

Company number: 4339850

HED Capital Management Limited

(formerly Law 2360 Limited)

**Financial Statements for the period
from incorporation (13 December 2001)
to 30 June 2002**



**HED Capital Management Limited
(formerly Law 2360 Limited)**

**DIRECTORS' REPORT
For the period ended 30 June 2002**

The directors present their report and the audited financial statements of the company for the period ended 30 June 2002.

Principal activities

The principal activity of the company is that of that of a Hedge Fund operator.

Review of the business and future developments

The company was incorporated on 13 December 2001 as Law 2360 Limited. On 28 January 2002 the company changed its name to HED Capital Management Limited.

In January 2002, the company acquired the intellectual property rights relating to a share trading system known as "Extreme Hurst". The objective of the company is to launch and manage hedge funds, which will utilise Extreme Hurst to trade in US equities. During the financial year, professional advisors were engaged to prepare for the launch of the fund, which is planned for the early part of 2003.

The profit and loss account for the year is set out on page 4.

Directors and their interests

The directors of the company at 30 June 2002, all of whom have been directors for the whole of the period ended on that date unless indicated otherwise, are listed below:

Huntsmoor Nominees Limited (appointed 13 December 2001, resigned 21 December 2001)

Huntsmoor Limited (appointed 13 December 2001, resigned 21 December 2001)

JJ Plummer (appointed 21 December 2001)

RH Edwards (appointed 21 December 2001)

CIC Munro (appointed 25 January 2002)

TJG Secretaries Limited was appointed as Company Secretary on 13 December 2001 and resigned on 21 December 2001. RH Edwards was appointed as Company Secretary on 21 December 2001 and resigned on 21 January 2002. SA Holder was appointed Company Secretary on 21 January 2002.

At the balance sheet date, JJ Plummer was the holder of 390 B ordinary shares in the company.

At the balance sheet date, RH Edwards was the holder of 4,900 C ordinary shares and 240 D ordinary shares in the company.

At the balance sheet date, CIC Munro was the holder of 1,130 B ordinary shares and 50,625 £0.0001 preference shares in the company. CIC Munro's interests in Beckwith Asset Management Limited, which is a fellow subsidiary of Pacific Investments PLC, are disclosed in the financial statements of that company.

**HED Capital Management Limited
(formerly Law 2360 Limited)**

**DIRECTORS' REPORT
For the period ended 30 June 2002 (continued)**

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the period ended 30 June 2002 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and 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.

Post balance sheet events

Details of post balance sheet events are disclosed in note 17 to the financial statements.

Changes in share capital

Details of changes in share capital are detailed in note 10 and 17.

Auditors

On 25 November 2002 PricewaterhouseCoopers were appointed as auditors to the company. A resolution to reappoint PricewaterhouseCoopers as auditors to the company will be proposed at the Annual General Meeting.

By Order of the Board



SA Holder
Secretary

124 Sloane Street
London SW1X 9BW

**Independent auditors' report to the members of
HED Capital Management Limited**

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This opinion has been prepared for and only for the company's members in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 30 June 2002 and of its loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers

Chartered Accountants and Registered Auditors
London

17 December 2002

HED Capital Management Limited

**Profit and Loss Account
for the period ended 30 June 2002**

	Note	Period from 13 December 2001 to 30 June 2002 £
Administrative expenses		(171,553)
Operating loss	2	<u>(171,553)</u>
Interest receivable and similar income	4	534
Loss on ordinary activities before taxation		<u>(171,019)</u>
Taxation	5	-
Loss on ordinary activities after taxation		<u>(171,019)</u>
Dividends	6	(12,982)
Retained loss for the period	13	<u><u>(184,002)</u></u>

The operating loss derives wholly from continuing operations.

There are no recognised gains or losses other than the loss for the period as shown above.

There is no difference between the loss on ordinary activities before taxation and loss for the year stated above and their historical cost equivalents.

The notes on pages 7 to 13 form an integral part of these financial statements.

HED Capital Management Limited

Balance Sheet
as at 30 June 2002

	Note	2002 £
FIXED ASSETS		
Intangible assets	7	94,119
Tangible assets	8	<u>14,762</u>
		108,881
CURRENT ASSETS		
Debtors	9	8,333
Cash at bank and in hand		<u>986</u>
		9,319
CREDITORS (amounts falling due within one year)	10	(82,491)
NET CURRENT LIABILITIES		<u>(73,172)</u>
NET ASSETS		<u>35,709</u>
CAPITAL AND RESERVES		
Called up share capital	11	2,363
Share premium	12	204,365
Profit and loss account	13	(171,019)
SHAREHOLDERS' FUNDS	14	<u>35,709</u>
Equity Shareholders' funds		(179,775)
Non Equity Shareholders' funds		215,483
SHAREHOLDERS' FUNDS		<u>35,709</u>

The accounts were approved by the Board of Directors on *12 December 2002*
and signed on their behalf by



CIC Munro
Director

The notes on pages 7 to 13 form an integral part of these financial statements.

HED Capital Management Limited

**Cash Flow Statement
for the period ended 30 June 2002**

	Note	Period from 13 December 2001 to 30 June 2002 £
NET CASH FLOW FROM OPERATING ACTIVITIES	15	(88,789)
RETURNS ON INVESTMENT AND SERVICING OF FINANCE		
Interest received		534
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Purchase of intangible fixed assets		(101,665)
Purchase of tangible fixed assets		<u>(15,822)</u>
		(117,487)
FINANCING		
Issue of ordinary share capital for cash		4,227
Issue of preference share capital for cash		<u>202,501</u>
		206,728
INCREASE IN CASH IN THE PERIOD	16	<u><u>986</u></u>

HED Capital Management Limited

Notes to the Accounts for the period ended 30 June 2002

1 Principal accounting policies

Accounting convention - These financial statements have been prepared in accordance with the historical cost accounting convention.

Fixed assets - Intangible and tangible fixed assets are stated at their purchase price, together with any incidental expenses of acquisition.

Depreciation - Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected life as follows:

- Computer equipment 3 years

Amortisation - Amortisation is provided on all intangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected life as follows:

- Licences and intellectual property 3 years

Deferred taxation - The company has adopted FRS 19 in these financial statements. Deferred taxation arises as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in the future, or a right to pay less taxation in the future. The deferred tax liability that is the result of timing differences is recognised in full. Deferred tax assets are only recognised to the extent that, on the basis of all available evidence, they are recoverable. Deferred tax assets and liabilities recognised are not discounted.

Going concern - The accounts have been prepared on a going concern basis which assumes the continued support of the ultimate parent company. The directors have received a confirmation from the ultimate parent company confirming their support for a period of at least one year from the date of approval of the financial statements.

2 Operating loss

The operating loss is stated after charging:

	Period from 13 December 2001 to 30 June 2002 £
Auditor's remuneration	
- Audit services	2,350
- Non-audit services	29,375
Depreciation	1,060
Amortisation	<u>7,546</u>

3 Staff costs

	Period from 13 December 2001 to 30 June 2002 £
Wages and salaries	8,021
Social security costs	901
	<u>8,922</u>

The average monthly number of employees during the period was 1, in an administrative capacity.

No director received any remuneration with respect of their services as directors to the company during the period. Payments of £101,665 were made to HED 1993 Limited (formerly HED Capital Limited), a company controlled by RH Edwards, a director. Full details of this transaction are given in note 17 to these accounts.

HED Capital Management Limited

Notes to the Accounts (continued) for the period ended 30 June 2002

4 Interest receivable and similar income

Period from
13 December 2001
to 30 June 2002
£

Bank interest receivable	534
	<u>534</u>

5 Taxation

No provision for tax has been made by virtue of losses incurred in the period.

5.1 Reconciliation of tax charge

Period from
13 December 2001
to 30 June 2002
£

Loss on ordinary activities before taxation	(171,019)
Tax on loss on profit on ordinary activities before taxation at 30%	51,306
Amounts disallowable for taxation purposes	(11,981)
Trading losses carried forward	(39,325)
	<u>-</u>

5.2 Deferred tax asset

2002
£
Unrecognised

Trading losses carried forward	<u>39,325</u>
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No significant factors affecting future tax rates are anticipated.

6 Dividends

2002
£

Preference dividend	<u>12,982</u>
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Dividends in respect of preference shares are reflected in the profit and loss account on a time basis in accordance with FRS4 and credited to reserves due to lack of distributable reserves.

HED Capital Management Limited

**Notes to the Accounts (continued)
for the period ended 30 June 2002**

7 Intangible fixed assets

Licenses and
intellectual property
£

Cost

At 13 December 2001

-

Additions

101,665

At 30 June 2002

101,665

Amortisation charge

At 13 December 2001

-

Charge for the period

(7,546)

At 30 June 2002

(7,546)

Net book value at 30 June 2002

94,119

The intangible assets of the company comprise Intellectual Property and exclusive software licence rights that are further discussed in note 16 to these accounts.

8 Tangible fixed assets

Computer
Equipment
£

Cost

At 13 December 2001

-

Additions

15,822

At 30 June 2002

15,822

Accumulated depreciation

At 13 December 2001

-

Charge for the period

(1,060)

At 30 June 2002

(1,060)

Net book value at 30 June 2002

14,762

9 Debtors

2002
£

Prepayments and accrued income

8,333

8,333

HED Capital Management Limited

Notes to the Accounts (continued) for the period ended 30 June 2002

10 Creditors (amounts falling due within one year)

	2002 £
Amounts owed to ultimate parent undertaking	11,901
Accruals and deferred income	70,590
	<u>82,491</u>

In addition to the above amounts, an amount of £12,982 in respect of cumulative preference dividends accrued on a time basis, cannot currently be paid by reference to available distributable reserves and have been credited back to distributable reserves.

11 Called up share capital

At 30 June 2002, the authorised, issued and called up share capital of the company comprised:

	Authorised		Issued and called up	
	Number	£	Number	£
A ordinary shares of £0.20	3,140	628	3,140	628
B ordinary shares of £0.25	1,720	430	1,720	430
C ordinary shares of £0.25	4,900	1,225	4,900	1,225
D ordinary shares of £0.25	240	60	240	60
Preference shares of £0.0001	716,200	72	202,501	20
	<u>726,200</u>	<u>2,415</u>	<u>212,501</u>	<u>2,363</u>

Upon incorporation, the company had an authorised share capital of 1,000 ordinary shares of £1 each, and one ordinary share was issued to Huntsmoor Nominees Limited.

On 21 December 2001, the company redesignated the 1 issued ordinary share in the company as 4 C ordinary shares of £0.25. The 999 unissued ordinary shares in the company were sub-divided and redesignated as 1,720 B ordinary shares of £0.25, 2,036 C ordinary shares of £0.25 each, and 240 D ordinary shares of £0.25 each.

On the same date the authorised share capital of the company was increased from £1,000 to £2,343 by the creation of an additional 3,140 A ordinary shares of £0.20 and 2,860 C ordinary shares of £0.25.

On 15 January 2002, the authorised share capital of the company was increased to £2,415 by the creation of an additional 716,200 preference shares of £0.0001.

On 21 December 2001, the company issued 1,720 B ordinary shares of £0.25 at par and 4,896 C ordinary shares of £0.25 at par.

On 9 January 2002, the company issued 240 D ordinary shares of £0.25 at a premium of £35,000 (uncalled).

On 25 January 2002, the company issued 202,501 preference shares at a premium of £0.9999 per share, and 3,140 A ordinary shares of £0.20 at a premium of £0.60 per share.

Details of changes in share capital since the balance sheet date are given in note 18.

Notes to the Accounts (continued)
for the period ended 30 June 2002

11 Called up share capital (continued)

Rights regarding income

The preference shares carry the right to a fixed cumulative preferential dividend of 8% on the amount paid up or credited as paid up on each preference share (including as to any premium). This dividend ranks for payment in priority to the payment of a dividend on any other shares of the company. On 22 November 2002, the coupon rate pertaining to the preference shares was retrospectively increased to 15%.

Any dividend declared by the company in respect of the ordinary shares shall be distributed to the holders of the ordinary shares as follows:

- 32.6% to the holders of the A ordinary shares pro rata to the number of shares held by such holders
- 18.4% to the holders of the B ordinary shares pro rata to the number of shares held by such holders
- 49% to the holders of the C ordinary shares pro rata to the number of shares held by such holders

If, however, at the date of declaration of a dividend to the holders of the ordinary shares, all premium due on D ordinary shares has been paid up, the dividend shall be distributed to the holders of the ordinary shares as follows:

- 31.4% to the holders of the A ordinary shares pro rata to the number of shares held by such holders
- 17.2% to the holders of the B ordinary shares pro rata to the number of shares held by such holders
- 49% to the holders of the C ordinary shares pro rata to the number of shares held by such holders
- 2.4% to the holders of the D ordinary shares pro rata to the number of shares held by such holders

The D ordinary shares do not carry any right to dividend or other distribution by the company until such a time as all premium due thereon has been credited as paid.

Rights as regards to capital

On a return of assets on liquidation, reduction of capital or otherwise, the surplus capital of the company is returned as follows, and in the following order:

- 1 to the preference shareholders an amount equal to the capital paid up on the preference shares together with any arrears of or deficiency of the fixed cumulative dividend on such shares
- 2 to the ordinary shareholders a sum equal to any premium paid on such ordinary shares
- 3 to the ordinary shareholders a sum equal to the nominal value of such shares (to the extent paid up)
- 4 the balance of any assets shall belong to and be distributed amongst the ordinary shareholders as follows:
 - 32.6% to the holders of the A ordinary shares pro rata to the number of shares held by such holders
 - 18.4% to the holders of the B ordinary shares pro rata to the number of shares held by such holders
 - 49% to the holders of the C ordinary shares pro rata to the number of shares held by such holders

however, if all premium due on the D shares in issue has been credited as paid up, the balance of any assets shall belong to and be distributed amongst the ordinary shareholders as follows:

- 31.4% to the holders of the A ordinary shares pro rata to the number of shares held by such holders
- 17.2% to the holders of the B ordinary shares pro rata to the number of shares held by such holders
- 49% to the holders of the C ordinary shares pro rata to the number of shares held by such holders
- 2.4% to the holders of the D ordinary shares pro rata to the number of shares held by such holders

The proceeds of any sale of the entire share capital of the company shall be distributed amongst the members as follows:

- 1 to the preference shareholders to the extent of the amount paid up with respect to the nominal amount and premium thereon credited as paid up
- 2 to the ordinary shareholders in the percentages shown above, depending on whether all premium due on D ordinary shares has been credited as paid up, or not

HED Capital Management Limited

Notes to the Accounts (continued) for the period ended 30 June 2002

11 Called up share capital (continued)

Rights as regards to voting

B ordinary shares, D ordinary shares and preference shares entitle the holders thereof to receive notice of and to attend all general or other meetings of the company but they do not entitle the holders to speak or vote at any such meetings.

The A ordinary shares shall confer on the A ordinary shareholders the right to receive notice of, attend, speak and vote at all general meetings of the company, in respect of 51% of the voting rights.

The C ordinary shares shall confer on the C ordinary shareholders the right to receive notice of, attend, speak and vote at all general meetings of the company, in respect of 49% of the voting rights.

Further details on redemption and variation of the rights attaching to shares are given in the articles of association of the company.

12 Share premium

	2002 £
Share premium arising on A ordinary shares issued in the period - paid	1,884
Share premium arising on preference shares issued in the period - paid	202,481
	<u>204,365</u>

13 Profit and loss account

	£
Loss after taxation	(171,019)
Appropriations in respect of preference shares	(12,982)
Preference share dividend not payable by reference to insufficient distributable reserves	12,982
At 30 June 2002	<u>(171,019)</u>

14 Reconciliation of movement in shareholders' funds

	2002 £
Ordinary share capital subscribed at par	2,343
Preference share capital subscribed at par	20
Share premium	204,365
Retained loss for the period	(171,019)
Appropriations in respect of preference shares	(12,982)
Preference share dividend not payable by reference to insufficient distributable reserves	12,982
Net movement in shareholders' funds	<u>35,709</u>

HED Capital Management Limited

Notes to the Accounts (continued) for the period ended 30 June 2002

15 Reconciliation of operating profit to net cash flow from operating activities

	2002 £
Operating profit	(171,553)
Depreciation charges	1,060
Amortisation charges	7,546
Increase in debtors	(8,333)
Increase in creditors	82,491
Net cash flow from operating activities	<u>(88,789)</u>

16 Analysis of net funds

	At 13 December 2001 £	Cash flow £	At 30 June 2002 £
Cash at bank and in hand	-	986	986
	<u>-</u>	<u>986</u>	<u>986</u>

17 Related parties

During the period, the company paid £101,665 to HED 1993 Limited (formerly HED Capital Limited) for intellectual property and exclusive licence rights relating to a software programme developed by HED Capital Limited in partnership with others. HED 1993 Limited is controlled by RH Edwards, a director.

18 Post balance sheet events

On 30 July 2002, the company issued a further 171,233 preference shares of £0.0001, paid up to a premium of £0.9999.

On 22 November 2002, the company issued a further 171,233 preference shares of £0.0001, paid up to a premium of £0.9999.

On the same date, the coupon rate attached to the preference shares was increased retrospectively to 15%.

19 Holding company and ultimate controlling party

The company's immediate parent is River & Mercantile PLC, a company registered in England and Wales.

At 30 June 2002, the company's ultimate holding company was Pacific Investments PLC, a company registered in England and Wales, which is the smallest and largest group of which the company is a member and for which group accounts are prepared. The consolidated accounts of that company can be obtained from the Company Secretary at 124 Sloane Street, London, SW1X 9BW.

Subsequent to the year end, Pacific Investments II Limited became the company's ultimate parent company.

The directors consider the ultimate controlling party to be JL Beckwith, a director and majority shareholder of the ultimate holding company.