Hargreaves Lansdown PLC

Report and Accounts

30 June 1998

Registered Number - 2122142

DIRECTORS
P K Hargreaves FCA (Chief Executive Officer)
S P Lansdown FCA (Chairman)
M T Barry BSc

SECRETARY
D A Osborne FCA

AUDITORS
Ernst & Young
One Bridewell Street
Bristol

BANKERS
Lloyds Bank plc
Queens Road
Clifton
Bristol

REGISTERED OFFICE
Kendal House
4 Brighton Mews
Clifton
Bristol

CHAIRMAN'S REPORT

Hargreaves Lansdown has had an excellent year. In fact, with all our divisions and subsidiaries achieving record earnings, we have enjoyed our best ever year's trading. It has been particularly satisfying to report such a good 'all round' performance and I am extremely grateful to all the Directors and Staff who have worked so hard to make this possible.

Our decision to concentrate on improving the quality of our earnings by increasing the level of our renewal, management and administration fee income, has put the group in a strong financial position. This focus on earnings is vital as we look to develop our business in the future.

We have many reasons to be proud of our recent achievements:

- Investment Information: Our wide range of investment publications have established Hargreaves Lansdown as a major investment information provider.

- Execution only brokerage: The volume of our execution only business in PEP's, unit trusts and life products continues to grow and we are now probably the UK's largest PEP broker.

- PEP Management: As a PEP Plan Manager, we continue to increase the number of PEP's under management. With growth in this business, it is important that we have effective administration systems in place. It is therefore pleasing to report that we have made significant improvements in our PEP administration systems.

- Investment Management: We have now built up a specialist investment team and as a result there has been a notable improvement in our investment performance.

- Stockbroking: Our stockbroking division is now one of the leading 'execution only' brokers in the United Kingdom.

Other areas of the business have also made important contributions to the Group's success this year. Our *Professional Services* division has continued to provide quality professional advice to our clients and has worked hard to maintain its margins in very difficult market conditions. In a similar manner, our *Insurance Broking* subsidiary has improved its profitability despite intense competitive pressures within the general insurance market.

There is a difficult outlook ahead in the Financial Services industry. Firstly, we are faced with a new regulatory regime under the Financial Services Authority. Secondly, in April 1999, we will see the demise of PEPs and the introduction of the new Individual Savings Account (ISA). We cannot deny that the loss of PEP business will be significant and it remains uncertain as to whether ISAs will be a suitable replacement. In the light of these changes, and at a time when investor confidence has been hard hit by recent stockmarket volatility, there is no danger of our past success making us complacent. We will face some tough times ahead and we know that we simply cannot afford to rest on our laurels. However, we are prepared to meet the challenge and are determined to continue to strengthen our brands and our market penetration in all areas of the Group's business.

Chairman

Date 25th September 1998

DIRECTORS' REPORT

The directors present their report, together with the audited accounts of the group, for the year ended 30 June 1998.

RESULTS AND DIVIDENDS

The group trading profit for the year, after taxation, amounted to £1,990,000 (1997 - £1,919,000). The directors declared a final dividend of 28p per share on 27 March 1998.

PRINCIPAL ACTIVITIES

The principal activities of the group are unit trust and equity broking, investment fund management, unit trust managers, life assurance and pension consultancy and general insurance broking.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

A review of the business and future prospects are discussed in the Chairman's Statement on page 3.

CREDITOR PAYMENT POLICY

Payments are made on agreed terms and conditions for transactions with suppliers providing such terms and conditions are met by the suppliers. The number of creditors days at the year end was 41.

DIRECTORS AND THEIR INTERESTS

The directors at 30 June 1998 and their interests in the share capital of the company (all beneficially held except those marked with an asterisk which are held as trustee) and in options to acquire shares of the company, were as follows:

	At 30 June 1998 Ordinary Shares	*At 1 July 1997 Ordinary Shares*	*At 30 June 1998 Options*	*At 1 July 1997 Options*
P K Hargreaves	690,295	690,295	-	-
P K Hargreaves	* 50,000	* 50,000	-	-
S P Lansdown	715,295	715,295	-	-
S P Lansdown	* 25,000	* 25,000	-	-
M T Barry	41,421	41,421	15,000	15,000

The options can be exercised by the Option Holder at any time until 13 February 2000 at a price of £0.50 per share.

Details of directors' material interests in contracts are given in the notes to the accounts.

YEAR 2000 COMPLIANCE

The Directors are mindful of the need to modify computer systems to accommodate the Year 2000 and beyond in order to avoid malfunctions and resulting commercial disruption. They also recognise that the Group's business depends not only on its own computer systems but also to some degree on those of its suppliers and customers.

A programme designed to address the impact of the Year 2000 was instigated by the Group in February 1997 and is well under way. It is adequately resourced with completion expected in June 1999. The Group's Directors receive regular reports on progress.

Much of the cost of implementing the programme will be subsumed into the recurring activities of the Group. There are no significant costs relating solely to the Year 2000 issue.

AUDITORS
Ernst & Young have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment will be submitted at the Annual General Meeting.

By order of the board

Secretary

Date 25th September 1998

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts 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 to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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REPORT OF THE AUDITORS
to the members of Hargreaves Lansdown PLC

We have audited the accounts on pages 8 to 20, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 12.

Respective responsibilities of directors and auditors

As described on page 6 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group as at 30 June 1998 and of the result of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young

Registered Auditor
Bristol

Date 28/9/98

GROUP PROFIT AND LOSS ACCOUNT
for the year ended 30 June 1998

	Notes	1998 £000	1997 £000
TURNOVER	2	17,603	14,092
Other operating income		1,153	967
		18,756	15,059
Administrative expenses		15,599	11,696
Other external charges		695	943
		16,294	12,639
OPERATING PROFIT	3	2,462	2,420
Income from interests in associated undertakings		8	16
Interest receivable	5	468	243
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		2,938	2,679
Tax on profit on ordinary activities	6	948	760
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		1,990	1,919
Dividend paid		426	426
PROFIT RETAINED FOR THE FINANCIAL YEAR	15	1,564	1,493

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 30 June 1998

There are no recognised gains or losses other than the profit on ordinary activities after taxation of £1,990,000 (1997 - £1,919,000).

GROUP BALANCE SHEET
at 30 June 1998

	Notes	1998 £000	1997 £000
FIXED ASSETS			
Tangible assets	7	721	688
Investments	8	1,247	1,080
		1,968	1,768
CURRENT ASSETS			
Debtors	9	15,051	10,910
Investments	8	80	460
Cash at bank and in hand	10	11,650	7,099
		26,781	18,469
CREDITORS: amounts falling due within one year	11	21,059	14,602
NET CURRENT ASSETS		5,722	3,867
TOTAL ASSETS LESS CURRENT LIABILITIES		7,690	5,635
CREDITORS: amounts falling due after more than one year	12	4	3
PROVISIONS FOR LIABILITIES AND CHARGES	13	133	-
		7,553	5,632
CAPITAL AND RESERVES			
Called up share capital	14, 15	155	152
Share premium	15	156	2
Capital redemption reserve	15	12	12
Capital reserve	15	200	-
Profit and loss account	15	7,030	5,466
EQUITY SHAREHOLDERS' FUNDS		7,553	5,632

- Director

Date 25th September 1998

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COMPANY BALANCE SHEET
at 30 June 1998

	Notes	1998 £000	1997 £000
FIXED ASSETS			
Tangible assets	7	549	531
Investments	8	1,414	1,255
		1,963	1,786
CURRENT ASSETS			
Debtors	9	959	409
Cash at bank		261	3
		1,220	412
CREDITORS: amounts falling due within one year	11	780	194
NET CURRENT ASSETS		440	218
TOTAL ASSETS LESS CURRENT LIABILITIES		2,403	2,004
CAPITAL AND RESERVES			
Called up share capital	14, 15	155	152
Share premium	15	156	2
Capital redemption reserve fund	15	12	12
Capital reserve	15	157	-
Profit and loss account	15	1,923	1,838
EQUITY SHAREHOLDERS' FUNDS		2,403	2,004

- Director

Date 25th September 1998

GROUP CASH FLOW STATEMENT
for the year ended 30 June 1998

	Notes	*1998* *£000*	*1997* *£000*
NET CASH INFLOW FROM OPERATING ACTIVITIES	3(b)	5,430	1,992
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Bank interest received		489	150
UK CORPORATION TAX PAID		(686)	(158)
CAPITAL EXPENDITURE			
Purchase of tangible fixed assets		(311)	(405)
Sale of tangible fixed assets		55	16
		(256)	(389)
EQUITY DIVIDENDS PAID		(426)	(426)
CASH INFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING		4,551	1,169
MANAGEMENT OF LIQUID RESOURCES			
Sale of securities		-	75
INCREASE IN CASH IN THE PERIOD		4,551	1,244

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS (NOTE 10)

	1998	1997
Increase in cash in the period	4,551	1,244
Cash outflow from change in liquid resources	-	(75)
Change in net funds resulting from cash flows and movement in net funds in the period	4,551	1,169
NET LIQUID FUNDS AT 1 JULY	7,099	5,930
NET LIQUID FUNDS AT 30 JUNE	11,650	7,099

NOTES TO THE ACCOUNTS
at 30 June 1998

1. ACCOUNTING POLICIES

Accounting convention
The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of consolidation
The group accounts consolidate the accounts of Hargreaves Lansdown PLC and all its subsidiary undertakings made up to 30 June each year. No profit and loss account is presented for Hargreaves Lansdown PLC as provided by S.230 of the Companies Act 1985.

Undertakings, other than subsidiary undertakings, in which the group has an investment and over which it is in a position to exercise a significant influence are treated as associated undertakings. The group accounts include the appropriate share of those undertakings' results.

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

Leasehold property	over the life of the lease
Office equipment	over 10 years
Computer equipment	over 3 to 4 years
Motor vehicles	over 4 years

Goodwill
Purchased goodwill is written off directly against reserves.

Leasing commitments
Rentals paid under operating leases are charged to income on a straight line basis over the term of the lease.

Deferred taxation
Deferred taxation is provided, where material, using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is estimated that tax will be payable.

Income recognition
Commissions are deemed to be earned when the group has received settlement from the client and has settled with the institution providing the investment or insurance risk, except in the case of the group's stockbroking, insurance broking and unit trust management subsidiary undertakings where income is on a trade date basis. Where commission is received on an indemnity basis, only that portion calculated as earned in the period is credited to the profit and loss account.

Investments
Investments are stated at the lower of cost and market value at the balance sheet date.

2. TURNOVER

Turnover represents the amount of commission received from financial services supplied to clients and management fees charged to clients. It relates entirely to services provided in the UK and is stated net of value added tax.

NOTES TO THE ACCOUNTS
at 30 June 1998

3. OPERATING PROFIT

(a) This is stated after charging/(crediting):

	1998 *£000*	*1997* *£000*
Directors' remuneration (Note 4)	3,093	2,125
Auditors' remuneration - Audit fees *	40	28
- Non audit fees	10	4
Depreciation of fixed assets	272	200
Interest on settlement accounts	(566)	(468)
Operating lease rentals	258	258

* £3,375 (1997 - £2,700) of this relates to the company.

(b) Reconciliation of operating profit to operating cash flows:

	1998 *£000*	*1997* *£000*
Operating profit	2,462	2,420
Depreciation of fixed assets	272	200
Deferred income	1	(5)
Profit on disposal of tangible fixed assets	(49)	(8)
Increase in debtors	(4,162)	(5,774)
Increase in creditors	6,906	5,159
Net cash inflow from operating activities	5,430	1,992

4. STAFF COSTS

	1998 *£000*	*1997* *£000*
Wages and salaries	6,630	4,417
Social security costs	637	447
Other pension costs	107	373
Compensation for loss of office	20	-
	7,394	5,237

The average number of employees during the year was 154 (1997 - 117).

Directors' remuneration:

	1998 *£000*	*1997* *£000*
Emoluments	3,015	1,781
Pension costs	78	344
	3,093	2,125

The emoluments, excluding pension contributions, of the highest paid director were £1,462,463 (1997 - £633,165) and pension contributions amounted to £42,750 (1997 - £209,470).

NOTES TO THE ACCOUNTS
at 30 June 1998

5. INTEREST RECEIVABLE

	1998 *£000*	*1997* *£000*
Bank interest	468	243

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1998 *£000*	*1997* *£000*
Based on the profit for the year:		
Corporation tax	841	823
Corporation tax over provided in previous years	(28)	(67)
Deferred taxation	133	-
Associated undertakings	2	4
	948	760

7. TANGIBLE FIXED ASSETS

Group	*Leasehold improvements £000*	*Tenants' fixtures £000*	*Office equipment £000*	*Computer equipment £000*	*Motor vehicles £000*	*Total £000*
Cost:						
At 1 July 1997	36	112	360	416	333	1,257
Additions	-	28	68	127	88	311
Disposals	-	-	(95)	(134)	(95)	(324)
At 30 June 1998	36	140	333	409	326	1,244
Depreciation:						
At 1 July 1997	5	12	164	210	178	569
Provided during the year	3	11	42	139	77	272
Disposals	-	-	(95)	(134)	(89)	(318)
At 30 June 1998	8	23	111	215	166	523
Net book value:						
At 30 June 1998	28	117	222	194	160	721
At 1 July 1997	31	100	196	206	155	688

7. TANGIBLE FIXED ASSETS (continued)

Company	*Leasehold improvements £000*	*Tenants' fixtures £000*	*Office equipment £000*	*Computer equipment £000*	*Total £000*
Cost:					
At 1 July 1997	34	112	361	415	922
Additions	-	28	68	111	207
Disposals	-	-	96	134	230
At 30 June 1998	34	140	333	392	899
Depreciation:					
At 1 July 1997	4	12	164	211	391
Provided during the year	3	11	42	133	189
Disposals	-	-	96	134	230
At 30 June 1998	7	23	110	210	350
Net book value:					
A 30 June 1998	27	117	223	182	549
At 1 July 1997	30	100	197	204	531

8. INVESTMENTS

Group	*1998 £000*	*1997 £000*
Associated undertaking (a)	40	30
Other fixed asset investments (b)	1,050	1,050
Investments in own shares (c)	157	-
	1,247	1,080
Current asset investments (d)	80	460

a) Associated undertaking:

	Share of net tangible assets £000
At 1 July 1997	30
Share of profit retained by associated undertaking	8
Provision released	2
At 30 June 1998	40

b) Other fixed asset investments

	Listed on the Stock Exchange £000	*Unlisted £000*	*Total £000*
Cost and net book value:			
At 1 July 1997 and 30 June 1998	1,000	50	1,050

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8. INVESTMENTS (continued)

c) Investments in own shares

	1998 *£000*	*1997* *£000*
Cost:		
At 1 July 1997	-	-
Additions	157	-
At 30 June 1998	157	-

Hargreaves Lansdown Employee Benefit Trustees Limited was set up by the company on 30 June 1997 in order to encourage and facilitate the holding of shares in the company by employees.

During the year ended 30 June 1998 the Hargreaves Lansdown Employee Benefit Trust purchased 23,250 ordinary 10p shares in the company, Hargreaves Lansdown PLC, for £157,000. Dividends on these shares have been waived by the respective trustees.

The Trust will subscribe for approximately 30,000 shares which will be issued to a director in recognition of her significant contribution to the group earnings for the year ended 30 June 1998.

In accordance with UITF 13 and 17 the assets of the Hargreaves Lansdown Employee Benefit Trust are consolidated within the group accounts.

d) Current asset investments

	1998 *£000*	*1997* *£000*
At cost:		
Listed investments	80	460

The market value of investments was not significantly different from their cost.

Company	*Listed on the Stock Exchange* *£000*	*Unlisted* *£000*	*Associated undertakings* *£000*	*Subsidiary undertakings* *£000*	*Own shares* *£000*	*Total* *£000*
Cost:						
At 1 July 1997	1,000	50	30	201	-	1,281
Additions	-	-	-	-	157	157
	1,000	50	30	201	157	1,438
Amounts provided:						
At 1 July 1997	-	-	2	24	-	26
Released in year	-	-	(2)	-	-	(2)
At 30 June 1998	-	-	-	24	-	24
Net book value:						
At 30 June 1998	1,000	50	30	177	157	1,414
At 1 July 1997	1,000	50	28	177	-	1,255

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8. INVESTMENTS (continued)

The listed investment had a market value at 30 June 1998 of £1,570,000 (1997 - £1,480,000). If it had been sold at this value there would have been a liability to corporation tax of £176,700 (1997 - £154,560) on the capital gain arising.

The investment in the ordinary share capital of the wholly owned subsidiary undertakings are:

Name of company	***Nature of business***
Hargreaves Lansdown Asset Management Limited	Unit trust and equity broking, investment fund management, and life and pensions consultancy
Hargreaves Lansdown Insurance Brokers Limited	Insurance broking
Hargreaves Lansdown Stockbrokers Limited	Stockbroking
Hargreaves Lansdown Fund Managers Limited	Unit Trust Management
Professional Indemnity Insurance Consultants Limited	Dormant
Saturn Investment Management Limited (formerly Hargreaves Lansdown Trustees Limited)	Non-trading
Hargreaves Lansdown (Nominees) Limited	Non-trading
Hargreaves Lansdown EBT Trustees Limited	Trustee of Hargreaves Lansdown Employee Benefit Trust

The investment in the ordinary share capital of the associated undertaking is:

Name of company	*Proportion of ordinary shares held*	*Nature of business*
Magic Breaks Limited	25%	Travel agents

9. DEBTORS

	Group 1998 £000	*Group 1997 £000*	*Company 1998 £000*	*Company 1997 £000*
Trade debtors	14,212	10,055	-	-
Amounts owed by subsidiary undertakings	-	-	940	395
Other debtors	24	9	-	4
Prepayments and accrued income	815	846	19	10
	15,051	10,910	959	409

10. ANALYSIS OF NET FUNDS

	At 1 July 1997 £000	*Cash flow £000*	*At 30 June 1998 £000*
Cash at bank and in hand	7,099	4,551	11,650

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NOTES TO THE ACCOUNTS
at 30 June 1998

11. CREDITORS: amounts falling due within one year

	Group		*Company*	
	1998	*1997*	*1998*	*1997*
	£000	*£000*	*£000*	*£000*
Trade creditors	14,914	10,430	-	-
Amounts owed to subsidiary undertakings	-	-	11	104
Current corporation tax	838	707	109	31
Other taxes and social security costs	556	1,213	60	23
Other creditors	4,031	1,712	600	36
Accruals and deferred income	720	540	-	-
	21,059	14,602	780	194

12. CREDITORS: amounts falling due after more than one year

	Group	
	1998	*1997*
	£000	*£000*
Deferred income	4	3

13. PROVISIONS FOR LIABILITIES AND CHARGES

	Provided		*Not provided*	
	1998	*1997*	*1998*	*1997*
	£000	*£000*	*£000*	*£000*
Accelerated capital allowances	(15)	-	-	(21)
Other timing differences	148	-	-	97
	133	-	-	76

14. SHARE CAPITAL

	1998	*1997*
	£000	*£000*
Authorised:		
Ordinary shares of 10p each	250	250

	1998	*1997*	*1998*	*1997*
	No.	*No.*	*£000*	*£000*
Allotted, called up and fully paid:				
Ordinary shares of 10p each	1,545,260	1,520,000	155	152

15. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share capital £000	*Share premium £000*	*Capital redemption reserve £000*	*Capital reserve £000*	*Profit and loss account £000*	*Total £000*
Group						
At 1 July 1996	152	2	12	-	3,973	4,139
Profit for the financial year	-	-	-	-	1,493	1,493
At 1 July 1997	152	2	12	-	5,466	5,632
Profit for the financial year	3	154	-	-	1,564	1,721
Movement in the year	-	-	-	200	-	200
At 30 June 1998	155	156	12	200	7,030	7,553
Company						
At 1 July 1996	152	2	12	-	1,592	1,758
Profit for the financial year	-	-	-	-	246	246
At 1 July 1997	152	2	12	-	1,838	2,004
Profit for the financial year	3	154	-	-	85	242
Movement in the year	-	-	-	157	-	157
At 30 June 1998	155	156	12	157	1,923	2,403

The profit dealt with in the accounts of the parent undertaking was £511,000 (1997 - £672,000).

16. OBLIGATIONS UNDER LEASES

The annual commitment under a non-cancellable operating lease for land and buildings is as follows:

	1998 £000	*1997 £000*
Group		
Operating lease which expires:		
In more than five years	258	258
Company		
Operating lease which expires:		
In more than five years	252	252

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17. PENSION TRANSFERS AND OPT OUTS

A subsidiary of the company in common with all other pensions advisers in the United Kingdom, has set up provisions for the review and possible redress relating to personal pension policies. These provisions have been calculated using data derived both from detailed file reviews of specific cases and from a review based on the entire pension related business. The subsidiary has used the SIB, PIA & FSA guidelines and consultation.

The directors consider that the provisions made are a reasonable estimate of the ultimate cost based on information presently available. However, uncertainty exists regarding the ultimate cost and this may require adjustments to be made to this provision and the associated tax relief.

18. RELATED PARTY TRANSACTIONS

The company is party to a lease with P K Hargreaves and S P Lansdown for Kendal House at an annual rental of £252,000. No amount was outstanding at the year end.