

**LAWSHARE LIMITED**

**Report and Financial Statements**

**Year ended 31 October 2001**



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

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**REPORT AND FINANCIAL STATEMENTS 2001**

**OFFICERS AND PROFESSIONAL ADVISERS**

**OFFICERS**

J N Stapleton (Chairman)  
B A Greayer  
D A B Lough  
J M Denny  
W R Gemmell  
A T N Warner  
N A Hale  
K H O'Sullivan

**SECRETARY**

C J Bishop (retired 9 November 2001)  
P J Lampshire (appointed 9 November 2001)

**REGISTERED OFFICE**

1 Meadow Road  
Tunbridge Wells  
Kent TN1 2YG

**BANKERS**

HSBC Plc  
Bristol & West Plc

**SOLICITORS**

Cripps Harries Hall  
Seymour House  
11-13 Mount Ephraim Road  
Tunbridge Wells  
Kent TN1 1EN

**AUDITORS**

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

**DIRECTORS' REPORT**

The directors take pleasure in submitting their annual report and the financial statements of the company for the year ended 31 October 2001.

**PRINCIPAL ACTIVITY**

The principal activity of the company is to act as a wholesale provider of securities research, dealing, settlement and custody services to professional intermediaries.

**REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS**

The current year saw a further widening of the firm's client base and a continuing growth of business from existing clients. It is anticipated that Lawshare's client base and services to clients will continue to expand.

**DIVIDENDS AND TRANSFERS FROM RESERVES**

Dividends of £405,676 were paid during the year (2000 - £315,371). Retained losses of £74,444 were transferred from reserves.

**DIRECTORS**

The directors who served during the year, and their interests in the shares of the company were as follows:

	No. of shares at 31 October 2001			No. of shares at 31 October 2000		
	A		Founders	A		Founders
	A	Non-voting		A	Non-voting	
J N Stapleton* (Chairman)	26,640	6,660	-	26,640	6,660	-
B A Greayer (Managing Director)	4,080	7,020	26	4,080	1,020	26
J M Denny*	10,656	2,664	70	10,656	2,664	70
W R Gemmell*	26,640	6,660	-	26,640	6,660	-
N A Hale	-	1,900	-	-	150	-
K H O'Sullivan	-	2,400	-	-	90	-
D A B Lough	13,354	3,330	104	13,354	3,330	104
A T N Warner	5,784	1,450	-	5,784	1,450	-

In addition to the above the following options have been granted over A non voting shares:

	@£10.89	@£12.13	@£13.65	Total
B A Greayer	-	1,110	117	1,227
N A Hale	500	-	750	1,250
K H O'Sullivan	-	-	750	750

\* These directors are partners or directors in firms which are Lawshare Limited's clients. J M Denny is a partner in Cripps Harries Hall, W R Gemmell is a partner in Murray Beith Murray, J N Stapleton is a partner in Thomas Eggar Church Adams. The directors hold the shares on behalf of the firms and only benefit directly from them as a consequence of this.

C J Bishop retired as a secretary on 9 November 2001 and P J Lampshire was appointed in his place.

**DIRECTORS' REPORT (CONTINUED)**

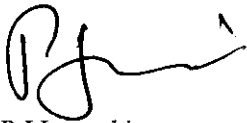
**TAXATION STATUS**

In the opinion of the directors, the company is a close company for tax purposes.

**AUDITORS**

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

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



P J Lampshire  
Secretary

23 January 2002

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare financial statements for each financial period 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 year. In preparing these 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; and
- 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 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.

## **LAWSHARE LIMITED**

### **AUDITORS' REPORT TO THE MEMBERS**

We have audited the financial statements of Lawshare Limited for the year ended 31 October 2001, which comprise the profit and loss account, the balance sheet, the cash flow statement, reconciliation of movement in shareholders' funds and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

#### **Respective responsibilities of directors and auditors**

As described on page 4 the company's directors are responsible for the preparation of the financial statements 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 statements and to report our opinion to you.

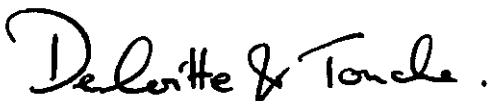
#### **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom 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 31 October 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche

Chartered Accountants and  
Registered Auditors

28 January 2002

**PROFIT AND LOSS ACCOUNT**  
**Year ended 31 October 2001**

	Note	2001 £	2000 £
<b>TURNOVER</b>	1,2	1,920,727	2,032,522
Other income		<u>1,088,723</u>	<u>918,836</u>
		3,009,450	2,951,358
Administrative expenses		<u>(2,713,200)</u>	<u>(2,452,218)</u>
<b>OPERATING PROFIT</b>	6	296,250	499,140
Interest receivable and similar income	3	<u>88,050</u>	<u>82,051</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		384,300	581,191
Tax on profit on ordinary activities	7	<u>(53,068)</u>	<u>(145,837)</u>
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		331,232	435,354
Dividends paid	8	<u>(405,676)</u>	<u>(315,371)</u>
<b>RETAINED (LOSS)/PROFIT FOR THE YEAR TRANSFERRED (FROM)/TO RESERVES</b>	9	<u>(74,444)</u>	<u>119,983</u>

All activities derive from continuing operations.

There are no recognised gains or losses for the current or preceding financial year other than as disclosed in the profit and loss account. Accordingly, no statement of total recognised gains and losses is given.



**BALANCE SHEET**  
**31 October 2001**

	Note	2001 £	2000 £
<b>FIXED ASSETS</b>			
Tangible fixed assets	10	332,508	439,963
Investments	11	126,241	101,058
		<u>458,749</u>	<u>541,021</u>
<b>CURRENT ASSETS</b>			
Debtors	12	11,557,007	14,365,685
Cash at bank and in hand	13	2,053,862	1,684,612
		<u>13,610,869</u>	<u>16,050,297</u>
<b>CREDITORS: amounts falling due within one year</b>	14	(13,040,492)	(15,526,623)
<b>NET CURRENT ASSETS</b>		<u>570,377</u>	<u>523,674</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>1,029,126</u>	<u>1,064,695</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital - Ordinary shares	15	144,658	141,810
Share premium account	9	294,761	258,734
Capital redemption reserve	9	40,000	40,000
Profit and loss account	9	549,707	624,151
<b>SHAREHOLDERS' FUNDS</b>		<u>1,029,126</u>	<u>1,064,695</u>

For the purposes of Financial Reporting Standard No. 4, the shareholders' funds are categorised as non-equity.

These financial statements were approved by the Board of Directors on <sup>23</sup> January 2002.

Signed on behalf of the Board of Directors

  
B A Greayer, Managing Director

  
N A Hale, Director

**CASH FLOW STATEMENT**  
**Year ended 31 October 2001**

	Note	2001 £	2000 £
Net cash inflow from operating activities	16	854,533	1,248,939
<b>Returns on investment and servicing of finance</b>			
Interest received	88,050	82,051	
<b>Net cash inflow from returns on investment and servicing of finance</b>		88,050	82,051
<b>Taxation</b>			
UK corporation tax paid		(110,419)	(125,595)
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets	(70,931)	(328,680)	
Payment to fund acquisition of own shares	(25,182)	(32,317)	
<b>Net cash outflow from capital expenditure and financial investment</b>		(96,113)	(360,997)
<b>Equity dividends paid</b>		(405,676)	(315,371)
<b>Net cash inflow before financing</b>		330,375	529,027
<b>Financing</b>			
Issue of A non-voting ordinary shares		38,875	29,233
<b>Net cash inflow from financing</b>		38,875	29,233
<b>Increase in cash in the year</b>	17	369,250	558,260

**RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS****Year ended 31 October 2001**

	2001 £	2000 £
Profit for the financial year	331,232	435,354
Dividends	(405,676)	(315,371)
	<u>(74,444)</u>	<u>119,983</u>
Issue of A non-voting ordinary shares	<u>38,875</u>	<u>29,233</u>
<b>Net (reduction in)/addition to shareholders' funds</b>	<b>(35,569)</b>	<b>149,216</b>
Opening shareholders' funds	<u>1,064,695</u>	<u>915,479</u>
<b>Closing shareholders' funds</b>	<b><u>1,029,126</u></b>	<b><u>1,064,695</u></b>

**NOTES TO THE ACCOUNTS****Year ended 31 October 2001****1. ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with applicable United Kingdom law and accounting standards. The particular accounting policies adopted by the directors are described below.

**Accounting convention**

These accounts are prepared under the historical cost convention.

**Financial accounting period**

The financial statements are drawn up for the 12 months ended 31 October 2001. The comparative period is for the 12 months ended 31 October 2000.

**Turnover**

Turnover represents the commission income from buying and selling securities on behalf of clients.

**Trade date accounting**

Turnover is arrived at under the principles of trade date accounting for Stock Exchange transactions.

**Fixed assets**

For all tangible fixed assets depreciation is calculated to write down their cost to the estimated residual values by equal annual instalments over the period of their estimated useful economic lives, which are considered to be:

Fixtures and equipment	-	four years
Computer software	-	four years
Computer equipment	-	three years

**Balances with clients and counterparties**

In accordance with market practice certain balances with clients and market counterparties, Stock Exchange member firms and settlement offices are included in debtors and creditors gross for their unsettled bought and sold transactions respectively.

**Operating leases**

Amounts due under operating leases are charged to the profit and loss account in equal annual amounts over the lease term.

**Foreign exchange**

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

**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 tax 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.

## NOTES TO THE ACCOUNTS

Year ended 31 October 2001

## 1. ACCOUNTING POLICIES (CONTINUED)

**Investment in own shares**

In accordance with UITF 13 the shares issued to or held by Lawshare Employees Trust have been included as assets in the balance sheet.

## 2. TURNOVER

	2001	2000
	£	£
Commissions arising in the U.K.	1,920,727	2,032,522

## 3. INTEREST RECEIVABLE AND SIMILAR INCOME

	2001	2000
	£	£
Bank deposit interest	88,050	82,051

## 4. STAFF NUMBERS AND COSTS

	2001	2000
	No.	No.
<b>The average number of persons employed by the company during the financial year was:</b>		
Dealing	5	5
Administration	30	28
	35	33

**Staff costs incurred during the year in respect of these employees were:**

	£	£
Wages and salaries	1,143,239	1,040,680
Social security costs	116,859	106,605
Other pension costs	42,961	4,750
	1,303,059	1,152,035

## 5. DIRECTORS' EMOLUMENTS

	2001	2000
	£	£
Total directors' emoluments	308,268	278,331

The emoluments of the highest paid director were:

Salary	133,088	124,700
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## NOTES TO THE ACCOUNTS

Year ended 31 October 2001

## 6. OPERATING PROFIT

	2001 £	2000 £
Operating profit is stated after charging:		
Depreciation	178,386	156,129
Auditors' remuneration	20,000	17,500
Rentals under operating leases	43,020	42,186

## 7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2001 £	2000 £
United Kingdom Corporation Tax at 25% (2000: 25%)	53,068	145,837

## 8. DIVIDENDS PAID

	2001 £	2000 £
Per A ordinary share		
Interim paid - (2000 : 100.93p)	132,394	96,893
Second Interim paid - (2000 : 61.31p)	62,834	58,858
Per A non-voting ordinary share		
Interim paid (2000 : 100.93p)	56,405	29,673
Second Interim paid - (2000 : 61.31p)	25,985	18,822
Per Founders share		
Interim paid: (2000 : £555.625)	128,058	111,125
	<u>405,676</u>	<u>315,371</u>

Lawshare Employees Trustees Limited waived its right to receive dividends of £6,633 on the 4,810 'A' non-voting ordinary shares that it held at 08 November 2000 and £3,934 on the 6,010 'A' non-voting ordinary share that it held at 1 February 2001.

## 9. STATEMENT OF MOVEMENTS ON RESERVES

	Share premium account £	Capital redemption reserve £	Profit and loss account £
Balance at 1 November 2000	258,734	40,000	624,151
Premium on share capital issued during the year	36,027	-	-
Retained profit for the year	-	-	(74,444)
Balance at 31 October 2001	<u>294,761</u>	<u>40,000</u>	<u>549,707</u>

# NOTES TO THE ACCOUNTS

## Year ended 31 October 2001

### 10. TANGIBLE FIXED ASSETS

	Computer equipment £	Fixtures and equipment £	Total £
<b>Cost</b>			
At 1 November 2000	731,161	126,607	857,768
Additions	63,745	7,186	70,931
At 31 October 2001	794,906	133,793	928,699
<b>Depreciation</b>			
At 1 November 2000	366,187	51,618	417,805
Charge for the year	140,302	38,084	178,386
At 31 October 2001	506,489	89,702	596,191
<b>Net Book Value</b>			
At 31 October 2001	288,417	44,091	332,508
At 31 October 2000	364,974	74,989	439,963

### 11. INVESTMENTS HELD AS FIXED ASSETS

	2001 £	2000 £
Amounts in subsidiary undertakings	2	2
Investment in own shares	126,239	101,056
	126,241	101,058

The above investments represent £1 in Lawshare Nominees Limited and £1 in Lawshare Employees Trustees Limited, both unlisted companies registered in England and Wales. Consolidated accounts have not been produced on the grounds of materiality. Lawshare Nominees Limited has not traded and has net assets equal to the cost of investment. Lawshare Employees Trustees Limited holds shares in the company over which options have been granted to the directors and staff.

At the year end, the company held 1,000,000 ordinary shares in the London Stock Exchange (2000 : 100,000 shares) following a bonus issue of 900,000 shares during the year. The shares were acquired for nil cost and at the year end had a market value of £3,475,000 (2000 : £2,430,000) based on the mid price at close of business.

## NOTES TO THE ACCOUNTS

Year ended 31 October 2001

## 12. DEBTORS

	2001 £	2000 £
<b>Amounts falling due within one year:</b>		
Trade debtors	11,218,031	14,027,634
Other debtors	148,164	173,387
Accrued income	57,660	40,224
Prepayments	133,152	124,440
	<u>11,557,007</u>	<u>14,365,685</u>

## 13. CASH AT BANK AND IN HAND

Cash at bank includes £1,430,202 (2000 : £931,644) received in the course of settlement of bargains. This amount is held by the company in trust, on behalf of clients and is only available to complete the settlement of outstanding bargains.

## 14. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001 £	2000 £
Trade creditors	12,583,449	14,829,365
Amounts owed to subsidiary undertaking	2	2
Taxation and social security	136,619	189,461
Accruals	320,422	507,795
	<u>13,040,492</u>	<u>15,526,623</u>

Included under taxation and social security is an amount of £87,763 (2000 : £145,113) in respect of corporation tax.

## 15. CALLED UP SHARE CAPITAL

	2001 £	2000 £
<b>Authorised:</b>		
200 (2000 : 200) Founder shares of 50p each	100	100
332,500 (2000 : 332,500) A ordinary shares of £1 each	332,500	332,500
142,500 (2000 : 142,500) A Non-voting ordinary shares of £1 each	142,500	142,500
	<u>475,100</u>	<u>475,100</u>
<b>Allotted and fully paid:</b>		
200 (2000 : 200) Founder shares of 50p each	100	100
96,000 (2000 : 96,000) A ordinary shares of £1 each	96,000	96,000
48,558 (2000 : 45,710) A Non-voting ordinary shares of £1 each	48,558	45,710
	<u>144,658</u>	<u>141,810</u>



## NOTES TO THE ACCOUNTS

Year ended 31 October 2001

## 15. CALLED UP SHARE CAPITAL (cont'd)

On 27 June 2001, the company issued 2,848 'A' non-voting shares to the Lawshare Employees Trust, to provide shares to meet options issued to directors and staff.

The holders of A and A non-voting shares are entitled to a preferential dividend of £31,500 per annum, plus an amount equal to the interest on any profits retained within the company, calculated using the HSBC base rate, split evenly between all fully paid up shares. Each Founder share entitles the holder to a dividend at the rate of 0.165% of the net profits of the company after tax and the A and A non-voting dividends. Any balance of such profits which the directors decide to distribute, shall be applied in paying dividends on the A and A non-voting ordinary shares ranking pari passu.

## Share Options

Under the company share scheme twelve employees and three directors held options at 31 October 2001 over 8,427 (2000 : 13,410) A non-voting ordinary shares, as follows:

	2001 A Non-voting £	2000 A Non-voting £
At beginning of year	13,410	13,900
Lapsed during year	(200)	(800)
Exercised during the year	(10,200)	(1,200)
Granted during year	5,417	1,510
	<u>8,427</u>	<u>13,410</u>

2,100 of the options existing at 31 October 2001 may be exercised between 31 December 2001 and 20 November 2008 at a price of £10.89, and 1,110 may be exercised between 10 January 2003 and 4 January 2010 at a price of £12.13. The remaining 5,417, issued during the year, (less 200, which lapsed during the year) may be exercised between 31 December 2003 and 30 November 2010 at a price of £13.65.

## 16. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 £	2000 £
Operating profit	296,250	499,140
Depreciation charges	178,386	156,129
Decrease/(increase) in debtors	2,808,678	(6,595,477)
(Decrease)/increase in creditors	(2,428,781)	7,189,147
Net cash inflow from operating activities	<u>854,533</u>	<u>1,248,939</u>

NOTES TO THE ACCOUNTS  
31 October 2001

## 17. RECONCILIATION BETWEEN THE MOVEMENT IN CASH AND THE MOVEMENT IN NET FUNDS

	2000 £	Cashflow £	2001 £
Cash at bank and in hand	1,684,612	369,250	2,053,862

## 18. CONTINGENT LIABILITIES

The company has contingent liabilities, which cannot be quantified, in respect of letters of indemnity (principally in respect of lost share certificates) given in the ordinary course of business.

## 19. CAPITAL COMMITMENTS

The company is committed to paying £83,885 in the coming year in respect of computer systems (2000 : £138,324).

## 20. OPERATING LEASE COMMITMENTS

At 31 October 2001 the company was committed to making the following payments during the next year in respect of operating leases which expire:

	Land and buildings £	Other £
After five years	39,918	-

## 21. RELATED PARTY TRANSACTIONS

During the year, the company transacted business on an arm's length basis with certain of its shareholders. The balances outstanding at the end of the year were included as follows:

	£ 2001	£ 2000
In trade debtors	1,146,451	1,393,343
In trade creditors	5,740,211	5,486,366