

LONDON CAPITAL GROUP HOLDINGS PLC ANNUAL REPORT 2005



Highlights

Group turnover up 85% to £4.86 million (2004: £2.62 million)

Operating profit before exceptional items £1.86 million (2004: loss £0.06 million)

Daily spread betting trades during the year up 141%

Number of financial spread betting client accounts increased 128% to 4,319 in 2005 (2004: 1,895)

Launch of binary bets in January 2006

Admitted to AIM raising £15 million (before expenses) by a placing on 22 December 2005

Contents

- 2. About Us**
- 3. Chairman’s Statement**
- 4. Chief Executive’s Statement**
- 6. Board of Directors**
- 7. Directors’ Report**
- 11. Corporate Governance Statement**
- 12. Statement of Directors’ Responsibilities**
- 13. Report of the Independent Auditors**
- 14. Report and Accounts**
 - 14. Group Profit and Loss Account
 - 15. Group Balance Sheet
 - 16. Company Balance Sheet
 - 17. Group Cash Flow Statement
 - 18. Net Cash Flow Statement
 - 19. Notes to the Financial Statements
- 30. Notice of Annual General Meeting**
- 31. Proxy Form**
- 33. Officers and Advisors**

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 services. Its core activity is the provision of spread betting products on the financial markets to retail clients under the trading name Capital Spreads (capitalspreads.com).

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 also a high priority, and LCG continues to offer customers a high quality of 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 European markets. LCG also has access to international markets through its global clearing relationships.

LCG also provides online foreign exchange trading services to institutional clients and retail brokers under the brand Capital Forex and institutional derivatives broking under the name Capital Derivatives.

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 during 2003 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 July 2005, LCG launched its own foreign exchange ("FX") trading platform, Capital Forex and in October 2005, the Company also entered into introducing broker ("IB") arrangements with Currenex and HotSpot FX to market FX products to institutional clients. This unit trades under the name of Capital Forex Pro.

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.

Capital Spreads Sport is a division of London Capital Group working in conjunction with Sporting Index Ltd.

Binary Bets

In January 2006, a binary betting product was launched on the Capital Spreads website. Binary betting offers an unregulated, dynamic alternative to conventional spread betting. Binary betting offers 100% limited risk so customers are always aware of the maximum possible loss. It also offers exciting trading opportunities on a wide range of markets, plus customers can trade in and out at any time.

Forex

Capital Forex offers experienced retail customers access to a first rate Forex trading platform developed using our extensive knowledge of finance and risk. The platform provides customers with access to a wide range of Forex products 24 hours a day, using some of the latest and most powerful online trading technology available.

Forex Pro

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



Chairman's Statement

ROBERT LOOSEMORE

Introduction

I am pleased to present the Group's maiden preliminary results following its admission to AIM in December last year and my first report as Chairman of LCG. The year to 31 December 2005 has been both eventful and successful.

The admission to AIM was completed on 22 December 2005 at an issue price of 82p, raising £15 million before expenses, giving a free float of approximately 48% of the shares in issue. The Board believes that the admission to AIM, coupled with the restructuring of the balance sheet with funds raised on flotation, will allow LCG to take full advantage of the exciting growth opportunities within our target markets.

Results

The Group achieved an operating profit before exceptional items of £1.9 million (2004: loss £0.06 million) on turnover of £4.9 million (2004: £2.6 million). We experienced particularly strong growth from our spread betting business, Capital Spreads, in the last 6 months of the year, with revenue 127% higher than in 2004.

The average number of spread bets taken per day has increased by 141% year on year (2004: 830, 2005: 1,997) and the number of new live spread betting clients has increased by 128%. Customer cash held on account, reflecting the increased number of live accounts, has risen by 174% from £1.2 million to £3.3 million in the spread betting division and from zero to £1.6 million in the forex division.

Whilst the Group's principal trading division, Capital Spreads, has been the main contributor to this strong performance, I am pleased to report that both the derivatives division, Capital Derivatives, and the foreign exchange ("forex") products, Capital Forex and Capital Forex Pro, also had a good year. The forex division, launched in July 2005, is already breaking even on a monthly basis.

Dividend

As indicated in the AIM admission document, the Directors do not intend to recommend a dividend for the year just ended. In future, however, we intend to adopt a progressive dividend policy in line with the earnings and cash flow potential of the Group. We therefore anticipate the payment of a dividend in respect of the current year ending 31 December 2006.

Board

The Board has three Executive Directors - Frank Chapman (Chief Executive Officer), Simon Denham (Chief Operating Officer) and Rachel Woodford (Sales and Marketing Director) - each of whom has a proven track record in developing and commercialising products in the financial services market.

My fellow non-executive Director, Geoffrey Forster and I have good experience, respectively, of the financial services and



software industries and we believe, therefore, that we have a well balanced Board. We indicated at the time of our flotation that we intended to appoint a finance director during the first half of 2006 and I can confirm that we still expect to be able to announce an appointment in that timescale.

Geoffrey Forster and I are the sole members of both the audit and the remuneration committees, with the former being chaired by Geoffrey and the latter by myself.

Employees

On behalf of the Board, I would like to thank all our employees for their enormous contribution, hard work and support during the past year. Our people are our most valuable asset and in recognition of this, we have set up a share option scheme giving them the opportunity to share in the Company's future value. My thanks also go to my fellow Board members and senior management for all their efforts.

Current Trading and Outlook

All of our business areas have started the year well with the new client acquisitions achieved by Capital Spreads being particularly pleasing. Capital Derivatives has also secured a number of new institutional clients with several more in the pipeline, which places it in a good position for the current year. As stated above, the foreign exchange division, Capital Forex and Capital Forex Pro, are now breaking even and we have high hopes that these and our new binary bets business, launched in January, will contribute in 2006.

Robert Loosemore
Chairman

Chief Executive's Statement

FRANK CHAPMAN

Introduction

2005 was a very exciting year for both the Group and its employees. We have delivered a strong maiden set of results following a successful flotation on AIM.

Financial Review

The turnover from our continuing business rose by 85% from £2.6 million in 2004, to £4.9 million in 2005. This reflects the increased number of spread betting accounts and trades, which averaged 128,800 trades per quarter during the year (2004: 53,500 trades per quarter), a like for like increase of 140%. As a result, operating profit before exceptional items increased, from a loss of £0.06 million in 2004 to a profit of £1.9 million in 2005, although this improvement was also in part due to the closure of a loss making business in 2004.

We are able to maintain a low cost operation by comparison with other companies in our sector because we have adopted an outsourcing model, whereby we sub-contract the specialist services to specialist providers. Included in the administration costs, was a spend of £250,000 on IT infrastructure, up 98% on the previous year.

Profit before tax increased from £155,000 to £503,000. Earnings per share, adjusted for balance sheet restructuring, increased to 3.3p per share.

The Company had no debt at the year end and had cash resources of £1.67 million.

These results have been reported under UK GAAP but we have now adopted international accounting standards and future results will therefore be reported under IFRS.

Operating Review

Capital Spreads

Capital Spreads, our financial spread betting business, has enjoyed exceptional growth during the year with the number of live accounts having grown from approximately 1,800 in 2004 to over 4,300 in 2005 and trading volumes also up from 17,600 trades in December 2004 to over 63,300 in December 2005.

A key driver to our increasing volumes is our white label model, which generates good revenue from clients who would otherwise be inaccessible to us. We are actively seeking additional white label partners and have a number of discussions ongoing.

Whilst our marketing activity and our reputation play a significant part in the building of our client base, over 50% of our clients join us via recommendation. Therefore, it is essential that we provide a unique offering and integral to this is the maintenance of some of the tightest spreads in the market.



Currently, 73% of our clients have funds on account and approximately 30% have traded within the last month, with over 99% of transactions being executed online.

Binary Bets

Binary betting is a hybrid of spread and fixed odds betting. In January this year, we launched binary bets on to our Capital Spreads platform and we are already seeing profitable results.

Capital Forex and Capital Forex Pro

Our foreign exchange trading platform, Capital Forex, provides the retail market with the ability to trade currencies whilst Capital Forex Pro provides professional traders with access to Currenex and Hotspot FX, two major on-line foreign exchange trading platforms.

We are pleased to report that we have secured two white label partnerships and now have a number of institutional clients. We expect a measurable contribution from this division in 2006.

Capital Derivatives

Capital Derivatives provides execution services for exchange traded futures and options in fixed income products for institutional clients. Capital Derivatives has had a satisfactory year in which its position was consolidated by the winning of a number of new clients. We have continued to gain new institutional clients in 2006 and we expect to see further growth from this division during the course of the year.

cont...

Board of Directors

Executive Directors



Francis (Frank) Chapman
Chief Executive Officer (Age 55)

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 and Amerex Futures. Throughout Frank's career, he has been principally involved in the futures, options and swaps markets in both sales and trading.



Simon Denham
Chief Operating Officer (Age 44)

Simon designed, commissioned and runs the spread betting unit of LCG. Simon 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 36)

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, and she worked as Customer Relationship Manager at City Index. Rachel read Humanities at Greenwich University and holds a Masters degree in Marketing from Guildhall University, London.

Non-Executive Directors



Robert Loosemore
Non-executive Chairman (Age 40)

Robert Loosemore was executive Chairman of Torex Retail plc, a business he brought to, and successfully floated on, AIM in February 2004. Previously he was an executive director of Torex PLC for 5 years until 2000. Robert has 10 years plc experience in senior management and M&A roles with a proven track record of developing fast growing public companies.



Geoffrey Forster
Non-executive Director (Age 64)

Until his retirement in 2001, Geoffrey Forster headed Lloyds TSB Bank plc Corporate Division for Oxfordshire, dealing with companies both within and beyond the county and specialising in technology companies. He is currently non-executive Chairman of Premier Research Group plc and sits on the board of one other listed public company.

Directors' Report

The directors present their annual report and the audited financial statements for the period ended 31 December 2005. The Group traded throughout the twelve month period to 31 December 2005, however, London Capital Group Holdings Ltd only came into existence in December 2005. The reported results reflect Group trading for the full twelve month period.

The Business and its Management

Principal Activities and Business Review

London Capital Group 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 whilst 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's Statement and in the Chief Executive'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.

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 Donations

During the year, the Group has not made any political donations. Charitable donations totalling £5,000 have been made to the following charities: Cancer Research, NSPCC, LAM Action, RNLI and Oxfam.

Statutory and other Compliance

Change of Name

The Company was incorporated on 4 July 2005 with the name of Pitcomp 368 Limited and on 14 December 2005 was re-registered as a public limited company with the name of London Capital Group Holdings plc.

Dividend

The Group profit for the year after tax amounted to £304,000.

The directors are not recommending payment of any dividend on the ordinary shares.

Directors' Report continued

Substantial Interests in Shares

At 22 February 2006, the Company is aware of the following substantial holdings in its issued share capital:

| | Number of Shares | % of Total |
|--------------------------------|------------------|------------|
| Simon Denham | 8,140,000 | 21.26 |
| Francis Chapman | 7,040,000 | 18.38 |
| Rachel Brownlow (née Woodford) | 4,820,000 | 12.59 |
| Chase Nominees Limited | 3,310,000 | 8.17 |

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 will 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.

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 2005. Resolutions covering the above matters appear as Items 8 and 9 in the Notice convening the Annual General Meeting on page 30.

Auditors

During the period Hurst Morrison Thomson LLP were appointed to fill a casual vacancy. 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 6.

In accordance with article 84 of the Company's Articles of Association, all the directors retire and, being eligible, offer themselves for re-election. Each executive director standing for re-election has a service contract which is terminable by the Company on not less than 6 months' notice.

Directors' Report continued

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 have each been appointed for a fixed term of 12 months from 15 December 2005: this is 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 |
|-------------------------|-------------------------------|-----------------------|
| Francis Chapman | 15 December 2005 | 6 months |
| Simon Denham | 15 December 2005 | 6 months |
| Rachel Woodford | 15 December 2005 | 6 months |
| Non-Executive Directors | Date of letter of appointment | Period of appointment |
| Robert Loosemore | 15 December 2005 | 12 months |
| Geoffrey Forster | 15 December 2005 | 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.

Directors' Interests in Shares

| Ordinary shares | At 4 July 2005 ¹ | | At 31 December 2005 ² | |
|------------------|-----------------------------|----------------|----------------------------------|----------------|
| | Beneficial | Non-beneficial | Beneficial | Non-beneficial |
| Francis Chapman | 1* | -* | 7,040,000 | - |
| Simon Denham | -* | -* | 8,140,000 | - |
| Geoffrey Forster | -* | -* | 6,097 | - |
| Robert Loosemore | -* | -* | 121,951 | - |
| Rachel Woodford | -* | -* | 4,820,000 | - |

¹ - ordinary shares of £1 each

² - ordinary shares of 10p each

* - at date of appointment

On 14 December 2005 before the subdivision of the Company's shares, Francis Chapman, Simon Denham and Rachel Woodford sold their combined holding of 1,000 ordinary shares of £1 each in Tradex Enterprises Limited to the Company in consideration for the allotment of an aggregate of 1,999,000 ordinary shares of £1 each in the Company. Subject to that, during the year none of the directors had an interest in the share capital of any of the Company's subsidiaries. There have been no changes in the above holdings between 31 December 2005 and 22 February 2006.

Share options

On 21 December 2005, Robert Loosemore was granted options over 191,464 ordinary shares of 10p each at a subscription price of 10p each. These options are normally exercisable between 20 December 2008 and 20 December 2015.

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.

Directors' Report continued

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 Francis Chapman and Rachel Woodford only)

Directors' Emoluments

Summary remuneration table

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

| | Salary & fees | Benefits | Annual Bonus | Other | Total |
|----------------------|----------------|--------------|----------------|--------------|----------------|
| Year to 31 December | 2005 £000 | 2005 £000 | 2005 £000 | 2005 £000 | 2005 £000 |
| Executive | | | | | |
| Francis Chapman | 74,112 | 2,029 | 60,000 | - | 136,141 |
| Simon Denham | 74,112 | 530 | 127,890 | - | 202,532 |
| Rachel Woodford+ | 35,000 | 652 | 75,846 | - | 111,498 |
| Subtotal | 183,224 | 3,211 | 263,736 | - | 450,171 |
| Non executive | | | | | |
| Robert Loosemore* | 1,630 | - | - | - | 1,630 |
| Geoffrey Forster* | 1,164 | - | - | - | 1,164 |
| Subtotal | 2,794 | - | - | - | 2,794 |
| TOTAL | 186,018 | 3,211 | 263,736 | - | 452,965 |

+ period from 1 July 2005

* period from 15 December 2005

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

The highest paid director was Simon Denham.

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.

Pension Benefits

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

By order of the board
Peter Dawes
Secretary

22 February 2006

Corporate Governance Statement

The directors intend 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 nine Board meetings spread realistically throughout this first year, the Board is well able to exercise control over the activities of the Group. There is a clear distinction 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: this schedule will be reviewed by the Board at least annually.

Geoffrey Forster has been designated senior independent director. The company maintains appropriate directors' and officers' liability insurance. All directors have access to the advice and services of the Company secretary.

As a result of its present structure, size and recent flotation, the Company currently has relatively little ongoing dialogue with its major institutional shareholders. However, as the Group develops and grows, it is the directors' intention to adopt a 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.

The Audit Committee comprises Geoffrey Forster (Chairman) and Robert Loosemore. The executive directors and representatives of the external auditors attend meetings by invitation as required. The Committee meets at least three times each year and 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.

The Remuneration Committee comprises Robert Loosemore (Chairman) and Geoffrey Forster and meets at least twice each year. 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 Chairman of each 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.

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.

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 period ended 31 December 2005 on pages 14-29 which have been prepared on the basis of the accounting policies set out on pages 19.

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 Group's and the Company's affairs as at 31 December 2005 and of the Group profit for the period then ended; and the financial statements have been properly prepared in accordance with the Companies Act 1985.

Hurst Morrison Thomson LLP
Chartered Accountants & Registered Auditor

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

22 February 2006

Group Profit and Loss Account

Group Profit and Loss Account

For the period ending 31 December 2005

| | Note | 2005 £000 |
|--|------|----------------|
| GROUP TURNOVER | 2 | 4,861 |
| Cost of sales | | 1,085 |
| GROSS PROFIT | | 3,776 |
| Administrative expenses | | 2,173 |
| OPERATING PROFIT | 3 | 1,603 |
| Interest receivable | | 21 |
| Interest payable and similar charges | 6 | (1,121) |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | 503 |
| Tax on profit on ordinary activities | 7 | 199 |
| RETAINED PROFIT FOR THE FINANCIAL PERIOD | | 304 |
| Earnings per share | | pence |
| Basic | 10 | 16.1 |
| Diluted | 10 | 15.5 |
| Adjusted | 10 | 3.30 |

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 period 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 2005

| | Note | 2005 £000 |
|---|------|--------------|
| FIXED ASSETS | | |
| Intangible assets | 11 | 9,303 |
| Tangible assets | 12 | 276 |
| | | 9,579 |
| CURRENT ASSETS | | |
| Debtors | 14 | 1,044 |
| Cash at bank | | 5,592 |
| | | 6,636 |
| CREDITORS: Amounts falling due within one year | 15 | 5,737 |
| NET CURRENT ASSETS | | 899 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 10,478 |
| PROVISIONS FOR LIABILITIES | | |
| Deferred taxation | 16 | 82 |
| | | 10,396 |
| CAPITAL AND RESERVES | | |
| Called-up equity share capital | 20 | 3,829 |
| Share premium account | 21 | 11,607 |
| Other reserves | 21 | (5,344) |
| Profit and loss account | 21 | 304 |
| SHAREHOLDERS' FUNDS | 22 | 10,396 |

These financial statements were approved by the directors on the 22 February 2006 and are signed on their behalf by:



Frank Chapman
Director

Company Balance Sheet

Company Balance Sheet

As at 31 December 2005

| | Note | 2005 £000 |
|---|------|--------------|
| FIXED ASSETS | | |
| Investments | 13 | 5,139 |
| CURRENT ASSETS | | |
| Debtors | 14 | 11,151 |
| CREDITORS: Amounts falling due within one year | 15 | 854 |
| NET CURRENT ASSETS | | 10,297 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 15,436 |
| CAPITAL AND RESERVES | | |
| Called-up equity share capital | 20 | 3,829 |
| Share premium account | 21 | 11,607 |
| SHAREHOLDERS' FUNDS | | 15,436 |

These financial statements were approved by the directors on the 22 February 2006 and are signed on their behalf by:



Frank Chapman
Director

Group Cash Flow Statement

Group Cash Flow Statement

For the period ended 31 December 2005

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

Net Cash Flow Statement

RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | 2005 |
|--|--------------|
| | £000 |
| Operating profit | 1,603 |
| Depreciation | 56 |
| Decrease in debtors | 38 |
| Increase in creditors | 3,930 |
| Net cash inflow from operating activities | 5,627 |

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

| | 2005 |
|--------------------------------------|--------------|
| | £000 |
| Increase in cash in the period | 3,962 |
| Movement in net funds in the period | 3,962 |
| Net funds at 1 January 2005 | 1,630 |
| Net funds at 31 December 2005 | 5,592 |

ANALYSIS OF CHANGES IN NET FUNDS

| | At 1 Jan 2005 | Cash flows | At 31 Dec 2005 |
|--------------------------|---------------|--------------|----------------|
| | £000 | £000 | £000 |
| Net cash: | | | |
| Cash in hand and at bank | 1,630 | 3,962 | 5,592 |
| Net funds | 1,630 | 3,962 | 5,592 |

Notes to the Financial Statements

1. ACCOUNTING POLICIES

Basis of Accounting

The consolidated financial information has been prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of Consolidation

The results for the period ended 31 December 2005 comprise the consolidated results of London Capital Group Holdings plc and its subsidiaries. The Company adopted the merger method of accounting for consolidation. This basis assumes that London Capital Group Holdings plc owned London Capital Group Limited for the whole year.

Comparative figures have not been provided as London Capital Group Holdings plc came into existence in December 2005. Merger accounting has been adopted for technical reasons and the directors feel this gives a true and fair view.

Goodwill

Positive purchased goodwill arising on acquisitions is capitalised and classified as an asset on the Balance Sheet. Goodwill is not amortised but is reviewed at the end of each accounting period for impairment.

Tangible Fixed Assets and Depreciation

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

Furniture and equipment - 33% on cost

Deferred Taxation

Deferred tax is recognised on all timing differences where 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.

Foreign Currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. All exchange differences are taken to the profit and loss account.

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.

Research and Development

Research and development costs are fully written off in the year in which they are incurred.

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.

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:

| | 2005 |
|-----------------------------|-------|
| | £000 |
| Spread betting income | 4,242 |
| Brokerage income | 1,066 |
| Turnover - continuing | 5,308 |
| Turnover - discontinued | - |
| Gross Group turnover | 5,308 |
| Hedging and brokerage costs | (447) |
| Net Group turnover | 4,861 |

3. OPERATING PROFIT

Operating profit is stated after charging/(crediting):

| | 2005 |
|--|------|
| | £000 |
| Depreciation of owned fixed assets | 56 |
| Auditor's remuneration - as auditor | 20 |
| - other services | 134 |
| Operating lease costs: | |
| Land and buildings | 150 |
| Net profit on foreign currency translation | (3) |
| Exceptional items (see below) | 262 |

Exceptional items

| | 2005 |
|----------------------------|-------|
| | £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 period amounted to:

| | 2005 |
|--------------------------------|------|
| | No |
| Number of administrative staff | 17 |

The aggregate payroll costs of the above were:

| | 2005 |
|-----------------------|------|
| | £000 |
| Wages and salaries | 816 |
| Social security costs | 94 |
| | 910 |

5. DIRECTORS' EMOLUMENTS

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

| | 2005 |
|-----------------------|------|
| | £000 |
| Emoluments receivable | 453 |

Emoluments of highest paid director:

| | 2005 |
|--|------|
| | £000 |
| Total emoluments (excluding pension contributions) | 203 |

6. INTEREST PAYABLE AND SIMILAR CHARGES

| | 2005 |
|-------------------------------|-------|
| | £000 |
| Other similar charges payable | 1,121 |

Notes to the Financial Statements

7. TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of charge in the period

| | 2005 |
|---|------|
| | £000 |
| Current tax: | |
| In respect of the period: | |
| UK Corporation tax based on the results for the period at 30% | 194 |
| Deferred tax: | |
| Origination and reversal of timing differences | 5 |
| Tax on profit on ordinary activities | 199 |

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the period is higher than the standard rate of corporation tax in the UK of 30%.

| | 2005 |
|---|------|
| | £000 |
| Profit on ordinary activities before taxation | 503 |
| Profit/(loss) on ordinary activities by rate of tax | 151 |
| Movement in short term timing differences | 26 |
| Depreciation in excess of capital allowances | (3) |
| Utilisation of losses b/fwd | (23) |
| Other disallowable expenses | 43 |
| Total current tax (note 7(a)) | 194 |

8. DIVIDENDS

No dividend has been recommended for the period ended 31 December 2005.

9. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The profit dealt with in the accounts of the parent company was £Nil.

Notes to the Financial Statements

10. EARNINGS PER SHARE

| | |
|---|------------|
| Basic EPS | 2005 |
| | £000 |
| Profit after tax | 304,000 |
| Weighted average number of shares | 1,888,411 |
| Weighted average basic EPS | 16.1p |
| Diluted EPS | 2005 |
| | £000 |
| Profit after tax | 304,000 |
| Weighted average number of shares | 1,955,979 |
| Weighted average basic EPS | 15.5p |
| Adjusted EPS | 2005 |
| | £000 |
| Profit after tax | 304,000 |
| Add; | |
| Exceptional items | 262,000 |
| Interest payable | 1,121,000 |
| Tax effect on the above adjustments | (415,000) |
| Adjusted profit after tax | 1,272,000 |
| Issued number of shares at the period end | 38,292,683 |
| Adjusted EPS | 3.3p |

The adjusted EPS has been calculated to show the effect of 2005 earnings adjusted for non-recurring expenditure and using the number of shares in issue at the end of the year, as this will be comparable with future years.

11. INTANGIBLE FIXED ASSETS

| | |
|--|--------------|
| Group | £000 |
| COST | |
| Additions | 9,303 |
| At 31 December 2005 | 9,303 |
| AMORTISATION - at 1 January 2005 and 31 December 2005 | - |
| NET BOOK VALUE - at 31 December 2005 | 9,303 |

In May 2005 the purchased goodwill arose as a result of Tradex Enterprises acquiring 90% of the share capital of London Capital Group Limited and 100% of the share capital of Elan Capital Partners Limited.

Notes to the Financial Statements

12. TANGIBLE FIXED ASSETS

| Group | Furniture and equipment |
|----------------------------|--------------------------------|
| | £000 |
| COST | |
| At 1 January 2005 | 204 |
| Additions | 132 |
| At 31 December 2005 | 336 |
| DEPRECIATION | |
| At 1 January 2005 | 4 |
| Charge for the period | 56 |
| At 31 December 2005 | 60 |
| NET BOOK VALUE | |
| At 31 December 2005 | 276 |

13. INVESTMENTS

| Company | Group companies |
|----------------------------|------------------------|
| | £000 |
| COST | |
| Additions | 5,139 |
| At 31 December 2005 | 5,139 |
| NET BOOK VALUE | |
| At 31 December 2005 | 5,139 |

On the 14 December 2005 London Capital Group Holdings plc acquired the remaining 10% of share capital of London Capital Group Limited for £3,139,000. On the same day London Capital Group Holdings plc acquired the share capital of Tradex Enterprises Limited for £2,000,000 in consideration for this transfer the directors received shares in London Capital Group Holdings plc.

Notes to the Financial Statements

Details of the principal investments in which the Company holds 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 | Dormant | Gibraltar |
| Capital Spreads Limited | Dormant | England and Wales |
| Capital Forex Limited | Dormant | England and Wales |

14. DEBTORS

| | Group | Company |
|------------------------------------|--------------|---------------|
| | £000 | £000 |
| Trade debtors | 891 | - |
| Amounts owed by group undertakings | - | 11,150 |
| Other debtors | 98 | 1 |
| Prepayments and accrued income | 55 | - |
| | 1,044 | 11,151 |

15. CREDITORS: Amounts falling due within one year

| | Group | Company |
|------------------------------------|--------------|------------|
| | £000 | £000 |
| Trade creditors | 4,650 | - |
| Amounts owed to Group undertakings | - | 779 |
| Other creditors | 317 | - |
| Accruals and deferred income | 770 | 75 |
| | 5,737 | 854 |

Included in trade creditors is the amounts due to clients of £4,600,000.

16. DEFERRED TAXATION

The movement in the deferred taxation provision during the period was:

| | Group | Company |
|---------------------------|-----------|----------|
| | £000 | £000 |
| Provision brought forward | 77 | - |
| Provision for period | 5 | - |
| Provision carried forward | 82 | - |

Notes to the Financial Statements

17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal 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 with banks. Derivative transactions with brokers are entered into in the normal course of business in order to hedge market exposures resulting from transactions placed by clients.

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

The Group's 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 and clients are able to close their positions with the Group at any time up to the expiry date. The directors 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 bank facilities.

The floating interest rate exposure of the financial assets of the Group at 31 December 2005 was:

| | At 31 December 2005 |
|-----------|---------------------|
| | £000 |
| Sterling | 4,579 |
| Euro | 756 |
| US Dollar | 1,016 |
| | 6,351 |

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

Credit Risk

The Group monitors credit risk closely and considers that its current policies including 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 2005, the facilities covered amounts due to clients.

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 2005 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 relevant currency.

Notes to the Financial Statements

| | |
|--|------------------|
| | 31 December 2005 |
| | Sterling |
| | £000 |

Net monetary assets and liabilities

Functional currency:

| | |
|-------|-------|
| Euros | 756 |
| USD | 1,015 |

Fair values of financial assets and liabilities

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

| | | |
|--|------------------|------------|
| | 31 December 2005 | |
| | Book value | Fair value |
| | | £000 |

Primary financial instruments held or issued to finance

The Group operations

| | | |
|------------------------|-------|-------|
| Financial assets | 6,351 | 6,351 |
| Amounts due to clients | 4,600 | 4,600 |

Hedging Activities

Although the Group business operates in 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 considers 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.

18. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2005 the Group had annual commitments under non-cancellable operating leases as set out below.

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

Notes to the Financial Statements

The Group has, in the normal course of business, given a fixed charge over its assets to Fortis Clearing London Limited. London Capital Group Limited has also given a fixed charge over a rent deposit of £37,500 in favour of Tullett and Prebon Limited.

19. RELATED PARTY TRANSACTIONS

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

20. SHARE CAPITAL

Authorised share capital:

| | No | 2005 £000 |
|-------------------------------|------------|--------------|
| Ordinary shares of £0.10 each | 55,000,000 | 5,500 |

Allotted, called up and fully paid:

| | No | £000 |
|-------------------------------|------------|-------|
| Ordinary shares of £0.10 each | 38,292,683 | 3,829 |

Equity shares

| | | |
|-------------------------------|------------|-------|
| Ordinary shares of £0.10 each | 38,292,683 | 3,829 |
|-------------------------------|------------|-------|

At incorporation, the authorised share capital was 1,000 ordinary shares of £1 each of which one was issued nil paid. On 14 December 2005, the authorised capital was increased to £2,000,000 by the creation of 1,999,000 ordinary shares of £1 each and 999 ordinary shares of £1 each were issued at par. Immediately after that and on the same day, a further 1,999,000 ordinary shares of £1 each were issued as consideration for the transfer to the Company of the entire issued share capital of Tradex Enterprises Limited.

Subsequently on 14 December 2005, each of the existing ordinary shares of £1 each was subdivided into 10 ordinary shares of 10p each (so that the issued share capital became 20,000,000 ordinary shares of 10p each) and the authorised capital was then increased to £5,500,000 by the creation of 35,000,000 new ordinary shares of 10p each.

On the 21 December 2005 18,292,683 ordinary shares of 10p each were issued.

On 21 December 2005, the Company issued a total of 1,572,224 options under the terms of the London Capital Group Holdings plc Enterprise Management Incentives Share Option Scheme (subject to approval from HM Revenue and Customs) and 780,123 options under the terms of the London Capital Group Holdings plc Unapproved Share Option Plan at an exercise price of 10p each. These options are normally exercisable between 20 December 2008 and 20 December 2015 in accordance with the rules of the relevant scheme.

Notes to the Financial Statements

21. RESERVES

| Group | Share premium account | Merger Reserve balance | Profit and loss account |
|-------------------------------------|-----------------------|------------------------|-------------------------|
| | £000 | £000 | £000 |
| Retained profit for the period | - | - | 304 |
| Other movements | | | |
| New equity share capital subscribed | 11,607 | - | - |
| Movement on Merger reserve | - | (5,344) | - |
| Balance carried forward | 11,607 | (5,344) | 304 |

| Company | Share premium account | Profit and loss account | Total share-holders' funds |
|-------------------------------------|-----------------------|-------------------------|----------------------------|
| | £000 | £000 | £000 |
| Other movements | | | |
| New equity share capital subscribed | 11,607 | - | 11,607 |
| Balance carried forward | 11,607 | - | 11,607 |

22. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | 2005 |
|---|---------|
| | £000 |
| Profit for the financial period | 304 |
| New equity share capital subscribed | 3,829 |
| Premium on new share capital subscribed | 11,607 |
| Movement on merger reserve | (5,344) |
| Net addition to shareholders' funds | 10,396 |
| Closing shareholders' funds | 10,396 |

The equity dividend paid is a distribution to the previous owner made prior to acquisition and included within the movement on Merger Reserve.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of London Capital Group Holdings plc will be held at 51-55 Gresham Street, London EC2V 7EL on Thursday 25 May 2006 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 2005.
2. To re-appoint Robert Loosemore as a director of the Company.
3. To re-appoint Francis Chapman as a director of the Company.
4. To re-appoint Simon Denham as a director of the Company.
5. To re-appoint Rachel Woodford as a director of the Company.
6. To re-appoint Geoffrey Forster as a director of the Company.
7. To re-appoint Hurst Morrison Thomson LLP as the Company's auditors and to authorise the directors to determine their remuneration.

Special Business

8. 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 £1,670,731.70p 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 14 December 2005 to the extent unused.

9. 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 14 December 2005 to the extent unused.

By order of the Board
P G Dawes
Secretary

51-55 Gresham Street, London EC2V 7EL.

26 April 2006

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 23 May 2006 (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 25 May 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 25 May 2006 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 April 2006, to vote:

| Resolution | For | Against | Vote Withheld |
|--|-----|---------|---------------|
| ORDINARY BUSINESS | | | |
| 1 Receive the report and accounts | | | |
| 2 Re-appoint Robert Loosemore as a director | | | |
| 3 Re-appoint Francis Chapman as a director | | | |
| 4 Re-appoint Simon Denham as a director | | | |
| 5 Re-appoint Rachel Woodford as a director | | | |
| 6 Re-appoint Geoffrey Forster as a director | | | |
| 7 Auditors' re-appointment and remuneration | | | |
| SPECIAL BUSINESS | | | |
| 8 Authority to allot relevant securities pursuant to section 80 Companies Act 1985 | | | |
| 9 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), P.O.Box 25, Beckenham, Kent BR3 4BR, 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.



SECOND FOLD

BUSINESS REPLY SERVICE
Licence No. MB122

2



Capita Registrars (PROXIES)
P.O. BOX 25
BECKENHAM
KENT
BR3 4BR

FIRST FOLD

THIRD FOLD AND TUCK IN

Officers and Advisors

Registered and Principal Office

London Capital Group Holdings plc
51/55 Gresham Street
London
EC2V 7EL
United Kingdom
Tel: +44(0) 20 7665 9400
www.londoncapitalgroup.co.uk

Registered Number

5497744

Nominated Adviser and Broker

Evolution Securities Limited
100 Wood Street
London
EC2V 7AN

Solicitors to the Company

Pitmans
47 Castle Street
Reading
RG1 7SR

Auditors

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

Registrar

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Financial and Corporate PR

Smithfield Consultants Ltd
10 Aldersgate Street
London
EC1A 4HJ

Financial PR

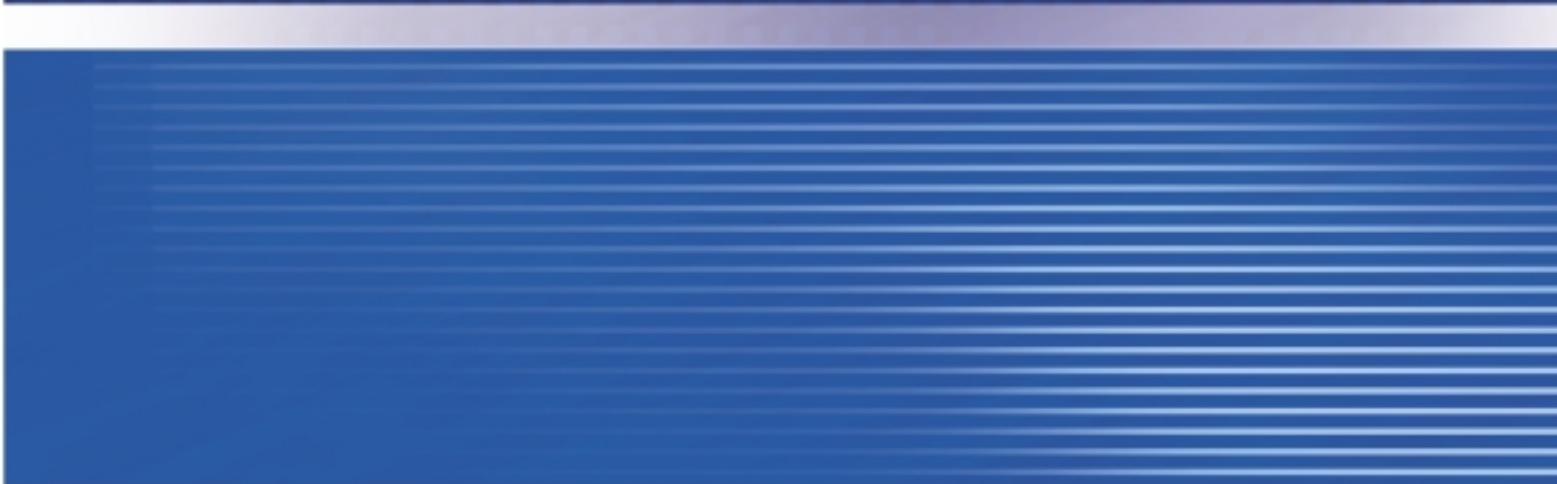
Sara Musgrave, Director
smusgrave@smithfieldgroup.com

George Hudson, Associate Director
ghudson@smithfieldgroup.com

Corporate PR

Richard Stephenson, Director
rstephenson@smithfieldgroup.com

Andrew Wilde, Account Executive
awilde@smithfieldgroup.com



For more information about London Capital Group Holdings plc,
please visit www.londoncapitalgroup.co.uk

Registered address: 51/55 Gresham Street, London EC2V 7EL