

# London Capital Group Holdings plc

ANNUAL REPORT 2006



# 2006 Highlights

- **Turnover up 78%** to £8.65 million (2005: £4.86 million)
- **EBITDA\*** up **144%** to £4.03 million (2005: £1.66 million)
- **Operating profit (before share option reserve) up 142%** to £3.87 million (2005: £1.60 million)
- **Strong EBITDA margin of 47%** up from 35% in 2005
- **Adjusted earnings per share up 122%** to 7.3p (2005: 3.3p)
- **Maiden dividend of 1.7p** per share
- **No debt** and cash resources of £3.35 million up from £1.67 million in 2005
- **Average daily spread betting trades up 120%** to 4,314
- **Number of live financial spread betting client accounts increased 95%** to 8,708
- **Forex monthly trading volumes increased significantly during the year rising from US\$1.3 billion in January 2006 to US\$13.2 billion in December 2006**

\*EBITDA represents earnings before exceptional administration costs, share option reserve, depreciation, taxation, interest receivable on corporate cash balances and includes interest receivable on clients' money net of interest payable to clients.

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# About Us

## Welcome to London Capital Group Holdings plc

Based in the City of London, London Capital Group Holdings plc ("LCG") is a rapidly growing financial services company offering online trading. Its core activities are the provision of spread betting products on the financial markets to retail clients under the trading name Capital Spreads ([capitalspreads.com](http://capitalspreads.com)), online foreign exchange trading services to institutional and intermediate clients under the Capital Forex brand ([capitalforexpro.com](http://capitalforexpro.com)) and institutional derivatives broking under the name Capital Derivatives ([capitalderivatives.co.uk](http://capitalderivatives.co.uk)).

As experienced risk managers, LCG aim to provide customers with the most competitive prices and best value for money in the marketplace. Customer service is a key priority and LCG continues to offer customers a high quality service through regular upgrades, investment in technology and the development of new products.

LCG is authorised and regulated by the Financial Services Authority, has a European passport and holds memberships of the London Stock Exchange, Liffe, Eurex and Euronext, giving it direct access to all major European markets. LCG also has access to international markets through its global clearing relationships.

## About LCG

LCG was originally established in the mid 1990s as a proprietary trading business, under different management. In September 2002, it commenced trading as an institutional broker (now known as Capital Derivatives) concentrating on the inter-bank futures market. The arrival at LCG of the current management precipitated the launch of LCG's spread betting division, Capital Spreads, in October 2003. LCG's legacy proprietary trading business was hived

off in early 2004 to leave LCG as a pure spread betting and derivatives broking business.

In October 2005, a Forex division was launched to market FX products to institutional clients. This division trades under the name of Capital Forex.

LCG floated on AIM on the 22 December 2005 with an issue price of 82 pence per share. The placing raised approximately £15 million for the company and (at Admission) the market capitalisation at the issue price was approximately £31.4 million.

## Spread Betting

Capital Spreads offers an online financial spread betting service to private individuals, share clubs and private organisations. Customers can speculate on a wide variety of financial products and benefit from low margin requirements and tight spreads. The Spread Betting division also incorporates the Binary Bet business.

## Capital Forex

Capital Forex offers financial institutions, hedge funds and professional traders access to multibank portals, enabling them to trade with multiple counterparties at the best possible rate with deep liquidity, using a prime broker's credit line.

## Capital Derivatives

Capital Derivatives provides execution services for exchange traded futures and options in fixed income products for institutional clients.



# Chairman and CEO's Statement

FRANK CHAPMAN

**The Group has had another successful and exciting year in 2006, both in terms of profit and business development. We have laid the foundations for the future expansion of the Group, having invested substantially in people, IT and infrastructure during the year. Simultaneously, we have more than doubled our EBITDA and operating profit compared to 2005.**



## Results

Our businesses all performed robustly with Group turnover rising by 78% to £8.65 billion. EBITDA was up 144% to £4.03 billion and operating profit also rose by 142% to £3.87 billion. Both the EBITDA and the operating profit are stated before recognising an expense of £0.54 million relating to the creation of a share option reserve for the first time in 2006. Net cash inflow from operating activities increased to £13.23 billion from £5.63 billion in 2005.

This performance reflects the increased number of spread betting accounts and trades, which averaged 278,000 trades per quarter during the year (2005: 129,000 trades per quarter), a like for like increase of 115%. Furthermore, the Capital Forex division which commenced activities in late 2005 has generated significant momentum during the year. In the second half of the year the average trade ticket size was over US\$2 million and trading activity increased from US\$2.1 billion in the fourth quarter of 2005 to US\$3.7 billion in the same quarter of 2006.

The Capital Derivatives division had a good year in an increasingly competitive market, showing an increase in volumes of 20% over 2005.

We appointed Raj Gandhi as Group Finance Director in the fourth quarter of 2006 and his fuller financial review follows this statement.

## Dividend

The Group's policy is to pay dividends which reflect the earnings, cash flow and potential of the Group.

The Board proposes that the Group pay a full year dividend of 1.7p per share on 20 April 2007 to ordinary shareholders on the register on 30 March 2007. The dividend is subject to approval at the Annual General Meeting to be held on 19 April 2007.

## Operating Review

### Capital Spreads and Binary Bets

Capital Spreads, our financial spread betting business, has continued to enjoy exceptional growth during the period with the number of live accounts having grown from 4,456 at 31 December 2005 to 8,708 at 31 December 2006. Trading volumes were also up 115% in 2006.

**“2006 was a year of significant expansion for LCG. We have enhanced the scalability of our various businesses and have laid the foundations for the future growth of the Group.”**

Whilst our marketing activity plays a significant part in building our client base, our reputation means that in excess of 50% of Capital Spreads clients are acquired via word of mouth or recommendation. These clients are attracted to our highly regarded and popular service due in great part to our commitment to some of the tightest spreads in the industry.

It remains our policy not to accept bets from US resident clients.

### Capital Forex

Capital Forex has enjoyed an excellent year with substantial growth in trading, culminating in a large increase in month-on-month volumes from the middle of 2006 through to the end of the year. The division achieved daily turnover in excess of US\$1 billion

# Chairman and CEO's Statement continued

FRANK CHAPMAN

**“Capital Forex together with its excellent liquidity, pricing and hands-on personal customer support, has generated favourable reviews throughout the forex community.”**

on several occasions in November and December, leading to an impressive increase in profitability along with a large influx of new enquiries from potential clients of all sizes. Trading activity in Capital Forex increased to US\$38.7 billion in the fourth quarter of 2006 from US\$2.1 billion in the same quarter of 2005.

Capital Forex, with its excellent liquidity, pricing and hands-on personal customer support, has generated favourable reviews throughout the forex community leading to significant interest in the product.

Notably, the marketing budget for the year was minimal yet the division signed-up in excess of 100 new institutional and professional clients. The average trade ticket size of over US\$2 million in the second half of the year is particularly pleasing and should encourage more institutional customers to open accounts.

Given these facts, the Board reasonably expects the Forex division to enjoy continued growth throughout 2007 and beyond.

## Capital Derivatives

In an increasingly competitive market Capital Derivatives increased volumes by 20% during 2006.

In the third quarter of 2006 some major new institutional clients were signed up and the division was further strengthened by the arrival of experienced new personnel.

During the first quarter of 2007 expansion into the institutional equities market is planned by offering both cash and equity derivative broking. This will further broaden the reach and client base of the division with growth expected in 2007.

## Growth Strategy

Our growth strategy in spread betting remains organic, augmented by white label partnerships and international expansion.

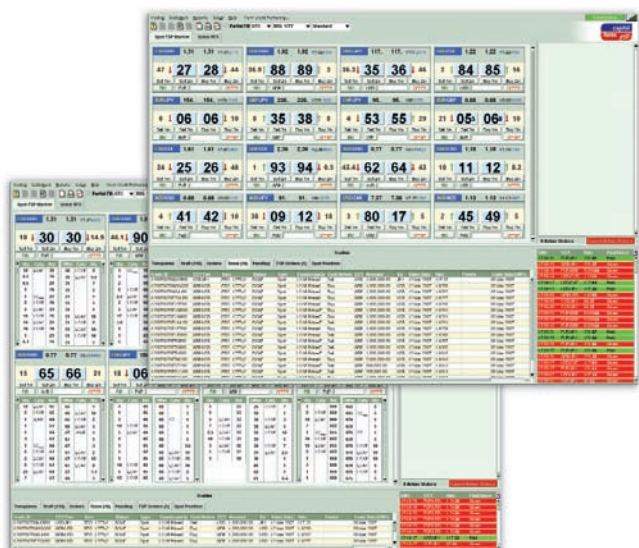
During 2006 we launched white labels in South Africa, Scandinavia and Greece and have now translated our spread betting platform into German, French, Dutch and Chinese. With the implementation of new European directives during 2007, the Group plans to market Capital Spreads products throughout Europe with associated growth arising from this region in 2008. As the benefits of trading via a spread betting platform become more evident globally, Capital Spreads is very well placed to take advantage of its strong brand name, reputation and quality product offering and will continue to be a major player in this sector.

The Forex division will continue to concentrate on its institutional customer growth, marketing its platform to major institutions internationally. In addition, we plan to launch a more retail focused forex trading platform in the second quarter of 2007 delivering our superb liquidity to a more broadly based market.

Capital Derivatives is highly respected in the industry for its options expertise and plans to continue to capitalise on this during 2007.

We are also preparing for the impact of the new European MiFID (Markets in Financial Instruments Directive) and Capital Adequacy directives which will come into force during the latter part of 2007.

**“2006 was a year of significant momentum for LCG, with strong organic growth in its main trading divisions and major investment in scalable infrastructure, preparing the platform for continued future growth in 2007 and beyond.”**



# Chairman and CEO's Statement continued

FRANK CHAPMAN

## Employees

On behalf of the Board, I would like to thank all our employees including divisional heads for their continued contribution, hard work and support during the past year. Our business would not have achieved these impressive results without their effort and dedication. Our employee numbers have risen from 17 at the start of the year to 33 at the end of 2006, in line with the expansion of the business.

The increase in employee numbers, together with the expiry of our lease, prompted the requirement for improved office space and facilities. As a result, in August 2006 the Group relocated offices to 12 Appold Street, London where we were able to build and install the new IT infrastructure needed to support the scalability of our predominantly electronic businesses going forward.

We firmly believe that our employees are our most valuable asset and, in recognition of this, we have introduced the Group share option scheme.

My thanks also go to my fellow board members and senior management for all their efforts. I would also like to take this opportunity to welcome Raj Gandhi, our new Group Finance Director and also Jack Inglis, our new Non-Executive Director, to the team.

On 5 February 2007, we announced that our two non-executive directors, Rob Loosemore and Geoffrey Forster, would be stepping down pending the outcome of the investigation into Torex Retail plc, with which they were each connected. They both subsequently resigned from the board of LCG and we appointed Jack Inglis as a Non-Executive Director on 15 March 2007.

Both the Audit Committee and the Remuneration Committee are being chaired by Rachel Woodford with the supporting member for each committee being Simon Denham and Raj Gandhi respectively.

## Current Trading and Outlook

2006 was a year of significant momentum for LCG, with strong organic growth in its main trading divisions and major investment in scalable infrastructure, preparing the platform for continued future growth in 2007 and beyond. Capital Spreads continues to attract new customers at an encouraging rate and Capital Forex is also growing rapidly in an expanding market.

Overall we are delighted with the progress made by the Group and we remain confident that 2007 will deliver further shareholder value.

Frank Chapman  
Chairman and Chief Executive Officer

**You don't have to live in Monte Carlo to avoid paying tax**

Financial spread betting profits with Capital Spreads are tax free.\*

And, as we're not a stockbroker, we do not charge commission or fees (we make profits from the spreads that we charge). Our user-friendly online trading platform can be accessed securely from any location and to help you make the most informed spread betting decisions, we offer great tools - from a free Demo Account and comprehensive User Manual, through to Live Charts and up-to-the-minute Technical Analysis. Trade long or short on equities, commodities, currencies and indices and enjoy our permanently tight spreads.

For tax free\* profits, visit [www.CapitalSpreads.com/learn](http://www.CapitalSpreads.com/learn)

And now - the risk

If you can afford to lose, you are able to you to lose investment objectives.

**Learn to Spread Bet**

Financial Spread Betting Made Simple.

Capital Spreads' customers come from a variety of backgrounds and they spread bet with us because they find our products great value and our website secure and easy to use. Our online Beginners Guide provides a full explanation of spread betting, and our free online Demo Account will give you the chance to learn the ropes without making a penny.

We also offer free, regular seminars where you can learn the finer points of spread betting and with permanently tighter spreads, tax free\* profits and quality tools such as Live Charts and Technical Analysis, there really is no better place to start spread betting.

So apply for an account at [www.CapitalSpreads.com/learn](http://www.CapitalSpreads.com/learn)

And now - the risk

Please make sure you're fully aware of the risks involved and only bet with money you can afford to lose. Whilst we provide compulsory stop-losses, they are not guaranteed and it is possible for you to lose more than your initial stake and deposit.

**What's so scary about Bear Markets?**

Trading financial markets at any time is a tough proposition. When to buy, when to sell? But in a bear market trading gets even harder. So, how can you profit when the markets fall?

At Capital Spreads we think we have the answer: when you make a spread bet it's so easy to profit on a falling market as a rising one. You can make tax free\* profits by trading equities, currencies, commodities and indices. If you're new to spread betting you'll find that we provide comprehensive online learning tools and recommend that you begin with an online Demo Account, to practice on our way to our trading platform without making a penny. When you're ready to trade for real, you can be sure that the prices you see are some of the very best you can find.

So don't let the bear market get you down, visit [www.CapitalSpreads.com/learn](http://www.CapitalSpreads.com/learn)

And now - the risk

Please make sure you're fully aware of the risks involved and only bet with money you can afford to lose. Whilst we provide compulsory stop-losses, they are not guaranteed and it is possible for you to lose more than your initial stake and deposit. Please ensure spread betting meets your investment objectives.

**Whoever said being tight was a bad thing?**

Our spreads are permanently tight.

At Capital Spreads we consistently offer some of the tightest spreads available so that when you spread bet with us you know that you have a greater chance of making bigger profits, whether the market rises or falls. To help you make the most informed spread betting decisions, we offer great tools - from a free Demo Account and comprehensive User Manual, through to Live Charts and up-to-the-minute Technical Analysis. You can make tax free\* profits by trading long or short on equities, commodities, currencies or indices and with an initial deposit from just £20, you don't need to break the bank to get started.

So start making every penny count. Apply at [www.CapitalSpreads.com/learn](http://www.CapitalSpreads.com/learn) today.

And now - the risk

Please make sure you're fully aware of the risks involved and only bet with money you can afford to lose. Whilst we provide compulsory stop-losses, they are not guaranteed and it is possible for you to lose more than your initial stake and deposit. Please ensure spread betting meets your investment objectives.

**SPREAD BETTING MADE SIMPLE**

\* Tax Law can change

[www.CapitalSpreads.com/learn](http://www.CapitalSpreads.com/learn)

Telephone: +44 (0)20 7624 1020 Trading Hour: 09:00-17:00 (GMT)

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# Group Finance Director's Review

RAJ GANDHI

**I am delighted to report on the financial performance of the Group for 2006, its first full year of reporting as an AIM listed company. These are exciting times for LCG with many opportunities for growth and expansion ahead.**



The Group continues to grow at a rapid pace across its main divisions and this is reflected in all key financial metrics. The turnover from our continuing business rose by 78% to £8.65 million from £4.86 million last year.

As a result, EBITDA increased by 144% to £4.03 million (2005: £1.66 million) and is stated before recognising an expense of £0.54 million (2005: £Nil) relating to the share option reserve. This reserve was created for the first time during the year and arises from the adoption of FRS 20: Share Based Payment.

EBITDA represents earnings before exceptional administration costs, share option reserve, depreciation, taxation, interest receivable on corporate cash balances and includes interest receivable on clients' money net of interest payable to clients.

**“These are exciting times for LCG with many opportunities for growth and expansion ahead.”**

The EBITDA margin was 47% up from 35% in 2005 and represents EBITDA as a percentage of turnover. This clearly demonstrates our ability to benefit from operational gearing.

The operating profit, before the expense relating to the share option reserve, rose to £3.87 million (2005: £1.60 million) representing an increase of 142%. After adjusting for the share option reserve, operating profit rose by 108% to £3.33 million (2005: £1.60 million).

Net cash inflow from operating activities increased to £13.23 million from £5.63 million in 2005. Earnings per share also increased by 122% to 7.3p from 3.3p in 2005.

Both the Capital Forex and the Capital Derivatives divisions are operated under a profit share arrangement with managers who head up each division. As a result, the profit generated by the

turnover is shared and the operating profit is stated after the deduction of such profit share.

The Group maintains a low cost operation by comparison with other companies in our sector because of the continued use of an outsourcing model.

We are pleased to report the Group had no debt at the year end, the same as in 2005. It had cash resources of £3.35 million up from £1.67 million in 2005, after allowing for normal business running costs and large payments made for capital expenditure and corporation tax. This serves to demonstrate a high conversion rate of profit into cash.

The Group will seek approval, at its Annual General Meeting, for its maiden final dividend for 2006 of 1.7p per share resulting in total dividends for the year of £650,000. This represents a dividend cover of 4.3.

These results have been reported under UK GAAP. The Group will be adopting international accounting standards in 2007 and future results will therefore be reported under IFRS.

**Raj Gandhi**  
Group Finance Director

# Board of Directors

## Executive Directors



**Francis (Frank) Chapman**  
Chairman and  
Chief Executive Officer (Age 56)

Frank was appointed Managing Director of LCG in April 2004, having been on the board of LCG since October 2003. Before joining the Group, Frank was a director at Cal Futures, London Investment Trust and Baring Securities. He has also been a managing director at Deutsche Morgan Grenfell and subsequently managing director of Amerex Petroleum. Throughout Frank's career, he has been principally involved in the derivatives and FX markets in both sales and trading.



**Simon Denham**  
Chief Operating Officer (Age 45)

Simon designed, commissioned and runs the spread betting division of LCG. He joined LCG in March 2003 and joined the board of LCG in October 2003. Prior to this, Simon ran the options and derivatives desk at Cantor Index specialising in spread betting for the general public. Before Cantor Index, Simon worked for Christiania Bank, where he launched the bank's interest rate derivatives and options desk, trading in swaptions, swaps, caps/floors, futures, FRAs and government and corporate bonds. Before Christiania Bank, Simon worked for Bank of Nova Scotia, where he was responsible for the inter-bank and corporate swap market-making in Italian Lira and Spanish Peseta.



**Rachel Woodford**  
Sales and Marketing Director (Age 37)

Rachel is a founding member of Capital Spreads and heads up the Group's sales and marketing, having launched the brand in October 2003. Before co-founding Capital Spreads, Rachel spent four years as marketing manager for Cantor Index where she was instrumental to the launch of Cantor Index, Cantor CFDs and Cantor Sport. She also worked at City Index. Rachel holds a Masters degree in Marketing from Guildhall University, London.



**Raj Gandhi**  
Finance Director (Age 45)

Raj was appointed to the board in November 2006. Previously he spent five years at Royal Dutch Shell plc as a Business Analyst in Group Reporting and as an Internal Audit Manager responsible for trading and treasury activities. Prior to that, Raj worked at Man Group plc for three years as a Treasury Risk Consultant. His career also includes five years spent as Group Treasurer and Tax Manager at Empire Stores Group plc, a mail order retailer. Raj is a fellow of the Association of Chartered Certified Accountants and is also a member of the Association of Corporate Treasurers.

## Non-Executive Director



**Jack Inglis**  
Non-Executive Director (Age 45)

Jack Inglis spent the last 15 years of his career at Morgan Stanley & Co International in London, most recently as Managing Director and Co-Head of European Prime Brokerage. Previously he was Head of European Equity-Linked Origination and Head of International Convertibles. He left Morgan Stanley in January 2007. Prior to joining Morgan Stanley, Jack worked in the fixed income and convertible bond market teams for HSBC/James Capel in London and Paris.

# Directors' Report

The directors present their annual report and the audited financial statements for the period ended 31 December 2006.

## The Business and its Management

### Principal Activities

London Capital Group Holdings plc is a cash generative supplier of financial products. Operating through its principal subsidiary, London Capital Group Limited, its core activity is the provision of spread betting products on financial markets to retail clients. It also provides institutional derivatives broking and foreign exchange trading services to institutional clients and retail brokers.

Developments affecting the Group during the year and its prospects for the future are evaluated in the Chairman and Chief Executive Officer's Statement on pages 3 to 5.

### Research and Development

The Group's research and development programme is concentrated on enhancing the bespoke software systems which are fundamental to its activities.

### Fixed Assets

In the opinion of the directors, the market value of the Group's properties at 31 December 2006 is not significantly different from the book value shown in the financial statements.

### Employment of Disabled Persons

Full and fair consideration is given to employment applications from disabled persons having regard to their particular aptitudes and abilities. So far as is practical, arrangements are made to continue the employment of an individual who becomes disabled. Disabled employees are given fair consideration for training, career development and promotion.

### Employment Policies

The development of employee involvement in the Group's business is kept under regular review and the directors are committed to encouraging greater involvement by all employees. Formal and informal briefing of employees takes place as appropriate.

The Group takes all reasonable steps to ensure that employment conditions are equal in all respects for both men and women.

### Charitable and Political Donations

During the year, the Group has not made any political donations. Charitable donations totaling £4,000 (2005: £5,000) were made to the following charities: Cancer Research UK, Oxfam, NSPCC and RNLI.

## Statutory and other Compliance

### Dividend

Group profit for the year after tax amounted to £2,404,000 (2005: £304,000).

The directors recommend the payment of a maiden final dividend of 1.7p per ordinary share amounting to £650,000. If approved, the dividend will be paid on 20 April 2007 to shareholders on the register at 30 March 2007.

# Directors' Report continued

## Substantial Interests in Shares

Details of substantial holdings in the issued ordinary share capital of the company notified as at 20 February 2007 were:

	Number of Shares	% of
Simon Denham	8,140,000	21.26
Frank Chapman	7,040,000	18.38
Rachel Woodford	4,820,000	12.59
Legal & General Investment Management Ltd	2,215,000	5.78
BlackRock, Inc.	2,043,213	5.33
The Goldman Sachs Group, Inc	1,637,352	4.28
BT Pension Scheme Trustees	1,190,582	3.11

## Health and Safety

The Group aims to provide and maintain a safe working environment for all its employees and visitors and seeks the involvement of its employees in improving health and safety throughout its operations. The board keeps its health and safety policy under regular review to take account of changes in legislation, best practice and the working environment.

## Environment

Given the nature of its activities, there is limited scope for the Group to have a major impact on environmental matters. Nevertheless, the directors are mindful of their responsibilities in this regard and strive to seek opportunities where improvements may be made: it is likely that these will be concentrated in areas of energy conservation and waste control.

## Payment of Commercial Debts

The company's policy, in relation to all of its suppliers, is to settle the terms of payment when agreeing the terms of each transaction provided always that it is satisfied the supplier has provided the goods or services in accordance with the agreed terms and conditions. The company does not follow any code or standard on payment practice but it is the company's policy, unless otherwise negotiated, to pay all its suppliers within 30 days of the end of the month in which it received the goods or services.

The number of days' purchases ("creditor days") outstanding for payment by the Group at the year end was 32 days. (2005: 32)

## Authority to Allot Shares

In accordance with current guidelines, the directors seek authority for a period of five years from the date of the Annual General Meeting to allot a maximum of 16,707,317 relevant securities. This represents the current amount of the authorised but unissued ordinary share capital. Further, in order to retain some flexibility, the directors seek power to allot 1,914,630 equity securities wholly for cash other than on a pre-emptive basis to current shareholders pro-rata to their existing holdings. This amount represents 5% of the issued ordinary share capital on the balance sheet at 31 December 2006. Resolutions covering the above matters appear as Items 7 and 8 in the Notice convening the Annual General Meeting on page 34.

## Auditors

Hurst Morrison Thomson LLP have indicated their willingness to continue in office and a resolution for their re-appointment as auditors of the company will be proposed at the forthcoming Annual General Meeting.

## Directors, their Remuneration and their Interests

### Directors

The names of the current directors together with brief biographical details are shown on page 7.

Raj Gandhi was appointed a director on 30 November 2006. Robert Loosemore and Geoffrey Forster resigned and Jack Inglis was appointed a director on 15 March 2007.

In accordance with article 90 of the company's articles of association, Raj Gandhi and Jack Inglis retire and, being eligible, each offers himself for re-appointment.

# Directors' Report continued

In accordance with article 84 of the company's the articles of association, Frank Chapman retires by rotation and, being eligible, offers himself for re-appointment. Raj Gandhi and Frank Chapman each has a service contract which is terminable by the company on not less than 6 months' notice.

The board recommends the re-appointment of each of the above retiring directors.

## Directors' service agreements

All executive directors' service contracts are subject to 6 months' notice of termination from the company and 6 months from the employee.

The non-executive directors are each appointed for fixed terms of 12 months and these terms are extendible by mutual agreement. All appointees are subject to regular re-appointment by shareholders. Contracts are terminable on three months' notice except in the case of the company being taken over or the individual concerned becoming prohibited by law from acting as a director in which case termination is immediate.

## Directors' contracts:

Executive Directors	Date of contract	Notice period
Frank Chapman	15 December 2005	6 months
Simon Denham	15 December 2005	6 months
Rachel Woodford	15 December 2005	6 months
Raj Gandhi	12 September 2006	6 months
Non-Executive Directors	Date of letter of appointment	Period of appointment
Jack Inglis	15 March 2007	12 months

## Non-Executive directors' remuneration

The remuneration for non-executive directors is set by the full board on the recommendation of the executive directors. Remuneration comprises an annual fee. Non-executive directors are not eligible to participate in any of the company's bonus schemes.

## Remuneration policy

It is the company's policy to provide for each of its executive directors a remuneration package which is adequate to attract, retain and motivate individuals of the appropriate calibre, whilst at the same time not paying more than is necessary for this purpose.

## Executive directors' remuneration

The remuneration of the executive directors is determined by the remuneration committee.

The following comprised the principal elements of executive directors' remuneration for the period under review:

- basic salary
- annual cash bonus
- healthcare for the executive director, spouse and dependent children.
- gym membership (for Frank Chapman and Rachel Woodford only)

## Share options

On 14 December 2005, the directors adopted the London Capital Group Holdings plc Enterprise Management Incentive Scheme and the London Capital Group Holdings plc Unapproved Share Option Plan.

# Directors' Report continued

## Directors' emoluments

### Summary remuneration table

The various elements of remuneration (excluding employer pension contributions) received by each director were as follows:

Year to 31 December	Salary & fees		Benefits		Annual Bonus		Other		Total	
	2006 £	2005 £	2006 £	2005 £	2006 £	2005 £	2006 £	2005 £	2006 £	2005 £
<b>Executive</b>										
Frank Chapman	105,000	74,112	3,493	2,029	5,000	60,000	-	-	113,493	136,141
Simon Denham	105,000	74,112	497	530	5,000	127,890	-	-	110,497	202,532
Rachel Woodford	105,000	35,000	905	652	5,000	75,486	-	-	110,905	111,498
Raj Gandhi*	9,872	0	0	0	0	0	-	-	9,872	0
<b>Subtotal</b>	<b>324,872</b>	<b>183,224</b>	<b>4,895</b>	<b>3,211</b>	<b>15,000</b>	<b>263,736</b>	<b>-</b>	<b>-</b>	<b>344,767</b>	<b>450,171</b>
<b>Non executive</b>										
Robert Loosemore	35,000	1,630	-	-	-	-	-	-	35,000	1,630
Geoffrey Forster	25,000	1,164	-	-	-	-	-	-	25,000	1,164
<b>Subtotal</b>	<b>60,000</b>	<b>2,794</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>60,000</b>	<b>2,794</b>
<b>TOTAL</b>	<b>384,872</b>	<b>186,018</b>	<b>4,895</b>	<b>3,211</b>	<b>15,000</b>	<b>263,736</b>	<b>-</b>	<b>-</b>	<b>404,767</b>	<b>452,965</b>

\* period from 20 November 2006

Benefits (which are taxable) comprise the provision of healthcare and gym membership.

The highest paid director was Frank Chapman.

### Pension benefits

No director has an entitlement to pension benefits from the company.

### Directors' interests in shares

Ordinary shares	At 31 December 2006		At 31 December 2005	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
Frank Chapman	7,040,000	-	7,040,000	-
Simon Denham	8,140,000	-	8,140,000	-
Raj Gandhi	15,000	-	-	-
Geoffrey Forster	8,121	-	6,097	-
Robert Loosemore	121,951	-	121,951	-
Rachel Woodford	4,820,000	-	4,820,000	-

By order of the board  
Peter Dawes  
Secretary

# Corporate Governance Statement

The directors aim to comply with the provisions of the Combined Code so far as it is practicable and appropriate for a public company of its size and nature.

The directors believe the Board is soundly constituted and, at this stage of the Group's development, it is felt the functions of a Nomination Committee can be adequately fulfilled by deliberation of the full Board; this will nevertheless be kept under review.

With eleven Board meetings spread throughout this first year, the Board was able to exercise control over the activities of the Group. There was a clear distinction during 2006 between the role of the non-executive chairman in running the Board and the chief executive in running the business. The latter is obliged to comply with a schedule of matters requiring Board approval before implementation; his schedule will be reviewed by the Board at least annually.

In 2006, Geoffrey Forster had been designated Senior Independent Director.

On 5 February 2007, we announced that our two non-executive directors, Rob Loosemore and Geoffrey Forster, would be stepping down pending the outcome of the investigation into Torex Retail plc, with which they were each connected. They both subsequently resigned from the board of LCG and we appointed Jack Inglis as a Non-Executive Director on 15 March 2007.

The company maintains appropriate directors' and officers' liability insurance. All directors have access to the advice and services of the company secretary.

The company has been developing an ongoing dialogue with its major institutional shareholders and the directors' intention is to adopt an even more proactive approach to this.

The Risk Committee meets regularly to discuss and manage the financial risk of the Group including, amongst other financial risks, liquidity levels, overall limits and financial parameters used in its hedging policy.

During 2006, the Audit Committee comprised Geoffrey Forster (Chairman) and Robert Loosemore. However, since the above announcement made on 5 February 2007, Rachel Woodford has assumed the role of Chair with Simon Denham acting as the supporting member of the committee, pending appointment of new non-executive directors. Both Rachel and Simon are currently on the executive board. The executive directors and representatives of the external auditors attend meetings by invitation as required. The Committee receives reports from the company's management and external auditors relating to the annual and interim accounts and the accounting and internal control systems within the Group. The Committee has direct and unrestricted access to the external auditors.

During 2006, the Remuneration Committee comprised Robert Loosemore (Chairman) and Geoffrey Forster. However, since the above announcement made on 5 February 2007, Rachel Woodford has assumed the role of Chair with Raj Gandhi acting as the supporting member, pending appointment of new non-executive directors. The principal duties of the Committee are to determine the total individual remuneration packages for executive directors and to review the scale and structure of the remuneration and service contracts for senior management. The Committee also administers the company's share option schemes.

The Chair of the Audit and Remuneration Committees will be available to answer questions at the AGM. The company secretary is secretary to both Committees.

## Internal controls

The Group has established processes and procedures for identifying, evaluating and managing the significant risks faced by the Group. The processes have been embedded into the fabric of the Group and have been in place for the period under review and up to the date of approval of the annual report and financial statements. The processes and procedures will be regularly reviewed by the Board.

The Board is ultimately responsible for the Group's system of internal controls and for reviewing its effectiveness. The role of management is to implement Board policies on risk and control. The system of internal controls is designed to manage rather than eliminate the risk of failure of the achievement of business objectives. In pursuing these objectives, internal controls can only provide reasonable and not absolute assurance against material misstatement or loss.

A process of control, self-assessment and hierarchical reporting has been established which provides for a documented and auditable trail of accountability. These procedures are relevant across all group operations: they provide for successive assurances to be given at increasingly higher levels of management and, finally, to the Board.

# Corporate Governance Statement

The processes used by the Board to review the effectiveness of the system of internal controls include the following:

- annual budgets are prepared for each operating business and compared with monthly management reporting, which focuses on actual performance against these budgets;
- management reports and external audit reports on the system of internal controls and any material control weaknesses that are identified;
- discussions with management including discussions on the actions taken on any problem areas identified by Board members or in the external audit reports; and
- review of the adequacy of the level of experienced and professional staff throughout the business and the expertise of individual staff members such that they are capable of carrying out their individual delegated responsibilities;

The Group has a Compliance department responsible for the Group's adherence to the rules of the Financial Services Authority and additionally the Board has concluded that an internal audit department is not required at this stage in the Group's development.

## Going concern

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

**Peter Dawes**  
Secretary

# Statement of Directors' Responsibilities

Company law in the United Kingdom 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 those 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
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. The directors 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.

The directors are responsible for the maintenance and integrity of the company's website. Financial information published on the website is based on legislation in the United Kingdom governing the dissemination of financial statements that may differ from legislation in other jurisdictions.

In so far as the Directors are aware:

- there is no relevant audit information of which the Group's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information to establish that the auditors are aware of that information.

# Report of the Independent Auditors

## To the shareholders of London Capital Group Holdings plc

We have audited the financial statements of London Capital Group Holdings plc for the year ended 31 December 2006 on pages 16 to 33 which have been prepared on the basis of the accounting policies set out on pages 21 and 22.

This report is made solely to the company's shareholders, 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 shareholders those matters we are required to state to them in an auditor's 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective Responsibilities of Directors and Auditor

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

## Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs and of the Group as at 31 December 2006 and of the profit of the Group for the year then ended; the financial statements have been properly prepared in accordance with the Companies Act 1985; and the information given in the Directors' Report is consistent with the financial statements for the year ended 31 December 2006.

**Hurst Morrison Thomson LLP**  
**Chartered Accountants & Registered Auditor**

5 Fairmile, Henley-on-Thames, Oxfordshire RG9 2JR.

20 February 2007

# Group Profit and Loss Account

## Group Profit and Loss Account

For the period ending 31 December 2006

	Note	2006 £000	2005 £000
<b>GROUP TURNOVER</b>	2	<b>8,651</b>	4,861
Cost of sales		1,798	1,085
<b>GROSS PROFIT</b>		<b>6,853</b>	3,776
Administrative expenses excluding depreciation		2,819	2,117
<b>EBITDA</b>		<b>4,034</b>	1,659
Depreciation		164	56
<b>OPERATING PROFIT BEFORE SHARE OPTION RESERVE</b>		<b>3,870</b>	1,603
Equity-settled share-based payments: Recognition of expense	17	541	-
<b>OPERATING PROFIT</b>	3	<b>3,329</b>	1,603
Interest receivable		45	21
Interest payable and similar charges	6	(2)	(1,121)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>3,372</b>	503
Tax on profit on ordinary activities	7	968	199
<b>RETAINED PROFIT FOR THE FINANCIAL PERIOD</b>		<b>2,404</b>	304
<b>Earnings per share</b>		<b>pence</b>	<b>pence (pro forma)</b>
Basic	10	6.3	0.8
Diluted	10	5.8	0.8
Adjusted	10	7.3	3.3

The 2005 comparatives for both the basic and diluted EPS have been stated on a pro forma basis as they provide a more meaningful number, given the Group was floated in December 2005. On a non-pro forma basis, EPS would have been 16.1p (basic) and 15.5p (diluted).

All of the activities of the Group are classed as continuing. The Group has no recognised gains or losses other than the results for the year as set out above. The company has taken advantage of section 230 of the Companies Act 1985 not to publish its own Profit and Loss Account.

# Group Balance Sheet

## Group Balance Sheet

As at 31 December 2006

	Note	2006 £000	2005 £000
<b>FIXED ASSETS</b>			
Intangible assets	11	9,303	9,303
Tangible assets	12	1,655	276
		<b>10,958</b>	<b>9,579</b>
<b>CURRENT ASSETS</b>			
Debtors	14	2,225	1,044
Cash at bank		16,622	5,592
		<b>18,847</b>	<b>6,636</b>
<b>CREDITORS: Amounts falling due within one year</b>	15	<b>16,464</b>	<b>5,737</b>
<b>NET CURRENT ASSETS</b>		<b>2,383</b>	<b>899</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>13,341</b>	<b>10,478</b>
<b>PROVISIONS FOR LIABILITIES</b>			
Deferred taxation	16	-	82
		<b>13,341</b>	<b>10,396</b>
<b>CAPITAL AND RESERVES</b>			
Called-up equity share capital	21	3,829	3,829
Share premium account	22	11,607	11,607
Share option reserve	22	541	-
Other reserves	22	(5,344)	(5,344)
Profit and loss account	22	2,708	304
<b>SHAREHOLDERS' FUNDS</b>	23	<b>13,341</b>	<b>10,396</b>

These financial statements were approved by the directors on the 20 February 2007 and are signed on their behalf by:



Frank Chapman  
Director

# Company Balance Sheet

## Company Balance Sheet

As at 31 December 2006

		2006	2005
	Note	£000	£000
<b>FIXED ASSETS</b>			
Investments	13	5,139	5,139
<b>CURRENT ASSETS</b>			
Debtors	14	11,313	11,151
<b>CREDITORS: Amounts falling due within one year</b>			
	15	924	854
<b>NET CURRENT ASSETS</b>		<b>10,389</b>	<b>10,297</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>15,528</b>	<b>15,436</b>
<b>CAPITAL AND RESERVES</b>			
Called-up equity share capital	21	3,829	3,829
Share premium account	22	11,607	11,607
Share option reserve	22	541	-
Profit and loss account	22	(449)	-
<b>SHAREHOLDERS' FUNDS</b>		<b>15,528</b>	<b>15,436</b>

These financial statements were approved by the directors on the 20 February 2007 and are signed on their behalf by:



Frank Chapman  
Director

# Group Cash Flow Statement

## Group Cash Flow Statement

For the period ended 31 December 2006

	2006	2005
	£000	£000
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>13,225</b>	<b>5,627</b>
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>		
Interest received	45	21
Interest paid	(2)	(1,121)
<b>NET CASH INFLOW/(OUTFLOW) FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>	<b>43</b>	<b>(1,100)</b>
<b>TAXATION</b>	<b>(695)</b>	<b>-</b>
<b>CAPITAL EXPENDITURE</b>		
Payments to acquire intangible fixed assets	-	(9,303)
Payments to acquire tangible fixed assets	(1,543)	(132)
<b>NET CASH OUTFLOW FROM CAPITAL EXPENDITURE</b>	<b>(1,543)</b>	<b>(9,435)</b>
<b>ACQUISITIONS</b>		
Payments to acquire Group companies	-	(6,324)
<b>NET CASH OUTFLOW FROM ACQUISITIONS</b>	<b>-</b>	<b>(6,324)</b>
<b>EQUITY DIVIDENDS PAID</b>	<b>-</b>	<b>(242)</b>
<b>CASH INFLOW/(OUTFLOW) BEFORE FINANCING</b>	<b>11,030</b>	<b>(11,474)</b>
<b>FINANCING</b>		
Issue of equity share capital	-	3,829
Share premium on issue of equity share capital	-	11,607
<b>NET CASH INFLOW FROM FINANCING</b>	<b>-</b>	<b>15,436</b>
<b>INCREASE IN CASH</b>	<b>11,030</b>	<b>3,962</b>

# Net Cash Flow Statement

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

	2006	2005
	£000	£000
Operating profit	3,329	1,603
Depreciation	164	56
Increase in debtors	(1,138)	38
Increase in creditors	10,329	3,930
Equity-settled share-based payments	541	-
<b>Net cash inflow from operating activities</b>	<b>13,225</b>	<b>5,627</b>

## RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2006	2005
	£000	£000
Increase in cash in the period	11,030	3,962
Movement in net funds in the period	11,030	3,962
<b>Net funds at 1 January</b>	<b>5,592</b>	<b>1,630</b>
<b>Net funds at 31 December</b>	<b>16,622</b>	<b>5,592</b>

## ANALYSIS OF CHANGES IN NET FUNDS

	At 1 Jan 2006	Cash flows	At 31 Dec 2006
	£000	£000	£000
Net cash:			
Cash in hand and at bank	5,592	11,030	16,622
<b>Net funds</b>	<b>5,592</b>	<b>11,030</b>	<b>16,622</b>

# Notes to the Financial Statements

## 1. ACCOUNTING POLICIES

### **Basis of accounting**

The financial statements have been prepared under UK GAAP using the historical cost convention, and in accordance with applicable accounting standards.

### **Changes in accounting policies**

In preparing the financial statements for the current year, the Group has adopted the following Financial Reporting Standards:

#### *FRS 20 Share-based payment*

FRS 20 Share-Based Payment requires the recognition of equity-settled share-based payments at fair value at the date of the grant and the recognition of liabilities for cash-settled share-based payments at the current fair value at each balance sheet date. Prior to the adoption of FRS 20, the Group did not recognise the financial effect of share-based payments until such payments were settled.

For year ended 31 December 2005 there has been no financial impact of the change in accounting policy.

For the year ended 31 December 2006 the change in accounting policy has resulted in a net charge to the profit and loss account of £540,707. At 31 December 2006, the share options reserve amounted to £540,707, the liability recognised for share-based payments amounted to nil and the related deferred tax asset amounted to £162,212.

### **Basis of consolidation**

The results for the period ended 31 December 2006 comprises the consolidated results London Capital Group Holdings plc and its subsidiaries. The company adopted the merger method of accounting for consolidation.

### **Goodwill**

Positive purchased goodwill arising on acquisitions is capitalised, classified as an asset on the Balance Sheet. The policy is to amortise goodwill, however this has not taken place in 2006 i.e. the accounting standard FRS 10 does not require amortisation of goodwill in the first full year following its acquisition.

### **Tangible fixed assets and depreciation**

All fixed assets are initially recorded at cost.

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Leasehold Property - Over lease term  
Plant & Machinery - 25% straight line

### **Operating lease agreements**

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

### **Deferred taxation**

Deferred tax is recognised on all timing differences where the transactions or events that give the Group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that there will be suitable taxable profits from which future reversals of the underlying timing differences can be deducted. Deferred tax is measured on an undiscounted basis at the rates that are expected to apply in the periods when the timing differences are expected to reverse, based on rates of tax that have been enacted or substantively enacted by the balance sheet date.

# Notes to the Financial Statements

## **Cash**

Cash comprises cash in hand and demand deposits which may be accessed without penalty. For the purposes of the consolidated cash flow statement, net cash consist of cash as defined above, net of outstanding bank overdrafts, if any.

The Group holds money on behalf of clients in accordance with the client money rules of the Financial Services Authority (FSA) and other regulatory bodies. This money is included within cash on the balance sheet and the corresponding liability to clients is included in Trade Creditors.

## **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 account in arriving at the operating profit.

## **Share-based payments**

The Group issues equity-settled and cash-settled share-based payments to certain employees (including directors). Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, together with a corresponding increase in equity, based upon the Group's estimate of the shares that will eventually vest.

Fair value is measured using the Black-Scholes-Merton formula. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Where the terms of an equity-settled transaction are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled transaction is cancelled, it is treated as if it had vested on the date of the cancellation, and any expense not yet recognised for the transaction is recognised immediately. However, if a new transaction is substituted for the cancelled transaction, and designated as a replacement transaction on the date that it is granted, the cancelled and new transactions are treated as if they were a modification of the original transaction, as described in the previous paragraph.

For cash-settled share-based payments, a liability equal to the portion of the goods and services received is recognised at the current fair value determined at each balance sheet date.

## **Bets and derivative financial 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 are carried at fair market value and the resultant profits and losses are included in sales. Assets or liabilities resulting from gains or losses on open positions are reported gross in amounts due from/to clients, netted with bank balances. Fair value is determined by reference to third party market values.

## **Revenue recognition**

Revenue is recognised to the extent cash flows to the Group and the revenue can be measured.

Rendering of services includes gains and losses on the running of betting and trading in financial markets, net of commission expensed. Open positions are carried at fair market value and gains and losses arising on this valuation are recognised in revenue as well as gains and losses on positions that have closed.

# Notes to the Financial Statements

## 2. TURNOVER

Turnover represents net trading results, rebates received and management services supplied by The Group. Turnover is attributable to the provision of spread betting, derivatives brokering and foreign exchange services, which arose wholly in the United Kingdom.

An analysis of turnover is given below:

	2006	2005
	£000	£000
Spread betting income	7,112	4,242
Forex income	1,380	-
Brokerage income	905	1,066
Gross Group turnover	9,397	5,308
Spread betting brokerage and hedging costs	(746)	(447)
Net Group turnover	8,651	4,861

## 3. OPERATING PROFIT

Operating profit is stated after charging/(crediting):

	2006	2005
	£000	£000
Equity-settled share based payments	541	-
Depreciation of owned fixed assets	164	56
Auditor's remuneration - as auditor	40	20
- other services	10	134
Operating lease costs:		
Land and buildings	94	150
Net profit on foreign currency translation	-	(3)
Exceptional items (2005: Non-recurring costs and exceptional income)	-	262

Auditors remuneration - Other services in 2006 relate primarily to taxation and in 2005 to corporate finance services undertaken in connection with the company's floatation and issue of shares.

	2006	2005
	£000	£000
Vendor non-recurring costs	-	266
Other non-recurring costs	-	116
Exceptional income	-	(120)
	-	262

# Notes to the Financial Statements

## 4. PARTICULARS OF EMPLOYEES

The average number of staff employed by the Group during the financial year amounted to:

	2006	2005
	No	No
Number of administrative staff	23	17

The aggregate payroll costs of the above were:

	2006	2005
	£000	£000
Wages and salaries	1,395	816
Social security costs	160	94
	1,555	910

## 5. DIRECTORS' EMOLUMENTS

The directors' aggregate emoluments in respect of qualifying services were:

	2006	2005
	£000	£000
Emoluments receivable	405	453

Emoluments of highest paid director:

	2006	2005
	£000	£000
Total Emoluments (excluding pension contributions)	113	203

## 6. INTEREST PAYABLE AND SIMILAR CHARGES

	2006	2005
	£000	£000
Interest payable on bank borrowing	2	-
Other similar charges payable	-	1,121
	2	1,121

# Notes to the Financial Statements

## 7. TAXATION ON ORDINARY ACTIVITIES

### a) Analysis of charge in the year

	2006	2005
	£000	£000
Current tax:		
In respect of the year:		
UK Corporation tax based on the results for the year at 30% (2005 - 30%)	1,093	194
<b>Total current tax</b>	<b>1,093</b>	<b>194</b>
Deferred tax:		
Origination and reversal of timing differences	(125)	5
Tax on profit on ordinary activities	968	199

### (b) Factors effecting Current Tax Charge

	2006	2005
	£000	£000
Profit on ordinary activities before taxation	3,372	503
Profit/(loss) on ordinary activities before taxation	1,012	151
Movement in short term timing differences	137	26
Depreciation in excess of capital allowances	(62)	(3)
Utilisation of losses b/fwd	-	(23)
Other disallowable expenses	6	43
<b>Total current tax (note 7(a))</b>	<b>1,093</b>	<b>194</b>

## 8. (LOSS)/PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The loss dealt with in the accounts of the parent company was £(449,000) (2005: £Nil).

## 9. DIVIDENDS

A dividend for £650,000 has been recommended for the year ended 31 December 2006.

# Notes to the Financial Statements

## 10. EARNINGS PER SHARE

Basic EPS	2006	2005 (pro forma)
	£000	£000
Profit after tax	2,404	304
Weighted average no of shares	38,292,683	38,292,683
Weighted average basic EPS	6.3p	0.8p

Diluted EPS	2006	2005 (pro forma)
	£000	£000
Profit after tax	2,404	304
Weighted average no of shares	41,199,304	38,360,251
Weighted average basic EPS	5.8p	0.8p

Diluted earnings per share is the basic earnings per share after allowing for the dilutive effect of the conversion into Ordinary shares of the weighted average number of options outstanding during the period.

The 2005 comparatives for both the basic and diluted EPS have been stated on a pro forma basis as they provide a more meaningful number, given the Group was floated in December 2005. On a non-pro forma basis, EPS would have been 16.1p (basic) and 15.5p (diluted).

Adjusted EPS	2006	2005 (pro forma)
	£000	£000
Profit after tax	2,404	304
Add:		
Share option reserve	541	-
Exceptional items	-	262
Interest payable	-	1,121
Tax effect on the above adjustments	(162)	(415)
Adjusted profit after tax	2,783	1,272
Issued number of shares at the period end	38,292,683	38,292,683
Adjusted EPS	7.3p	3.3p

The adjusted EPS has been calculated using normalised earnings per share and using the shares in issue at the end of the year, as this will be more comparable with future years. Normalised earnings represent earnings adjusted, net of tax, for the share option reserve, exceptional items and non-recurring interest payable.

# Notes to the Financial Statements

## 11. INTANGIBLE FIXED ASSETS

<b>Group: Goodwill</b>		<b>£000</b>
<b>COST</b>	- At 1 January 2006 and 31 December 2006	<b>9,303</b>
<b>AMORTISATION</b>	- At 1 January 2006 and 31 December 2006	-
<b>NET BOOK VALUE</b>	- At 31 December 2005 and 2006	<b>9,303</b>

The goodwill arose from the purchase by Tradex Enterprises Limited acquisition of London Capital Group Limited during the period ended 31 December 2005.

## 12. TANGIBLE FIXED ASSETS

Group	Leasehold Property	Plant & Machinery	Total
	£000	£000	£000
<b>COST</b>			
At 1 January 2006	-	336	336
Additions	339	1,204	1,543
<b>At 31 December 2006</b>	<b>339</b>	<b>1,540</b>	<b>1,879</b>
<b>DEPRECIATION</b>			
At 1 January 2006	-	60	60
Charge for the year	18	146	164
<b>At 31 December 2006</b>	<b>18</b>	<b>206</b>	<b>224</b>
<b>NET BOOK VALUE</b>			
<b>At 31 December 2006</b>	<b>321</b>	<b>1,334</b>	<b>1,655</b>
At 31 December 2005	-	276	276

## 13. INVESTMENTS

<b>Company</b>	<b>Group companies</b>
	<b>£000</b>
<b>COST</b>	
At 1 January 2006 and 31 December 2006	5,139
<b>NET BOOK VALUE</b>	
<b>At 31 December 2006</b>	<b>5,139</b>
At 31 December 2005	5,139

# Notes to the Financial Statements

Details of principal investments in which the company hold 100% of the nominal value of any class of share capital are as follows:

Name of Company	Principal Activity	Country of Incorporation
Tradex Enterprises Limited	Holding company	England and Wales
London Capital Group Limited	Spread betting	England and Wales
Elan Capital Partners Limited	Service Company	Gibraltar
Capital Spreads Limited	Dormant	England and Wales
Capital Forex Limited	Dormant	England and Wales
Capital Equities Limited	Dormant	England and Wales
Capital Global Derivatives Limited	Dormant	England and Wales
Capital Investment Management Limited	Dormant	England and Wales

## 14. DEBTORS

	Group		Company	
	2006	2005	2006	2005
	£000	£000	£000	£000
Trade debtors	1,741	891	-	-
Amounts owed by Group undertakings	-	-	11,150	11,150
Other debtors	127	98	1	1
Deferred tax (note 16)	43	-	162	-
Prepayments and accrued income	314	55	-	-
	<b>2,225</b>	<b>1,044</b>	<b>11,313</b>	<b>11,151</b>

## 15. CREDITORS: Amounts falling due within one year

	Group		Company	
	2006	2005	2006	2005
	£000	£000	£000	£000
Trade creditors	15,498	4,650	-	-
Amounts owed to Group undertakings	-	-	924	779
Taxes and social security	676	317	-	-
Accruals and deferred income	290	770	-	75
	<b>16,464</b>	<b>5,737</b>	<b>924</b>	<b>854</b>

# Notes to the Financial Statements

## 16. DEFERRED TAXATION

	Group		Company	
	2006	2005	2006	2005
	£000	£000	£000	£000
Provision brought forward	82	77	-	-
Increase / (decrease) in provision	(125)	5	162	-
Provision carried forward	(43)	82	162	-

## 17. SHARE OPTION RESERVE

### Equity-settled share-based payments

The Group has a share option scheme for all employees (including directors). Options are exercisable at a price equal to the average market price of the company's shares on the date of grant. The vesting period is usually 3 years. The exercise of a number of options are also dependent on certain executives meeting specific performance criteria. The options are settled in equity once exercised.

If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are normally forfeited if the employee resigns the Group before the options vest.

The weighted average exercise price (WAEP) of the share options outstanding during the year was 82.5 pence.

The share options outstanding at the end of the year have a weighted average remaining contractual life of 9.1 years (2005 - 10 years) and have the following exercise prices:

Expiry date	Exercise price	2006	2005
	pence	No.	No.
21 December 2015	82	1,323,076	1,323,076
13 March 2016	82	25,847	-
22 June 2016	82	1,148,780	-
20 September 2016	116.5	95,000	-
6 December 2016	142.0	40,000	-

In the year ended 31 December 2006, options were granted on the following dates: 14 March, 23 June, 21 September and 6 December. The estimated fair value of the options granted on those dates were £21,454, £953,547, £58,358 and £19,306 respectively. In the year ended 31 December 2005, options were granted on the following date: 22 December 2005. The estimated fair value of the options granted on this date was £296,000.

The Black-Scholes model has been adopted as the directors believe it provides a reasonable approximation to the fair values of the options concerned. The inputs into the model were as follows:

	2006	2005
Current share price	156.5p	83.5
Expected life	3 yrs	3 yrs
Expected volatility	31%	31%
Risk-free rate	4.75%	4.75%
Expected dividends	-	-

# Notes to the Financial Statements

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous year. The expected life used in the model has been adjusted, based on the management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Each tranche of share options was valued separately using the actual exercise price.

The Group recognised total expenses of £540,707 (2005: £Nil) related to equity-settled share-based payment transactions during the year.

## 18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Groups principle financial instruments, other than derivative transactions, comprise cash balances with brokers, clients and other debtors or creditors that arise through the normal course of business, other cash and short-term deposits. Derivative transactions with brokers are entered into in the normal course of business in order to hedge market exposures resulting from derivative transactions placed by clients.

The Board reviews and agrees policies for managing these risks and they are summarised below.

The Groups computerised trading system enables exposure to market risk to be monitored in real time and management take action to manage these exposures as limits are approached.

### Interest rate risk

Financial assets on which no interest is earned and financial liabilities on which no interest is paid comprise, predominantly, open positions with clients and brokers, and have been marked to market in accordance with the accounting policy set out in note 1. The majority of positions have an expiry date, but clients are able to close their positions with The Group at any time up to the expiry date. The directors therefore consider that a maturity analysis based on expiry date would not provide a meaningful representation as to the maturity of open positions and hence no maturity analysis is provided. The Group finances its operations through a mixture of retained profits and borrowings.

The floating interest rate exposure of the financial assets of the Group at 31 December 2006 was:

	At 31 December 2006	At 31 December 2005
	£000	£000
Sterling	12,915	4,579
Euro	2,040	756
US Dollar	3,120	1,016
Other currency	113	-
	18,188	6,351

Floating rate financial assets comprises bank balances at relevant bank rates; money market deposits at call rates. The table above includes client's money and deposits with brokers.

### Credit risk

The Group monitors credit risk closely and considers that its current policies of credit checks meets its objectives of managing exposure to credit risk.

The Group has no significant concentrations of credit risk. Amounts shown in the balance sheet best represent the maximum credit risk exposure in the event other parties fail to perform their obligations under financial instruments.

### Liquidity risk

The Group's policy is to maintain a mixture of short-term facilities to meet foreseeable requirements. As at 31 December 2006, the facilities covered amounts due to clients of £14.8 million (31 December 2005 £4.6 million).

# Notes to the Financial Statements

## Currency risk

The Group trades in major currencies as principal with its clients. Limits on the exposures which the Group will accept are set by the board, and the Group hedges its exposure as necessary with market counterparties. The table below shows the Group transactional currency exposures at 31 December 2006 that gives rise to net currency gains and losses in the profit and loss account. Such exposures comprise the monetary assets and liabilities of the Group that are not denominated in the functional currency.

	At 31 December 2006	At 31 December 2005
	Sterling	Sterling
	£000	£000
<b>Net monetary assets and liabilities</b>		
Functional currency:		
Euros	2,040	756
USD	3,120	1,015
Other currency	113	-

## Fair values of financial assets and liabilities

The fair values of the Group's financial assets and liabilities are as follows:

	At 31 December 2005	
	Book value	Fair value
	£000	£000
<b>Primary financial instruments held or issued to finance the Group operations</b>		
Financial assets	6,351	6,351
Amounts due to clients	4,600	4,600

	At 31 December 2006	
	Book value	Fair value
	£000	£000
<b>Primary financial instruments held or issued to finance the Group operations</b>		
Financial assets	18,188	18,188
Amounts due to clients	14,800	14,800

## Hedging activities

Although the Group business is increasingly a two-way market, there is often a net customer position in many of the quoted contracts. When these net positions reach a pre-determined level, such that the Group consider the risk to be above set parameters the Group will then hedge its exposure in the market.

Every market quoted by the spread betting division of the company has its individual limits. The Group systems allow it to continually monitor its exposure against these limits. The Group also operates risk parameters such that, for example, if in any one day the Group reaches its loss limit, its dealers will then hedge all client positions for the remainder of that day. All these permissible limits are liable to variation as and when the Directors consider that the financial position of the Group justifies the increased risk. Changes to the hedging policy require the approval of the chief operating officer and the chief executive.

# Notes to the Financial Statements

## 19. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2006 the Group had annual commitments under non-cancellable operating leases as set out below.

Group	Land and buildings	
	2006	2005
	£000	£000
Operating leases which expire:		
Within 2 to 5 years	108	150

## 20. RELATED PARTY TRANSACTIONS

No transactions with related parties were undertaken such as are required to be disclosed under Financial Reporting Standard 8.

## 21. SHARE CAPITAL

### Authorised share capital:

	2006	2005
	£000	£000
55,000,000 Ordinary shares of £0.10 each	5,500	5,500

### Allotted, called up and fully paid:

	2006		2005	
	No	£000	No	£000
Ordinary shares of £0.10 each	38,292,683	3,829	38,292,683	3,829

### Equity shares

Ordinary shares of £0.10 each	38,292,683	3,829	38,292,683	3,829
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# Notes to the Financial Statements

## 22. RESERVES

Group	Share premium account	Share option reserve	Merger reserve balance	Profit and loss account
	£000	£000	£000	£000
Balance brought forward	11,607	-	(5,344)	304
Retained profit for the year	-	-	-	2,404
Other movements - transfer to other reserves	-	-	-	-
Recognition of equity-settled share-based payments in the year	-	541	-	-
Movement on merger reserve	-	-	-	-
Balance carried forward	11,607	541	(5,344)	2,708

Company	Share premium account	Profit and loss account	Share option reserve	Total
	£000	£000	£000	£000
Balance brought forward	11,607	-	-	11,607
Recognition of equity-settled share-based payments in the year	-	-	541	541
Profit and loss movement for the year	-	(449)	-	(449)
Balance carried forward	11,607	(449)	541	11,699

## 23. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2006	2005
	£000	£000
Profit for the financial year	2,404	304
New equity share capital subscribed	-	3,829
Premium on new share capital subscribed	-	11,607
Movement on merger reserve	-	(5,344)
Recognition of equity-settled share-based payments in the year	541	-
Net addition to shareholders' funds	2,945	10,396
Opening shareholders' funds	10,396	-
Closing shareholders' funds	13,341	10,396

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of London Capital Group Holdings plc will be held at 4th Floor, 12 Appold Street, London EC2A 2AW on Thursday 19 April 2007 at 11 am for the following purposes:

1. To receive the report of the directors and the audited financial statements for the period ended 31 December 2006.
2. To declare a dividend.
3. To re-appoint Raj Gandhi as a director of the company
4. To re-appoint Jack Inglis as a director of the company
5. To re-appoint Frank Chapman as a director of the company
6. To re-appoint Hurst Morrison Thomson LLP as the company's auditors and to authorise the directors to determine their remuneration.

#### Special Business

7. To consider and, if thought fit, to pass the following resolution which will be proposed as an Ordinary Resolution:

THAT the directors of the company be and are hereby generally and unconditionally authorised, pursuant to and in accordance with Section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the company to allot relevant securities (within the meaning of section 80(2) of the Act) up to an aggregate amount of £1,670,317, provided that this authority shall expire (unless previously renewed, varied or revoked by the company in general meeting) on the earlier of 15 months after the date of the passing of this resolution or at the conclusion of the company's next Annual General Meeting following the passing of this resolution but the company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors of the company may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred hereby had not expired and provided further that the authority hereby conferred shall be in substitution for, and to the exclusion of, the existing authority conferred upon the directors on 25 May 2006 to the extent unused.

8. To consider and, if thought fit, to pass the following resolution which will be proposed as a Special Resolution:

THAT the directors of the company be and hereby are empowered pursuant to section 95 of the Companies Act 1985 ("the Act") to allot equity securities (within the meaning of section 94 of the Act) for cash and/or to sell or transfer shares held by the company in treasury (as the directors shall deem appropriate) pursuant to the authority conferred on them under section 80 of the Act by Resolution 8 above as if section 89(1) of the Act did not apply under any such allotment provided that this power shall be limited:

(a) to the allotment of equity securities in connection with any rights issue or other pro-rata offer in favour of the holders of ordinary shares of 10p each in the company where the equity securities respectively attributable to the interests of all such holders of shares are proportionate (as nearly as may be) to the respective numbers of shares held by them, provided that the directors of the company may make such arrangements in respect of overseas holders of shares as they consider necessary or convenient; and

(b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities and/or the sale or transfer of shares held by the company in treasury (as the directors shall deem appropriate) up to an aggregate nominal amount of £191,463.

and this authority shall expire at the conclusion of the company's next Annual General Meeting or 15 months after the date of the passing of this resolution, whichever first occurs provided that the company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and the directors of the company may allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired and provided further that the authority hereby conferred shall be in substitution for, and to the exclusion of, the existing authority conferred on the directors on 25 May 2006 to the extent unused.

**By order of the Board**  
**Peter Dawes**  
**Secretary**

4th Floor, 12 Appold Street, London EC2A 2AW

26 March 2007

#### Notes:

1. A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the company. A form of proxy is attached and its acceptance is subject to the conditions printed thereon; the form, together with the power of attorney or other authority (if any) under which it is signed or a duly certified copy of such authority) must be lodged at the office of the company's registrars not less than 48 hours before the time appointed for the holding of the meeting.
2. Under Regulation 41 of the Uncertified Securities Regulations 2001, only shareholders included in the register of members of the company at 11 am on 17 April 2007 (or, in the event of an adjournment, 11 am on the date which is 48 hours before the time of the adjourned meeting) are entitled to attend or vote at the meeting in respect of the shares registered in their names at that time. Changes to entries on the register after the relevant deadline shall be disregarded in determining the rights of any person to attend or vote at the meeting (or adjourned meeting).
3. The following documents will be available for inspection at the company's registered office during normal business hours on any weekday (Saturdays and Sundays excluded) from the date of this Notice until the date of the meeting and at the place of the meeting from 10.45 am on 19 April until its conclusion: (a) the register of directors' interests in the capital of the company, (b) copies of the directors' contracts of service.

# Proxy Form

I/We, being (a) holder(s) of ordinary shares in London Capital Group Holdings plc hereby appoint the Chairman of the meeting (or) \_\_\_\_\_ of \_\_\_\_\_ as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on Thursday 19 April 2007 and at any adjournment thereof and in particular, in respect of the undermentioned resolutions referred to in the Notice of the Annual General Meeting dated 26 March 2007, to vote:

Resolution	For	Against
<b>ORDINARY BUSINESS</b>		
1 Receive the report and accounts		
2 Declare a dividend		
3 Re-appoint Raj Gandhi as a director		
4 Re-appoint Jack Inglis as a director		
5 Re-appoint Francis Chapman as a director		
6 Auditors' appointment and remuneration		
<b>SPECIAL BUSINESS</b>		
7 Authority to allot relevant securities pursuant to section 80 Companies Act 1985		
8 Disapplication of section 89(1) Companies Act 1985		

**FULL NAMES** (in block letters) \_\_\_\_\_

**ADDRESS** \_\_\_\_\_

**POSTCODE** \_\_\_\_\_

**SIGNATURE** \_\_\_\_\_ **DATE** \_\_\_\_\_

**NOTES:**

1. A proxy need not be a member of the company.
2. Please indicate with an 'X' in the appropriate boxes above how you wish your votes to be cast. Unless otherwise instructed the proxy may vote or abstain from voting as he thinks fit.
3. To be valid this proxy form must be deposited with or despatched to Capita Registrars (Proxies), Proxy Processing Centre, Telford Road, Bicester OX26 4LD, so as to be received by them not less than 48 hours before the time fixed for the meeting.
4. The proxy form must be signed by the member or the member's attorney duly authorised in writing or, if the member is a corporation, it must be either under its common seal or signed on its behalf by an attorney or officer duly authorized whose capacity should be stated.
5. In the case of joint members the vote of the senior joint member who signs a proxy form will be accepted to the exclusion of others, seniority being determined by the order of names in the register.
6. If you wish to appoint someone other than the Chairman as your proxy, delete "the Chairman of the meeting (or)" and insert the name and address of your proxy in the spaces provided.
7. Completion and return of the proxy form will not preclude you from attending and voting in person at the meeting should you subsequently decide to do so.
8. Any alteration made to this proxy form should be initialled.



BUSINESS REPLY SERVICE  
Licence No. RRHB-RSXJ-GKCY

SECOND FOLD



Capita Registrars (PROXIES)  
The Proxy Processing Centre  
Telford Road  
Bicester  
OX26 4LD

FIRST FOLD

THIRD FOLD AND TUCK IN

# Officers and Advisors

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EC2A 2AW  
United Kingdom

Tel: +44(0)20 7665 9400  
www.londoncapitalgroup.co.uk

## Registered Number

5497744

## Adviser and Broker

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London  
EC2R 7AS

## Solicitors to the Company

Pitmans  
47 Castle Street  
Reading  
RG1 7SR

## Auditors

Hurst Morrison Thomson LLP  
5 Fairmile  
Henley-on-Thames  
Oxfordshire  
RG9 2JR

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For more information about London Capital Group Holdings plc, please visit [www.londoncapitalgroup.co.uk](http://www.londoncapitalgroup.co.uk)  
Registered address: 4th floor, 12 Appold Street, London EC2A 2AW

