

E*TRADE UK LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD FROM

1 APRIL 1999 TO 30 SEPTEMBER 2000



REGISTERED NUMBER: 3598221

E*TRADE UK LIMITED

FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 APRIL 1999 TO 30 SEPTEMBER 2000

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E*TRADE UK LIMITED

COMPANY INFORMATION
AT 30 SEPTEMBER 2000

DIRECTORS

J C S Marler
G D Glass
J E Morgan
S D Mead
M S E Underwood
C Gransby
P A Chrimes
W Kett

SECRETARY

J Chan

REGISTERED OFFICE

Mount Pleasant House
2 Mount Pleasant
Cambridge
CB3 0RN

BUSINESS ADDRESS

Mount Pleasant House
2 Mount Pleasant
Cambridge
CB3 0RN

AUDITORS

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

E*TRADE UK LIMITED

COMPANY INFORMATION
AT 30 SEPTEMBER 2000

BANKERS

Barclays Bank Plc
PO Box 326
Cambridge
CB4 3UT

The Royal Bank of Scotland Plc
Warehouse Square
138-142 Holborn
London
EC1N 2TH

E*TRADE UK LIMITED

DIRECTORS' REPORT

The directors present their report with the financial statements of the company for the period ended 30 September 2000.

PRINCIPAL ACTIVITIES

On 17 May 1999 E*TRADE UK Limited received authorisation from the Securities and Futures Authority and in July 1999 the company launched as the UK's first Internet only stockbroker. The service was promoted to the customer base of a fellow subsidiary, Electronic Share Information Limited ("ESI"), as well as launching a full public marketing campaign.

In November 1999 the ESI customer base was migrated to E*TRADE UK Limited. Details of the contribution the business made to the turnover for the reported period are given in note 2.

In December 1999 the immediate parent company, E*TRADE UK (Holdings) Limited became a wholly-owned subsidiary of E*TRADE Group, Inc.

REVIEW OF THE BUSINESS

The net loss after providing for taxation amounted to £6,316,380.

The loss has been accumulated during the launch of the company's service and in developing its customer base.

DIRECTORS AND THEIR INTERESTS

The directors in office in the period and their beneficial interests in the ultimate parent company at the balance sheet date and the beginning of the period (or on appointment if later) were as follows:

		Number of shares	
		\$0.01 Common Stock	1p Ordinary Shares
		30 September 2000	31 March 1999
J C S Marler	Appointed 2 May 2000	40,291	-
G D Glass		388	-
J E Morgan		9,874	-
S D Mead		-	-
M S E Underwood	Appointed 24 July 2000	496	-
C Gransby	Appointed 24 July 2000	347	-
P A Chrimes	Appointed 7 August 2000	-	-
W Kett	Appointed 21 September 2000	-	-
Directors resigned during the period:			
J C Costley	Resigned 2 May 2000		
C J Grant	Resigned 2 May 2000		
D R T Robinson	Resigned 25 July 2000		

The shareholding interests disclosed as at 31 March 1999 relate to shares held in E*TRADE UK (Holdings) Limited at that date, whereas the shareholding interests as at 30 September 2000 relate to shares held in E*TRADE Group, Inc. J C S Marler and J L Whiteford held their shares in E*TRADE Group, Inc. on appointment. Details of directors' options over shares in the ultimate parent company are given in note 14 of the financial statements.

No director held any interest in the shares of the company during the period.

E*TRADE UK LIMITED

DIRECTORS' REPORT

DIRECTORS' RESPONSIBILITIES

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

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

The directors are responsible for maintaining 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.

POLITICAL AND CHARITABLE CONTRIBUTIONS

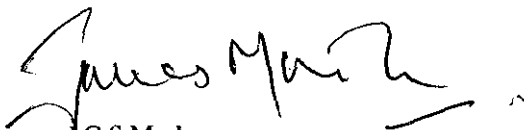
During the period, the company made charitable contributions totalling £1,426.

AUDITORS

During the period Citroen Wells resigned as auditors and Deloitte & Touche were appointed in their place.

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

Approved by the board of directors and signed on behalf of the board:



J C S Marler
Director

Date: 16 December 2000

AUDITORS' REPORT TO THE MEMBERS OF E*TRADE UK LIMITED

We have audited the financial statements on pages 6 to 16 which have been prepared under the historical cost convention and on the basis of accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

The company's directors are responsible for the preparation of financial statements, which are prepared 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 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 as to whether 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 as at 30 September 2000 and of its loss for the period from 1 April 1999 to 30 September 2000 and have been properly prepared in accordance with the Companies Act 1985.



19 December 2000

Deloitte & Touche
Chartered Accountants
and Registered Auditors

E*TRADE UK LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE PERIOD FROM 1 APRIL 1999 TO 30 SEPTEMBER 2000

	Notes	1 April 1999 to 30 September 2000	15 July 1998 to 31 March 1999
		£	£
TURNOVER	2	4,853,509	-
Net operating expenses		(13,177,037)	(1,120,236)
		(8,323,528)	(1,120,236)
Other operating income		1,812,200	-
OPERATING LOSS	3	(6,511,328)	(1,120,236)
Other interest receivable and similar income	4	240,604	-
Interest payable and similar charges	5	(45,656)	-
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(6,316,380)	(1,120,236)
Tax on loss on ordinary activities	8	-	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(6,316,380)	(1,120,236)

Continuing operations

All amounts relate to continuing activities.

Total recognised gains and losses

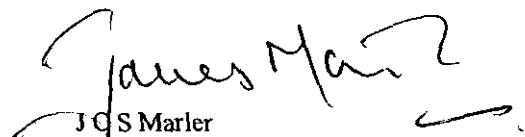
The company has no recognised gains or losses other than the losses for the above periods and consequently no statement of recognised gains and losses has been prepared.

The notes on pages 8 to 16 form part of these financial statements.

E*TRADE UK LIMITED**BALANCE SHEET
AT 30 SEPTEMBER 2000**

	Notes	£	30 September 2000 £	£	31 March 1999 £
FIXED ASSETS					
Tangible assets	9		1,892,849		1,038,089
CURRENT ASSETS					
Debtors	10	10,991,435		209,816	
Investments	11	23,657		-	
Cash at bank and in hand		5,691,305		-	
			16,706,397	209,816	
CREDITORS: amounts falling due within one year					
	13	(12,313,889)		(2,368,139)	
NET CURRENT ASSETS / (LIABILITIES)					
			4,392,508		(2,158,323)
TOTAL ASSETS LESS CURRENT LIABILITIES					
			6,285,357		(1,120,234)
CAPITAL AND RESERVES					
Called up share capital	15		60,008		2
Share premium account	16		13,661,965		-
Profit and loss account	17		(7,436,616)		(1,120,236)
TOTAL SHAREHOLDERS' FUNDS					
	18		6,285,357		(1,120,234)

Approved by the board of directors on 18 December 2000 and signed on its behalf by:


J S Marler
Director

The notes on pages 8 to 16 form part of these financial statements.

E*TRADE UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 APRIL 1999 TO 30 SEPTEMBER 2000

1. STATEMENT OF ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards.

Going concern

The financial statements have been prepared on a going concern basis. The directors consider that it is appropriate to adopt the going concern basis of accounting.

Cash flow

As permitted by Financial Reporting Standard No. 1 (Revised 1996), the company is not required to produce a cash flow statement as it is a wholly-owned subsidiary of E*TRADE Group, Inc.

Turnover

Turnover comprises brokerage commission, management charges, fees and subscriptions stated net of value added tax, and derives wholly from the United Kingdom.

Brokerage commission is recognised when clients instructions have been fully met.

Balances with clients and counterparties

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

Fixed Assets and systems development costs

Tangible fixed assets, including external costs of systems software and related expenditure on the development of electronic dealing systems and websites, are capitalised at cost.

Internal systems development costs, including attributable wages and consultancy fees, are charged to the profit and loss account in the period in which they are incurred.

Depreciation of tangible fixed assets

Depreciation is provided at the following annual rates in order to write off each asset over its useful life:

Computer equipment	Straight line over 3 years
Fixtures and fittings	20% on cost
Systems software	Straight line over 3 years

Current Asset Investments

Current asset investments are stated at the lower of cost and net realisable value.

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences to the extent that they are expected to reverse in the foreseeable future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

E*TRADE UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 APRIL 1999 TO 30 SEPTEMBER 2000

1. STATEMENT OF ACCOUNTING POLICIES - (continued)

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into the profit and loss account for the year.

Operating leases

Lease payments under operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Pension costs

The company operates a money purchase (defined contribution) pension scheme. Contributions payable to this scheme are charged to the profit and loss account in the period to which they relate. These contributions are invested separately from the company's assets.

Related party transactions

As a wholly owned subsidiary of E*TRADE Group, Inc. whose accounts are publicly available from 4500 Bohannon Drive, Menlo Park, CA 94025, USA, the company has taken advantage of the exemptions conferred by Financial Reporting Standard No. 8, regarding the disclosure of related party transactions.

Client Money

The company holds money on behalf of clients in accordance with the Client Money Rules of the Securities and Futures Authority. This client money represents balances which are not held in respect of the settlement of transactions, and is therefore not included in the balance sheet.

2. TURNOVER

Turnover includes £1,106,421 attributable to the business of Electronic Share Information Limited, a fellow subsidiary undertaking whose operations were transferred to the company in November 1999.

3. OPERATING LOSS

Operating loss is stated

	1 April 1999 to 30 September 2000	15 July 1998 to 31 March 1999
	£	£
After charging:		
Depreciation of fixed assets	836,632	51,565
Loss on disposal of tangible assets	91,280	-
Auditors' remuneration	60,000	1,000
Operating lease rentals		
Land and buildings	177,488	23,580
	<u>1,595,000</u>	<u>-</u>
After crediting:		
Gain on disposal of LSE shares	1,595,000	-
	<u>1,595,000</u>	<u>-</u>

During the period the company sold 55,000 shares in the London Stock Exchange for a total consideration of £1,595,000.

E*TRADE UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 APRIL 1999 TO 30 SEPTEMBER 2000

4. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	1 April 1999 to 30 September 2000	15 July 1998 to 31 March 1999
	£	£
Interest received and receivable		
Bank interest	240,604	-

5. INTEREST PAYABLE AND SIMILAR CHARGES

	1 April 1999 to 30 September 2000	15 July 1998 to 31 March 1999
	£	£
Other interest	45,656	-

6. INFORMATION ON DIRECTORS AND EMPLOYEES

	1 April 1999 to 30 September 2000	15 July 1998 to 31 March 1999
	£	£
Staff costs		
Wages and salaries	3,375,021	317,709
Social security costs	273,843	31,771
Other pension costs	25,560	-
	3,674,424	349,480

	1 April 1999 to 30 September 2000	15 July 1998 to 31 March 1999
	No.	No.
The average number of employees during the period was made up as follows:		
Administration and management	63	10

E*TRADE UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 APRIL 1999 TO 30 SEPTEMBER 2000

6. INFORMATION ON DIRECTORS AND EMPLOYEES - (continued)

	1 April 1999 to 30 September 2000	15 July 1998 to 31 March 1999
	£	£
Directors' emoluments		
Emoluments	764,589	235,253
Pension contributions to money purchase (defined contribution) schemes	4,557	-
	<u>769,146</u>	<u>235,253</u>

	1 April 1999 to 30 September 2000	15 July 1998 to 31 March 1999
	No.	No.
During the period the following number of directors accrued benefits under money purchase (defined contribution) pension schemes	5	-

	1 April 1999 to 30 September 2000	15 July 1998 to 31 March 1999
	£	£
Details of highest paid director's emoluments		
Emoluments	<u>189,787</u>	<u>96,213</u>

During the period, amounts totalling £35,280 were paid by a fellow group undertaking, E*TRADE Institutional Securities Limited, to certain directors for their services as directors of E*TRADE UK Limited.

Directors are entitled to deal in securities through the company in accordance with the personal account dealing rules. These provide that directors receive the same terms as clients except that they are entitled to reduced commission rates.

7. PENSION COSTS

Money purchase (defined contribution) pension scheme

The company operates a money purchase (defined contribution) pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £25,560 (1999: £nil).

8. TAX ON LOSS ON ORDINARY ACTIVITIES

There is no liability to corporation tax in the period, due to losses incurred.

E*TRADE UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 APRIL 1999 TO 30 SEPTEMBER 2000

9. TANGIBLE FIXED ASSETS

	Computer equipment £	Fixtures and fittings £	Systems software £	Total £
Cost:				
At 1 April 1999	385,819	344,551	359,284	1,089,654
Additions	824,241	295,032	585,299	1,704,572
Transfers	164,093	80,975	327,805	572,873
Disposals	(169,883)	-	(73,036)	(242,919)
At 30 September 2000	1,204,270	720,558	1,199,352	3,124,180
Depreciation:				
At 1 April 1999	30,599	8,010	12,956	51,565
Charge for period	386,125	154,486	296,021	836,632
Transfers	139,800	38,074	316,899	494,773
On disposals	(123,519)	-	(28,120)	(151,639)
At 30 September 2000	433,005	200,570	597,756	1,231,331
Net book value:				
At 30 September 2000	771,265	519,988	601,596	1,892,849
At 31 March 1999	355,220	336,541	346,328	1,038,089

10. DEBTORS

	30 September 2000 £	31 March 1999 £
Trade debtors	8,420,202	-
Amounts owed by group undertakings	1,734,707	-
Other debtors	398,805	174,985
Prepayments and accrued income	437,721	34,831
	10,991,435	209,816

11. CURRENT ASSET INVESTMENTS

	30 September 2000 £	31 March 1999 £
Listed investments	23,657	-

12. CASH AT BANK AND IN HAND

At 30 September 2000 the company held £25,676,253 of client monies on behalf of clients in accordance with the Client Money Rules of The Securities and Futures Authority.

E*TRADE UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 APRIL 1999 TO 30 SEPTEMBER 2000

13. CREDITORS: amounts falling due within one year

	30 September 2000 £	31 March 1999 £
Trade creditors	8,756,630	-
Amounts owed to group undertakings	1,053,971	1,966,292
Other taxes and social security costs	570,704	-
Other creditors	265,904	-
Accruals and deferred income	1,666,680	401,847
	<u>12,313,889</u>	<u>2,368,139</u>

14. DEFERRED TAXATION

	Asset not provided		Provided	
	30 September 2000 £	31 March 1999 £	30 September 2000 £	31 March 1999 £
Deferred tax is analysed over the following timing differences:				
On the excess of capital allowances over depreciation	294,850	-	-	-
On trading losses	1,604,711	-	-	-
	<u>1,899,561</u>	<u>-</u>	<u>-</u>	<u>-</u>

15. SHARE CAPITAL

	30 September 2000 £	31 March 1999 £
Authorised:		
Equity interests:		
25,000,000 Ordinary shares of 1p each	250,000	-
1,000 Ordinary shares of £1 each	-	1,000
	<u>250,000</u>	<u>1,000</u>
Allotted, called up and fully paid:		
Equity interests:		
6,000,839 Ordinary shares of 1p each	60,008	-
2 Ordinary shares of £1 each	-	2
	<u>60,008</u>	<u>2</u>

On 12 May 1999 the company's share capital was sub-divided from £1 Ordinary shares to 1p Ordinary shares and the authorised share capital increased to £50,000.

On the same date the company allotted 4,999,800 Ordinary shares of 1p each for a total consideration of £4,999,800.

E*TRADE UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 APRIL 1999 TO 30 SEPTEMBER 2000

15. SHARE CAPITAL - (continued)

On 31 January 2000 the authorised share capital was increase to £250,000 by the creation of 20,000,000 Ordinary shares of 1p each.

During the period a further 1,000,839 Ordinary shares of 1p each were allotted for a total consideration of £8,722,171.

At 30 September 2000 the directors held the following share options in the ultimate parent company, E*TRADE Group, Inc:-

	On appointment	Granted	Exercised	At 30 September 2000	Exercisable
J.C.S. Marler	<u>15,000</u>	<u>35,000</u>	<u>-</u>	<u>50,000</u>	<u>3,750</u>
G.D. Glass	<u>-</u>	<u>84,981</u>	<u>(35,000)</u>	<u>49,981</u>	<u>9,805</u>
J.E. Morgan	<u>-</u>	<u>81,981</u>	<u>(40,158)</u>	<u>41,823</u>	<u>4,647</u>
S.D. Mead	<u>-</u>	<u>86,631</u>	<u>(37,537)</u>	<u>49,094</u>	<u>13,941</u>
M.S.E. Underwood	<u>5,400</u>	<u>3,000</u>	<u>-</u>	<u>5,400</u>	<u>-</u>
C. Gransby	<u>20,096</u>	<u>5,400</u>	<u>(5,024)</u>	<u>20,472</u>	<u>2,512</u>
P.A. Chrimes	<u>-</u>	<u>10,800</u>	<u>-</u>	<u>10,800</u>	<u>-</u>
W. Kett	<u>-</u>	<u>2,400</u>	<u>-</u>	<u>2,400</u>	<u>-</u>

These options in shares in E* TRADE Group, Inc. include options granted in place of those held in the 1p Ordinary Shares of E*TRADE UK (Holdings) Limited.

The options are exercisable up to and including the ninth anniversary of the date of the agreements falling in financial periods between 1 August 1999 to 30 September 2010.

E*TRADE UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 APRIL 1999 TO 30 SEPTEMBER 2000

16. SHARE PREMIUM ACCOUNT

	30 September 2000 £	31 March 1999 £
Equity interests:		
Premium on shares issued during the period	13,661,965	-
As at 30 September 2000	<u>13,661,965</u>	<u>-</u>

17. PROFIT AND LOSS ACCOUNT

	2000 £	1999 £
As at 1 April 1999	(1,120,236)	-
Loss for the period	(6,316,380)	(1,120,236)
As at 30 September 2000	<u>(7,436,616)</u>	<u>(1,120,236)</u>

18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	30 September 2000 £	31 March 1999 £
Loss for the period	(6,316,380)	(1,120,236)
New share capital subscribed	60,006	2
Premium on shares issued	13,661,965	-
Net addition / (reduction) to shareholders' funds	<u>7,405,591</u>	<u>(1,120,234)</u>
Opening shareholders' funds	(1,120,234)	-
Closing shareholders' funds	<u>6,285,357</u>	<u>(1,120,234)</u>
Represented by:-		
Equity interests	<u>6,285,357</u>	<u>(1,120,234)</u>

E*TRADE UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 APRIL 1999 TO 30 SEPTEMBER 2000

19. OPERATING LEASE COMMITMENTS

At period end the company was committed to making the following payments during the next year in respect of operating leases with expiry dates as follows:

	Land and buildings		Other	
	30 September 2000 £	31 March 1999 £	30 September 2000 £	31 March 1999 £
Leases which expire:				
Within two to five years	47,000	-	50,574	-
After five years	72,090	47,000	-	-
	<u>119,090</u>	<u>47,000</u>	<u>50,574</u>	<u>-</u>

20. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The company is a wholly owned subsidiary of E*TRADE UK (Holdings) Limited. The ultimate parent company and controlling party is E*TRADE Group, Inc., a company incorporated in USA whose address is given in note 1.

21. POST BALANCE SHEET EVENTS

On 2 October 2000 the company sold its remaining shareholding in the London Stock Exchange realising a gain of £1,305,000.