

**Deloitte &
Touche**

Deloitte Touche
Tohmatsu
International



Company Registration No. 2505767

CANTOR FITZGERALD GILTS

Report and Financial Statements

For the year ended 29 March 1996

Deloitte & Touche
Stonecutter Court
1 Stonecutter Street
London EC4A 4TR





REPORT AND FINANCIAL STATEMENTS 1996

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DIRECTORS' REPORT

The directors have pleasure in presenting their report and the audited financial statements for the year ended 29 March 1996.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The company is an unlimited company. It is a member of the Securities and Futures Authority and of the Stock Exchange.

The company acts as an inter-dealer broker in Gilts and intends to continue in this activity.

RESULTS AND DIVIDENDS

The company made a profit of £156,715 in the financial year ended 29 March 1996 (1995 - £799,241).

The directors recommend a payment of a dividend during the year of £2,000,000 (1995 - £nil).

FIXED ASSETS

See note 8 on page 10.

DIRECTORS AND THEIR INTERESTS

The directors who held office during the year were:

Mr R Falkner	(appointed 31 January 1996)
Mr D B Gardner	(appointed 25 August 1995)
Mr D T Gardner	
Mr A F Goldman	(resigned 25 August 1995)
Mr G Grossman	
Mr J J Hogan	(resigned 25 August 1995)
Mr J Kiddy	
Mr H Lutnick	
Mr S Merkel	(appointed 18 March 1996)
Mr A Pover	
Mr R L Turner	

The directors had no interests in the shares of the company or any Cantor Fitzgerald International group company at the beginning or at the end of the financial year.

The company is not required to show directors' interests in its ultimate parent company incorporated outside Great Britain.

AUDITORS

On 1 February 1996, our auditors changed the name under which they practise to Deloitte & Touche and accordingly, have signed their report in their new name.

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



Robert Falkner

27 June 1996



STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

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



Chartered Accountants

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AUDITORS' REPORT TO THE MEMBERS OF

CANTOR FITZGERALD GILTS

We have audited the financial statements on pages 4 to 12 which have been prepared under the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 29 March 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chartered Accountants and
Registered Auditors

27 June 1996


PROFIT AND LOSS ACCOUNT
 Year ended 29 March 1996

	Note	1996 £	1995 £
TURNOVER - continuing operations	2	71,420,771,102	63,097,829,048
Cost of Sales		(71,418,188,799)	(63,095,275,621)
GROSS PROFIT		2,582,303	2,553,427
Administrative expenses		(2,454,398)	(1,389,685)
OPERATING PROFIT - continuing operations	3	127,905	1,163,742
Interest receivable	5	414,410	341,274
Interest payable	6	(270,501)	(224,961)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		271,814	1,280,055
Tax on profit on ordinary activities	7	(115,099)	(480,814)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR		156,715	799,241
Dividends paid		(2,000,000)	-
Retained profit		(1,843,285)	799,241
Profit and loss account brought forward		2,760,791	1,961,550
Profit and loss account carried forward		917,506	2,760,791

There are no recognised gains or losses or other movements in shareholders' funds for the current and prior years other than as stated above.

CANTOR FITZGERALD GILTS

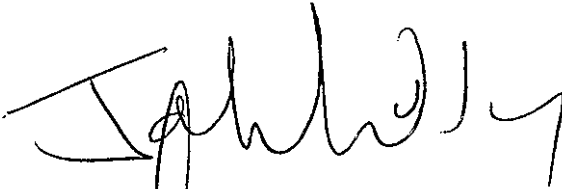
BALANCE SHEET
29 March 1996

	Note	29 March 1996 £	31 March 1995 £
FIXED ASSETS			
Tangible assets	8	111,954	156,622
CURRENT ASSETS			
Debtors	9	277,862,305	338,117,376
Investments	10	3,310,248	6,718,466
Cash at bank and in hand		63,753	196,262
		281,236,306	345,032,104
CREDITORS: amounts falling due within one year	11	(277,930,754)	(338,927,935)
NET CURRENT ASSETS		3,305,552	6,104,169
TOTAL ASSETS LESS CURRENT LIABILITIES		3,417,506	6,260,791
CREDITORS: amounts falling due after more than one year	11	-	(1,000,000)
		3,417,506	5,260,791
CAPITAL AND RESERVES			
Called up share capital	12	2,500,000	2,500,000
Profit and loss account		917,506	2,760,791
TOTAL EQUITY SHAREHOLDERS' FUNDS		3,417,506	5,260,791

These financial statements were approved by the Board of Directors on 27 June 1996.

Signed on behalf of the Board of Directors

John Kiddy



Robert Turner




CASH FLOW STATEMENT
Year ended 29 March 1996

	Note	1996 £	1995 £
Net cash (outflow)/inflow from operating activities	A	(200,193)	1,338,661
Returns on investments and servicing of finance			
Interest received		414,410	341,274
Interest paid		(270,501)	(224,961)
Dividends paid		(2,000,000)	-
Subordinated loan repaid		(1,000,000)	-
		<u> </u>	<u> </u>
Net cash (outflow)/inflow from returns on investments and servicing of finance		(2,856,091)	116,313
Taxation			
Corporation tax paid		(472,748)	(640,644)
		<u> </u>	<u> </u>
Tax paid		(472,748)	(640,644)
Investing activities			
Payments to acquire tangible fixed assets		(11,695)	(82,535)
Receipts from sales of tangible fixed assets		-	3,148
		<u> </u>	<u> </u>
Net cash outflow from investing activities		(11,695)	(79,387)
(Decrease)/increase in cash and cash equivalents	B,C	(3,540,727)	734,943
		<u> </u>	<u> </u>


NOTES TO THE CASH FLOW STATEMENT
 Year ended 29 March 1996

A. RECONCILIATION OF OPERATING PROFIT TO NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES

	1996	1995
	£	£
Operating profit	127,905	1,163,742
Depreciation charges	56,363	133,122
Decrease in debtors	60,255,071	36,284,769
Decrease in creditors	(60,639,532)	(36,242,972)
Net cash (outflow)/inflow from operating activities	(200,193)	1,338,661

B. ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS DURING THE YEAR

	1996	1995
	£	£
Opening balance	6,914,728	6,179,785
Net cash (outflow)/inflow	(3,540,727)	734,943
Closing balance	3,374,001	6,914,728

C. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE BALANCE SHEET

	29 March 1996	31 March 1995	Change in year
	£	£	£
Cash at bank and in hand	63,753	196,262	(132,509)
Current asset investments	3,310,248	6,718,466	(3,408,218)
	3,374,001	6,914,728	(3,540,727)

D. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital	Subordinated loan
	£	£
Balance at 31 March 1995	2,500,000	1,000,000
Repaid in year	-	(1,000,000)
29 March 1996	2,500,000	-


NOTES TO THE ACCOUNTS
 Year ended 29 March 1996

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention, apart from current asset investments which are stated at market value.

Foreign exchange

Profit and loss account items and fixed assets involving currencies other than Sterling are translated at the average rates of exchange ruling in the month that the transactions occurred.

Monetary items in the balance sheet are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are taken to the profit and loss account.

Tangible fixed assets

Depreciation is calculated to write off the cost of fixed assets over their estimated useful lives, at the following rates per annum:

Computer equipment	15% to 22%
Equipment and machinery and office furniture	15% to 22%

Deferred taxation

Deferred taxation is provided at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

Current asset investments

Current asset investments are stated at market value.

2. TURNOVER

The company's income is derived from its principal activity which is acting as an inter-dealer broker in Gilts.

Turnover represents the value of transactions in respect of sales of Gilts.

3. OPERATING PROFIT

	1996 £	1995 £
Operating profit is stated after charging:		
Depreciation of tangible fixed assets	56,363	133,122
Auditors' remuneration, audit	15,000	15,000


NOTES TO THE ACCOUNTS

Year ended 29 March 1996

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1996 £	1995 £
Staff costs during the year amounted to:		
Wages and salaries	1,037,064	1,528,802
Social security costs	102,225	156,279
	<u>1,139,289</u>	<u>1,685,081</u>

The average weekly number of persons (including directors) employed by the company during the year was:

	1996 No.	1995 No.
Direct operating	<u>17</u>	<u>16</u>

The directors received no emoluments for the current or preceding years.

5. INTEREST RECEIVABLE

	1996 £	1995 £
Bank interest	4,720	6,932
Other interest	409,690	334,342
	<u>414,410</u>	<u>341,274</u>

6. INTEREST PAYABLE

	1996 £	1995 £
Bank interest	-	2,228
Interest charged by group company	270,501	222,733
	<u>270,501</u>	<u>224,961</u>

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1996 £	1995 £
United Kingdom corporation tax at 33% based on the profit for the year	120,095	480,814
Over-provision in prior years	(4,996)	-
	<u>115,099</u>	<u>480,814</u>

The tax charge for the year is disproportionately high due to a high level of disallowed expenditure.

Deferred taxation

There is no deferred tax provision. There is no unprovided potential deferred tax.


NOTES TO THE ACCOUNTS
 Year ended 29 March 1996

8. TANGIBLE FIXED ASSETS

	Computer equipment £	Equipment and machinery £	Office furniture £	Total £
Cost				
At 1 April 1995	337,647	299,948	16,627	654,222
Additions	-	11,695	-	11,695
At 29 March 1996	337,647	311,643	16,627	665,917
Accumulated depreciation				
At 1 April 1995	298,614	185,918	13,068	497,600
Charge for the year	13,010	40,409	2,944	56,363
At 29 March 1996	311,624	226,327	16,012	553,963
Net book value				
At 29 March 1996	26,023	85,316	615	111,954
At 31 March 1995	39,033	114,030	3,559	156,622

9. DEBTORS

	29 March 1996 £	31 March 1995 £
Amounts falling due within one year:		
Trade debtors	277,787,561	338,071,757
Amounts owed by parent company	53,085	-
Other debtors	21,659	17,227
Prepayments and accrued income	-	28,392
	277,862,305	338,117,376


NOTES TO THE ACCOUNTS
Year ended 29 March 1996
10. INVESTMENTS HELD AS CURRENT ASSETS

	29 March 1996 £	31 March 1995 £
Investments listed on recognised investment exchanges:		
United Kingdom	3,310,248	6,718,466

In the opinion of the directors the historical cost of these investments is not materially different from the market value at which they are stated.

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR:

	29 March 1996 £	31 March 1995 £
Trade creditors	277,780,351	338,050,732
Amounts owed to parent company	-	61,442
Corporation tax	120,065	477,714
Other creditors	10,000	286,995
Accruals and deferred income	20,338	51,052
	<u>277,930,754</u>	<u>338,927,935</u>

Amounts falling due after more than one year:

	1996 £	1995 £
Amounts owed to parent company:		
Subordinated loan stock	-	1,000,000

Interest on the loan was charged each month at the Sterling LIBOR rate of Chase Manhattan Bank, London at that time.

Repayment of the loan was subject to six months notice and the permission of The Bank of England.

12. CALLED UP SHARE CAPITAL

	29 March 1996 £	31 March 1995 £
Authorised		
20,000,000 ordinary shares of £1 each	20,000,000	20,000,000
Allotted and fully paid		
2,500,000 ordinary shares of £1 each	2,500,000	2,500,000

**NOTES TO THE ACCOUNTS****Year ended 29 March 1996****13. PARENT COMPANIES**

The immediate parent company is Cantor Fitzgerald International, a company incorporated in Great Britain and registered in England and Wales. The financial statements of the group are available from Companies House, Crown Way, Maindy, Cardiff CF4 3UZ.

The ultimate parent company is Cantor Fitzgerald L.P. a limited partnership resident in the United States of America.


ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

Year ended 29 March 1996

A. RECONCILIATION OF QUARTERLY STATEMENT AS AT 29 MARCH 1996 TO THE AUDITED UK FINANCIAL STATEMENTS AS AT 29 MARCH 1996

	1996 £'000	1995 £'000
Cash and bank balances and debtors		
Sight deposits with banks	7	-
Time deposits with banks	64	196
	<u>71</u>	<u>196</u>
Loans to employees	21	17
Loan to parent company	-	-
Prepayments	53	29
	<u>74</u>	<u>46</u>
Stock receivable on uncompleted transactions	<u>277,777</u>	<u>338,072</u>
Treasury Bills	<u>3,310</u>	<u>6,718</u>
TOTAL CURRENT ASSETS	<u>281,232</u>	<u>345,032</u>
CREDITORS		
Stock deliverable on uncompleted transactions	<u>277,777</u>	<u>338,051</u>
Corporation tax	120	478
Accrued expenses	30	338
Amount due to holding company	-	61
	<u>150</u>	<u>877</u>
Total creditors	<u>277,927</u>	<u>338,928</u>

The differences between total current assets and creditors shown are due to roundings. All other assets and liabilities disclosed in the quarterly statement as at 29 March 1996 are in agreement with the audited UK financial statements as at 29 March 1996, with the exception that amounts receivable from and due to brokers were netted in the quarterly return and shown under cash as opposed to being shown under stocks receivable/deliverable.


RECONCILIATION OF PROFIT AND LOSS ACCOUNT TO ANNUAL RETURN
Year ended 29 March 1996

	£'000
Turnover as per the financial statements	71,420,771
Less: cost of sales gross up	(71,418,189)
Rounding	(2)
	<hr/>
Net commission as per returns	2,580
	<hr/>
Total expenses as per the financial statements	71,420,643
Less: Cost of sales gross up	(71,418,139)
Rounding	(7)
	<hr/>
Net overheads excluding interest as per returns	2,447
	<hr/>

	June return £'000	September return £'000	December return £'000	March return £'000	Total as per returns £'000
Gross commission income	1,010	584	499	484	2,576
Reverse premium	1	1	1	-	3
Other commission	-	-	-	1	1
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	1,011	584	500	485	2,580
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditure	698	661	658	656	2,673
Less: Interest on subordinated Loan stock	(16)	(16)	(15)	1	(46)
Interest charge made re capital financing	(49)	(50)	(56)	(70)	(225)
Add: Bonuses	94	(52)	(46)	47	239
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Adjusted total expenditure	727	543	541	635	2,447
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The differences between the net commission and net overheads shown in the financial statements to those disclosed in the quarterly statements are due to roundings.



Chartered Accountants

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AUDITORS' REPORT TO THE SECURITIES AND FUTURES AUTHORITY ("THE AUTHORITY") IN RESPECT OF CANTOR FITZGERALD GILTS ("THE FIRM") IN ACCORDANCE WITH THE FINANCIAL RULES OF THE AUTHORITY AS AMENDED BY BANK OF ENGLAND MARKET NOTICE NO. 21 FOR THE YEAR ENDED 29 MARCH 1996

We report on the attached annual financial statements of Cantor Fitzgerald Gilts and on the further matters set out below. Our report is provided to SFA in its capacity as a regulator under the Financial Services Act 1986 and to the Bank of England in its capacity as a regulator under the Banking Act 1987.

We have audited the annual financial statements in accordance with Auditing Standards, and have carried out such other procedures as we considered necessary for the purpose of this report having regard to the Practice Note 'Investment Businesses'. We have obtained all the information and explanations which we consider necessary.

Financial statements

In our opinion

- 1) the financial statements give a true and fair view of the firm's state of affairs at 29 March 1996 and of its profit for the year then ended;
- 2) the balance sheet in the annual financial statements has been properly reconciled to the balance sheet in the firm's quarterly return to the Bank of England as at 29 March 1996.

Accounting records

In our opinion the firm has, throughout the period, kept proper accounting records in accordance with SFA's Rules.

Client assets

The firm is not authorised to hold client money or investments.

The directors have stated that the firm did not hold client money or customer investments during the year. Based on review procedures performed, nothing has come to our attention that causes us to believe that the firm held client money or customer investments during the year.

Chartered Accountants and
Registered Auditors

27 June 1996