

IG Group Holdings Limited

Report and Financial Statements

31 May 2004

Directors

Executive directors

N B le Roux (Chief Executive)

P G Hetherington

T A Howkins

A R Mackay

Non-executive directors

J R Davie (Chairman)

R R Lucas

J R Kaye

Secretary

A R Mackay

Auditors

Ernst & Young LLP

1 More London Place

London SE1 2AF

Bankers

Bank of Scotland

Citymark

150 Fountainbridge

Edinburgh

EH3 9DE

Solicitors

Osborne Clarke

Hillgate House

26 Old Bailey

London

EC4M 7HW

Linklaters

One Silk Street

London

EC2Y 8HQ

Registered Office

Friars House

157-168 Blackfriars Road

London SE1 8EZ

Chairman's statement

for the period ended 31 May 2004

This is my first annual statement as Chairman of IG Group Holdings Limited following my appointment on 23 January 2004.

It has been an eventful year for the group. IG Group plc de-listed from the London Stock Exchange, following a successful management buy-out led by Nat le Roux, the Chief Executive of IG, and supported by CVC Capital Partners.

Following the management buy-out, the consolidated accounts only include the results of IG Group plc from the date of its acquisition on 5 September 2003 (a period of slightly under nine months). However, turnover for the full year was £48.0m (2003 - £39.0m) with Adjusted EBITDA, as defined in the five year summary, of £25.1m (2003 - £17.4m) which represents a record year for the group.

Our single fastest growing business line was binary betting. This commenced operations in May 2003, and has delivered a strong trading performance in its first twelve months. Binary bets are a novel and exciting type of fixed odds bet where IG is currently the undisputed market leader. We offer these bets on financial and sports markets, both under the IG brand and under our new *binarybet.com* brand. We anticipate further rapid growth in this type of betting.

Various technology innovations introduced over the course of the year helped to maintain our competitive position. Technology remains crucial to our business and we have continued to invest heavily in improving the functionality and resilience of our on-line dealing systems, which we believe now set a benchmark for the industry. Our new on-line sports trading platform, which was launched in May 2004, is an example of our continuing commitment to delivering cutting edge technology to our customers.

Our Australian business performed well, with trading volumes doubling over the course of the year. While this remains a small operation in the context of the group's overall business, we continue to believe it has significant potential.

Our strategy remains one of prudent diversification, achieved by leveraging our existing skills to penetrate new markets:

- With *binarybet.com* we have the beginnings of a significant new on-line betting business which we believe can be expanded to appeal to a much broader market.
- We intend to continue our programme of expansion into overseas markets with a series of targeted multi-lingual on-line offerings.
- We will continue to look at opportunities for new client acquisition.

I would like to close by thanking Nat le Roux, our Chief Executive and his executive team for managing the firm through a change of ownership whilst simultaneously keeping the business on its growth path. None of this would have been achieved without their leadership together with a dedicated and enthusiastic team of colleagues. I am grateful to all of them and our new shareholder CVC for its support.

Jonathan Davie

Chairman

Five year summary

The following five year summary presents the results of the group as if IG Group Limited (formerly IG Group plc) had been a member of the group throughout.

	<i>Year ended 31 May</i>				
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Turnover	47,960	39,038	32,523	33,392	23,644
EBITDA	22,870	15,649	13,156	13,860	9,455
Interest on client money	2,244	1,777	1,692	1,752	1,190
Adjusted EBITDA	25,114	17,426	14,848	15,612	10,645
Depreciation	3,311	2,474	1,556	612	461
Adjusted EBITA	21,803	14,952	13,292	15,000	10,184

Directors' report

The directors have pleasure in submitting their first report together with the financial statements of the group for the period from incorporation on 25 February 2003 to 31 May 2004.

Principal activities

The principal activities of the group throughout the period have been those of running a betting market on commodities, financial futures, traded options, individual shares and stock indices and a wide range of sporting events, trading as a principal and market maker to its clients in the foreign exchange market and in contracts for differences. The group hedges, as considered appropriate, unmatched bets and trades in futures, traded options, individual shares and foreign exchange to ensure that it is not unacceptably exposed to material losses. Two of the group's operating subsidiaries are authorised by the Financial Services Authority.

Results

The group's profit for the period, after taxation, amounted to £3,094,806.

Dividends

The directors do not propose the payment of a dividend.

Review of business and future developments

A review of the group's progress, outlining developments during the period and giving an indication of likely future developments, is provided in the Chairman's statement on page 2.

Tangible fixed assets

The movements in tangible fixed assets during the period are set out in note 12 to the financial statements.

Directors and their interests

Directors' interests in IG Group Holdings Limited

The directors who served and their interests in the share capital of the company were:

	<i>At 31 May 2004</i>		<i>At date of appointment</i>	
	<i>A Ordinary shares</i>	<i>Preference shares</i>	<i>A Ordinary shares</i>	<i>Preference shares</i>
J R Davie (appointed 23 January 2004)	8,954	32,314	–	–
N B le Roux (appointed 25 February 2003)	100,814	1,324,239	100	–
P G Hetherington (appointed 25 February 2003)	38,066	238,759	–	–
T A Howkins (appointed 25 February 2003)	38,212	245,472	–	–
A R Mackay (appointed 25 February 2003)	19,683	124,387	100	–
R R Lucas (appointed 22 July 2003)	–	–	–	–
J R Kaye (appointed 22 July 2003)	–	–	–	–

At appointment, N B le Roux and A R Mackay each held one ordinary share of £1 each. These shares were subsequently subdivided and recategorised into 100 A Ordinary shares of 1p each.

Capital Investors 2002 Limited holds 1,113 A Ordinary shares on trust for R R Lucas and 742 A Ordinary shares on trust for J R Kaye. In total, Capital Investors 2002 Limited holds 7,276 A Ordinary shares.

No director had an interest in the B Ordinary shares of the company at the date of appointment or at the period end.

Certain of the directors have invested in 11% subordinated loans and loan notes as disclosed in note 23 to the financial statements.

Directors' report

Directors and their interests (continued)

Directors' interests in IG Group Limited

In addition, to the above interests the executive directors held the following interests in the share capital of IG Group Limited (formerly IG Group plc) prior to its acquisition by the company. These interests were disposed of at the point of acquisition.

At 1 June 2003
Ordinary shares

N B le Roux	1,035,000
P G Hetherington	157,700
T A Howkins	174,833
A R Mackay	180,000

At the date of acquisition of IG Group plc the executive directors held options to subscribe for IG Group plc shares. These options were all either exercised and the resulting shares sold to the company, or they lapsed, as follows:

	<i>Exercise dates</i>	<i>Exercise price £</i>	<i>At acquisition No.</i>	<i>Granted during the period No.</i>	<i>Exercised during the period No.</i>	<i>Cancelled/lapsed during the period No.</i>	<i>At 31 May 2004 No.</i>
N B le Roux	Sep 2001-Sep 2008	0.10	360,000	–	(360,000)	–	–
	Jul 2004-Jul 2011	5.27	25,983	–	–	(25,983)	–
	Jul 2005-Jul 2012	2.025	81,481	–	(81,481)	–	–
			467,464	–	(441,481)	(25,983)	–
P Hetherington	Feb 2001-Feb 2008	0.33	10,000	–	(10,000)	–	–
	Jul 2003-Jul 2010	2.40	40,000	–	(40,000)	–	–
	Jul 2004-Jul 2011	5.27	13,270	–	–	(13,270)	–
	Jul 2005-Jul 2012	2.025	55,556	–	(55,556)	–	–
		118,826	–	(105,556)	(13,270)	–	
T A Howkins	Sep 2002-Sep 2009	0.2083	156,000	–	(156,000)	–	–
	Jul 2004-Jul 2011	5.27	19,360	–	–	(19,360)	–
	Jul 2005-Jul 2012	2.025	61,728	–	(61,728)	–	–
		237,088	–	(217,728)	(19,360)	–	
A Mackay	Aug 2003-Aug 2010	2.40	500	–	(500)	–	–
	Jul 2004-Jul 2011	5.27	7,582	–	–	(7,582)	–
	Jul 2005-Jul 2012	2.025	17,284	–	(17,284)	–	–
		25,366	–	(17,784)	(7,582)	–	

No director had an interest in the shares of any other group company.

Directors' report

Creditors payment policy

The group pays creditors on demand, except where fixed dates of payment have been agreed in advance. On average creditors' invoices remained outstanding for less than thirty days throughout the period.

Donations

The group made no political or charitable donations in the period.

Auditors

A resolution to re-appoint Ernst & Young LLP as the group's auditor will be put to the forthcoming Annual General Meeting.

On behalf of the Board

Director

Statement of directors' responsibilities in respect of the financial statements

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 and of the group and of the profit or loss of the group for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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

Going concern

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue trading for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Group profit and loss account

for the period ended 31 May 2004

	<i>Notes</i>	<i>2004</i> £
Turnover	2	37,469,523
Administrative expenses excluding exceptional costs		25,695,898
Exceptional item	5	267,222
		<u>25,963,120</u>
Operating profit	3	11,506,403
Interest receivable		2,908,169
Interest payable and similar charges	8	(10,705,525)
Profit on ordinary activities before taxation		<u>3,709,047</u>
Tax charge on profit on ordinary activities	9	614,241
Profit on ordinary activities after taxation		<u>3,094,806</u>
Minority interests - equity		9,478
Profit attributable to members of the parent company		<u>3,104,284</u>
Dividends		—
Retained profit for the period		<u><u>3,104,284</u></u>

There were no recognised gains or losses other than the profit for the financial period.

Group reconciliation of shareholders' funds

for the period ended 31 May 2004

	<i>2004</i>
	£
Profit for the financial period	3,104,284
Dividends	—
	<hr/>
	3,104,284
Issue of ordinary share capital	9,951
Issue of preference share capital	35,219,631
	<hr/>
Net addition to shareholders' funds	38,333,866
Shareholders' funds on incorporation	—
	<hr/>
Closing shareholders' funds	38,333,866
	<hr/> <hr/>

Group balance sheet

at 31 May 2004

	<i>Notes</i>	<i>2004</i> £
Fixed assets		
Intangible assets	11	105,540,629
Tangible assets	12	6,347,155
Investments	13	1,970
		<hr/> 111,889,754
Current assets		
Debtors	14	35,618,064
Cash at bank and in hand		23,075,846
		<hr/> 58,693,910
Creditors: amounts falling due within one year	15	31,303,129
		<hr/> 27,390,781
Net current assets		
		<hr/> 139,280,535
Total assets less current liabilities		
Creditors: amounts falling due after more than one year	16	101,113,413
Minority interests		166,744
		<hr/> 38,333,866
		<hr/> <hr/>
Capital and reserves		
Ordinary share capital	18	9,951
Preference share capital	18	35,219,631
Profit and loss account	19	3,104,284
		<hr/>
Shareholders' funds		
Equity		3,114,235
Non-equity		35,219,631
		<hr/>
Total shareholders' funds		
		<hr/> <hr/> 38,333,866

Director

Director

Company balance sheet

at 31 May 2004

	<i>Notes</i>	<i>2004</i> £
Fixed assets		
Investments in subsidiaries	13	301,583,927
Current assets		
Debtors	14	112,158
Cash at bank and in hand		130,379
		<hr/> 242,537
Creditors: amounts falling due within one year	15	160,282,501
		<hr/> 160,039,964
Net current liabilities		
		<hr/> 141,543,963
Total assets less current liabilities		
Creditors: amounts falling due after more than one year	16	101,113,413
		<hr/> 40,430,550
Net assets		
		<hr/> <hr/>
Capital and reserves		
Ordinary share capital	18	9,951
Preference share capital	18	35,219,631
Profit and loss account	19	5,200,968
		<hr/>
Shareholders' funds		
Equity		5,210,919
Non-equity		35,219,631
		<hr/>
Total shareholders' funds		
		<hr/> <hr/> 40,430,550

Director

Director

Group statement of cash flow

for the period ended 31 May 2004

	<i>Note</i>	<i>2004</i> £
Net cash inflow from operating activities	20(a)	25,403,681
Returns on investments and servicing of finance		
Interest received		2,908,169
Interest paid		(7,076,738)
Issue costs of new long term finance		(6,543,615)
		(10,712,184)
Taxation		
Corporation tax paid		(2,804,889)
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets		(1,884,584)
Sale of tangible fixed assets		3,102
		(1,881,482)
Acquisitions and disposals		
Purchase of subsidiary undertaking		(151,229,127)
Net cash acquired with subsidiary undertaking		27,463,661
		(123,765,466)
Financing		
Loans advanced		116,256,130
Loans repaid		(15,700,000)
Loan notes issued		1,137,859
Loan notes repaid		(567,754)
Issue of ordinary shares		9,951
Issue of preference shares		35,700,000
		136,836,186
Increase in cash		23,075,846
Reconciliation of net cash flow to movement in net debt		
	<i>Note</i>	<i>2004</i> £
Increase in cash		23,075,846
Cash inflow from increase in loans		(117,393,989)
Repayment of short term loans		15,700,000
Interest accrued but not paid		(1,765,237)
Issue costs of new long term loans		2,345,813
Net cash inflow from loan notes		(570,105)
Net debt at 31 May	20(b)	(78,607,672)

Notes to the financial statements

at 31 May 2004

1. Accounting policies

Accounting convention

The financial statements are prepared under the historical cost convention, modified for the revaluation of bets and derivative transactions, and in accordance with applicable United Kingdom accounting standards.

Consolidation

IG Group Holdings Limited was incorporated on 25 February 2003 and between 5 September 2003 and 20 November 2003 acquired the entire issued share capital of IG Group Limited (formerly IG Group plc). This has been accounted for using acquisition accounting. Accordingly, the group profit and loss account and statement of cash flows includes the results of IG Group Limited and its subsidiaries for the 269 day period since its acquisition on 5 September 2003.

The group profit and loss account and statement of cash flows include the results and cashflows of Market Data Limited, IG Finance and IG Finance Two for the periods from their incorporation on 21 January 2004, 23 January 2004 and 25 May 2004, respectively. They also include the results and cashflows of IG Asia Limited from 5 September 2003 until its liquidation in January 2004.

In addition, investments in IG Australia Pty Limited and ITS Market Solutions Limited have given rise to a minority interest in the profit and loss account and the balance sheet.

Depreciation

Fixed assets are recorded at cost. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost less residual value of each asset evenly over its expected useful life as follows:

Leasehold improvements	-	over the lease term
Fixtures and fittings	-	over 5 years
Motor vehicles	-	over 4 years
Computer equipment	-	over 2 or 3 years
Telephone equipment	-	over 3 years
Uninterruptible power supply and generator	-	over 5 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Goodwill

The goodwill arising on the purchase of IG Group plc has been capitalised and is being amortised over the estimated useful life of 20 years.

The goodwill arising on the purchase of the goodwill and trade of William Hill Index has been capitalised and is being amortised over the estimated useful life of 5 years.

Goodwill is reviewed for impairment at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Fixed asset investments

Fixed asset investments are stated at cost, unless, in the opinion of the directors, there has been a permanent diminution in value, in which case an appropriate adjustment is made.

Notes to the financial statements

at 31 May 2004

1. Accounting policies (continued)

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date or where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged only where the replacement assets are sold;
- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable;
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Foreign currencies

Assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate prevailing on the date of the transaction. Differences arising are taken to the profit and loss account.

Derivative Instruments

The group uses derivative transactions with brokers in order to hedge exposures resulting from derivative transactions placed by clients.

Bets and derivative financial instruments

Bets and derivative financial instruments are carried at fair market value and the resultant profits and losses are included in turnover. Assets or liabilities resulting from gains or losses on open positions are reported gross in amounts due from/to clients and brokers, reduced by the effect of other assets or liabilities with a counterparty where a qualifying netting agreement is in place. Fair value is determined by reference to third party market values or, in the case of sports bets and other bets where there is no underlying market, to the group's quote at the year end. In the case of long term bets where there is no underlying market, consideration is given to the impact of post year end settlement prices.

Pensions

The group operates defined contribution schemes. Contributions are charged in the profit and loss account as they become payable and in accordance with the rules of the schemes.

Operating leases

Rentals payable in respect of operating leases are charged in the profit and loss account on a straight line basis over the term of the lease.

Notes to the financial statements

at 31 May 2004

1. Accounting policies (continued)

Capital instruments

Shares are included in shareholders' funds. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits and if not they are included in shareholders' funds. The finance cost recognised in the profit and loss account in respect of capital instruments other than equity shares is allocated to periods over the expected term of the instrument at a constant rate on the carrying amount.

2. Turnover

Turnover represents profits and losses on the running of a betting market in commodities, financial futures, traded options, stock indices and individual shares and a wide range of sporting events, and trading in foreign exchange and contracts for differences together with the net result of hedging client positions, less commissions paid.

In the opinion of the directors, to comply fully with the requirements of the Companies Act 1985 and SSAP 25 'Segmental Reporting' would be seriously prejudicial to the interests of the group. Hence, analysis of turnover by class of business is not shown.

The group trades global financial markets from its London base and hedges its exposures with market counterparties based in the UK and overseas. The choice of counterparty for hedging transactions is based on operational considerations at the time of the transaction. In order to provide an analysis by location it would be necessary to match bets with their hedges. The directors consider this is not feasible as the group hedges on a portfolio basis and counterparties to trades may not be in the same location. Accordingly, no geographical split of results is given.

3. Operating profit

	<i>2004</i>
	£
This is stated after charging/(crediting):	
Amortisation of goodwill	4,182,883
Depreciation of owned assets	2,467,508
Operating lease rentals for land and buildings	536,164
Foreign exchange differences	(812,967)
Loss on disposal of tangible fixed assets	26,309

4. Auditors' remuneration

	<i>2004</i>
	£
Audit services	70,350
Non-audit services	22,413
	<u>92,763</u>

Notes to the financial statements

at 31 May 2004

5. Exceptional item

	<i>2004</i>
	<i>£</i>
Exceptional item	267,222

The exceptional item charged relates to the professional fees incurred as a result of a restructuring of the group and fees associated with directors' employment and service contracts.

Total administrative expenses were £25,963,120.

6. Staff costs

	<i>2004</i>
	<i>£</i>
Wages and salaries	11,054,539
Social security costs	1,376,083
Other pension costs (note 22)	438,846
	<u>12,869,468</u>

The average monthly number of employees during the period was as follows:

	<i>No.</i>
Dealing, sales and client support	158
Management and administration	85
	<u>243</u>

7. Directors' emoluments

	<i>2004</i>
	<i>£</i>
Emoluments	1,308,757
Company contributions to money purchase pension schemes	47,038

	<i>No.</i>
Members of money purchase pension scheme	4

Notes to the financial statements

at 31 May 2004

7. Directors' emoluments (continued)

The amounts in respect of the highest paid director were:

	2004 £
Emoluments	409,946
Company contributions to money purchase pension schemes	11,025

8. Interest payable and similar charges

	2004 £
Interest payable to clients and brokers	424,631
Interest payable on loan finance	6,460,977
Issue costs amortised on loan finance	3,717,436
Other issue costs on loan finance	102,481
	<u>10,705,525</u>

9. Tax charge on profit on ordinary activities

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2004 £
Current tax:	
UK Corporation tax	641,342
Deferred tax:	
Origination and reversal of timing differences	(27,101)
Tax on profit on ordinary activities	<u>614,241</u>

(b) Factors affecting current tax charge:

	2004 £
Profit on ordinary activities before tax	<u>3,709,047</u>
Profit on ordinary activities multiplied by standard rate of corporation tax at 30%	1,112,714
Effects of:	
Corporation tax relief in respect of options exercised	(930,432)
Expenses not deductible for tax purposes	459,060
Total current tax	<u>641,342</u>

Notes to the financial statements

at 31 May 2004

9. Tax charge on profit on ordinary activities (continued)

(c) Deferred tax asset

The deferred tax included in the balance sheet is as follows:

	<i>Group</i> 2004 £	<i>Company</i> 2004 £
Included in debtors (note 14)	687,803	–
This is provided at 30% as follows:		
Decelerated capital allowances	342,803	–
Tax losses carried forward	345,000	–
Deferred tax asset	687,803	–

The balance of deferred tax for tax losses carried forward relates to operating losses arising in IG Australia Pty Limited, recoverability of which is dependent on future operating profits. It is anticipated that future operating profits will exceed the losses that have arisen to date.

10. Profit attributable to members of the parent company

IG Group Holdings Limited has taken advantage of the exemption from publication of the company's own profit and loss account. The profit after tax dealt with in the financial statements of the parent company was £5,200,968.

11. Intangible fixed assets

Group

	<i>Goodwill</i> <i>arising on</i> <i>consolidation</i> £	<i>Purchased</i> <i>goodwill</i> £	<i>Total</i> £
Cost:			
Additions	109,135,170	588,342	109,723,512
At 31 May 2004	109,135,170	588,342	109,723,512
Amortisation:			
Charge for the period	4,020,939	161,944	4,182,883
At 31 May 2004	4,020,939	161,944	4,182,883
Net book value:			
At 31 May 2004	105,114,231	426,398	105,540,629

Notes to the financial statements

at 31 May 2004

12. Tangible fixed assets

Group

	<i>Leasehold improvements</i>	<i>Office equipment, fixtures and fittings</i>	<i>Computer, telephone and electrical</i>	<i>Total</i>
	£	£	£	£
Cost:				
Additions	1,274,180	214,991	7,354,903	8,844,074
Disposals	–	(26,133)	(12,612)	(38,745)
At 31 May 2004	<u>1,274,180</u>	<u>188,858</u>	<u>7,342,291</u>	<u>8,805,329</u>
Depreciation:				
Charge for the period	180,524	56,672	2,230,312	2,467,508
Eliminated on disposals	–	(5,921)	(3,413)	(9,334)
At 31 May 2004	<u>180,524</u>	<u>50,751</u>	<u>2,226,899</u>	<u>2,458,174</u>
Net book value: At 31 May 2004	<u><u>1,093,656</u></u>	<u><u>138,107</u></u>	<u><u>5,115,392</u></u>	<u><u>6,347,155</u></u>

13. Fixed asset investments

Group

	<i>2004</i>
	£
Shares at cost (unlisted)	1,970
	<u><u> </u></u>

Company

Investments in subsidiaries

	<i>2004</i>
	£
Cost:	
Additions	301,583,927
At 31 May 2004	<u><u>301,583,927</u></u>

Notes to the financial statements

at 31 May 2004

13. Fixed asset investments (continued)

<i>Name of company</i>	<i>Country of incorporation</i>	<i>Holding</i>	<i>Proportion of voting rights held</i>	<i>Nature of business</i>
Subsidiary undertakings held directly:				
IG Group Limited	UK	Ordinary shares	100%	Holding company
IG Finance	UK	Ordinary shares	100%	Financing
Subsidiary undertakings held indirectly:				
IG Finance Two	UK	Ordinary shares	100%	Financing
Market Data Limited	UK	Ordinary shares	100%	Data distribution
IG Markets (South Asia) Limited	Cayman Islands	Ordinary shares	100%	South Asia sales and marketing office
IG Index Plc	UK	Ordinary shares	100%	Spreadbetting
IG Markets Limited	UK	Ordinary shares	100%	Margin trading and foreign exchange
ITS Market Solutions Limited	UK	Ordinary shares	60%	Software development and sales
IG Nominees Limited	UK	Ordinary shares	100%	Nominee company
Binarybet Limited	UK	Ordinary shares	100%	Fixed odds bookmaker
IG Australia Pty Limited	Australia	Ordinary shares	83%	Australia sales and marketing office
IG FX Inc	USA	Ordinary shares	100%	Foreign exchange margin trading
IG Group Limited Employee Benefit Trust	Unincorporated trust	Ordinary shares	100%	Employee benefit trust

On 5 September 2003, the company acquired IG Group Limited (formerly IG Group plc) for a consideration of £152,366,986. The investment in IG Group Limited has been included in the company's balance sheet at its fair value at the date of acquisition.

On 23 January 2004, the company acquired an investment in IG Finance for a consideration of £1. On 8 April 2004, the group acquired a further issue of 149,216,939 A shares of IG Finance for a consideration of £149,216,939.

On 25 May 2004, the company acquired an investment in IG Finance Two for a consideration of £1.

Notes to the financial statements

at 31 May 2004

13. Fixed asset investments (continued)

Analysis of the acquisition of IG Group Limited (formerly IG Group plc):

<i>Net assets at date of acquisition</i>	<i>Book value</i>	<i>Adjustments</i>	<i>Fair value to group</i>
	£	£	£
Intangible fixed assets	588,342	–	588,342
Tangible fixed assets	6,959,490	–	6,959,490
Fixed asset investments	1,970	–	1,970
Debtors	29,809,343	–	29,809,343
Cash	27,463,661	–	27,463,661
Creditors due within one year	(24,107,531)	2,516,541	(21,590,990)
Net assets	<u>40,715,275</u>	<u>2,516,541</u>	<u>43,231,816</u>
Goodwill arising on acquisition			<u>109,135,170</u>
			<u>152,366,986</u>
Discharged by:			
Cash purchase of shares			148,083,758
Costs associated with the acquisition			3,145,369
Fair value of cash consideration			<u>151,229,127</u>
Fair value of loan notes issued			<u>1,137,859</u>
			<u>152,366,986</u>

The adjustment to the fair value of creditors was in respect of dividends declared by IG Group Limited in 2003 which have not yet been paid.

IG Group plc re-registered as a limited company on 8 March 2004 and changed its name to IG Group Limited.

IG Group Limited earned a profit after tax in the year to 31 May 2004 of £144,703,683 (2003 - £10,419,791), £1,197,530 of which arose in the period prior to the effective date of acquisition. A profit of £130,596,446 arose on the disposal of its investment in subsidiary companies to a fellow group undertaking, Market Data Limited.

Notes to the financial statements

at 31 May 2004

13. Fixed asset investments (continued)

The summarised profit and loss account of IG Group Limited for the period from 1 June 2003 to the effective date of the acquisition is as follows:

	£
Turnover	10,490,215
Operating profit	2,544,422
Taxation	(1,377,562)
Profit after tax	1,166,860
Minority interests	30,670
Profit for the period to 5 September 2003	1,197,530

14. Debtors

	<i>Group</i> 2004 £	<i>Company</i> 2004 £
Amounts due from brokers	31,473,882	–
Amounts due from clients	2,173,249	–
Other debtors	391,094	102,085
Prepayments and accrued income	892,036	10,073
Deferred tax asset	687,803	–
	35,618,064	112,158

The deferred tax asset may be recoverable in part after more than one year.

15. Creditors: amounts falling due within one year

	<i>Group</i> 2004 £	<i>Company</i> 2004 £
Amounts due to clients	19,919,774	–
Amounts due to group companies	–	157,637,043
Accruals and deferred income	9,325,219	2,074,722
Corporation tax	1,034,363	–
Other taxes and social security costs	453,668	631
Loan notes	570,105	570,105
	31,303,129	160,282,501

The loan notes bear interest at LIBOR minus 1% and have no fixed repayment date.

Notes to the financial statements

at 31 May 2004

16. Creditors: amounts falling due after more than one year

	<i>Group and company 2004 £</i>
Loans	101,113,413
Amounts falling due:	
- in more than one year but not more than two years (subordinated)	4,400,000
- in more than two years but not more than five years (subordinated)	21,000,000
- in more than five years (subordinated)	75,293,989
- in more than five years (secured)	1,000,000
	101,693,989
Accrued interest	1,765,237
	103,459,226
Less: Issue costs	(2,345,813)
	101,113,413

Details of loans not wholly repayable within five years are as follows:

	<i>Group and company 2004 £</i>
Secured loans	
Sterling secured loan repayable August 2010	169,487
Euro secured loans repayable August 2010	322,050
Sterling secured loans repayable August 2013	508,463
Unsecured subordinated loans	
11% subordinated loans	21,693,989
Sterling subordinated loans repayable by instalments between September 2005 and August 2010	13,389,512
Euro subordinated loans repayable by instalments between September 2005 and August 2010	25,441,950
Sterling subordinated loans repayable by instalments between August 2010 and August 2013	40,168,538
	101,693,989

The 11% subordinated loans have no fixed repayment date but are repayable in full on the sale or flotation of the company or on giving the Financial Services Authority (FSA) five years' notice.

The sterling denominated loans, other than the 11% subordinated loans, bear interest at LIBOR plus 4%.

The Euro denominated loans bear interest at EURIBOR plus 4%. The company has entered into a currency basis swap in order to hedge its FX risk to these loans. Under the terms of that swap the company pays LIBOR plus 9 basis points and receives EURIBOR on a principal amount equal to the principal amount of the Euro denominated loans.

Notes to the financial statements

at 31 May 2004

16. Creditors: amounts falling due after more than one year (continued)

The secured loans are secured by fixed and floating charges over certain group assets.

The secured loans repayable August 2010 rank equally and in priority to the secured loan repayable August 2013.

Each of the subordinated loans is in the form of a standard subordinated loan for the purposes of consolidated supervision approved by the FSA.

17. Clients' money

The group's two FSA regulated operating subsidiaries, IG Index plc and IG Markets Limited, hold clients' money on trust in client accounts at approved banks in accordance with the rules of the FSA. Clients' money held and the corresponding liability to clients are not included in the balance sheet. The amount held at the balance sheet date was:

	2004
	£
	66,339,323
	<u><u> </u></u>
18. Share capital	
Ordinary share capital	
	<i>Group and company</i>
	2004
	£
<i>Authorised:</i>	
1,000,000 A Ordinary shares of 1p each	10,000
650 B Ordinary shares of 0.1p each	1
	<u> </u>
	10,001
	<u><u> </u></u>
<i>Allotted, called up and fully paid:</i>	
1,000,000 A Ordinary shares of 1p each	10,000
4,851 A Ordinary shares held in Employee Benefit Trust	(49)
650 B Ordinary shares of 0.1p each	-
	<u> </u>
	9,951
	<u><u> </u></u>

The B Ordinary shares carry no entitlement to dividends and no voting rights. The B ordinary shares' entitlement to capital is based on a progressive formula linked to the total return to certain holders of A Ordinary shares. In the event of a sale or flotation if this formula produces no entitlement to capital for the B Ordinary shares, the shares are redesignated as deferred redeemable shares. These have no entitlement to dividends, no voting rights and on winding up are entitled to the return of their nominal value only once the A Ordinary shares receive a return of capital of £8,000,000 per share.

Notes to the financial statements

at 31 May 2004

18. Share capital (continued)

Preference share capital

	<i>Group and company 2004 £</i>
<i>Authorised:</i>	
35,700,000 preference shares of £1 each	35,700,000
<i>Allotted, called up and fully paid:</i>	
35,700,000 preference shares of £1 each	35,700,000
Less: Issue costs Amortised during the period	791,741 (311,372)
Issue costs carried forward	480,369
Carrying value of preference share capital	35,219,631

The preference shares are entitled to a fixed non-cumulative dividend of 8% paid in preference to any other dividend. The company's banking arrangements place restrictions on the circumstances in which this dividend can be declared or paid. On a winding up of the company the preference shareholders have a right to receive, in preference to payments to ordinary shareholders, £1 per share plus, if the company has sufficient distributable reserves, any accrued or unpaid preference dividends. The preference shares have no voting rights, except that they are entitled to vote should the company fail to pay any amount due on redemption of the shares. The preference shares are redeemable on a sale or flotation, or at any other time at the option of the company. On redemption the preference shares are entitled to a £1 per share plus, if the company has sufficient distributable reserves, any accrued or unpaid dividends.

Warrants

The company has issued warrants giving the holders the right to subscribe for 88,629 A Ordinary shares at par. These warrants are exercisable on the sale or flotation of the company, and in the event of a breach of the warrant instrument.

19. Reserves

Group

	<i>Share premium account £</i>	<i>Profit and loss account £</i>
Arising on share issues	35,219,631	–
Retained profit for the period	–	3,104,284
	35,219,631	3,104,284

Notes to the financial statements

at 31 May 2004

19. Reserves (continued)

Company

	<i>Share premium account £</i>	<i>Profit and loss account £</i>
Arising on share issues	35,219,631	–
Retained profit for the period	–	5,200,968
	<u>35,219,631</u>	<u>5,200,968</u>

20. Notes to the statement of cash flows

(a) Reconciliation of operating profit to net cash inflow from operating activities:

	<i>2004 £</i>
Operating profit	11,506,403
Depreciation	2,467,508
Amortisation	4,182,883
Loss on disposal of fixed assets	26,308
Issue costs amortised	3,717,434
Decrease in debtors	(5,091,880)
Increase in creditors	8,595,025
Net cash inflow from operating activities	<u>25,403,681</u>

(b) Analysis of net debt:

	<i>Cash flow £</i>	<i>Other non cash movements £</i>	<i>At 31 May 2004 £</i>
Cash at bank and in hand	23,075,846	–	23,075,846
Loan notes	(570,105)	–	(570,105)
Loans	(101,693,989)	580,576	(101,113,413)
	<u>(79,188,248)</u>	<u>580,576</u>	<u>(78,607,672)</u>

(c) Major non cash transactions:

See note 13 for an analysis of the acquisition of IG Group Limited (formerly IG Group plc). Non cash transactions relate to the amortisation of issue costs and accrual of interest payments.

(d) Cash flows relating to operating exceptional items:

Net cash inflow from operating activities in 2004 includes £237,222 in respect of the professional fees incurred as a result of restructuring of the group and fees associated with directors' employment and service contracts.

Notes to the financial statements

at 31 May 2004

21. Operating leases

The group had annual commitments under operating leases on its premises as set out below:

	2004
	£
Operating leases which expire:	
In less than one year	16,354
In over five years	738,060
	<u>754,414</u>

22. Pension contributions

The group makes contributions into individual personal schemes based upon a percentage of the salary of the personnel involved. The group's obligation to these individual pension schemes is a defined contribution scheme per FRS 17.

The pension cost charge represents contributions payable by the group to all the schemes and amounted to:

2004
£
<u>438,846</u>

23. Transaction with directors

J R Kaye is a client of IG Index plc and IG Ventures Limited which enter into transactions with him on normal client terms.

The offer by the company to acquire IG Group Limited (formerly IG Group plc) included an option to receive loan notes as an alternative to part of the cash due to shareholders for the sale of IG Group plc shares. The loan notes bear interest at LIBOR minus 1%. The directors' holdings of loan notes were:

	<i>At date of issue</i>	<i>Redeemed during the period</i>	<i>At 31 May 2004</i>	<i>Unpaid interest at 31 May 2004</i>
	£	£	£	£
P G Hetherington	76,500	–	76,500	850
T A Howkins	189,975	–	189,975	2,110
A R Mackay	204,000	204,000	–	–
	<u>470,475</u>	<u>204,000</u>	<u>266,475</u>	<u>2,960</u>

Notes to the financial statements

at 31 May 2004

23. Transaction with directors (continued)

Certain directors or their associates have made loans to the company. These loans are 11% subordinated loans further described in note 16. The amounts loaned are as follows:

	<i>At date of issue</i>	<i>31 May 2004</i>	<i>Unpaid interest at 31 May 2004</i>
	£	£	£
P G Hetherington	145,088	145,088	11,806
T A Howkins	149,168	149,168	12,138
J R Davie	19,637	19,637	432
N B Le Roux	804,706	804,706	65,479
A R Mackay	75,586	75,586	6,150
	<u>1,194,185</u>	<u>1,194,185</u>	<u>96,005</u>

R R Lucas is a director of CVC Capital Partners Limited. During the period the company paid £155,508 to CVC Capital Partners Limited to reimburse costs incurred in connection with the acquisition by IG Group Holdings Limited of IG Group plc.

The group had no other transactions with its directors other than in relation to the management of the group.

24. Related party transactions

During the period the company paid a fee of £1m to CVC Capital Partners Advisory Co Limited, a company related to CVC Capital Partners Limited. Funds managed or advised by CVC Capital Partners Limited or its affiliates hold 64.2% of the issued A ordinary share capital of the company.

CVC Capital Partners Limited and its affiliates have made loans of £18,061,731 to the company. These loans are 11% subordinated loans further described in note 16.

Independent auditors' report

to the shareholders of IG Group Holdings Limited

We have audited the group's financial statements for the period ended 31 May 2004 which comprise the group profit and loss account, group reconciliation of shareholders' funds, group balance sheet, company balance sheet, group statement of cash flows and the related notes 1 to 24. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and 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.

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 with the group is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises the Chairman's statement, directors' report and five year summary. We consider the implications for our report if we become aware of any apparent misstatement of material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 group'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.

Independent auditors' report

to the shareholders of IG Group Holdings Limited (continued)

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 as at 31 May 2004 and of the profit of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
London