial year, to the date of acquisition are as follows:

### **Profit and Loss Account**

	Period ending 30th November 1996 £000
Operating income	31,730
Operating profit and profit on ordinary activities before taxation	1,627
Tax on ordinary activities	(1,258)
Profit on ordinary activities after taxation	369
Minority interests	(87)
Profit for the period	282

### **Statement of Total Recognised Gains and Losses**

Profit for the financial period and total recognised gains	282
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The audited profit on ordinary activities after taxation and minority interests for the year ended 30th April 1996 was £3,840,000 based on its then accounting policies.

### *MacIntyre Hudson Portfolio Management Limited and Grangehouse Investment Limited*

Gerrard Vivian Gray Limited acquired the whole of the issued share capital of Grangehouse Investment Management Limited and MacIntyre Hudson Portfolio Management Limited on 30th September 1996. Total consideration payable in respect of the acquisitions amounted to £2,434,549 (Grangehouse Investments Limited £631,750 and MacIntyre Hudson Portfolio Management Limited £1,802,799). This consideration comprised wholly of cash.

### *Gerrard Vivian Gray Institutional Limited*

Gerrard Group plc acquired the minority interests outstanding in Gerrard Vivian Gray Institutional Limited on 31st January 1997. Total consideration payable comprises initial consideration and deferred consideration dependent upon the vendors remaining in the employment of the Group. The value of initial consideration amounted to £1,299,574, made up of cash of £224,574 and unsecured convertible loan notes of £1,075,000. Payment was made for additional contractual obligations of £380,190. The deferred contingent consideration will be satisfied by the issue of unsecured convertible loan notes up to the value of £1,059,000 and cash of up to £136,475. There are also outstanding contractual obligations relating to the acquisition which may give rise to further payments of up to £442,000. The loan notes are convertible into Gerrard Group plc shares, in accordance with the share price at the time of conversion (2003), and pay interest at 5¼%.

## 28 Acquisitions continued

The assets and liabilities of King & Shaxson Holdings PLC and other acquisitions at the dates of acquisition are set out below:

	King & Shaxson Holdings PLC Book value £000	Others Book value £000	Revaluation £000	Fair value £000
Tangible fixed assets	4,895	6	(692)	4,209
Fixed asset investments	406	–	(75)	331
<b>Current assets</b>				
Debtors	2,238,733	222	(50)	2,238,905
Investments	519,698	–	–	519,698
Cash at bank and in hand	20,294	1,739	–	22,033
<b>Total assets</b>	<b>2,784,026</b>	<b>1,967</b>	<b>(817)</b>	<b>2,785,176</b>
<b>Liabilities</b>				
Creditors	(2,750,473)	(574)	(47)	(2,751,094)
Bank loans and overdrafts	(1,649)	–	–	(1,649)
Provisions for liabilities and charges	(8,056)	–	–	(8,056)
<b>Net assets</b>	<b>23,848</b>	<b>1,393</b>	<b>(864)</b>	<b>24,377</b>
Minority interests	(2,620)	(592)	–	(3,212)
	21,228	801	(864)	21,165
Goodwill – King & Shaxson Holdings PLC				45,257
– Others				4,615
				49,872
<b>Satisfied by</b>				
Shares allotted – King & Shaxson Holdings PLC				63,917
Cash – Others				2,796
Loan notes – Others				2,134
Acquisition expenses – King & Shaxson Holdings PLC				1,703
– Others				487
				71,037

In accordance with the Group's accounting policy, the goodwill arising on consolidation from acquisitions in the year amounting to £49,872,000 has been written off against the merger reserve arising on consolidation. (see note 22.)

*Impact on cash flows*

Owing to the merger of King & Shaxson Limited with Gerrard & National Limited it is not practicable to calculate the contribution of King & Shaxson Holdings PLC to the Group's net operating cash flows.

King & Shaxson Holdings PLC and its subsidiary undertakings utilised £379,000 for investing activities and paid £2,297,000 in respect of taxation.

## 29 Net Cash Flow from Operating Activities

	Note	1997 £000	1996 £000
Operating profit		15,174	22,221
Depreciation on tangible fixed assets	7	3,667	2,825
(Profit)/loss on sale of tangible fixed assets	7	(619)	16
Revaluation of tangible fixed assets	11	51	–
Loss on sale of fixed asset investments		–	6
Provision against fixed asset investments	7	319	70
Revaluation of fixed asset investments	12	340	(148)
Profit on sale of subsidiary		–	(593)
		18,932	24,397
Increase in current asset investments		(568,796)	(2,916,077)
Increase in debtors and other assets		(4,698,420)	(678,418)
Increase in creditors and other liabilities		5,259,687	3,591,664
Increase in provisions for liabilities and charges		6,354	(1,643)
Net cash flow from operating activities		17,757	19,923

## 30 Analysis of Headings Netted in the Cash Flow Statement

	Note	1997 £000	1996 £000
<i>Returns on investments and servicing of finance</i>			
Dividends paid to minorities		(558)	(388)
Net cash outflow for returns on investment and servicing of finance		(558)	(388)
<i>Capital expenditure and financial investment</i>			
Purchase of tangible fixed assets	11	(4,354)	(5,006)
Tangible fixed assets acquired with subsidiary		(4,203)	–
Sale of tangible fixed assets		1,708	163
Purchase of fixed asset investments	12	(8,823)	(915)
Fixed asset investments acquired with subsidiary		(331)	–
Disposal of fixed asset investments		2,087	170
Net cash outflow for capital expenditure		(13,916)	(5,588)
<i>Acquisitions and disposals</i>			
Purchase of subsidiary undertaking	28	(2,796)	–
Acquisition expenses		(2,407)	–
Cash acquired with subsidiary		20,384	–
Dividends paid to ordinary shareholders of King & Shaxson Holdings PLC		(1,055)	–
Disposal of subsidiary undertaking		–	1,028
Net cash inflow/(outflow) for acquisitions and disposals		14,126	1,028
<i>Financing</i>			
Issue of ordinary shares	21	269	638
Issue of shares		269	638
Loans arising on acquisition		6,875	–
Deferred consideration on acquisition		1,195	–
Increase/(repayment) of long-term loans		(947)	971
Finance leases arising on acquisition		562	–
Increase in debt		7,685	971
Net cash inflow from financing		7,954	1,609

## 31 Analysis of Net Funds

	1st April 1996 £000	Cash flow £000	31st March 1997 £000
Net cash:			
Cash at bank and in hand	66,741	18,259	85,000
Bank overdraft	66,741 (13,401)	18,259 (13,483)	85,000 (26,884)
	53,340	4,776	58,116
Debt:			
Finance leases	-	(562)	(562)
Debts falling due after one year	(3,044)	(7,123)	(10,167)
	(3,044)	(7,685)	(10,729)
Net funds	50,296	(2,909)	47,387
Analysed in Balance Sheet			
Cash at bank and in hand	66,741		85,000
Bank overdraft	(13,401)		(26,884)
Finance leases after one year	-		(562)
Deferred consideration on acquisitions	-		(1,195)
Subordinated loan stock	-		(5,800)
Convertible unsecured 5.75% loan stock	-		(1,075)
Bank loan and overdrafts due after one year	(3,044)		(2,097)
	50,296		47,387

## 32 Major Non-Cash Transactions

During the year the Group acquired King & Shaxson Holdings PLC and the minority interests in Gerrard Vivian Gray Institutional Limited.

The whole of the consideration for the acquisition of King & Shaxson Holdings PLC comprised shares whilst the consideration for the minority interests in Gerrard Vivian Gray Institutional Limited consisted of cash and convertible loan notes.

Further details of the acquisitions are set out in note 28.

## 33 Related Party Transactions

- Transactions between related parties and the Group's banking subsidiary, Gerrard & King Limited, are covered by a duty of confidentiality imposed by operation of law and accordingly are not disclosed.
- Certain directors and senior managers have personal account dealing arrangements with Group companies. All dealings are on normal commercial terms and are not considered material for either party.
- Certain subsidiaries within the Group operate discretionary accounts and funds for clients for which they receive fees and commissions on normal commercial terms.
- During the year GNI Holdings Limited invested an additional £239,299 by way of subscription for ordinary shares in Trifutures SA, an associated company.
- During the year, GNI Limited charged management fees of £66,017 and made net overhead recharges of £217,213 to Trifutures SA. In addition, GNI Limited paid commission rebates and execution fees amounting to £641,572 to Trifutures SA. At the end of the year, the net amount due from Trifutures SA was £46,000.

## Five-Year Financial Record

	1993 £000	1994 £000	1995 <sup>1</sup> £000	1996 £000	1997 £000
Group profit					
Before tax and exceptionals	25,182	25,031	29,701	22,221	22,259
Before tax	25,182	25,031	23,001	22,221	17,751
Equity shareholders' funds	107,795	113,555	123,302	128,844	147,948
Ordinary dividends	21.5p	22.0p	22.5p	23.0p	16.0p

## Notes

1 The profit figures stated include the results of GNI and Gerrard Vivian Gray for the 14 month period to 31st March 1995.

## Financial Calendar 1997-98

Half year results	Announced November 1997
Full year results	Announced June 1998
Report and Accounts	Posted to shareholders in June 1998
Annual General Meeting	July 1998
Ordinary dividends:	
Interim	Announced November 1997 – Paid December 1997
Final	Proposed June 1998 – Paid July 1998

## Capital Gains Tax Information

The market value of the ordinary shares on 5th April 1965, for the purposes of capital gains tax was 20.4p per share (after splitting the shares of £1 each into shares of 25p each in 1971 and after the one for one scrip issue in 1976 and the one for one scrip issue in 1983). The market value of the ordinary shares on 31st March 1982, for the purpose of capital gains tax was 131p per share (after one for one scrip issue in 1983).

## Analysis of Shareholders

Size of holdings (shares)	Number of shareholders	Number of shares	%
up to 500	735	203,189	0.3
501 – 1,000	668	518,963	0.7
1,001 – 5,000	1,027	2,259,121	3.2
5,001 – 10,000	211	1,521,447	2.1
10,001 – 50,000	246	6,037,725	8.4
50,001 – 100,000	66	4,685,851	6.6
100,001 – 500,000	99	21,765,778	30.4
Above 500,000	30	34,519,534	48.3
Total	3,082	71,511,608	100.0

NOTICE IS HEREBY GIVEN that the Eleventh Annual General Meeting of the Company will be held at 4th Floor, Atrium Building, Cannon Bridge, 25 Dowgate Hill, London EC4R 2GN on Thursday 24th July 1997 at 12 noon, for the following purposes:

**Ordinary Business**

To propose the following resolutions as ordinary resolutions:

- 1 To receive the Directors' Report and Statement of Accounts for the year ended 31st March 1997.
- 2 To declare a dividend.
- 3 To re-elect and elect directors.
- 4 To reappoint Coopers & Lybrand as Auditors and to authorise the directors to approve the remuneration of the Auditors for the ensuing year.

**Special Business**

- 5 To consider and, if thought fit, pass the following resolution as a Special Resolution:

THAT the Company be and it is hereby generally and unconditionally authorised pursuant to section 166 of the Companies Act 1985 to make market purchases (within the meaning of section 163(3) of the said Act) of any of its ordinary shares of 25p each, in such manner and upon such terms as the directors of the Company may from time to time determine, provided that such authority shall expire at the conclusion of the next Annual General Meeting of the Company or on 23rd January 1999 whichever is earlier (except in relation to the purchase of shares the contract for which was concluded before such date and which might be executed wholly or partly after such date) and provided that:

- (i) the maximum number of shares which may be purchased is 10,700,000 ordinary shares of 25p each; and
- (ii) the maximum price (exclusive of expenses) at which shares may be purchased is an amount equal to 105% of the average of the middle market quotations of the said ordinary shares (as derived from the London Stock Exchange Daily Official List) for the ten business days immediately preceding the date of purchase, and the minimum price (exclusive of expenses) at which shares may be purchased is the nominal value of the said ordinary shares.

- 6 To consider and, if thought fit, to pass the following resolution as a Special Resolution:

THAT

- (a) the directors be and they are hereby generally and unconditionally authorised, in substitution for any other such authority previously conferred upon them (save to the extent that the same may already have been exercised), to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985), up to an aggregate nominal amount of £4,088,000, for a period expiring at the conclusion of the next Annual General Meeting of the Company or on 23rd January 1999, whichever is the earlier, provided 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 any such offer or agreement as if the authority conferred hereby had not expired; and
- (b) the directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act) for cash pursuant to the authority conferred by the previous paragraph of this resolution as if Section 89(1) of the said Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

- (i) in connection with an offer of such securities by way of rights to shareholders in proportion (as nearly as may be) to their respective holdings of shares, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of, or the requirements of any regulatory body or stock exchange in, any overseas territory; and
- (ii) otherwise than pursuant to sub-paragraph (i) above, up to an aggregate nominal amount of £890,000; and shall expire 15 months following the passing of this resolution or, if earlier, on the conclusion of the Annual General Meeting of the Company to be held in 1998, provided 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 any such offer or agreement as if the power conferred hereby had not expired.

By order of the Board

N C Wallis

*Secretary*

25 Dowgate Hill  
London EC4R 2GN

18th June 1997

Notes

- 1 A member entitled to attend and vote at this meeting is entitled to appoint a proxy or proxies to attend and, or on a poll, vote instead of him. A proxy need not be a member.
- 2 The following are available for inspection by members at the registered office of the Company during usual business hours and will be available prior to and during the meeting as required:
  - (a) A register of directors' interests and those of their families in the shares of the Company together with a statement of transactions;
  - (b) Copies of any relevant contracts of service of the directors; and
  - (c) A statement of directors' loans pursuant to Section 343(4) of the Companies Act 1985 and the Auditors' Report thereon.
- 3 Members are requested to notify the Registrars in writing of any change of address. The report is forwarded to the address at present registered for communication.



Please indicate with an X in the spaces below how you wish your votes to be cast. If you do not do so your proxy will abstain or vote against the Resolutions at his discretion.

I/We \_\_\_\_\_

of \_\_\_\_\_

being (a) member(s) of the above-named Company, hereby appoint the Chairman of the Meeting

or\* \_\_\_\_\_

to act as my/our proxy and to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Thursday 24th July 1997, and at every adjournment thereof.

Resolutions	For	Against
1 To receive the Directors' Report and Statement of Accounts for the year ended 31st March 1997	<input type="checkbox"/>	<input type="checkbox"/>
2 To declare a dividend	<input type="checkbox"/>	<input type="checkbox"/>
3 To re-elect R B Williamson	<input type="checkbox"/>	<input type="checkbox"/>
4 To re-elect M E T Davies	<input type="checkbox"/>	<input type="checkbox"/>
5 To re-elect T J R Sheldon	<input type="checkbox"/>	<input type="checkbox"/>
6 To elect N F Andrews	<input type="checkbox"/>	<input type="checkbox"/>
7 To elect M N Kemp-Gee	<input type="checkbox"/>	<input type="checkbox"/>
8 To elect F A R Packard	<input type="checkbox"/>	<input type="checkbox"/>
9 To elect I R B Perkins	<input type="checkbox"/>	<input type="checkbox"/>
10 To elect R M Sherriff	<input type="checkbox"/>	<input type="checkbox"/>
11 To elect D J Dugdale (member of the Remuneration Committee)	<input type="checkbox"/>	<input type="checkbox"/>
12 To reappoint Coopers & Lybrand as Auditors and to agree their remuneration	<input type="checkbox"/>	<input type="checkbox"/>
13 To pass the Special Resolution as described in item 5 of the Notice of Meeting	<input type="checkbox"/>	<input type="checkbox"/>
14 To pass the Special Resolution as described in item 6 of the Notice of Meeting	<input type="checkbox"/>	<input type="checkbox"/>

Dated this .....day of ..... 1997

Signature.....

*\*Should you prefer someone else to act as your proxy, please substitute the name(s) and address(es) of the person(s) preferred.*

#### Notes

- 1 In the case of an individual, this form must be signed by the appointor or his attorney. In the case of a corporation, this form must be executed either under its common seal or the hand of a duly authorised officer, attorney or other person authorised to sign it.
- 2 In the case of joint holders, the signature of the first-named on the Register of Members will be accepted to the exclusion of the votes of the other joint holders.
- 3 To be valid, this form must be completed and deposited together with the power of attorney (if any) under which it is executed or a notarially certified copy of such authority with the Company's Registrar, Lloyd's Bank Registrars, The Causeway, Worthing, West Sussex BN99 6DB not less than 48 hours before the time fixed for holding the meeting.

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BUSINESS REPLY SERVICE  
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LLOYDS BANK REGISTRARS  
THE CAUSEWAY  
WORTHING  
WEST SUSSEX BN99 6DB

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**Secretary**

N C Wallis ACA

**Economic adviser**

Professor T G Congdon CBE

**Business address**

Gerrard Group plc

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Telephone 0171 337 2800 Facsimile 0171 337 2801

Telex 883589

Registered number 2019022

**Auditors**

Coopers & Lybrand

1 Embankment Place, London WC2N 6NN

**Merchant bankers**

Hambros Bank Limited

41 Tower Hill, London EC3N 4HA

**Solicitors**

Freshfields

65 Fleet Street, London EC4Y 1HS

**Stockbrokers**

Kleinwort Benson Securities Limited

20 Fenchurch Street, London EC3P 3DB

**Registrars**

Lloyds Bank Registrars

The Causeway, Worthing, West Sussex BN99 6DA