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CONTENTS

INTRODUCTION

Investec Holdings (UK) Limited is a wholly owned subsidiary of Investec Group Limited (Investec), an independent, international asset management, investment and private banking group based in the Republic of South Africa. Investec Bank Limited is listed among the top 20 companies on the Johannesburg Stock Exchange, in terms of capitalisation, and is rated amongst the top 300 banks in the world.

Investec Holdings (UK) Limited is incorporated in England and is the holding company for Investec's businesses in the United Kingdom. These are Investec Bank (UK) Limited, Clive Securities Group Limited, Carr Sheppards Holdings Limited and their subsidiaries.

Investec Bank (UK) Limited

Investec Bank (UK) Limited (IBUK) is a well established private banking and commercial bank based in the City of London regulated by the Bank of England. It is a member of The Securities and Futures Authority Limited (SFA).

It offers its private and corporate clients a range of core banking products which are backed by a strong emphasis on customer service. IBUK's key focus on relationships ensures familiarity with client requirements and continuity in account management.

In private banking, IBUK provides a high interest cheque account and a range of deposit accounts which are simple to operate and feature consistently attractive rates of interest and the opportunity for free banking. Commercially, IBUK offers the high net worth individual and the corporate client a range of flexible financing options, which can be structured to meet their distinct cash flow, fiscal and other needs.

The Bank also has a wholly owned subsidiary, Investec Bank (Jersey) Limited, registered in Jersey, a respected offshore banking jurisdiction. It is able to offer structured financial products to its international private clients, specifically tailored to their requirements.

IBUK is particularly experienced in property investment finance and has specialist expertise in products for the medical and professional markets.

IBUK has two operating subsidiaries focusing on the specific areas of property management services (Taylor Rose) and asset based leasing finance (Investec Asset Finance PLC).

On 31 March 1998, IBUK bought Clive Discount Company Limited (CDC) in preparation for the merger of the two banks on 1 April 1998. CDC's activities are described later in full under Clive Securities Group Ltd.

Taylor Rose

Taylor Rose offers a professional and comprehensive range of property services in the commercial and residential sectors, principally relating to selected quality areas in London.

Investec Asset Finance PLC

Investec Asset Finance PLC provides innovative capital asset leasing products and services to the blue chip local authority market and to the education and corporate sectors.

The company participates in and manages leases for local authority clients enabling them to enjoy the use of capital assets required for the communities they service, while allowing them to remain within the budgetary constraints of Local Government finance regulations. Additionally the company has expertise in advising and arranging large ticket leases for public and private sector clients on a fee basis.

INTRODUCTION
(continued)

The company also maintains its own book of small and medium ticket leases with schools, colleges, universities and departments of UK Local Government, and with commercial clients of high credit standing.

Clive Securities Group Limited

Clive Securities Group Limited (CSG) is incorporated in England and wholly owns the main operating subsidiaries, Investec Derivatives Limited (formerly Clive Derivatives Limited) (IDL) and Investec Quantitative Trading Limited (IQT). Clive Discount Company Limited (CDC), a wholesale bank, is a counterparty to the Bank of England in its daily open market operations and a stock borrowing and lending intermediary. On 31 March 1998, CDC was transferred within the Group to become a wholly owned subsidiary of IBUK. IDL acts as a trader and broker of equity and interest rate derivatives on LIFFE, the London International Financial Futures Exchange. IDL is regulated by the SFA. IQT is also regulated by the SFA and trades in equity and interest rate derivatives on the basis of decisions rooted in quantitative analysis. IQT provides a fixed income, derivative and economics research resource for IBUK, a service which dovetails well with the Bank's wholesale operations. The combination of these businesses places CSG in a prominent position in the international securities market primarily operating in London.

Clive Discount Company Limited

Clive Discount Company Limited (CDC) is regulated by the Bank of England and the SFA. It is also a member of the International Stock Exchange of the United Kingdom and the Republic of Ireland (ISE). CDC's traditional business of trading in short term secured money and money market instruments has been complemented by the stock borrowing and lending business of Cazenove Money Brokers, acquired in 1995.

The combined businesses of CDC now comprise:

- trading in the wholesale markets in London for loans, deposits and debt instruments denominated in sterling, US Dollars and other major European currencies;
- market making in eligible sterling acceptances and sterling Treasury bills;
- acting as broker-dealer in Certificates of Deposit (CDs) issued by all major UK and international banks and building societies and maintaining a presence in the Eurodollar CD market;
- accepting deposits in all major currencies, although its principal emphasis is in sterling, where its secured and unsecured deposit book provide arbitrage opportunities; and
- acting as broker-dealer in Forward Rate Agreements (FRAs) for clients and as principal.

Following the introduction of the open gilt repo market in the United Kingdom from 2 January 1996, CDC is now a major participant in that market conducting a significant proportion of the market volume in the repo market for UK Government Bonds. With the introduction of the new CREST electronic settlement system for UK equities, CDC's business in equity stock lending comprises mainly repo activity in these instruments.

Carr Sheppards Holdings Limited

Carr Sheppards Holdings Limited (CSH) is incorporated in England and wholly owns Carr Sheppards Limited, which in turn is both the main operating company and the holding company for the

INTRODUCTION
(continued)

Carr Sheppards subsidiaries. Carr Sheppards Limited (CSL) is a private client stockbroker and a member of the London Stock Exchange, and is regulated by the SFA.

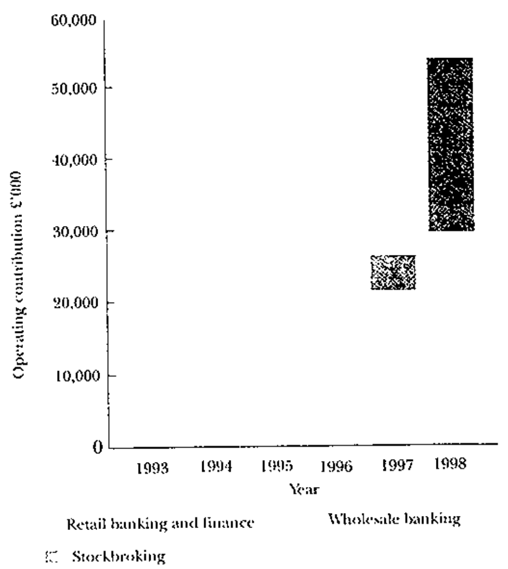
Carr Sheppards is the result of the amalgamation of two of the oldest names in stockbroking, W.I. Carr (founded in 1825) and Sheppards (founded in 1827). The Group offers private investors quality financial advice through investment management expertise, all round financial knowledge, and long and broad experience in both rising and falling markets. It has a practical rather than theoretical approach to solving problems, greater financial strength from being part of the Investec family and a genuine personal interest in clients' financial well-being.

Carr Sheppards has an integrated set of personal investor services from investment management on both discretionary and non-discretionary bases, and then on through personal equity plan administration and management to pension advice and inheritance tax planning. These are complemented by further ability to advise on employee benefit schemes such as death and medical expenses cover, and on general insurance through competitive quotations for almost all non-life insurance except motor.

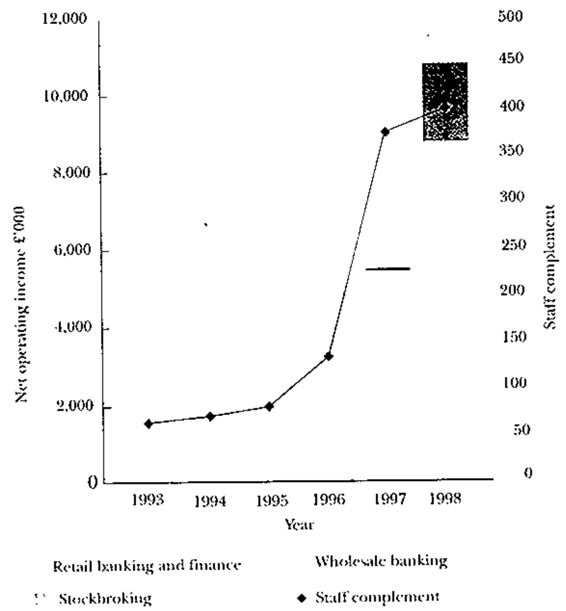
SALIENT FEATURES

	1993 £'000	1994 £'000	1995 £'000	1996 £'000	1997 £'000	1998 £'000
Net operating interest income	5,754	5,682	5,858	10,641	18,815	**24,095**
Net fees and commissions	1,310	1,821	2,827	2,515	6,593	**26,242**
Other operating income	84	259	504	2,629	1,378	**3,840**
Operating contribution	7,148	7,762	9,189	15,785	26,786	**54,177**
by division						
Retail banking and finance	7,148	7,762	9,189	10,563	12,831	**18,499**
Wholesale banking				5,222	9,009	**11,417**
Stockbroking					4,946	**24,261**
Operating expenses and provisions	(5,103)	(4,606)	(6,382)	(10,357)	(21,226)	**(43,367)**
Net operating income	2,045	3,156	2,807	5,428	5,560	**10,810**
by division						
Retail banking and finance	2,045	3,156	2,807	3,603	5,334	**6,321**
Wholesale banking				1,825	159	**2,498**
Stockbroking					67	**1,991**
Interest expense on subordinated loans	0	(359)	(574)	(2,582)	(5,416)	**(6,771)**
Profit on ordinary activities before taxation	2,045	2,797	2,233	2,846	144	**4,039**
Staff complement	65	68	76	126	368	**399**
Shareholders' equity	9,527	12,324	14,599	54,449	57,502	**78,324**
Capital resources	32,027	34,824	37,099	112,997	124,450	**163,396**
Total assets	260,736	273,520	300,540	5,250,050	5,368,677	**5,169,051**

Operating contribution by division



Net operating income
Staff complement



DIRECTORATE AND CORPORATE INFORMATION

INVESTEC HOLDINGS (UK) LIMITED

BOARD OF DIRECTORS

B Kardol (Chairman) *

H S Herman *

B Kantor *

S Koseff *

SECRETARY

R J Vardy

INVESTEC BANK (UK) LTD

B Kardol (Chairman) *

B K Kalkhoven (Managing Director)

J Abell *

H S Herman *

M A Jameson-Till

B Kantor *

I R Kantor *

S Koseff *

A Tapnack

C Wakelin *

SECRETARY

R J Vardy

INVESTEC ASSET FINANCE PLC

P Unsworth (Managing Director)

T P Bucke

B K Kalkhoven *

A Tapnack *

I R Wohlman *

SECRETARY

R J Vardy

AUDITORS

Ernst & Young, London

Registered Auditor

COMPANY REGISTRATION

Registration Number: 2685988 ENGLAND

Registered Office: Cannon Bridge,

25 Dowgate Hill, LONDON, EC4R 2AT

INVESTEC BANK (JERSEY) LTD

C C Blampied

LS Blitz*

G W Dick

H S Herman *

B K Kalkhoven *

B Kantor *

S Koseff *

T Sears *

A Tapnack *

SECRETARY

G W Dick

CLIVE SECURITIES GROUP LTD

B Kardol (Chairman) *

M A Jameson-Till (Managing Director)

J Abell *

H S Herman *

B K Kalkhoven

B Kantor *

I R Kantor *

S Koseff *

P B Mitford-Slade *

SECRETARY

R J Vardy

* Non-Executive

DIRECTORATE AND CORPORATE INFORMATION

INVESTEC HOLDINGS (UK) LIMITED (continued)

CLIVE DISCOUNT COMPANY LTD

B Kardol (Chairman) *
M A Jameson-Till (Managing Director)
H S Herman *
C F Hubbard
B K Kalkhoven
B Kantor *
S Koseff *
P B Mitford-Slade *
AJ Postlethwaite
A Tapnack

SECRETARY

R J Vardy

INVESTEC DERIVATIVES LTD

D S Kantor (Managing Director)
E F Campbell-Gray
M A Jameson-Till
A Tapnack *

SECRETARY

R J Vardy

INVESTEC QUANTITATIVE TRADING LTD

M P Burbanks (Managing Director)
M A Jameson-Till
B K Kalkhoven *
P Shaw
A Tapnack *

SECRETARY

R J Vardy

CARR SHEPPARDS HOLDINGS LTD

F C Carr
H S Herman *
B Kantor *
S Koseff *
I Maxwell Scott
T May
M J S Redmayne

SECRETARY

R J Vardy

CARR SHEPPARDS LTD

F C Carr (Managing Director)
C Brangwin
G D O Davenport
A G Evans
H S Herman *
C P Hills
B Kantor *
S Koseff *
R M Leach
I Maxwell Scott
T May
M A Pickford
M J S Redmayne
R J B Yeldham

SECRETARY

M J S Redmayne

* Non-Executive

CHAIRMAN'S STATEMENT

Introduction

Investec Holdings (UK) Limited is the holding company of Investec Bank (UK) Limited, Clive Securities Group Limited and Carr Sheppards Holdings Limited. Its consolidated results include all of these sub-groups for the full financial period, a year that has seen very pleasing organic growth.

During the year, the strong economy in the UK has helped consumer confidence as well as firming property values. The Bank of England has rigorously monitored inflation aiming with successive base rate rises towards the Government's target of 2.5%. This has meant that certain sectors particularly manufacturing and export-led businesses have suffered as sterling has strengthened. The bull run in the stock markets continued, but some significant corrections have occurred up to the time of writing. The Group has been careful to lend cautiously against rising underlying asset values. It has also been diligent in maintaining a matched currency book against the rise in sterling caused by higher interest rates.

All parts of the business have continued to progress well whilst integrating themselves within the Investec Group. The Group has facilitated the funding of its parent's acquisition of Ernst & Company in New York by providing subordinated debt to that transaction and has continued to service its own debt throughout the year.

Operating income improved substantially to £47,406,000 from £21,370,000 with profit before tax of £4,039,000 up from £144,000. Shareholders' equity now stands at £78,324,000 (1997 - £57,502,000) and total capital resources at £163,396,000 (1997 - £124,450,000).

Investec Bank (UK) Limited

This has been the first full year of trading under the Investec name. It has been a year of excellent growth and rewarding results from the majority of its divisions. The Group identity has added to the Bank's profile in the international community and will become increasingly beneficial in building business with new Group operations in Australia, Hong Kong, Israel, Mauritius and the United States of America.

International Private Banking (including Investec Bank (Jersey), Medical Finance, Property, Investec Asset Finance, Treasury and Retail Banking have all recorded outstanding results for the year. The review of operations provides more detail on these pleasing outcomes.

Inevitably businesses need occasional trimming. Legislative changes affecting Personal Equity Plans (PEPs) caused Investec to abort its PEP product, but it intends to be well prepared for Individual Savings Accounts (ISAs) when they arrive, building on experience of having successfully run TESSAs for many years. The South African fixed income business was closed during the year with clients being transferred to South Africa to provide continuity of service.

On the last day of the financial year, the Bank bought Clive Discount Company Limited. On 1 April 1998 the latter's wholesale banking operations were merged with the retail base to create a single bank with a capital base in excess of £150,000,000, after introduction of further capital from our South African parent. The new Bank has a Risk Asset Ratio of 17.26%, compared to the Basle Committee recommendation of 8%.

CHAIRMAN'S STATEMENT

Clive Securities Group Limited

Clive Securities Group Limited wholly owns Investec Derivatives Limited and Investec Quantitative Trading Limited.

Clive Discount Company improved its performance during the year compared to last year. The fundamental changes made by the Bank of England to its daily money market operations last year have now worked their way through the marketplace with gilt repo firmly established as a major liquidity and money pricing mechanism. Margins have held up reasonably well and attention has been paid to costs where necessary.

Investec Derivatives Limited, the proprietary derivatives trading operation has had a disappointing year. In the first half of calendar 1998, the cost base was cut substantially. This business will continue to be closely monitored during the coming year.

On 31 March 1998 Clive Discount Company was transferred to Investec Bank (UK) in anticipation of merging their operations to create one bank from 1 April 1998. This was accomplished and the new Bank is now performing very well.

The Bank has also launched an AAA rated Money Fund to capture large deposit funds. This new venture represents the first collaboration between the established money market skills of wholesale banking and those of the private banking group in deploying a new product. These combined skills will come further to the fore in the new merged Bank.

Carr Sheppards Holdings Limited

The Carr Sheppards subgroup has had an excellent year, contributing its first full year's results to the Group.

Prospects

The Investec Group has been assessing potential acquisitions in the current year. At the time of writing it has been successful in completing the purchase of Guinness Mahon Holdings plc from the Bank of Yokohama. It has also completed a cash offer for Hambros plc (following that company's disposal of its interests in Hambros Bank Limited, Hambros Countrywide plc and Hambros Insurance Services plc).

Subsequent to these acquisitions, the Group also completed the purchase of the minority interest in Guinness Flight Hambro Asset Management Limited.

The integration and rationalisation of these businesses will absorb significant management resources but I have every confidence in the capacity and ability of the management team to carry these through considerately and commercially for all concerned.

I am particularly optimistic about the prospects as we develop the Investec Group and name in Europe. I must record my thanks to my fellow directors, the management and staff for not only an excellent performance this year, but also for their willingness to meet the challenges needed to build the Group in the year ahead.

Bas Kardol
Chairman

REVIEW OF OPERATIONS

Introduction

The results for the year ended 31 March 1998 reflect the excellent organic results of the existing businesses of the Group, including the first full year's contribution of Carr Sheppards.

Investec Bank (UK)

Retail banking and finance kept up its successful growth in earnings with an increase of 28% in profit before tax for the financial year.

These very acceptable results are after substantial provisions of £300,000 against the exit loan portfolio and a straight write-off of £1,005,000 of leasehold improvements in the Bank's relatively new premises at Cannon Bridge. The negotiated termination of its present lease has been necessitated by the greater need of the Group (enlarged by the three acquisitions noted by the Chairman) to be in one building. This move will be achieved towards the end of the 1999 financial year and the whole Group eagerly anticipates being under one roof at Gresham Street.

The growth of the Bank's loan book and the decision to centralise risk management of both retail and wholesale banking pre-merger has led the Bank to focus quality resources into its risk management. This remains a prime and vital ingredient in its continuing success. Allied to training and investment in its credit team, the Bank has strengthened its resources with a Group economist and its risk management capabilities with the imminent introduction of 'Algorithmics', a Value-at-Risk assessment tool already in use for some years in our parent South African banking Group.

Capital

Capital is treated as a scarce resource in Investec's rapidly expanding organisation. Careful assessment of each proposition remains in force and only those proposed transactions capable of achieving the required returns are likely to gain credit approval and management support.

Efficient capital utilisation is now second nature in each division of the Bank and we are gratified with the Bank of England's decisions over the last two years in consistently lowering the regulatory capital requirements. Going forward, the surplus capital in the Bank arising from the merger with Clive Discount Company and the further capital from our parent will be carefully harboured as it is strategically important for the recapitalisation of the new acquisitions.

Retail Banking and Treasury

The Bank's retail deposit base has been expanded in an extremely competitive market, where clients are bombarded with new offers every week. The base has grown from £221,000,000 to over £254,000,000 and continues to be the most significant source of funding within the Bank. Innovative products and constant marketing play a key role in enabling the Bank to remain attractive to clients. This was amply demonstrated by the launch of the Base Rate Linked Term Deposit which proved so successful that it had to be withheld from further offer after only six months in existence. The volume of funds it attracted was threatening an imbalance in the deposit base but its notable success is proof of its attraction.

Business and personal high interest cheque accounts carrying competitive rates remain major product lines for the Bank, which it will continue to promote. Looking to the future, the Board gave its approval to the Bank to diversify from purely a retail deposit base and seek wholesale interbank lines to fund risk assets. Treasury now has up to £40,000,000 of wholesale money lines providing flexibility in managing different interest rate scenarios. The higher profile achieved by the Group as a whole and its expanded capital base have provided City and international banks with the necessary comfort to offer facilities. Treasury management of the Bank has been centralised in its wholesale operation with retail banking keeping its critical historical position within the Bank and its marketplace.

REVIEW OF OPERATIONS

Property Finance

The success of this division has exceeded all expectations, with the Bank securing opportunistic profits on properties that offered proprietary returns without material increase in risk. Changes in the sphere of operations were made with select additional locations inside the M25 being included. This permitted the division to sustain acceptable growth rates, but in lending the Bank still erred towards conservative assessment of property values. Prime central London properties increased substantially in value, but loan to value parameters were firmly controlled.

Property Finance remains a core business within the Bank and continues to capitalise on its advantageous specialist skills in prime locations and in nursing homes. The advent of a new property company bodes well for the enlarged Investec Group in the form of Berkeley Hambro plc. This will enable the division to benefit from a wider spread of properties and the combined skills of each team.

International Private Bank and Investec Bank (Jersey)

This division was anticipated to perform well in last year's review and indeed has ably achieved that by reporting excellent results. The division continues to offer major benefits to UK non-domiciles and foreign high net worth individuals, as well as giving the opportunity to South Africans to take advantage of the gradual relaxation of exchange controls in their country.

The highlight of the year was the launch of the AAA Money Fund out of Jersey offering prime returns on deposits in both sterling and US Dollars. It is highly encouraging to note that the Fund has performed at the top of its sector, attracting large investments from the greater Group and from clients. Investec Bank (Jersey) has shown excellent growth with 1,500 clients and £54,000,000 in deposits. The Fund and Jersey have furthered Investec's offshore capabilities, which will be enhanced by the Group's investments in businesses in Australia, Hong Kong, Israel, Mauritius and the United States of America.

Medical Finance and Professional

The Medical Finance division has now attained critical mass by doubling the size of its asset book during the year and making thereby a positive contribution to the Bank's results. The Medical Finance team is confident of performing equally well this coming year on the back of its higher profile and increasing levels of market acceptance.

Deliberately little attention has been paid to the Professional book other than actively managing out the exit portfolio of mainly barristers' loans. The provision made against these should now be sufficient to ensure that none further are required. It is anticipated that the exit portfolio will make a positive contribution to the Bank's bottom line in future years. Having now been tidied up, Professional will be cautiously relaunched with selected products into tightly defined target markets.

For Medical Finance, a major limiting factor remains the widespread nature of existing and potential clients. Recent acquisitions have given the division the opportunity to establish a presence in the South East, Oxfordshire and Yorkshire and it will enter these new areas with a great deal of confidence drawn from this year's performance.

South African Fixed Income and Forex

As noted by the Chairman, the South African Fixed income desk has ceased operation. Investec took the decision to reduce proprietary risk business to a minimum, particularly in a marketplace overrun by "bulge bracket" new entrants at the expense of specialist traders. A newly formed operation, South African Securities Distribution, of our parent company, based in London, has been allied to the Forex trading division. This latter division remains on the Bank's balance sheet and has managed a pleasing result for the year.

REVIEW OF OPERATIONS

Investec Asset Finance

The Group's leasing operation has enjoyed a record year by the successful negotiation of a number of renewals, thereby also securing substantial business for the year ahead. Fees totalling £1,000,000 were recorded on two transactions which added favourably to the Bank's other income line. Continuing careful investment in residuals should add to its long-term growth and to the opportunities to diversify into other areas.

Initiatives into the Grant Maintained Schools' market have proved successful and expansion into small and medium corporates, although slow, remains encouraging. The minority shareholding was transferred to Investec during the year, concluding what has been a very rewarding acquisition.

Information Technology and the Millennium

Year 2000 compliance of the Bank's systems and relationships is under active supervision at the highest level within the Bank. Thorough investigation of these issues and timely upgrading of equipment and systems indicate that the Bank's investment in IT will be able to cope with the change of century. Management is committed to ensuring this.

Clive Securities Group

Clive Securities Group Limited wholly owns Investec Derivatives Limited and Investec Quantitative Trading Limited. The subgroup's business underwent some restructuring and refocusing during the year. This rationalisation of business lines, management and staff occurred pre-merger, with both the proprietary trading in futures and options and the matched principal agency bond business ceasing. The latter was originally carried out by the subsidiary Clive Agency Bond Broking Limited, which was later renamed and recapitalised to become Investec Quantitative Trading Limited.

Clive Discount Company emerged from this exercise clearly focused on its main business activities of gilt repo and lending, short-term sterling money markets and equity borrowing and lending. The continued growth of the gilt repo markets as well as that of marginal stock lending has greatly reduced Clive's credit risk profile. Notwithstanding a reduced sensitivity of the wholesale business to shifts in the yield curve, five increases in base rates over a seven month period did not provide a helpful trading environment for the short sterling money market desk.

Given these circumstances, Clive achieved a credible performance for the year with an increased contribution to the bottom line. The equity borrowing and lending unit performed well during the year, maintaining its substantial market share in the intermediated area.

Following the market liberalisation that took place in October 1997, whereby borrowers and lenders of stock could deal directly with one another, Clive suffered an initial decline in equity lending volumes, but this has now been reversed by supplying a broad range of stocks and exceptional service to its clients. An ADR desk was established in mid 1997 and following on Investec's acquisition of Ernst & Company, a New York broker-dealer, prospects for increasing volumes and lowering costs have markedly improved.

Although the overall gilt repo market continued to grow, growth was not as hectic as last year. Clive took advantage of its strong position of being able to source gilts from institutional lenders and supply to the repo market at competitive margins. Both gilt borrowed and lent volumes grew strongly and the matched repo book exploited Clive's specialist expertise in this market to produce a positive result.

The most important change in Clive's status was its merger on 1 April 1998 with Investec Bank (UK) to become the wholesale market's division of that bank.

REVIEW OF OPERATIONS

The running in period has now passed and its counterparties have adapted well to the combined Bank.

Plans for the year ahead include extending the equity lending capability into international markets, in conjunction with the Bank's fellow subsidiaries in New York and Johannesburg. The matched repo book will be expanded when suitable opportunities arise and preparations are in hand to deal in Euro denominated sovereign bonds from early 1999. The enlarged capital base of the combined Bank will provide the leverage to expand the wholesale deposit base of the Bank and this will be an important target in the coming year.

Investec Derivatives Limited has had a difficult year's trading, resulting in the decision to cease external client broking operations early in the new financial year and the regrettable departure of the staff in that area. This reduction in costs will only have effect in the coming year and should secure the viability of the company, but management will continue to monitor its progress closely.

Investec Quantitative Trading Limited was formed by the recapitalisation of the former Clive Agency Bond Broking Limited. Its purpose is to trade in financial markets based on decisions using detailed quantitative analysis. Its Group economist provides fixed income, derivatives and economics research to the Group which fits neatly with the Bank's wholesale operations.

It commenced trading on 6 November 1997 and by the end of the year had recovered its start up costs, in line with its business plan. The coming year will therefore see its first full year's contribution to the Group.

Looking ahead, the intention is to launch a new Guernsey-based hedge fund and to package some of its trading and analysis software as products for the wider financial marketplace.

Carr Sheppards Holdings Limited

Carr Sheppards enjoyed a record year, the result of escalating market indices and a significant increase in growth of new business. Total assets under management and administration increased by 50% during the year.

Strategy for the months ahead will include the continued development of niche areas, such as those represented by administration services to other financial institutions and self-invested pension schemes, where the competition is either in decline or fragmented. The merger of Carr Sheppards and Henderson Crosthwaite (from the Hambros acquisition) to form Carr Sheppards Crosthwaite will be another significant move in the coming year.

Prospects

Investec has raised its profile still further by the past year's consolidation of its activities and the three recent acquisitions. The coming year will focus on integration of the new businesses into the UK Group's chosen areas of core competence in what will undoubtedly be another challenging and exciting year ahead.

Stephen Koseff
Director

DIRECTORS' REPORT

The Directors have pleasure in presenting their annual report together with the audited financial statements of the Group for the year ended 31 March 1998.

Activities
The principal businesses of the Group are retail banking and finance, wholesale banking and private client stockbroking.

Review of Developments
On 18 March 1998, the company issued 6,500,000 ordinary shares of £1 at a premium of £11,700,000 to assist in the financing of an acquisition by a fellow subsidiary undertaking.

On 31 March 1998, the company facilitated the transfer at net asset value of Clive Discount Company Limited (CDC) to Investec Bank (UK) Limited (IBUK), contributing its investment in CDC as consideration for further shares in IBUK in preparation for the merger of those banks on 1 April 1998.

Results and Future Prospects
The financial statements show the results for the year of retained profit of £2,622,000 (1997 - £117,000) which has been added to reserves. The Directors do not recommend the payment of a dividend for the year (1997 - £nil). The future prospects for the company and the Group are outlined in the Review of Operations.

Directors
The Directors who served during the year are listed on page 5. The Directors who held office at 31 March 1998 had no interests in the shares of the Group companies requiring disclosure under schedule 7 of the Companies Act 1985.

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 and of the Group and of the profit or loss of the Group for that year.

In preparing those financial statements, the Directors are required to:

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

The Directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial positions of the company and of the Group to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Year 2000 compliance
As has been widely documented, 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 commercial disruption.

The company is well advanced in the task of assessing the risks to its business resulting from the millennium date change. Once this task is complete, the Directors can assess the likely impact on its activities and develop prioritised action plans to deal with the key risks.

Much of the cost of implementing the action plans will be subsumed into the recurring expenses of the divisions involved.

Auditors
In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of Ernst & Young as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board of Directors

R J Vardy
Secretary
28 September 1998

AUDITORS' REPORT

To the shareholders of

Investec Holdings (UK) Limited:

We have audited the financial statements on pages 16 to 35 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 19 to 21.

Respective responsibilities of Directors and Auditors

As described on page 14 the company's Directors are responsible for the preparation of the 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 circumstances of the company and of the Group, 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 affairs of the company and of the Group at 31 March 1998 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young

Chartered Accountants Ernst & Young
Registered Auditor
London
28 October 1998

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 March

	Notes	1998 £'000	1997 £'000
Interest receivable - interest income arising from debt securities		130,445	146,227
Interest receivable - other interest income		191,523	139,395
Interest payable		(297,873)	(266,807)
Interest expense on subordinated loans		(6,771)	(5,416)
Net interest income		17,324	13,399
Fees and commissions receivable		26,524	7,649
Fees and commissions payable		(282)	(1,056)
Dealing income		2,671	917
Other operating income		1,169	461
Operating income	1	47,406	21,370
Operating expenses	2 - 4	(40,526)	(20,216)
Provision for bad and doubtful debts	11	(1,836)	(1,010)
		5,044	144
Exceptional write-off of fixed assets	17	(1,005)	—
Profit on ordinary activities before taxation		4,039	144
Continuing operations		4,039	79
Acquisitions		—	65
Tax on profit on ordinary activities	5	(1,417)	(27)
Retained profit for the year		2,622	117

Movements in the profit and loss account and reserves are shown in Note 23.

All recognised gains and losses have been included in the profit and loss account.

CONSOLIDATED BALANCE SHEET

at 31 March

	Notes	1998 £'000	1997 £'000
Assets			
Cash and balances at banks	7	263,162	202,811
Treasury bills and other eligible bills	8	54,551	803,784
Loans and advances to banks	9	1,204,244	972,890
Loans and advances to customers	10	1,595,992	1,059,461
Debt securities	12	1,914,625	2,156,766
Financial investments	15	646	463
Other assets	16	127,343	162,179
Tangible fixed assets	17	8,488	10,323
Total assets	6	5,169,051	5,368,677
Liabilities			
Deposits by banks	18	2,673,141	2,780,086
Customer accounts	19	2,266,566	2,312,380
Other liabilities	20	65,948	151,761
Total liabilities		5,005,655	5,244,227
Capital Resources			
Subordinated loans	21	85,072	66,948
Shareholders' equity	24	78,324	57,502
Called up share capital	22	22,120	15,620
Share premium account	23	53,213	41,513
Other reserves	23	(4,632)	(4,632)
Profit and loss account	23	7,623	5,001
Total capital resources		163,396	124,450
Total liabilities and capital resources	6	5,169,051	5,368,677
Memorandum items			
Contingent liabilities and commitments	26	199,266	765,689

The financial statements on pages 16 to 35 were approved by the Board of Directors on 28 September 1998 and are signed on its behalf by:

Stephen Koseff

Director

BALANCE SHEET

at 31 March

	Notes	1998 £'000	1997 £'000
Assets			
Loans and advances to customers	10	**4,650**	5,100
Subordinated loan to Group undertakings	13	**37,500**	19,500
Shares in Group undertakings	14	**154,055**	89, 547
Other assets	16	**1,420**	1,320
Total assets		**197,625**	115,467
Current Liabilities			
Other liabilities	20	**57,648**	7,318
Total current liabilities		**57,648**	7,318
Total assets, less current liabilities		**139,977**	108,149
Capital Resources			
Subordinated loans	21	**75,072**	56,948
Shareholders' equity	24	**64,905**	51,201
Called up share capital	22	**22,120**	15,620
Share premium account	23	**53,213**	41,513
Profit and loss account		**(10,428)**	(5,932)
Total capital resources		**139,977**	108,149

The financial statements on pages 16 to 35 were approved by the Board of Directors on 28 September 1998 and are signed on its behalf by:

Stephen Koseff
Director

ACCOUNTING POLICIES

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

Basis of presentation in the 1998 Annual Report

The financial statements have been prepared under the historical cost convention, in compliance with Part VII, Chapter 11 of, and Schedule 9 to the Companies Act 1985, and in accordance with applicable accounting standards.

1. Basis of consolidation

The Group financial statements consolidate the accounts of Investec Holdings (UK) Limited and its subsidiary undertakings made up to 31 March 1998. Goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is written off against reserves on acquisition. Capital reserves arising on acquisitions are credited to reserves. Shares in Group undertakings are shown at cost less permanent diminution in value.

2. Cash flow statement

The Group is exempt from the requirements to prepare a cash flow statement under Financial Reporting Standard 1, because a consolidated cash flow statement is included in the publicly available consolidated financial statements of its ultimate holding company, Investec Holdings Limited.

3. Income and expense recognition

Interest receivable and payable is accrued over the period of the related loans and deposits. Interest receivable which is overdue and in the view of management may not be collected is removed from income and suspended. Fees and commissions from retail banking are credited to income at the time they are received, at which point they are deemed to have been earned; all others are credited on the accruals basis. Premiums and discounts arising on foreign exchange swap contracts entered into in connection with loan and deposit transactions are amortised over the swap period and included in interest.

4. Pension plan costs

Pension plan costs in respect of members of defined contribution (money purchase) schemes are charged to profit and loss as they fall due. The Group has both contributory and non-contributory schemes in operation.

5. Taxation

Corporation tax payable is provided on taxable profits at the current rate. Provision is made for deferred taxation to allow for timing differences between the recognition of certain items of income and expense for tax and accounting purposes, using the liability method.

6. Foreign currencies

Assets and liabilities in foreign currencies 'are translated into sterling at market rates of exchange ruling at the balance sheet date. All foreign currency transactions are translated into sterling at the exchange rates ruling at the time of the transaction. Forward foreign exchange contracts are revalued at the market rates ruling at the date applicable to their respective maturities. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

ACCOUNTING POLICIES

7. Loans and advances

Commercial loans and advances are stated in the balance sheet after deduction of amounts which, in the opinion of the Directors, are required as specific or general provisions. Specific provisions are made against advances when recovery is doubtful. In addition, general provisions are maintained to cover losses which, although not specifically identified, are known to be present in any portfolio of Bank advances. A number of complex and changing factors are collectively weighed by management in determining the adequacy of the provisions. These factors include management's views of the extent of existing risks in the loan portfolio and of prevailing economic conditions.

The aggregate provisions which are made during the year (less amounts released and recoveries of bad debts previously written off) are charged against operating income. Doubtful debts are written off in part or whole when the extent of the loss incurred has been determined.

8. Debt securities

Investment securities, which are securities held for continuing use in the business, are stated at cost, any premium or discount, representing the difference between cost and redemption proceeds, being amortised over the period to redemption.

Dealing and market making securities are stated at market value.

Repurchase agreements are treated as loans and deposits collateralised by negotiable securities. Accordingly, securities sold under agreements to repurchase are treated as assets and the related obligation as a liability. Conversely, securities purchased under agreements to resell are not treated as assets but instead the related advance is included as an asset.

9. Financial investments

Financial investments are unlisted investments other than debt securities and are recorded at cost unless the Directors are of the opinion that there has been a permanent diminution in value.

10. Client cash

Cash balances held on behalf of clients are included in cash and balances at banks. The related creditor is included in other liabilities.

11. Tangible fixed assets

Fixed assets are stated at cost, less depreciation provided on a straight line basis at rates calculated to write off the assets over their anticipated useful lives. Premiums on leases are stated at cost and are amortised over the unexpired period of the lease. The depreciation rates used are as follows:

Leasehold improvements	10% - 20%
Computer hardware and software	10% - 50%
Office equipment, furniture and fittings	10% - 20%
Motor vehicles	25%

12. Stock borrowing and lending

Stock borrowing and lending transactions are reflected in assets and liabilities to the extent that the respective collateral given or received is in cash. Transactions against non-cash collateral are disclosed in Note 25 to the financial statements.

13. Related party transactions

The directors have taken advantage of the exemptions available in Financial Reporting Standard 8 from disclosing transactions with related parties.

ACCOUNTING POLICIES

14. Derivatives (off-balance sheet financial instruments)

Open contracts for derivatives (such as futures, options, currency and interest rate swaps and forward rate agreements) are stated at market value at the balance sheet date, except where the position is taken specifically as a hedge against a cash asset, in which case they are valued on the same basis as the underlying asset. Resulting profits and losses are taken to income, except for hedges, where any premium or discount is amortised over the period of the contract.

15. Parent company profit and loss account

The company has taken advantage of the exemption in section 230 of the Companies Act 1985 not to present its own profit and loss account. The company's loss for the financial year, determined in accordance with the Act, was £4,496,000 (1997- £4,344,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March

	1998 £'000	1997 £'000
1. REVENUE AND SEGMENTAL INFORMATION	**Group**	
Retail banking and finance		
Interest receivable	32,706	25,855
Interest payable	(21,263)	(16,986)
Net fees and commissions receivable	5,535	3,287
Dealing and other operating income	1,521	675
	18,499	12,831
Wholesale banking		
Interest receivable	280,081	258,088
Interest payable	(269,416)	(248,462)
Net fees and commissions receivable	(282)	(1,053)
Dealing and other operating income	1,034	436
	11,417	9,009
Stockbroking		
Interest receivable	9,181	1,679
Interest payable	(7,194)	(1,359)
Net fees and commissions receivable	20,989	4,359
Dealing and other operating income	1,285	267
	24,261	4,946
Operating income before interest expense on subordinated loans	54,177	26,786
Interest expense on subordinated loans	(6,771)	(5,416)
Operating income	47,406	21,370
Profit on ordinary activities before taxation		
Retail banking and finance	6,321	5,334
Wholesale banking	2,498	159
Stockbroking	1,991	67
Interest expense on subordinated loans	(6,771)	(5,416)
	4,039	144

All operations are within the United Kingdom.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March (continued)

	1998 £'000	1997 £'000
2. OPERATING EXPENSES	**Group**	
Staff costs		
Wages and salaries	21,878	9,965
Social security costs	1,882	910
Other pension costs	1,377	824
Auditors' remuneration		
Audit services	227	187
Other services	103	64
Other costs		
Depreciation (Note 17)	1,924	876
Amortisation of leasehold improvements	383	231
Other operating expenses	12,752	7,159
	40,526	20,216
Average number of employees		
The average number of persons employed by the Group during the year was made up as follows:		
Managers and dealers	107	111
Administrative staff	292	257
	399	368

3. EMOLUMENTS OF DIRECTORS

No Director received any emoluments for services to the company or Group (1997 - £nil).

4. PENSION COSTS

From 1 December 1992 the Investec Bank (UK) sub-group adopted a money purchase scheme into which 10% of the respective salaries of staff members is paid.

From 8 August 1995, Clive Securities Group sub-group introduced a new insured occupational defined contribution scheme. All active members at the time were given the option either to leave their preserved benefits in the former scheme or to transfer the actuarial value of their accrued benefits to the new scheme or an alternative personal pension plan. Under the new scheme, employer contribution rates are tiered according to age. For employees who joined the company after 31 December 1995, the Clive Securities Group sub-group contributes an amount of 10% of pensionable salary into their personal pension plans.

For employees of the Carr Sheppards Holdings sub-group, defined contributions are made into non-contributory money purchase schemes on behalf of employees.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March (continued)

	1998 £'000	1997 £'000
5. TAX ON PROFIT ON ORDINARY ACTIVITIES	**Group**	
Corporation tax	656	—
Deferred taxation	634	—
Overseas taxes	127	27
	1,417	27

As a result of the utilisation of tax losses brought forward and Group relief, the effective rate of corporation tax, based on the profit before the exceptional write-off of fixed assets, is lower than the standard rate. The overseas taxes represent those paid by the Jersey banking subsidiary which does not form part of the UK tax group. At the balance sheet date, the Group has carried forward tax losses amounting to £5,637,000 (1997 – £12,781,000).

	1998 £'000	1997 £'000
6. SEGMENTAL AND CURRENCY ANALYSIS OF BALANCE SHEET	**Group**	
Segmental analysis		
Private banking and finance operations	614,852	451,029
Wholesale market operations	4,285,297	4,662,118
Stockbroking operations	268,902	255,530
Balance sheet totals	5,169,051	5,368,677
Net assets		
Private banking and finance operations	79,286	61,099
Wholesale market operations	2,957	1,938
Stockbroking operations	(3,919)	(5,535)
Net assets total	78,324	57,502
Currency analysis		
Denominated in sterling	4,863,026	5,291,791
Denominated in foreign currencies	306,025	76,886
Total assets	5,169,051	5,368,677
Denominated in sterling	4,974,222	5,291,564
Denominated in foreign currencies	194,829	77,113
Total liabilities	5,169,051	5,368,677

7. CASH AND BALANCES AT BANKS

Cash and balances at banks comprise balances with central and other banks, money at call, and at short notice including deposits placed with banks with a maturity of less than 8 days from the balance sheet date.

The Group is required to maintain balances with the Bank of England which amount to £11,138,000 (1997- £2,657,000) at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March (continued)

	1998 £'000	1997 £'000
8. TREASURY BILLS AND OTHER ELIGIBLE BILLS	Group	
Dealing and market making securities		
Treasury bills	54,551	5,010
Other eligible bills	—	798,774
	54,551	803,784

The unrealised gain included in the carrying value of the bills amounts to £543,000 (1997- £9,286,000).

	1998 £'000	1997 £'000
9. LOANS AND ADVANCES TO BANKS	Group	
Remaining maturity:		
Eight days to three months	1,060,924	949,002
Three months to one year	143,320	23,888
	1,204,244	972,890

Included in loans and advances to banks are secured loans of £727,328,000 (1997 - £961,731,000) of which £727,328,000 (1997 - £956,781,000) are secured with UK Government securities under sale and repurchase agreements.

	1998 £'000	1997 £'000
10. LOANS AND ADVANCES TO CUSTOMERS	Group	
Remaining maturity:		
Demand to three months	1,325,484	885,191
Three months to one year	105,108	47,438
One year to five years	92,697	71,096
Over five years	77,307	58,604
Provision for bad and doubtful debts (Note 11)	(4,604)	(2,868)
	1,595,992	1,059,461

Included in loans and advances to customers are secured loans of £1,288,970,000 (1997 - £855,854,000) of which £1,288,970,000 (1997 - £853,987,000) are secured with UK Government securities under sale and repurchase agreements. In the company's balance sheet unsecured loans and advances to customers of £4,650,000 (1997- £5,100,00) have a remaining maturity of between one and five years.

11. PROVISION FOR BAD AND DOUBTFUL DEBTS

	Specific 1998 £'000	General 1998 £'000	Total 1998 £'000	Specific 1997 £'000	General 1997 £'000	Total 1997 £'000
		Group			Group	
At beginning of year	1,163	1,705	2,868	595	1,273	1,868
Charged against income	1,109	883	1,992	578	432	1,010
Amounts written off	(256)	—	(256)	(10)	—	(10)
At end of year	2,016	2,588	4,604	1,163	1,705	2,868

Included within the year end specific provision is an amount of £410,000 (1997 - £286,000) of interest in suspense.

The profit and loss account includes a credit of £156,000 (1997 - £nil) in respect of the recovery of a debt previously written off.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March (continued)

	1998 £'000	1997 £'000
12. DEBT SECURITIES	**Group**	
Dealing and market making securities		
Issued by public bodies		
UK Government securities	—	21,766
Debt securities listed on a recognised UK investment exchange	**5,995**	14,984
Issued by other issuers		
Unlisted bank and building society certificates of deposit	**1,836,130**	2,005,510
Other unlisted debt securities	—	16,506
	1,842,125	2,058,766
Investment securities		
Unlisted bank and building society certificates of deposit	**72,500**	98,000
Total debt securities	**1,914,625**	2,156,766
Remaining maturity:		
Demand to three months	**1,369,107**	1,927,286
Three months to one year	**539,523**	206,365
One year to five years	**5,995**	23,115
	1,914,625	2,156,766

The unrealised gain in the carrying value of dealing and market making securities amounts to £17,699,000 (1997- £12,185,000).

Dealing and market making securities totalling £5,995,000 (1997 - £23,115,000) have a maturity of more than one year from the balance sheet date.

	1998 £'000	1997 £'000
13. SUBORDINATED LOANS TO GROUP UNDERTAKINGS	**Company**	
Subordinated loans	**37,500**	19,500

The company has provided a subordinated loan of £19,500,000 (1997 - £19,500,000) to Clive Securities Group Limited (CSG). The loan is subject to notice of redemption by the company of not less than five years and one day. At the balance sheet date, no such notice has been given. Subject to the prior consent of the Bank of England, CSG has an option to redeem the loan, in whole or in part, at any time. Interest on the loan is paid quarterly at the rate of 3/16% above Sterling London Interbank Offer Rate. Having obtained the consent of the Bank of England, this loan was repaid on 1 April 1998.

During the year, the company has provided to Investec Bank (UK) Limited (IBUK) a subordinated loan of £18,000,000, on which interest is payable at the rate of 2% above sterling London Interbank Offer Rate. The loan is subject to notice of redemption by the company of not less than five years and two days. At the balance sheet date no such notice has been given.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March (continued)

	1998 £'000	1997 £'000
14. SHARES IN GROUP UNDERTAKINGS	**Company**	
At beginning of year	**89,547**	77,547
Movement during the year	**64,508**	12,000
At end of year	**154,055**	89,547

	Nature of business	Interest %
Principal subsidiary undertakings of Investec Holdings (UK) Limited		
Investec Bank (UK) Limited	Banking	100
Clive Securities Group Limited	Holding company	100
Carr Sheppards Holdings Limited	Holding company	100
Principal operating subsidiary undertakings of Investec Bank (UK) Limited		
Rowanspur Limited (trading as Taylor Rose)	Commercial property agency	100
Investec Asset Finance PLC	Leasing	100
Investec Bank (Jersey) Limited	Banking	100
Clive Discount Company Limited	Wholesale banking and stock borrowing and lending intermediary	100
Principal operating subsidiary undertakings of Clive Securities Group Limited		
Investec Derivatives Limited (formerly Clive Derivatives Limited)	Derivatives trader and broker	100
Investec Quantitative Trading Limited (formerly Clive Agency Bond Broking Limited)	Derivatives trader	100
Principal operating subsidiary undertakings of Carr Sheppards Holdings Limited		
Carr Sheppards Limited	Private client stockbroker	100
Carr Sheppards Insurance Brokers Limited	Insurance broker	100
Mayflower Management Company Limited	Fund management services	100

The principal movement during the year was the investment of further capital in Investec Bank (UK) Limited.

All the above subsidiary undertakings incorporated in Great Britain have their respective registered offices in England and Wales except Investec Bank (Jersey) Limited which is registered in Jersey. All the above subsidiary undertakings are included in the consolidated financial statements.

	Group	
15. FINANCIAL INVESTMENTS		
Unlisted investments	**646**	463

These represent unlisted membership shares in LIFFE, the London International Financial Futures and Options Exchange.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March (continued)

	1998 £'000	1997 £'000	1998 £'000	1997 £'000
16. OTHER ASSETS		Group		Company
Settlement debtors	118,784	147,215	—	—
Prepayments and accrued income	8,221	14,627	—	—
Tax credit recoverable	338	337	338	337
Amounts receivable from subsidiary undertakings	—	—	1,082	657
Interest receivable on subordinated loan to Group undertaking	—	—	—	326
	127,343	162,179	1,420	1,320

17. TANGIBLE FIXED ASSETS

	Operating leases £'000	Leasehold improvements £'000	Furniture, fittings and motor vehicles £'000	Computer equipment £'000	Total £'000
			Group		
Cost or valuation					
At beginning of year	7,945	2,026	2,543	5,015	17,529
By transfer or acquisition	—	—	—	—	—
Additions	1,013	102	134	812	2,061
Disposals	(1,120)	—	(4)	(66)	(1,190)
At end of year	7,838	2,128	2,673	5,761	18,400
Depreciation and amortisation					
At beginning of year	(1,881)	(444)	(1,365)	(3,516)	(7,206)
By transfer or acquisition	—	—	—	—	—
Charge for year	(678)	(500)	(440)	(984)	(2,602)
Written off	—	(1,005)	—	—	(1,005)
Disposals	842	—	4	55	901
At end of year	(1,717)	(1,949)	(1,801)	(4,445)	(9,912)
Net book value at end of year	6,121	179	872	1,316	8,488
Net book value at beginning of year	6,064	1,582	1,178	1,499	10,323

The depreciation and amortisation disclosed in Note 2 do not include the charge for the year on operating leases, which is included in other operating income. The amount of £1,005,000 in depreciation and amortisation represents the accelerated write-off of leasehold improvements following the Group's decision to move to new premises within the coming year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March (continued)

	1998 £'000	1997 £'000
18. DEPOSITS BY BANKS	**Group**	
With agreed maturity dates or periods of notice, by remaining maturity:		
Repayable on demand	12,342	47,940
Demand to three months	2,001,172	2,574,104
Three months to one year	659,627	158,042
	2,673,141	2,780,086
Secured	2,632,338	2,742,651
Unsecured	40,803	37,435
	2,673,141	2,780,086

Secured deposits by banks include deposits of £2,102,750,000 (1997 - £1,210,695,000) secured with UK Government securities under sale and repurchase agreements. Dealing and market making securities with a value of £531,092,000 (1997 - £1,602,772,000) are used to secure deposits by banks. Included in deposits by banks is £nil (1997 - £23,888,000) under sale and repurchase agreements with fellow subsidiary companies in the normal course of business.

	1998 £'000	1997 £'000
19. CUSTOMER ACCOUNTS	**Group**	
With agreed maturity dates or periods of notice, by remaining maturity:		
Repayable on demand	404,553	287,507
Demand to three months	1,696,848	1,901,339
Three months to one year	135,928	93,756
One year to five years	25,775	29,778
Over five years	3,462	—
	2,266,566	2,312,380
Secured	1,599,744	1,778,275
Unsecured	666,822	534,105
	2,266,566	2,312,380

Secured deposits by customers include deposits of £738,579,000 (1997 - £1,715,126,000) secured with UK Government securities under sale and repurchase agreements.

Dealing and market making securities with a value of £9,850,000 (1997 - £69,755,000) are used to secure deposits by customers.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March (continued)

	1998 £'000	1997 £'000	1998 £'000	1997 £'000
20. OTHER LIABILITIES	**Group**		**Company**	
Settlement creditors	**18,916**	123,944	**—**	—
Corporation tax	**792**	—	**—**	—
Amount payable to a subsidiary undertaking	**—**	—	**46,500**	—
Amount payable to an associate	**634**	898	**634**	634
Amounts payable to parent companies	**10,283**	6,420	**10,283**	6,684
Accruals and deferred income	**35,323**	20,499	**231**	—
	65,948	151,761	**57,648**	7,318

	1998 £'000	1997 £'000	1998 £'000	1997 £'000
21. SUBORDINATED LOANS	**Group**		**Company**	
Variable rate notes				
At beginning of year	**66,948**	58,548	**56,948**	48,548
Movements during the year				
Repayment of loan note	**(8,400)**	—	**(8,400)**	—
Issue of loan note	**8,724**	8,400	**8,724**	8,400
Issue of loan note	**17,800**	—	**17,800**	—
At end of year	**85,072**	66,948	**75,072**	56,948

£48,548,000 (1997 - £48,548,000) of the loan capital, on which interest is payable at the rate of sterling LIBOR plus 3.75%, is held by Investec Finance S.A., a company wholly owned by the ultimate parent company. The loans can be terminated by the lender giving five years and two days notice. At the balance sheet date no such notice has been received.

£10,000,000 (1997 - £10,000,000) of the loan capital, on which interest is payable at the rate of sterling LIBOR plus 0.1875%, is held by Investec N.V., a company wholly owned by the ultimate parent company. The loan can be terminated by the lender giving five years and two days notice. At the balance sheet date no such notice has been received.

£nil (1996- £8,400,000) of the loan capital is held by Investec Group Limited. The loan was advanced for a period of not more than ten months from the date of commencement of the advance in March 1997, and was repaid in April 1997.

£26,524,000 (1997 - £nil) of the loan capital, on which interest is payable at the rate of sterling LIBOR plus 2.00%, is held by Investec Finance S.A. The loans can be terminated by the lender giving formal notice and in any event shall be redeemed in full on or before November 2041. At the balance sheet date no such notice has been received. Claims in respect of the subordinated loan capital are not secured and are subordinate to the claims of all other creditors.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March (continued)

	1998 £'000	1997 £'000
22. CALLED UP SHARE CAPITAL	**Company**	
Authorised		
Ordinary shares of £1 each - 100,000,000 (1997 - 50,000,000)	100,000	50,000
Issued, allotted and fully paid		
At beginning of year	15,620	14,750
Issued during year	6,500	870
At end of year	22,120	15,620

The company issued 6,500,000 (1997 - 870,000) ordinary shares of £1 with a nominal value of £6,500,000 (1997- £870,000) and at a premium of £11,700,00 (1997- £7,830,000) for the purpose of assisting in the financing of an acquisition by a fellow subsidary undertaking.

	1998 £'000	1997 £'000
23. RESERVES	**Group**	
Share premium account		
At beginning of year	41,513	33,683
On share issue in year	11,700	7,830
At end of year	53,213	41,513
Other reserves (goodwill and capital reserves arising on acquisition)		
At beginning of year	(4,632)	1,132
Capital reserves arising on acquisition	—	—
Goodwill written off	—	(5,764)
At end of year	(4,632)	(4,632)
Profit and loss account		
At beginning of year	5,001	4,884
Retentions for the year	2,622	117
At end of year	7,623	5,001

Goodwill written off arose from the acquisition of subsidiaries.

The fair values attributed to the net tangible assets acquired were:

Fixed assets	—	1,334
Current assets	—	162,268
Creditors and provisions	—	(154,932)
	—	8,670
Fair values of consideration	—	(14,434)
Goodwill written off against reserves	—	(5,764)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March (continued)

24. RECONCILIATION OF SHAREHOLDERS' EQUITY

	1998 £'000	1997 £'000	1998 £'000	1997 £'000
	Group		**Company**	
Retained profit (loss) for the year	**2,622**	117	**(4,496)**	(4,344)
Other reserves	**—**	(5,764)	**—**	—
Share premium account	**11,700**	7,830	**11,700**	7,830
New share capital subscribed	**6,500**	870	**6,500**	870
Opening shareholders' equity	**57,502**	54,449	**51,201**	46,845
Closing shareholders' equity	**78,324**	57,502	**64,905**	51,201

25. STOCK BORROWING AND LENDING

	1998 £'000	1997 £'000
	Group	
Stock borrowed against non-cash collateral	**5,660,738**	3,405,271
Stock lent against non-cash collateral	**5,261,320**	1,746,886

The Group borrows and lends stock against cash and non-cash collateral. The cash collateral is included on the balance sheet as appropriate in either loans, deposits or customer accounts.

Non-cash collateral is in the form of gilts, equities, certificates of deposit and other equivalent stock.

26. MEMORANDUM ITEMS

	1998 £'000	1997 £'000
	Group	
Contingent liabilities and commitments		
Rediscounted bills of exchange	**164,780**	751,507
Undrawn facilities	**19,100**	6,490
Guarantees and irrevocable letters of credit	**15,386**	7,692
	199,266	765,689

The amounts shown above are intended only to provide an indication of the volume of business outstanding at the balance sheet date.

The Group has entered into forward foreign exchange contracts and loan commitments in the normal course of its banking business. It has also given indemnities to banks in respect of lost share certificates, with no material losses expected to arise under these indemnities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March (continued)

27. DERIVATIVES (OFF-BALANCE SHEET FINANCIAL INSTRUMENTS)

The Group enters into various contracts for derivatives both as principal for trading purposes and as customer for hedging balance sheet foreign exchange and interest rate exposures. The trading derivatives are financial futures and options, and forward rate agreements. All futures and option contracts are exchange traded. The non-trading derivatives for hedging include currency and interest rate swaps, foreign exchange contracts, spot and forward, and forward rate agreements.

The risks associated with trading in financial futures, options and forwards are monitored on a daily basis. Strict position limits are set for each instrument in conjunction with the head office central risk assessment function. The risk limits include exposure to interest rates, yield curve shape, volatility and spreads. Additionally, limits are set for exposures to counterparties on non-exchange traded instruments.

Notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The replacement cost represents the cost of replacing contracts with positive values calculated at market rates current at the balance sheet date. The credit risk weighted amount, which is calculated according to rules specified by the Bank of England, is based on the replacement cost, but also takes into account measures of the extent of potential future credit exposure and the nature of the counterparty.

	Notional principal amounts 1998 £'000	Credit risk weighted amounts 1998 £'000	Positive fair values 1998 £'000	Negative fair values 1998 £'000
		Group		
Trading derivatives				
Interest rate contracts				
Futures	791,346	12	55	(1)
Forward rate agreements	—	—	—	—
Options	1,643,800	(63)	84	(402)
Equity contracts				
Futures	35,474	(29)	—	(135)
Options	172,831	(632)	1,122	(4,104)
	2,643,451	(712)	1,261	(4,642)
Effect of netting			(1,223)	1,223
Amounts included in other assets/liabilities			38	(3,419)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March (continued)

27. DERIVATIVES (OFF-BALANCE SHEET FINANCIAL INSTRUMENTS) (continued)

	Notional principal amounts 1997 £'000	Credit risk weighted amounts 1997 £'000	Positive fair values 1997 £'000	Negative fair values 1997 £'000
Trading derivatives			**Group**	
Interest rate contracts				
Futures	2,441,188	38	597	(409)
Forward rate agreements	50,000	—	1	(1)
Options	7,369,426	40	916	(564)
Equity contracts				
Futures	5,176	(25)	60	(176)
Options	141,998	107	1,465	(960)
	10,007,788	160	3,039	(2,110)
Effect of netting			(2,095)	2,095
Amounts included in other assets/liabilities			944	(15)

	Notional principal amounts 1998 £'000	**Notional principal amounts 1998 £'000**	**Notional principal amounts 1998 £'000**	**Credit risk weighted amounts 1998 £'000**	**Replacement cost 1998 £'000**
Non-trading derivatives			**Group**		
Derivatives maturity	Up to one year	One year to five years	Total		
Interest rate contracts					
Caps	**500**	**3,054**	**3,554**	**10**	**28**
Interest rate swaps	**—**	**25,264**	**25,264**	**50**	**126**
Exchange rate contracts					
Spots and forwards	**283,213**	**—**	**283,213**	**1,211**	**2,904**
	283,713	**28,318**	**312,031**	**1,271**	**3,058**

	Notional principal amounts 1997 £'000	Notional principal amounts 1997 £'000	Notional principal amounts 1997 £'000	Credit risk weighted amounts 1997 £'000	Replacement cost 1997 £'000
Non-trading derivatives			**Group**		
Derivatives maturity	Up to one year	One year to five years	Total		
Interest rate contracts					
Caps	—	2,000	2,000	5	16
Interest rate swaps	8,000	18,202	26,202	26	56
Exchange rate contracts					
Spots and forwards	220,543	—	220,543	480	1,377
	228,543	20,202	248,745	511	1,449

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March (continued)

28. OPERATING LEASE COMMITMENTS

In a prior year the Group entered into a non-cancellable lease for land and buildings. The annual commitment is £450,000. The operating lease expires in a period greater than five years.

29. ULTIMATE PARENT COMPANY

The ultimate parent company is Investec Holdings Limited, a company incorporated in the Republic of South Africa and quoted on the Johannesburg Stock Exchange.

The consolidated financial statements of this Group are available to the public and may be obtained from Investec Group Limited's principal place of business: 100 Grayston Drive, Sandown, Sandton, Johannesburg, 2196, South Africa.