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Tullett & Tokyo International Securities Limited

Report and Accounts

31 December 1999

 **ERNST & YOUNG**



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Tullett & Tokyo International Securities Limited

Registration No. 2533369

DIRECTORS

B Collins
C Drinkwater
L W O'Malley
A Moore
R Taylor

SECRETARY

C Burt

AUDITORS

Ernst & Young
Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH

REGISTERED OFFICE

54-62 New Broad Street
London EC2M 1JJ

 **ERNST & YOUNG**

Tullett & Tokyo International Securities Limited

DIRECTORS' REPORT

The directors submit their report and accounts for the year ended 31 December 1999.

RESULTS AND DIVIDENDS

The loss for the year, after taxation, amounted to £4,982,882 (1998 - £2,523,505).

The directors do not recommend the payment of a dividend.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The company is a corporate member of The International Securities Management Association, Tradepoint and the London Stock Exchange. It is authorised by The Securities and Futures Authority.

The company trades as an inter dealer broker in equity shares and as an inter dealer broker and agency broker in government and other securities.

DIRECTORS AND THEIR INTERESTS

As well as the aforementioned, other directors who held office during the year were as follows :

T R Sparkes	(resigned 7 July 1999)
P McCaffrey	(resigned 2 August 1999)
D Hart	(resigned 31 December 1999)
J Lawrence	(resigned 17 August 1999)
S Smith	(resigned 22 January 1999)
J Ely	(resigned 2 August 1999)
P Tran	(resigned 2 August 1999)
S Johnson	(resigned 2 August 1999)
G Tullett	(resigned 4 February 2000)
P Bruton	(resigned 1 April 1999)
D Pinnock	(resigned 1 April 1999)
R Bennett	(resigned 2 August 1999)
M O'Callaghan	(resigned 9 July 1999)
J Orrock	(appointed 1 February 1999, resigned 2 August 1999)
I Goldsmith	(appointed 15 January 1999, resigned 6 March 2000)

Bruce Collins was appointed a director on 1 November 1999.

Rod Taylor was appointed a director on 4 January 2000.

None of the directors had a disclosable interest in the issued share capital of the company during the year.

J Lawrence was a director of Tullett & Tokyo Liberty plc (formerly Tullett & Tokyo plc), the ultimate parent undertaking. His interest in the share capital of group companies is disclosed in the financial statements of Tullett & Tokyo Liberty plc.

YEAR 2000 COMPLIANCE

As it is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the Year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. Over the millennium period and to date no significant Year 2000 issue has arisen that could not be adequately resolved.

DIRECTORS' REPORT

AUDITORS

Ernst & Young have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment will be submitted at the Annual General Meeting.

On behalf of the board



Director

31 MAR 2000

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
ACCOUNTS

Company law requires the directors 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 profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the accounts on the 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 accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS**to the members of Tullett & Tokyo International Securities Limited**

We have audited the accounts on pages 6 to 14, which have been prepared under the historical cost convention and the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by Statute, the Auditing Practices Board and by our profession's ethical guidance.

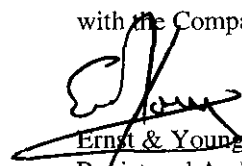
Basis of opinion

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 as at 31 December 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young
Registered Auditor
London**31 MAR 2000**

Tullett & Tokyo International Securities Limited

PROFIT AND LOSS ACCOUNT for the year ended 31 December 1999

	Notes	1999 £	1998 £
TURNOVER	2		
Continuing operations		16,447,049	22,616,117
Discontinued operations		7,922,293	12,491,366
		<u>24,369,342</u>	<u>35,107,483</u>
NET OPERATING EXPENSES			
Staff costs	4	17,870,086	23,465,955
Other operating charges	5	12,840,183	14,005,621
		<u>(30,710,269)</u>	<u>(37,471,576)</u>
OPERATING LOSS	3		
Continuing operations		(4,994,479)	(775,558)
Discontinued operations		(1,346,448)	(1,588,535)
		<u>(6,340,927)</u>	<u>(2,364,093)</u>
Interest receivable	6	308,354	521,846
Interest payable	7	(694,849)	(1,198,428)
		<u>(6,727,422)</u>	<u>(3,040,675)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION			
Tax on loss on ordinary activities	8	1,744,540	517,170
RETAINED LOSS FOR THE FINANCIAL YEAR	17	<u>(4,982,882)</u>	<u>(2,523,505)</u>

During the year there were no recognised gains or losses other than the loss for the financial year.

Tullett & Tokyo International Securities Limited

BALANCE SHEET as at 31 December 1999

	Notes	1999 £	1998 £
FIXED ASSETS			
Tangible assets	9	—	—
Investments	10	30,000	30,000
CURRENT ASSETS			
Debtors	11	5,251,003	8,961,892
Cash at bank	12	6,864,878	11,766,334
CREDITORS: amounts falling due within one year	13	(7,175,099)	(11,804,561)
NET CURRENT ASSETS		4,940,783	8,923,665
TOTAL ASSETS LESS CURRENT LIABILITIES		4,970,783	8,953,665
CREDITORS: amounts falling due after more than one year	14	(2,000,000)	(4,000,000)
NET ASSETS		2,970,783	4,953,665
CAPITAL AND RESERVES			
Called up share capital	16	13,000,000	10,000,000
Profit and loss account	17	(10,029,217)	(5,046,335)
		2,970,783	4,953,665

The accounts were approved at a meeting of the board of directors on


Director

31 MAR 2000

NOTES TO THE ACCOUNTS

at 31 December 1999

1. ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under the historical cost convention, modified to include the revaluation of certain assets, and in accordance with applicable accounting standards.

Fixed Assets

Fixed assets are held less depreciation costs, and are depreciated on a straight line basis.

Related party transactions

The Company has not produced related party transaction details in accordance with FRS 8 since it is a subsidiary of a group where greater than 90% of the voting rights are controlled within the group and the group's parent financial statements are publicly available.

Cash flow statement

The Company has not produced a cash flow statement, in accordance with FRS 1 (revised). The Company is claiming exemption as the Company's parent company financial statements are publicly available.

Group accounts

The Company has not produced group accounts as allowed under section 228 of the Companies Act as it is a wholly-owned subsidiary of Tullett & Tokyo Liberty plc, which is registered in England and Wales and which prepares group accounts which are publicly available.

Trade date accounting

Security transactions and related income are recorded on a trade date basis.

Foreign currencies

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

Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation is provided using the liability method on all timing differences calculated at the rate at which it is anticipated the timing differences will reverse only to the extent that they are expected to reverse in the future without being replaced, except that the deferred tax effects of timing differences arising from pensions and other post-retirement benefits are always recognised in full.

2. TURNOVER

Turnover represents income earned from continuing and discontinued activities as an inter dealer broker and agency broker, primarily in the course of dealings with members of the International Securities Management Association, net of VAT and recorded on a trade date basis. All turnover is generated in Europe.

Tullett & Tokyo International Securities Limited

NOTES TO THE ACCOUNTS

at 31 December 1999

3. OPERATING LOSS

This is stated after charging:

Directors' remuneration	1999 £	1998 £
Emoluments (including pension contributions)	3,351,956	5,326,721
Company contributions paid to pension schemes	40,816	56,893

A 31 December 1999 retirement benefits were accruing to nine directors under a defined contribution scheme.

The amount in respect of the highest paid director are as follows:

	1999 £	1998 £
Emoluments (excluding pension contributions)	640,114	1,344,402
Company contributions paid to pension schemes	—	—

Where directors of the company are also directors of the ultimate parent undertaking, their remuneration is received directly from that company. The directors do not believe it is practicable to apportion this amount between their services as directors of the parent undertaking, fellow subsidiary undertakings and this company. No management charge was made to the company in 1999 (1998 - £Nil) to represent a recharge of the services to the company of all directors of the parent undertaking. It is not possible to separately identify the amounts attributable to the directors of the company.

A material proportion of the company's expenditure, including auditors' remuneration, is incurred by Tullett & Tokyo Liberty plc, the ultimate parent undertaking. This is recovered from Tullett & Tokyo International Securities Limited by way of a management charge.

4. STAFF COSTS

	1999 £	1998 £
Wages and salaries	15,656,036	20,426,274
Social security costs	1,695,171	1,917,357
Other pension costs	518,879	1,122,324
	17,870,086	23,465,955

The company's operations are carried out by employees of the ultimate parent undertaking. Staff costs represent amounts charged to the company as a direct allocation of expenses by the ultimate parent undertaking. During the year, the average weekly number of employees identified as being directly involved in the operation of the company was 151 (1998 - 167).

Tullett & Tokyo International Securities Limited

NOTES TO THE ACCOUNTS

at 31 December 1999

4. STAFF COSTS (continued)

A group pension scheme is operated for the employees of Tullett & Tokyo Liberty Plc. The scheme previously provided benefits based on final pensionable pay, but effective 1 November 1991 the scheme was converted to one of the defined contribution type. Employees in service at the date of the change receive benefits on the better of the two bases.

The assets of the scheme are held separately from those of the group in a trustee administered fund. The contributions are determined by a qualified actuary on the basis of triennial valuations. The most recent valuation was at 1 May 1998 and details of this actuarial valuation are disclosed in the accounts of Tullett & Tokyo Liberty Plc.

The pension charge for the year was £518,879 (1998 - £1,122,324) which represents a direct allocation of expenses by Tullett & Tokyo Limited, calculated in accordance with Statement of Standard Accounting Practice No. 24.

5. OPERATING COSTS

	1999			1998		
	<i>Continuing</i>	<i>Discontinued</i>	<i>Total</i>	<i>Continuing</i>	<i>Discontinued</i>	<i>Total</i>
	£	£	£	£	£	£
Staff costs	12,918,155	4,951,931	17,870,086	15,757,021	7,711,974	23,465,995
Other operating charges	8,523,372	4,316,811	12,840,183	7,637,694	6,367,927	14,005,621

On 2 August 1999, Tullett and Tokyo International Securities Limited entered into a joint venture with Spitz AG, to form a joint venture company called Tullett & Spitz Capital Markets AG, a company registered in Frankfurt. This involved the sale of the Fixed Income business in exchange for 500,000 shares of •1 each, in Tullett & Spitz Capital Markets AG.

The shareholding in the joint venture was subsequently sold to another group company Tullett & Tokyo (Overseas Holdings) Limited at the same fair value at which the investment was acquired.

6. INTEREST RECEIVABLE

	1999	1998
	£	£
On bank deposits	308,354	521,846

7. INTEREST PAYABLE

	1999	1998
	£	£
On bank overdrafts	694,849	1,198,428

Tullett & Tokyo International Securities Limited

NOTES TO THE ACCOUNTS

at 31 December 1999

8. TAX ON LOSS ON ORDINARY ACTIVITIES

The taxation credit is made up as follows:

	1999 £	1998 £
Based on the loss for the year:		
Corporation tax	1,744,540	517,170

9. TANGIBLE FIXED ASSETS

	<i>Fixtures and fittings</i> £	<i>Motor Vehicles</i> £	<i>Total</i> £
Cost			
At 1 January 1998	—	—	—
Additions	28,781	15,668	44,449
Disposals	(28,781)	(15,668)	(44,449)
At 31 December 1999	—	—	—
Depreciation			
At 1 January 1998	—	—	—
At 31 December 1999	—	—	—
Net Book Value			
At 31 December 1998	—	—	—
Net Book Value			
At 31 December 1999	—	—	—

10. FIXED ASSET INVESTMENTS

	£
At 31 December 1998 and 31 December 1999	30,000

During the year the company held investments in the issued share capital of the following company:

<i>Company</i>	<i>Business</i>	<i>Country of incorporation</i>	<i>Company interest</i>
CRESTCo Limited 60 redeemable fixed dividend shares of £250 each	Securities	England	0.25%

The investment above has not been revalued in the accounts but the directors consider that the aggregate value at 31 December 1999 was not less than the net book value shown in the accounts.

Tullett & Tokyo International Securities Limited

NOTES TO THE ACCOUNTS at 31 December 1999

11. DEBTORS

	1999 £	1998 £
Trade debtors	2,751,002	3,669,543
Amounts payable by settlement offices (note 15)	2,335,136	4,598,247
Taxation	—	535,231
Prepayments and accrued income	164,865	158,871
	<u>5,251,003</u>	<u>8,961,892</u>

12. CASH AT BANK

Included in cash at bank is £5,000,000 (1998 - £5,000,000) which is maintained on deposit to secure an overdraft facility for Tullett & Tokyo International Securities Limited at Euroclear.

13. CREDITORS: amounts falling due within one year

	1999 £	1998 £
Bank overdraft	1,810,765	1,235,742
Trade creditors	760,915	76,719
Amounts owed to parent undertaking	3,762,118	9,120,543
Accruals and deferred income	841,301	1,371,557
	<u>7,175,099</u>	<u>11,804,561</u>

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

	1999 £	1998 £
Subordinated loan	<u>2,000,000</u>	<u>4,000,000</u>

The subordinated loan is repayable to the ultimate parent undertaking subject to the approval of the Securities & Futures Authority Limited. No interest is payable on the loan.

NOTES TO THE ACCOUNTS

at 31 December 1999

15. SETTLEMENT OFFICES

The amounts payable by settlement offices represent the company's net position with:

	1999 £	1998 £
(a) Euroclear		
Receivable	27,228,419	124,548,794
Payable	(26,915,653)	(121,927,287)
Net receivable	312,766	2,621,507
(b) Crest		
Receivable	26,440,641	6,209,678
Payable	(25,918,987)	(5,785,089)
Net receivable	521,654	424,589
(c) Other clearers		
Receivable	11,618,722	5,268,635
Payable	(10,118,006)	(3,716,484)
Net receivable	1,500,716	1,552,151
Amounts payable by settlement offices	2,335,136	4,598,247

Amounts payable by settlement offices represent the company's net position with dealers and clearing houses. This represents the simultaneous purchase and sale of securities, where settlement takes place on a delivery versus payment basis. The form of these transactions is that the company takes temporary control until the transactions are settled. To reflect the substance of these transactions only the net position is included in amounts payable by settlement offices.

16. SHARE CAPITAL

	Authorised		Allotted, called up and fully paid	
	1999 No.	1998 No.	1999 £	1998 £
Ordinary shares of £1 each	13,000,000	13,000,000	13,000,000	10,000,000

On 30 March 1999 1,000,000 ordinary shares of £1 each, with an aggregate nominal value of £1,000,000 were issued at par and fully paid for in cash. On 27 May 1999 2,000,000 ordinary shares of £1 each, with an aggregate nominal value of £2,000,000 were issued at par and fully paid for in cash.

Tullett & Tokyo International Securities Limited

NOTES TO THE ACCOUNTS

at 31 December 1999

17. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	<i>Share capital £</i>	<i>Profit and loss account £</i>	<i>Total share- holders' funds £</i>
Balance at 1 January 1998	10,000,000	(2,522,830)	7,477,170
Loss for the year	–	(2,523,505)	(2,523,505)
Balance at 31 December 1998	10,000,000	(5,046,335)	4,953,665
Loss for the year	–	(4,982,882)	(4,982,882)
Increase in Share Capital	3,000,000	–	3,000,000
Balance at 31 December 1999	13,000,000	(10,029,217)	2,970,783

18. ULTIMATE PARENT UNDERTAKING

The ultimate parent undertaking of Tullett & Tokyo International Securities Limited is Tullett & Tokyo Liberty plc, a company registered in England & Wales. Copies of the group accounts can be obtained from Tullett & Tokyo Liberty plc, 54-62 New Broad Street, London, EC2M 1JJ.