HARGREAVES LANSDOWN PLC

Report and Accounts
30 June 2006

Registered Number – 2122142

DIRECTORS

Executive Directors
P K Hargreaves FCA (Chief Executive Officer)
S P Lansdown FCA (Chairman)
M T Barry BSc
N J Bence BA
M J Mulligan ACA
A Norris BEng
A Christian LLB
T P Taylor FCCA

Non Executive Directors
M J Evans (appointed 1 September 2006)
J Bloomer (appointed 18 September 2006)

COMPANY SECRETARY
T P Taylor FCCA

AUDITORS
Deloitte & Touche LLP
Bristol

BANKERS
Lloyds Bank plc
Queens Road
Clifton
Bristol

REGISTERED OFFICE
Kendal House
4 Brighton Mews
Clifton
Bristol

CHAIRMAN'S REPORT

It is pleasing to report a 46% increase in turnover over 2005.

There have been strong performances across all areas of our business. The FTSE 100 Index closed at 5833.4 on the 30th June 2006 up from 5113.2 at the beginning of the year an increase of 14.08%, and the group has naturally benefited from this.

Our publications, in particular the Investment Times, are market leaders and form the basis of our marketing strategy which continues to focus on building up funds under management. At the year end the group looked after £6.0 billion for its clients up from £4.1 billion at the previous year end, an increase of 46%. HL Vantage has maintained its position as one of the leading fund supermarkets in the country.

The group experienced significant dealing volumes during the year with 1.3 million transactions carried out in equities and funds during 2005/06 (2004/05 - 0.9m) an increase of 44%. Great credit goes to all our back office staff for their hard work and endeavour in handling such impressive volumes during the year.

Elsewhere our multi manager funds which form the core of our Portfolio Management Service showed impressive growth with funds under management exceeding £560 million at the year end (2005 - £302m) up 85%.

The Financial Practitioners division continues to expand. We now have 70 qualified advisers (2005 - 41) of which 33 operate regionally providing national coverage for our clients.

Continued expansion in the pensions arena continues with our Self Invested Personal Pension (SIPP) scheme attracting funds of £287.8 million during the year. One of our major projects during 2006 was the development of the Group SIPP which we believe will be of tremendous benefit to the corporate market in the years to come. This came on-stream in May 2006. In the corporate sector we continue to be appointed to new schemes by the most prestigious clients and continue to expand our corporate annuity service.

The group works extremely hard to keep its cost base under control. One of its biggest overheads is salaries and any increase in staff numbers will only reflect the needs of the business. For instance, the need for good systems to ensure the economic handling of transactions and the development of online business has seen the I.T and systems team grow to 61 people, representing over 10% of the total staff numbers. At the year end the staff count totalled 568 (2005 - 473) an increase of 20%.

The board of Hargreaves Lansdown plc and certain subsidiaries have been strengthened to reflect the expansion of the business:-

Andrew Christian as managing director of Hargreaves Lansdown Stockbrokers Limited was appointed to the board of Hargreaves Lansdown plc to reflect the importance of the nominee services, for example HL Vantage, to the group.

Tracey Taylor was also appointed to the Hargreaves Lansdown plc board as group accounting director with specific responsibilities for financial accounting and human resources. Tracey is also company secretary to all the group companies.

The increase in importance of our SIPP product and the expansion of our personal pension business has seen Alex Davies appointed as a director of Hargreaves Lansdown Pensions Direct during July 2006.

Also, during July 2006, Lee Gardhouse was appointed as investment director to Hargreaves Lansdown Fund Managers Limited reflecting the importance of the multi manager proposition and the success of our Portfolio Management Service within the group.

CHAIRMAN'S REPORT

In line with corporate governance recommendations, since the balance sheet date the board has appointed two non-executive directors, Jonathan Bloomer and Mike Evans. We are extremely pleased to welcome Jonathan and Mike to the board. Their considerable experience gained across the industry will be of significant value to the group.

The group is entering an important phase in its development. We firmly believe that we are now established as one of the leading stockbrokers and asset managers in the United Kingdom, and it is also very exciting to look forward to the development of our personal and corporate businesses in the years ahead.

My final thanks go to my fellow directors and all the staff within Hargreaves Lansdown who have continued to work extremely hard and be innovative in keeping the group at the vanguard of the financial services industry.

S P Lansdown

Chairman
31 October 2006

DIRECTORS' REPORT

The directors present their report, together with the audited accounts of the group, for the year ended 30 June 2006.

RESULTS AND DIVIDENDS

The group trading profit for the year, after taxation, amounted to £6,456,000 (2005 - £10,293,000). It is proposed that the third interim dividend of £1 per share paid on 29 June 2006 should be the final dividend for the financial year ending 30 June 2006 (2005 - £nil). Total interim dividends of £7,863,377 were paid during the year (2005: £1,666,810).

REVIEW OF THE BUSINESS

Principal activities and business review

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

A review of the business and future prospects are discussed in the Chairman's Statement on pages 3 and 4. There have not been any significant changes to the principal activities during the year, and no major changes to the company's principal activities are planned.

The group balance sheet on page 11 shows the group's net asset position at the end of the financial year. The movements in reserves are shown in note 17 to the financial statements, and include amounts relating to the revaluation of current asset investments and Hargreaves Lansdown Employee Benefit Trust transactions.

There have not been any significant events since the balance sheet date.

Principal risks and uncertainties

Competitive pressure in the UK is a continuing risk for most companies. The company manages this risk by providing excellent and competitively priced services, as endorsed by the group mission statement of aiming to provide "the best service, the best information and the best prices".

With all of the company's operations located within the UK, and therefore with no net assets and minimal transactions denominated in foreign currencies, the company is not exposed to significant foreign exchange translation or transaction risk.

As a large proportion of income is linked to the value of client assets held in our nominee services, the business is exposed to price risk on investments held by clients.

Financial instruments

The Group's financial risk management is based upon sound economic objectives and good corporate practice. The Group has no external borrowings and as such is not exposed to interest rate or refinancing risk on borrowings.

The Group adopted accounting standards FRS 25 and FRS 26 on 1 July 2005, resulting in the recognition at fair value of all "available-for-sale" investments for which there is a quoted market price. These investments were previously included in the balance sheet at cost. To avoid income statement volatility, the Group has recorded any increases or decreases to the fair value of these investments in the fair value reserve and not in the profit and loss account. In 2006, this resulted in a net gain of £10,031,000 reported in the fair value reserve.

Further details of the Group's financial risk management and financial instruments are set out in Note 20 to the consolidated financial statements.

DIRECTORS' REPORT

DIRECTORS AND THEIR INTERESTS

The directors at 30 June 2006, 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 2006 Ordinary Shares	*At 1 July 2005 Ordinary Shares*	*At 30 June 2006 Options*	*At 1 July 2005 Options*
P K Hargreaves	690,449	690,295	-	-
P K Hargreaves*	50,000	50,000	-	-
S P Lansdown	615,295	715,295	-	-
S P Lansdown*	25,000	25,000	-	-
M T Barry	65,071	85,571	-	3,000
N J Bence	3,821	1,268	-	3,000
M J Mulligan	9,504	9,147	5,000 [a]	-
A Norris	55,720	51,028	10,000 [a]	-
A Christian (appointed November 2005)	9,834	9,448	10,000 [a]	-
T P Taylor (appointed April 2006)	1,032	1,032	-	-

The following directors interests have changed since the year end and their interests as at the date of signing this report are stated below:

	Ordinary Shares	*Options*
N J Bence	3,821	2,000 [b]
M J Mulligan	9,504	5,000 [a] and 1,000 [b]
T P Taylor	1,032	3,000 [b]

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

The outstanding share options can be exercised by the option holder at any time [a] until 27 February 2016 at a price of £150 and [b] until 25 July 2016 at a price of £175 per share.

EMPLOYEES

We have consistently sought to recruit, train and retain the best employees in our market and this has contributed to our success. Each division has its own approach to identifying and attracting the skills and expertise it needs, in line with both its own and the group strategy and requirements. Information concerning employees and their remuneration is given in note 4. Consultative procedures enable management and other employees to discuss matters of mutual interest, including health and safety. Through these procedures and departmental channels, employees are kept informed about Group affairs.

It is the Group's policy to encourage the employment, training and career development of disabled persons. If employees became disabled every effort is made for them to continue in employment or receive appropriate training. In order to safeguard its employees, the Group pursues a policy, which seeks to achieve, as far as practically possible, secure working environments and training standards at all operating locations.

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 creditor days at the year end was 33 (2005: 17)

DIRECTORS' REPORT

DONATIONS

During the year the Group made charitable donations in the UK of £3,000.

AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the company's auditors are unaware; and

- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information (as defined in the Companies Act 1985) and to establish that the company's auditors are aware of that information.

Ernst & Young LLP resigned as auditors during the year and Deloitte & Touche LLP were appointed. A resolution to re-appoint Deloitte & Touche LLP as the company's auditor will be submitted at the forthcoming Annual General Meeting.

By order of the board

T Taylor

Secretary

31 October 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

United Kingdom 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 company and 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 UK accounting standards have been followed; 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 the system of internal control, safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HARGREAVES LANSDOWN PLC

We have audited the group and individual company financial statements (the "financial statements") of Hargreaves Lansdown Plc for the year ended 30 June 2006 which comprise the consolidated profit and loss account, the consolidated and individual company balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom 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, in accordance with the relevant financial reporting framework, and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. We also report to you if, in our opinion, the company and the group 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 the chairman's report contained in the annual report for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and the group, 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 individual company's affairs as at 30 June 2006 and of the group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Bristol

Date: 2nd November 2006

GROUP PROFIT AND LOSS ACCOUNT
for the year ended 30 June 2006

	Notes	2006 £000	2005 £000
GROUP TURNOVER			
Continuing operations	2	70,376	48,084
Other operating income		3,084	2,295
		73,460	50,379
Administrative expenses		(67,720)	(37,768)
GROUP OPERATING PROFIT			
Continuing operations	3	5,740	12,611
Profit on disposal of fixed asset investments		35	359
Provision for diminution in value of investment		-	(323)
Share of associates' operating loss		-	(3)
Income from other fixed asset investments		1,926	786
Interest receivable and similar income	5	993	1,047
Interest payable and similar charges	6	(436)	-
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		8,258	14,477
Tax on profit on ordinary activities	7	(1,802)	(4,184)
PROFIT FOR THE FINANCIAL YEAR	17	6,456	10,293

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 30 June 2006

		2006 £000	2005 £000
Profit for the financial year	17	6,456	10,293
Revaluation of current asset investments	17	10,031	-
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR		16,487	10,293

There are no material differences between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents.

GROUP BALANCE SHEET
at 30 June 2006

	Notes	2006 £000	2005 £000
FIXED ASSETS			
Intangible assets	8	1,133	1,200
Tangible assets	9	1,816	1,644
Investments	10	2,105	3,168
		5,054	6,012
CURRENT ASSETS			
Debtors			
Due within one year	11	48,379	32,932
Due after one year	11	-	322
Investments	10	11,247	148
Cash at bank and in hand	12	13,745	32,147
		73,371	65,549
CREDITORS: amounts falling due within one year	13	(57,372)	(39,833)
NET CURRENT ASSETS		15,999	25,716
TOTAL ASSETS LESS CURRENT LIABILITIES		21,053	31,728
CREDITORS: amounts falling due after more than one year	14	(665)	(509)
PROVISIONS FOR LIABILITIES AND CHARGES	15	(511)	(563)
NET ASSETS		19,877	30,656
CAPITAL AND RESERVES			
Called up share capital	16, 17	172	172
Share premium account	17	1,733	1,733
Capital redemption reserve	17	12	12
EBT reserve	17	(63)	-
Other reserves	17	(9,778)	(469)
Profit and loss account	17	27,801	29,208
TOTAL SHAREHOLDERS' FUNDS	17	19,877	30,656

The financial statements were approved by the board of directors on 31 October 2006 and signed on its behalf by:

S P Lansdown

Chairman
31 October 2006

COMPANY BALANCE SHEET
at 30 June 2006

	Notes	*2006* *£000*	*2005* *£000*
FIXED ASSETS			
Tangible assets	9	513	695
Investments	10	3,994	5,056
		4,507	5,751
CURRENT ASSETS			
Debtors			
Due within one year	11	2,110	1,186
Due after one year	11	-	322
Investments	10	2,807	-
Cash at bank and in hand		156	128
		5,073	1,636
CREDITORS: amounts falling due within one year	13	(7,327)	(3,995)
NET CURRENT LIABILITIES		(2,254)	(2,359)
NET ASSETS		2,253	3,392
CAPITAL AND RESERVES			
Called up share capital	16, 17	172	172
Share premium	17	1,733	1,733
Capital redemption reserve	17	12	12
EBT reserve	17	(63)	-
Other reserves	17	(18,002)	(469)
Profit and loss account	17	18,401	1,944
TOTAL SHAREHOLDERS' FUNDS	17	2,253	3,392

The financial statements were approved by the board of directors on 31 October 2006 and signed on its behalf by:

S P Lansdown

Chairman
31 October 2006

GROUP CASH FLOW STATEMENT
for the year ended 30 June 2006

	Notes	2006 £000	2005 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	3(b)	14,033	13,605
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		993	1,047
Dividends received		1,926	786
		2,919	1,833
UK CORPORATION TAX PAID		(6,822)	(2,377)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to purchase tangible fixed assets		(846)	(906)
Receipts from sale of tangible fixed assets		-	7
(Purchase)/sale of own shares		(19,403)	20
Payments to acquire investments		(1)	(5)
Receipts from sale of investments		85	418
		(20,165)	(466)
EQUITY DIVIDENDS PAID		(7,863)	(2,498)
CASH (OUTFLOW)/INFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING		(18,283)	10,097
MANAGEMENT OF LIQUID RESOURCES			
Purchase of securities		(68)	(25)
FINANCING			
Receipts from issue of ordinary shares		-	85
Interest payments		(436)	-
(DECREASE)/INCREASE IN CASH IN THE PERIOD	12	(18,402)	10,157

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

A summary of the principal group accounting policies is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year.

Accounting convention

These financial statements have been prepared in accordance with applicable UK law and accounting standards and under the historical cost convention, as modified by the revaluation of certain investments in accordance with the Companies Act 1985 and applicable UK accounting standards.

Changes to accounting policies

The group has adopted FRS 21, 'Events after the balance sheet date', FRS 25, 'Financial instruments: Disclosure and presentation', and FRS 26, 'Financial instruments: Measurement' in these financial statements. The adoption of each of these standards represents a change in accounting policy and the comparative figures have been restated accordingly except where the exemption to restate comparatives has been taken.

a) The effect of the change in accounting policy to adopt FRS 21 has had no effect on the current or previous financial statements. Under FRS 21, final dividends payable are recognised in the period that they are approved by the shareholders. Interim ordinary dividends payable are recognised in the period that they are paid.

b) The previous accounting policy was to value investments at the lower of cost or market value at the balance sheet date. The effect of the adoption of FRS 25 and FRS 26 was to present the group's listed investments as 'available for sale' and as such those investments have been presented as current asset investments and included at fair value. This has resulted in an increase in the carrying value of the group's investments of £10,031,000 (Company: £1,807,000) and a corresponding increase to Other Reserves (see note 17) of £10,031,000 (Company: £1,807,000). As permitted, FRS 25 and FRS 26 have been adopted from 1 July 2005 with no restatement of corresponding amounts.

The principal adjustment that would be required to the corresponding amounts to comply with FRS 25 and FRS 26 is to recognise available for sale investments at fair value.

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 allowed by Section 230 of the Companies Act 1985. The profit on ordinary activities after taxation dealt with in the financial statements of the parent company, Hargreaves Lansdown Plc, is £24,320,000 (2005 - profit of £1,400,000).

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 and are accounted for using the equity method. The group accounts include the appropriate share of those undertakings' results. Any unamortised balance of goodwill is included in the carrying value of the investment in associates.

As required by UITF 38 - Accounting for ESOP Trusts - the assets and liabilities of the Hargreaves Lansdown Employee Benefit Trust ('HL EBT') have been treated as belonging directly to Hargreaves Lansdown PLC and are accordingly included within the company's balance sheet. Any gains or losses on sale of the company's own shares held by the HL EBT are credited directly to shareholders' funds and are treated as undistributable profits by Hargreaves Lansdown PLC.

Leasing commitments

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

NOTES TO THE FINANCIAL STATEMENTS

Pensions
The Group operates a group personal pension plan for staff and a small self administered pension plan for the controlling directors. Contributions are charged in the profit and loss account as they become payable.

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 and tenants' fixtures	over the life of the lease
Office equipment	over 10 years
Computer equipment and software	over 3 to 4 years
Motor vehicles	over 4 years

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

Goodwill
Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Goodwill arising on acquisitions in the year ended 30 June 1997 and earlier periods was written off to reserves in accordance with the accounting standard then in force. As permitted by the current accounting standard any goodwill previously written off to reserves has not been reinstated in the balance sheet.

Taxation
Current tax, including UK corporation tax, is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted by the balance sheet date.

Deferred taxation
Deferred taxation is recognised, where material, in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. The exception to this is that deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be sufficient taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is calculated on an undiscounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse. The rates are based on tax rates and laws that have been enacted by the balance sheet date.

Income recognition
Commissions are deemed to be earned at the policy inception date, except in the case of the group's stockbroking and unit trust management subsidiary undertakings where income is on a trade date basis. Where commission is received on an indemnity basis, a provision is made for clawbacks due if the policy lapses. Renewal commission is recognised on an accruals basis.

Investments
Listed investments are stated at market value at the balance sheet date. Unlisted investments are stated at at the lower of cost or market value at the balance sheet date. The carrying value of fixed asset investments are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

NOTES TO THE FINANCIAL STATEMENTS

Website development costs
Design and content development costs are capitalised only to the extent that they lead to the creation of an enduring asset, which delivers benefits at least as great as the amount capitalised.

Foreign currency
Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

The results of operations denominated in foreign currencies are translated using the average rate of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences are included in the profit and loss account.

Stockbroking client balances
Included in cash at bank and in hand is £4,392,627 (2005 - £2,824,389) of cash held on client settlement accounts. Amounts due from and due to individual clients and brokers are included within trade debtors and trade creditors.

2. TURNOVER

Turnover represents commission receivable from financial services supplied to clients, interest on settlement accounts and management fees charged to clients. It relates to services provided in the UK and is stated net of value added tax.

3. OPERATING PROFIT

3a) Operating profit is stated after charging/(crediting)	2006	2005
	£000	*£000*
Auditors' remuneration - audit fees *	64	60
- non audit fees	2	-
Depreciation of owned fixed assets	674	577
Interest on settlement accounts	(5,063)	(3,457)
Operating lease rentals – land and buildings	302	302

*£6,000 (2005 - £6,000) of this relates to the company.

3b) Reconciliation of operating profit to operating cash flows	*2006*	*2005*
	£000	*£000*
Operating profit	5,740	12,611
Depreciation of fixed assets	674	577
Amortisation of goodwill	80	170
Profit on disposal of fixed assets	-	2
Increase in debtors	(12,905)	(8,289)
Increase in creditors	20,063	8,466
Increase in provisions	381	68
Net cash inflow from continuing operating activities	14,033	13,605

NOTES TO THE FINANCIAL STATEMENTS

4. STAFF COSTS AND DIRECTORS' REMUNERATION

Staff costs:	*2006* *£000*	*2005* *£000*
Wages and salaries	41,812	18,582
Social security costs	4,877	2,081
Other pension costs	342	312
	47,031	20,975

The average monthly number of employees during the year was made up as follows:

	No.	*No.*
Operations and support functions	381	331
Administrative functions	132	100
	513	431

The emoluments, excluding pension contributions, of the highest paid director were £9,134,979 (2005 - £1,643,772) and pension contributions amounted to £123,130 (2005 - £123,130). 8 directors were members of money purchase pension schemes during the year (2005 - 6)

Total directors' remuneration comprised:	*2006* *£000*	*2005* *£000*
Emoluments	20,958	3,003
Pension costs	185	183
	21,143	3,186

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2006 *£000*	*2005* *£000*
Bank interest	993	1,047

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2006 *£000*	*2005* *£000*
Bank interest	436	-

NOTES TO THE FINANCIAL STATEMENTS

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2006	*2005*
	£000	*£000*
Tax on profit on ordinary activities comprises:		
Current tax		
UK Corporation tax	2,312	3,984
Payment for consortia losses	-	20
Corporation tax under provided in previous years	74	39
Total current tax	2,386	4,043
Deferred tax		
Origination and reversal of timing differences	(584)	141
Total tax on profit on ordinary activities	1,802	4,184

Factors affecting current tax charge

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2006	*2005*
	£000	*£000*
Group profit on ordinary activities before taxation	8,258	14,477

The group earns its profits in the UK therefore the tax rate used is the standard rate for UK corporation tax, currently 30% (2005 - 30%)

	2006	2005
	£000	£000
Tax on group profit on ordinary activities at 30%	2,477	4,343
Effects of:		
Expenses (deductible)/ not deductible for tax purposes	(81)	(12)
Accelerated capital allowances	(34)	(91)
Other timing differences	513	(50)
Utilisation of trading losses	-	(38)
Utilisation of consortia losses	-	(21)
Payment for consortia losses	-	20
Income not subject to tax	(579)	(142)
Utilisation of small company tax rate	(10)	(5)
Adjustments to tax charge in respect of prior periods	74	39
Surplus trading losses of subsidiary	26	-
Group current tax charge for period	2,386	4,043

NOTES TO THE FINANCIAL STATEMENTS

7. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

Factors that may affect future tax charges

The market value of the group's listed investments is in excess of their cost as disclosed in note 10. No tax has been provided on the potential gain. If they were sold at these values there would be a liability to corporation tax of £3,009,000 (2005 - £1,545,000) on the capital gain arising from the sale.

The Group operates share option schemes and has granted options to several employees. A reduction to corporation tax is anticipated when the options are taken up by the employees. The timing and amount of the deduction is dependent on the number of options taken up and the market value of the shares at the time. No provision has been made for this deferred tax asset.

Deferred tax

Deferred tax is provided at 30% (2005: 30%) as follows:	*2006*	*2005*
	£000	*£000*
Accelerated capital allowances	(158)	(155)
Other timing differences	(149)	431
	(307)	276

8. INTANGIBLE FIXED ASSETS: GOODWILL

Group

	2006	*2005*
Cost	*£000*	*£000*
At 1 July	1,437	1,333
Additions	13	104
At 30 June	1,450	1,437
Amortisation		
At 1 July	237	67
Charge during the year	80	170
At 30 June	317	237
Net book value:		
At 30 June	1,133	1,200

The goodwill addition in the year arose on the acquisition of Hargreaves Lansdown Insurance Brokers Limited, a dormant company.

9. TANGIBLE FIXED ASSETS

Group

	Leasehold improvements £000	*Tenants' fixtures £000*	*Office equipment £000*	*Computer equipment & software £000*	*Motor vehicles £000*	*Total £000*
Cost:						
At 1 July 2005	34	360	1,179	2,677	51	4,301
Additions	-	-	612	234	-	846
At 30 June 2006	34	360	1,791	2,911	51	5,147
Depreciation:						
At 1 July 2005	30	217	550	1,848	12	2,657
Charge during the year	4	33	484	145	8	674
At 30 June 2006	34	250	1,034	1,993	20	3,331
Net book value:						
At 30 June 2006	-	110	757	918	31	1,816
At 1 July 2005	4	143	629	829	39	1,644

Company

	Leasehold improvements £000	*Tenants' fixtures £000*	*Office equipment £000*	*Computer equipment & software £000*	*Total £000*
Cost:					
At 1 July 2005 and at 30 June 2006	34	327	541	478	1,380
Depreciation:					
At 1 July 2005	31	211	336	107	685
Charge during the year	3	33	54	92	182
At 30 June 2006	34	244	390	199	867
Net book value:					
At 30 June 2006	-	83	151	279	513
At 1 July 2005	3	116	205	371	695

NOTES TO THE FINANCIAL STATEMENTS

10. INVESTMENTS

Group	*2006*	*2005*
	£000	*£000*
Fixed asset investments		
Other fixed asset investments	2,105	3,168

Other fixed asset investments	*Listed on the Stock Exchange*	*Unlisted*	*Total*
	£000	*£000*	*£000*
Cost:			
At 1 July 2005	1,000	2,491	3,491
Disposal	-	(50)	(50)
Increase in investment of subsidiary	-	(13)	(13)
Transferred to current asset investments	(1,000)	-	(1,000)
At 30 June 2006	-	2,428	2,428
Provision:			
At 1 July 2005 and 30 June 2005	-	323	323
Net book value:			
At 30 June 2006	-	2,105	2,105
At 1 July 2005	1,000	2,168	3,168

Current asset investments – available for sale

	Valuation		*Cost*	
	2006	*2005*	*2006*	*2005*
	£000	*£000*	*£000*	*£000*
Listed on the Stock Exchange	11,247	148	1,216	148

10. INVESTMENTS (CONTINUED)

Company

Fixed asset investments	*Listed on the Stock Exchange*	*Unlisted*	*Associated undertakings*	*Subsidiary undertakings*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*
Cost:					
At 1 July 2005	1,000	2,238	342	2,363	5,943
Additions	-	-	-	1	1
Disposal	-	(50)	-	-	(50)
Increase in investment of subsidiary	-	(13)	-	13	-
Transfer to current asset investments	(1,000)	-	-	-	(1,000)
At 30 June 2006	-	2,175	342	2,377	4,894
Amounts provided:					
At 1 July 2005	-	345	342	200	887
Increase in investment	-	(13)	-	13	-
Provided in the year	-	-	-	13	13
At 30 June 2006	-	332	342	226	900
Net book value:					
At 30 June 2006	-	1,843	-	2,151	3,994
At 1 July 2005	1,000	1,893	-	2,163	5,056

The company has investments in the following principal subsidiary undertakings:

Name of company	*Country of incorporation*	*Shares held*	*Nature of business*
Hargreaves Lansdown Asset Management Ltd	U.K	100%	Unit trust and equity broking, investment fund management, life and pensions consultancy
Hargreaves Lansdown Stockbrokers Ltd	U.K	100%	Stockbroking
Hargreaves Lansdown Fund Managers Ltd	U.K	100%	Unit Trust Management
Hargreaves Lansdown Pensions Direct Ltd	U.K	100%	Pension broking
Hargreaves Lansdown Pensions Trustees Ltd	U.K	100%	Trustee
Library Information Services Ltd	U.K	100%	Data provider
Hargreaves Lansdown EBT Trustees Ltd	U.K	100%	Trustee of the Employee Benefit Trust
Broker Focus Ltd	Ireland	100%	Software engineering

Current asset investments – available for sale

	Valuation		*Cost*	
	2006	2005	2006	2005
	£000	£000	£000	£000
Listed on the Stock Exchange	2,807	-	1,000	-

NOTES TO THE FINANCIAL STATEMENTS

11. DEBTORS

	Group		Company	
	2006	2005	2006	2005
Due in less than one year:	£000	£000	£000	£000
Trade debtors	39,693	28,742	-	-
Amounts owed by subsidiary undertakings	-	-	14	1,003
Other debtors	790	844	-	17
Prepayments and accrued income	5,675	3,346	318	80
Corporation tax	1,914	-	1,747	-
Deferred tax	307	-	31	86
	48,379	32,932	2,110	1,186
Due in more than one year:				
Other debtors	-	322	-	322
	48,379	33,254	2,110	1,508

12. ANALYSIS AND RECONCILIATION OF NET FUNDS

	At 1 July 2005 £000	*Cash flow £000*	*At 30 June 2006 £000*
Cash at bank and in hand	32,147	(18,402)	13,745

Movement in net funds	2006 *£000*	2005 *£000*
(Decrease)/increase in cash in the period	(18,402)	10,157
Net liquid funds at 1 July	32,147	21,990
Net liquid funds at 30 June	13,745	32,147

13. CREDITORS: amounts falling due within one year

	Group		*Company*	
	2006	*2005*	*2006*	*2005*
	£000	*£000*	*£000*	*£000*
Bank overdraft	-	-	6,300	-
Trade creditors	37,083	27,961	-	-
Amounts owed to subsidiary undertakings	-	-	1,021	1,963
Corporation tax	-	2,524	-	-
Other taxes and social security costs	3,632	2,113	-	230
Other creditors	14,431	5,604	6	1,802
Accruals and deferred income	2,226	1,631	-	-
	57,372	39,833	7,327	3,995

NOTES TO THE FINANCIAL STATEMENTS

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

		Group
	2006	*2005*
	£000	*£000*
Other creditors	665	509

Other creditors represents deferred bonus payments which are due to be paid to staff under the Phantom Share Scheme. The net movement in the creditor during the year of £156,000 represents an increase in value of the phantom shares of £332,000 less phantom share payments made of £176,000.

15. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation	*Commission on indemnity terms*	*Group Total*
	£000	*£000*	*£000*
At 1 July 2005	276	287	563
Charge to the profit and loss account for the year	(2,216)	224	(1,992)
Transfer to debtors	1,940	-	1,940
At 30 June 2006	-	511	511

16. SHARE CAPITAL

	2006	*2005*
	£000	*£000*
Authorised:		
2,500,000 ordinary shares of 10p each	250	250

	2006	*2005*	*2006*	*2005*
	No.	*No.*	*£000*	*£000*
Allotted, called up and fully paid:				
Ordinary shares of 10p each	1,724,795	1,724,795	172	172

Options granted under the company share option schemes to subscribe for ordinary shares of the company are as follows:

Date granted	*Number of shares remaining under option*	*Subscription price per share*	*Exercise period*	*Share scheme*
16.4.2002	16,146	£10.00	6 months from 16.4.2007	SAYE employee scheme
3.6.2003	13,440	£10.00	6 months from 3.6.2008	SAYE employee scheme
27.2.2006	25,000	£150.00	up to 27.2.2016	Unapproved Company Share Option Plan
25.7.2006	24,000	£175.00	up to 25.7.2016	Unapproved Company Share Option Plan

17. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

Group	*Share capital £000*	*Share premium £000*	*Capital redemption reserve £000*	*Other reserves £000*	*EBT reserve £000*	*Profit and loss account £000*	*Total £000*
At 1 July 2004	172	1,648	12	(489)	-	20,582	21,925
Profit for the financial year	-	-	-	-	-	10,293	10,293
Dividend paid	-	-	-	-	-	(1,667)	(1,667)
Sale of shares by EBT	-	-	-	125	-	-	125
Purchase of shares by EBT	-	-	-	(105)	-	-	(105)
Issue of shares	-	85	-	-	-	-	85
At 1 July 2005	172	1,733	12	(469)	-	29,208	30,656
Profit for the financial year	-	-	-	-	-	6,456	6,456
Dividend paid	-	-	-	-	-	(7,863)	(7,863)
Revaluation of investments (ii)	-	-	-	10,031	-	-	10,031
Sale of shares by EBT (i)	-	-	-	327	(63)	-	264
Purchase of shares by EBT (i)	-	-	-	(19,667)	-	-	(19,667)
At 30 June 2006	172	1,733	12	(9,778)	(63)	27,801	19,877

Company	*Share capital £000*	*Share premium £000*	*Capital redemption reserve £000*	*Other reserves £000*	*EBT reserve £000*	*Profit and loss account £000*	*Total £000*
At 1 July 2003	172	1,648	12	(489)	-	2,211	3,554
Profit for the financial year	-	-	-	-	-	1,400	1,400
Dividend paid	-	-	-	-	-	(1,667)	(1,667)
Purchase of shares by EBT	-	-	-	(105)	-	-	(105)
Sale of shares by EBT	-	-	-	125	-	-	125
Issue of shares	-	85	-	-	-	-	85
At 1 July 2005	172	1,733	12	(469)	-	1,944	3,392
Profit for the financial year	-	-	-	-	-	24,320	24,320
Dividend paid	-	-	-	-	-	(7,863)	(7,863)
Revaluation of investments (ii)	-	-	-	1,807	-	-	1,807
Sale of shares by EBT (i)	-	-	-	327	(63)	-	264
Purchase of shares by EBT (i)	-	-	-	(19,667)	-	-	(19,667)
At 30 June 2006	172	1,733	12	(18,002)	(63)	18,401	2,253

(i) In accordance with UITF38 – Accounting for ESOP Trusts, the cost of shares in Hargreaves Lansdown PLC held by the Trust are included in 'Other reserves' above. The profit or loss on subsequent sale of the shares by the Trust is credited directly to the EBT reserve, which is a non distributable reserve.

(ii) The surplus on revaluation of current asset investments (note 1) has been credited to Other Reserves.

NOTES TO THE FINANCIAL STATEMENTS

17. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES (CONTINUED)

	2006	*2005*
	£000	*£000*
The following interim dividends were paid during the year:		
1st interim dividend £1 per share (2005: £1)	1,560	1,667
2nd special interim dividend £3 per share	4,727	-
3rd interim dividend £1 per share	1,576	-
	7,863	1,667

18. OPERATING LEASE COMMITMENTS

At 30 June 2006 the group has lease agreements in respect of properties for which the payments extend over a number of years as follows:

	2006	*2005*
Group and Company	*£000*	*£000*
Operating lease which expires:		
Within two to five years	297	-
After five years	236	533

The group has the option to terminate the operating lease agreements within two to five years.

19. HARGREAVES LANSDOWN EMPLOYEE BENEFIT TRUST

The Hargreaves Lansdown Employee Benefit Trust 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. The Trust has waived its rights to dividends.

During the year, the following transactions have taken place:

a) The Trust transferred 15,383 ordinary shares of 10p each in Hargreaves Lansdown Plc to members of the Hargreaves Lansdown Plc Group SAYE scheme for consideration of £153,830, resulting in no gain or loss.
b) The Trust purchased 131,339 ordinary shares of 10p each in Hargreaves Lansdown Plc at a cost of £19,667,986. The purchase of 130,000 of these shares was funded in part by an interest free loan of £14,000,000 from the sponsoring company, Hargreaves Lansdown Plc.
c) The Trust transferred 11,000 ordinary shares of 10p each in Hargreaves Lansdown Plc to members of the Hargreaves Lansdown Plc Share Option Scheme for consideration of £110,000, resulting in a loss of £63,618.

At 30 June the Trust held the following investments:

	2006	*2005*	*2006*	*2005*
	No.	*No.*	*£*	*£*
Hargreaves Lansdown PLC ordinary 10p shares	149,043	44,087	19,809,471	468,933

20. FINANCIAL INSTRUMENTS

Financial risk management

Hargreaves Lansdown's financial risk management is based upon sound economic objectives and good corporate practice. No hedging transactions have taken place during the year.

Interest rate risk

The Group has no external borrowings and as such is not exposed to interest rate or refinancing risk on borrowings. Cash at bank earns interest at floating rates based on daily bank deposit rates in the relevant currency. Short term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short term deposit rates.

Foreign exchange translation and transaction risk

With substantially all of the Group's businesses located within the UK, and therefore with minimal net assets and transactions denominated in foreign currencies, the Group is not exposed to significant foreign exchange translation or transaction risk and as such does not hedge any foreign current assets or liabilities.

Price risk

The Group is exposed to equity security price risk on investments held by the Group. As a main source of income is based on the value of client assets held, the Group is also exposed to security price risk on investments held by clients.

Liquidity risk

The Group actively maintains cash balances on short term deposit to ensure that the Group has sufficient available funds for operations.

Credit risk

The Group has no significant concentrations of credit risk. The Group has implemented procedures that require appropriate credit or alternative checks on potential customers before business is undertaken. Financial Instrument counterparties are subject to pre-approval by the Board and such approval is limited to financial institutions with a long term rating of AA- or better. The amount of individual counterparty exposure is subject to a limit which is reassessed annually by the Board.

Carrying amount and fair value

Market values have been used to determine the fair values of cash and cash equivalents, and available for sale financial assets where there is a quoted market price. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

21. RELATED PARTY TRANSACTIONS

The company is party to a lease with P K Hargreaves and S P Lansdown, who are both directors of the company, for Kendal House at an annual rental of £302,400 (2005 - £302,400). No amount was outstanding at the year end.

NOTES TO THE FINANCIAL STATEMENTS

22. CONTINGENT LIABILITIES

Share options granted subsequent to 5 April 1999 under unapproved schemes are subject to employers' and employees' national insurance on the gain made on exercise of such options by UK employees where the shares are considered to be readily convertible assets. Hargreaves Lansdown Plc is an unlisted company and the shares are not currently considered to be readily convertible assets and so no employers' national insurance charges would arise. If the shares were classified as readily convertible assets when the options are taken up in the future, the company would incur national insurance costs.