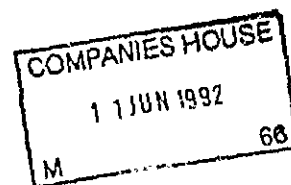


2418504

REPORT AND ACCOUNTS

PaineWebber International
(UK) Limited

31 DECEMBER 1991



 ERNST & YOUNG

PaineWebber International (UK) Limited

Registered No. 2418504

DIRECTORS

I D Myers (Chairman)

R S Falk

L Fensterstock

B B Havill

G A Larramendi

S B Phillips

R A Robinson

S B Underhill

SECRETARY

N Luxford

AUDITORS

Ernst & Young

Rolls House

7 Rolls Buildings

Fetter Lane

London EC4A 1NH

REGISTERED OFFICE

1 Finsbury Avenue

London EC2M 2PA

ERNST & YOUNG

PaineWebber International (UK) Limited

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 1991.

REVIEW OF THE BUSINESS

The company's profit for the year after taxation amounted to \$6,459,000 (1990 - \$10,817,000). No dividend is proposed.

The company is a member of The Securities and Futures Authority. Its principal activity is engaging in financial services both on its own account and on behalf of its clients.

DIRECTORS AND THEIR INTERESTS

The directors during the year were as follows:

I D Myers (Chairman)
R S Falk (appointed 8 July 1991)
L Fensterstock (appointed 8 July 1991)
B B Havill
G A Larramendi (appointed 8 July 1991)
C B Milligan (resigned 8 July 1991)
S B Phillips
M N Alexander (resigned 8 July 1991)
E L P Lecler (resigned 22 July 1991)
A Ribaroff (resigned 4 April 1991)
R A Robinson
J R Sipes (resigned 24 February 1992)
S B Underhill (appointed 8 July 1991)
D N Waite (resigned 21 June 1991)
B J Williams (resigned 8 July 1991)

None of the directors had a disclosable interest in the shares of the company, its holding company, or fellow subsidiaries.

AUDITORS

A resolution to re-appoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

By order of the board



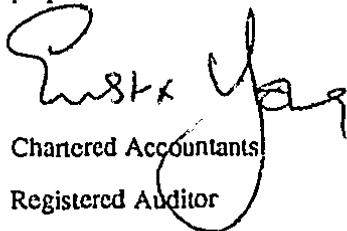
N Luxford
Secretary

30 March 1992

REPORT OF THE AUDITORS
to the members of PaineWebber International (UK) Limited

We have audited the accounts on pages 5 to 14 in accordance with Auditing Standards.

In our opinion the accounts give a true and fair view of the state of affairs of the company at 31 December 1991 and of its profit and source and application of funds for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Chartered Accountants

Registered Auditor

London

30 March 1992

PaineWebber International (UK) Limited

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1991

		<i>Year ended 31 December 1991 \$000</i>	<i>9 months ended 31 December 1990 \$000</i>
	<i>Notes</i>		
TURNOVER	2	43,513	36,987
Interest receivable	3	2,068	9,551
Interest payable	4	(14,113)	(14,818)
Administrative expenses		(21,915)	(16,434)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	9,553	15,286
Taxation on profit on ordinary activities	7	(3,094)	(4,469)
RETAINED PROFIT FOR THE FINANCIAL YEAR		6,459	10,817

STATEMENT OF MOVEMENTS ON RESERVES

	<i>Share premium account \$000</i>	<i>Profit and loss account \$000</i>
At 1 January 1991	47,726	10,817
Retained profit for the year	—	6,459
At 31 December 1991	47,726	17,276

PaineWebber International (UK) Limited

BALANCE SHEET

at 31 December 1991

	Notes	1991 \$000	1990 \$000
FIXED ASSETS			
Tangible assets	8	2,901	3,106
CURRENT ASSETS			
Securities inventory		225,335	280,097
Debtors	9	89,707	210,149
Cash at bank		928	1,135
		315,970	491,381
CREDITORS: amounts falling due within one year	10	(252,810)	(409,584)
NET CURRENT ASSETS		63,160	81,797
TOTAL ASSETS LESS CURRENT LIABILITIES		66,061	84,903
CREDITORS: amounts falling due after more than one year	11	—	(25,000)
PROVISION FOR LIABILITIES AND CHARGES			
Deferred taxation	12	(59)	(360)
		66,002	59,543
CAPITAL AND RESERVES			
Called up share capital	13	1,000	1,000
Share premium account		47,726	47,726
Profit and loss account		17,276	10,817
		66,002	59,543


I D Myers — Director

30 March 1992

PaineWebber International (UK) Limited

STATEMENT OF SOURCE AND APPLICATION OF FUNDS for the year ended 31 December 1991

	<i>1991</i> <i>\$'000</i>	<i>1990</i> <i>\$'000</i>
SOURCE OF FUNDS		
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	9,553	15,286
Adjustment for items not involving the movement of funds:		
Depreciation	941	897
Loss on disposal of fixed assets	16	3
TOTAL GENERATED FROM OPERATIONS	<u>10,510</u>	<u>16,186</u>
FUNDS FROM OTHER SOURCES		
Issue of shares	-	48,726
Subordinated loan	-	25,000
Proceeds of disposal of fixed assets	132	4
	<u>132</u>	<u>73,730</u>
	<u>10,642</u>	<u>89,916</u>
APPLICATION OF FUNDS		
Purchase of fixed assets	(884)	(4,010)
Taxation paid	(1,764)	(8)
	<u>(2,648)</u>	<u>(4,018)</u>
INCREASE IN WORKING CAPITAL	<u>7,994</u>	<u>85,898</u>
COMPONENTS OF INCREASE IN WORKING CAPITAL		
(Decrease)/increase in net securities positions	(35,281)	110,067
(Decrease)/increase in debtors	(120,442)	210,149
Decrease/(increase) in creditors	166,358	(233,837)
	<u>10,635</u>	<u>86,379</u>
MOVEMENT IN NET LIQUID FUNDS		
Increase in bank loans	(2,434)	(1,616)
(Decrease)/increase in cash	(207)	1,135
	<u>(2,641)</u>	<u>(481)</u>
	<u>7,994</u>	<u>85,898</u>

PaineWebber International (UK) Limited

NOTES TO THE ACCOUNTS

at 31 December 1991

1. ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under the historical cost convention as modified by the inclusion of trading positions at market value.

The accounts are prepared in accordance with applicable accounting standards.

Preparation of accounts in US dollars

It is considered that a fairer reflection of the company's activities is given by presenting the accounts in US dollars since the majority of the company's transactions are denominated in this currency.

Securities inventory

Securities inventory consists of securities, warrants, options and futures and are valued at market prices ruling at the balance sheet date.

Having regard to the nature of the company's activities, the directors consider that it is necessary to vary the accounting requirements of the Companies Act 1985 as required by Section 226 of that Act in order to give a true and fair view of the result for that year, by including in the profit and loss account unrealised profits and losses on the valuation of securities inventory, warrant issues and short option positions.

Trade date accounting

Securities transactions and related commission revenues are accounted for on a trade date basis.

Recognition of other income

Underwriting commissions, corporate finance, management and syndication fees are credited to income on the completion of the related offerings.

Depreciation

Tangible assets are written off over their estimated useful lives on a straight line basis. Office equipment comprises computer equipment and fixtures and fittings. The principal rates employed are as follows:

Computer equipment	-	3-7 years
Fixtures and fittings	-	5-10 years

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the transaction date. All differences are taken to the profit and loss account.

Repurchase and resale agreements

In the course of financing its business and as part of its trading activities, the company enters into arrangements which involve the sale of securities with agreements to repurchase and the purchase of securities with resale agreements. Repurchase agreements are recorded as liabilities and the related securities, where owned by the company, are included in stock of marketable securities at the lower of cost and market value. Resale agreements are recorded as debtors.

Deferred taxation

Deferred taxation is provided on the liability method on all timing differences to the extent that they are expected to reverse in the future, calculated at the rate at which it is estimated that taxation will be payable.

PaineWebber International (UK) Limited

NOTES TO THE ACCOUNTS

at 31 December 1991

1. ACCOUNTING POLICIES (continued)

Operating leases

Rentals paid under operating leases are charged on a straight line basis over the term of the lease.

Pension scheme

The company operates two defined contribution pension schemes. The assets of the schemes are held separately from those of the company in independently administered funds.

2. TURNOVER

Turnover represents the amounts derived from the provision of services which fall within the company's ordinary activities and is stated net of value added tax.

3. INTEREST RECEIVABLE

	1991 \$000	1990 \$000
Interest receivable from group undertakings	502	4,351
Other	1,566	5,200
	<u>2,068</u>	<u>9,551</u>

4. INTEREST PAYABLE AND SIMILAR CHARGES

	1991 \$000	1990 \$000
Interest payable to group undertakings	8,013	5,479
Interest payable on bank loans and overdrafts	3,343	1,657
Other interest and similar charges	2,757	7,682
	<u>14,113</u>	<u>14,818</u>

PaineWebber International (UK) Limited

NOTES TO THE ACCOUNTS

at 31 December 1991

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

(a) This is stated after charging:

	1991 \$000	1990 \$000
Auditors' remuneration	135	154
Depreciation	941	897
Operating lease rentals - land and buildings	2,422	2,062
- other	260	521
Pension costs	872	651
	<u> </u>	<u> </u>

(b) Directors' remuneration:

Directors' remuneration consists of fees and other emoluments paid to the directors of the company in respect of their duties in the management of the company.

	1991 \$000	1990 \$000
Directors' remuneration comprises:		
Fees	-	-
Other emoluments (including pension contributions)	838	969
Compensation for loss of office	60	137
	<u> </u>	<u> </u>

The emoluments of the chairman, excluding pension contributions, were £132,610 (1990 - two chairmen paid £100,000 in total).

Directors' emoluments, excluding pension contributions, fell within the following ranges:

	1991 No.	1990 No.
£nil - £5,000	10	11
£15,001 - £20,000	-	1
£20,001 - £25,000	-	1
£25,001 - £30,000	-	2
£30,001 - £35,000	-	1
£50,001 - £55,000	1	-
£65,001 - £70,000	1	-
£80,001 - £85,000	-	1
£100,001 - £105,000	1	-
£120,001 - £125,000	1	-
£130,001 - £135,000	1	1
£220,001 - £225,000	-	1
	<u> </u>	<u> </u>

PaineWebber International (UK) Limited

NOTES TO THE ACCOUNTS at 31 December 1991

6. EMPLOYEES

	1991	1990
	No.	No.
Average weekly number of employees	168	173
	\$000	\$000
Wages and salaries	15,934	13,673
Social security costs	1,310	1,315
Other pension costs	1,114	833
	18,358	15,821
Less: amounts recharged to other group companies	(6,932)	(6,113)
	11,426	9,708

7. TAXATION ON ORDINARY ACTIVITIES

The taxation charge is made up as follows:

	1991	1990
	\$000	\$000
Based on the profit for the year:		
Corporation taxation 33.25% (9 months 1990 - 34%)	3,395	4,109
Deferred taxation	(301)	360
	3,094	4,469

8. FIXED ASSETS

	Office equipment \$000
Cost:	
At 1 January 1991	7,164
Additions	884
Disposals	(444)
At 31 December 1991	7,604
Depreciation:	
At 1 January 1991	4,058
Provided during the year	941
Disposals	(296)
At 31 December 1991	4,703
Net book value:	
At 31 December 1991	2,901
At 31 December 1990	3,106

The company does not hold any assets under finance lease arrangements.

PaineWebber International (UK) Limited

NOTES TO THE ACCOUNTS

at 31 December 1991

9. DEBTORS

	1991 \$000	1990 \$000
Collateral on stock borrowed	22,793	43,412
Collateral on stock borrowed from group undertakings	44,036	81,756
Trade debtors	20,102	75,624
Amounts owed by group undertakings	412	3,797
Other debtors	1,507	1,898
Prepayments and accrued income	857	3,662
	<u>89,707</u>	<u>210,149</u>

10. CREDITORS: amounts falling due within one year

	1991 \$000	1990 \$000
Bank loans and overdrafts	4,050	1,616
Warrant issues and short options positions	150,549	170,030
Securities sold under agreements to repurchase	—	30,019
Collateral on stock lent	23,566	—
Collateral on stock lent to group undertakings	10,055	—
Trade creditors	1,758	72,190
UK corporation tax	8,637	7,006
Other taxes and social security costs	632	535
Amounts due to group undertakings	23,544	123,552
Accruals and other creditors	5,019	4,636
Subordinated loan from PaineWebber Group Inc.	25,000	—
	<u>252,810</u>	<u>409,584</u>

11. CREDITORS: amounts falling due after more than one year

	1991 \$000	1990 \$000
Subordinated loan from PaineWebber Group Inc.	—	25,000

The subordinated loan is repayable in March 1992 and carries an interest rate of 30 day LIBOR plus 100 basis points.

12. DEFERRED TAXATION

	1991 \$000	Provided 1990 \$000	Not provided 1991 \$000	Not provided 1990 \$000
Capital allowances in advance of depreciation	59	360	—	—

PaineWebber International (UK) Limited

NOTES TO THE ACCOUNTS

at 31 December 1991

13. CAPITAL AND RESERVES

	1991	Authorised	Allotted, called up and fully paid	
	No.	1990	1991	1990
		No.	\$	\$
Ordinary shares of \$1 each	1,500,000	1,500,000	1,000,002	1,000,002

14. STOCK BORROWING AND LENDING

Notes 9 and 10 reflect the company's stock borrowing and lending activities only to the extent that collateral given or received is in the form of cash. The company also borrows and lends stock against non-cash collateral in the form of other stocks and Standby Letters of Credit. The market value of non-cash collateral in use at 31 December was:

	1991	1990
	\$000	\$000
Received in respect of stock lent	103,036	-
Given in respect of stock borrowed	120,911	-

15. OBLIGATIONS UNDER LEASES

The annual commitments under non-cancellable operating leases are as follows:

	Land and buildings		Other	
	1991	1990	1991	1990
	\$000	\$000	\$000	\$000
Operating leases which expire:				
Within one year	20	50	28	130
In the second to fifth years inclusive	-	-	289	347
Over five years	2,087	2,283	-	-
	2,107	2,333	317	477

16. CLIENT BALANCES

Amongst its activities, the company acts as a broker of US equities and fixed income securities on behalf of clients. PaineWebber Inc. acts as clearing broker for these transactions and therefore carries the resulting client balances in its books. PaineWebber International (UK) Limited is liable for any financial loss incurred by PaineWebber Inc. arising from defaults by these clients. The directors do not foresee any material losses arising from the relevant client balances on PaineWebber Inc's books as at 31 December 1991.

PaineWebber International (UK) Limited

NOTES TO THE ACCOUNTS

at 31 December 1991

17. ULTIMATE HOLDING COMPANY

PaineWebber UK Holdings, which is registered in England, is the smallest group for which group accounts are prepared. Copies of these group accounts may be obtained from 1 Finsbury Avenue, London, EC2M 2PA.

PaineWebber Group Inc., which is incorporated in the State of Delaware, USA, is the ultimate holding company and the largest group for which group accounts are prepared. Copies of these group accounts may be obtained from 1285 Avenue of the Americas, New York City, USA.