

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document or as to what action you should take, you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.**

Application has been made for the whole of the issued and to be issued ordinary share capital of Lombard Risk Management plc ("LRM" or the "Company") to be admitted to trading on AIM. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk than that associated with established companies tends to be attached. A prospective investor should be aware of the potential risks in investing in such companies and should make the decision to invest only after careful consideration and consultation with his or her own independent financial advisor. The whole text of this document should be read and in particular attention is drawn to the section entitled "Risk Factors" in Part 4 of this document. The Rules of AIM (the "AIM Rules") are less demanding than those of the Official List of the UK Listing Authority. The London Stock Exchange plc (the "London Stock Exchange") has not itself examined or approved the contents of this document.

This document, which comprises an AIM Admission document, is a prospectus, has been drawn up in accordance with the AIM Rules and the Public Offers of Securities Regulations 1995 (the "POS Regulations") and has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Regulation 4 (2) of the POS Regulations.

The Directors of the Company and the Proposed Director, whose names and details are set out on page 3 of this document, accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Directors and the Proposed Director (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. All of the Directors and the Proposed Director accept responsibility accordingly.

## Lombard Risk Management plc

*(Incorporated and registered in England and Wales under the Companies Act 1985 and with Registered Number 3224870)*



**Placing of 15,625,000 Ordinary Shares of 0.5p each at 8p per share**

and

**Admission to trading on AIM**

by

*Noble & Company*  
LIMITED

### EXPECTED SHARE CAPITAL\*

*(immediately following the Placing)*

<i>Authorised</i>			<i>Issued and fully paid</i>	
<i>Amount</i>	<i>Number</i>		<i>Amount</i>	<i>Number</i>
£3,570,170.425	714,034,085	Ordinary Shares of 0.5p pence each	£518,272	103,654,385

Noble & Company Limited ("Nobles"), which is authorised and regulated by the Financial Services Authority (the "FSA"), is acting exclusively for the Company as the Nominated Advisor and Broker, for the purpose of the AIM Rules in connection with the Placing and Admission to AIM (the "Admission"). Noble & Company Limited will not be responsible to anyone other than the Company for providing the protections afforded to clients of Noble & Company Limited nor for providing advice to any other person in connection with the Placing or Admission and the contents of this document. The responsibilities of Noble & Company Limited as the Nominated Advisor, are owed solely to London Stock Exchange plc. No representation or warranty, express or implied, is made by Noble & Company Limited as to any of the contents of this document for which the Directors are solely responsible.

The Ordinary Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended, or under the registered securities legislation of any state of the United States of America. The relevant clearances have not been, and will not be, obtained from the Securities Commission or any province or territory of Canada. No document in relation to the Admission or the Placing has been, or will be, lodged with, or registered by, the Australian Securities Commission, and no registration statement has been, or will be, filed with the Japanese Ministry of Finance, in relation to the Admission or Placing of the Ordinary Shares. Accordingly, subject to certain exceptions, the Ordinary Shares may not, directly or indirectly, be offered or sold within the United States, Canada, Australia or Japan or offered or sold to a person within the United States of America or a resident of Canada, Australia or Japan.

It is expected that dealings in the Ordinary Shares on AIM will commence on 30 September 2004. Copies of this document will be available free of charge from the offices of Noble & Company Limited, 120 Old Broad Street, London, EC2N 1AR for the period of 14 days from the date of Admission.

\* In addition to the Ordinary Shares there will be 429,829,575 deferred shares of 0.1p each in issue on Admission. The rights of these shares are summarised in paragraph 2.7 of this document.



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## DIRECTORS, PROPOSED DIRECTOR, SECRETARY AND ADVISORS

<b>Directors</b>	John Wisbey ( <i>Chairman &amp; CEO</i> ) Ian Peacock ( <i>Non-executive Deputy Chairman</i> ) Christopher Rose ( <i>Managing Director &amp; COO</i> ) Christopher Wright ( <i>Non-executive Director</i> )
<b>Proposed Director</b>	Brian Crowe ( <i>Non-executive Director</i> )
<b>Company Secretary</b>	Spencer Backhouse
<b>Registered Office</b>	13th Floor 21 New Fetter Lane London EC4A 1AJ
<b>Nominated Advisor</b>	<b>Noble &amp; Company Limited</b> 76 George Street Edinburgh EH2 3BU
<b>Broker</b>	<b>Noble &amp; Company Limited</b> 120 Old Broad Street London EC2N 1AR
<b>Auditors and Reporting Accountants</b>	<b>Grant Thornton UK LLP</b> Grant Thornton House Melton Street Euston Square London NW1 2EP
<b>Solicitors to the Company</b>	<b>Memery Crystal</b> 44 Southampton Buildings London WC2A 1AP
<b>Solicitors to Noble &amp; Company Limited</b>	<b>Shepherd and Wedderburn</b> Bucklersbury House 83 Cannon Street London EC4N 8SW
<b>Registrars and Receiving Agents</b>	<b>Computershare Investor Services plc</b> PO Box 859 The Pavilions Bridgwater Road Bristol BS99 1XZ

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## ANTICIPATED TIMETABLE AND PLACING STATISTICS

### ANTICIPATED TIMETABLE

Admission and dealings in Ordinary Shares on AIM commence	30 September 2004
CREST accounts credited by	30 September 2004
Definitive Share certificates expected to be dispatched by	15 October 2004

### PLACING STATISTICS

Placing Price per Ordinary Share	8p
Proceeds of the Placing before expenses	£1,250,000
Number of Ordinary Shares subject to the Placing	15,625,000
Number of Ordinary Shares in issue at Admission*	103,654,385
Percentage of enlarged issued share capital represented by the Placing Shares	15%
Market capitalisation at Admission at the Placing Price	£8,292,351

*\*including 8,431,555 Ordinary Shares arising on conversion of the Preference Shares*

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## PART 1

### Key Information

#### 1.1 LOMBARD RISK MANAGEMENT PLC

- Lombard Risk Management plc, which commenced trading in 1989, is an established financial software and managed services company with a suite of software products primarily focused on interest rate and credit derivative markets. Its main customer base consists of major banks, hedge funds and hedge fund administrators. The Group has offices in London, New York, Hong Kong and Cape Town.
- The Group's principal software products, **Oberon** and **Firmament**, provide a suite of modules handling trade entry and front office trade life cycle, valuation, desk risk management and middle office functionality for a range of financial products including interest rate derivatives, credit derivatives, foreign exchange derivatives, bonds, repos, money markets and equities. The software also includes risk management modules covering market risk and credit risk that help companies to monitor, measure and manage their risk exposure.
- The Group's principal managed service is a credit derivative price verification service called **ValuSpread**, one of the market leaders in this area. ValuSpread's principal customers are the leading global banks and the service assists them in valuing their credit derivative positions independently. Additional managed services include the valuation of derivative portfolios.
- LRM's turnover for the financial year to March 2004 was £4.53 million. Annualised recurrent revenue from software rentals, maintenance and managed services (based on March 2004 revenue) was £3.4 million.
- The Directors believe that the Group is well positioned to benefit from the current strong growth in the financial product markets, especially of the credit derivatives market which grew by 67 per cent. in 2003, and from the continued growth of the hedge fund industry. In the past year, the Group has made strong headway by acquiring new customers in the hedge fund and hedge fund administrator community and has also increased the scale of existing relationships in that sector.
- In addition, the Directors believe that the new capital requirement rules for banks and financial institutions due to come into effect at the end of 2006 (known as Basel II or CAD3 in Europe) and the adoption of new International Accounting Standards (such as IAS 39) that require fair value accounting for derivatives, represent a significant growth opportunity for the Group as financial institutions move to comply with these new regulations.
- The Group is now looking to increase the size of its sales team to push its current and new products and services aggressively, and to enhance that range of products and services as quickly as practicable.
- The Group's management team is highly experienced and possesses extensive industry expertise in the financial services industry and in financial technology. John Wisbey (Chairman and Chief Executive Officer) founded the Group, prior to which he was Head of Option Trading and a director in the Swap Group at Kleinwort Benson; Christopher Rose (Managing Director and Chief Operating Officer) was Chief Operating Officer of ANZ Investment Bank, prior to which he spent 18 years at Barclays and its investment banking business, BZW. The non-executive directors are also extremely experienced. Ian Peacock is chairman of MFI Furniture Group plc and Mothercare plc, having previously been a member of the Barclays Bank Group Credit Committee; Christopher Wright was global head of Private Equity at Dresdner Kleinwort Benson and sits on boards of several private equity and technology companies. The Proposed Director, Brian Crowe, is Deputy Chief Executive of Corporate Banking and Financial Markets at Royal Bank of Scotland plc.

#### 1.2 THE PLACING AND ADMISSION

- The Company intends to issue 15,625,000 Ordinary Shares by way of the Placing in order to raise net proceeds of approximately £0.985 million after meeting issue costs. In making the Placing, Nobles are acting as agent of the Company in respect of the offer of Ordinary Shares.

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- Ordinary Shares will be placed with institutional and other investors. The terms and conditions relating to the Placing are set out in the Placing Letter which will be circulated to those institutional and other investors who, having been approached by Nobles, express an interest in applying for Ordinary Shares. Allotments of Ordinary Shares under the Placing are wholly at the discretion of Nobles in consultation with the Company.
  - The Placing is subject to the satisfaction of conditions set out in the Placing Agreement, including Admission occurring on or before 31 October 2004. Admission is expected to take place and dealings in the Ordinary Shares are expected to commence on 30 September 2004.
  - All Ordinary Shares issued pursuant to the Placing will be issued at the Placing Price, are of the same class and rank *pari passu*.
  - The Inland Revenue has provided provisional approval that, based on the information disclosed, the Company and its activities should qualify under the EIS and VCT legislation. Further information is set out in Part 7 of this document. Any person who is in any doubt as to their taxation position should consult his or her professional taxation advisor.

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## PART 2

### Information on The Group

#### 2.1 BACKGROUND AND GROWTH OF LOMBARD RISK MANAGEMENT PLC

The Group, which was founded by John Wisbey, commenced trading in 1989, and initially focused on software for trading and desk risk management of interest rate derivatives through its Oberon product. This product, which has evolved through numerous versions and several operating systems, has remained profitable throughout the Group's life and has been instrumental in providing the steady cashflow platform required for the Group to develop its products and grow.

In 1999, the Group entered the credit derivatives market by launching ValuSpread, a managed service which enables active market makers in the credit derivative markets to share information on pricing for credit default swaps and estimates of recovery rates for price verification purposes. LRM has since expanded the market for this product by licensing the data to other banks and other financial institutions.

Since 2000, the Company has invested heavily in developing a new software product, Firmament, which provides the platform upon which an integrated trading and risk management system is built. The first trading module developed, Firmament Credit Trading, provides trading and management functionality for credit derivative traders and their associated middle offices. Firmament Equity Trading, servicing the equity markets with similar functionality has also recently been developed and is being delivered to its first customer in September 2004. A further trading module, Firmament Fixed Income, is in development. In the risk management area, Firmament modules for Collateral Management and Netting have been developed.

In 1994, the Group established i-documentsystems ("IDOX") to acquire a document management business and to develop software in that space. This business was incubated for five years, funded by cashflow from Oberon, and in 1999 it was decided to spin this out as a separately financed company. IDOX received private equity funding and was subsequently floated on AIM in December 2000. LRM initially retained 26.3 per cent. of the shares in IDOX after IPO, but has slowly reduced its interest in IDOX since then to help fund its own product development programme.

#### 2.2 PRESENT AND PROPOSED BUSINESS OF THE GROUP

##### 2.2.1 The Business

The Group specialises in financial software and managed services with a suite of software products in the interest rate and credit derivative markets.

##### Financial Software

###### *Trading Systems Software*

The Group's principal software products, Oberon and Firmament, provide a range of services to the financial industry, offering users a suite of modules handling front office trader analytics, trade entry, trade life cycle, position keeping, valuation, desk risk management and middle office functionality for a range of financial products including interest rate derivatives, credit derivatives, foreign exchange derivatives, bonds, repos (bond repurchase agreements), money markets and equities.

- **Oberon** provides functionality for trading and desk risk management of interest rate derivatives such as swaps, caps, swaptions and FRAs; foreign exchange (spot and forward); foreign exchange derivatives such as currency swaps, currency options; bonds, bond options, repos (bond repurchase agreements), money markets and futures.
- **Firmament Credit Trading** provides credit derivative traders and their associated middle offices with both trading capability and the functionality to manage a credit trading business.
- **Firmament Equity Trading** provides similar functionality in the equities market.
- **Firmament Fixed Income Trading** is a fixed income trading module currently being developed within the Firmament architecture.

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### *Risk Management Software*

The Group has also developed additional risk management modules covering market risk (e.g. Value at Risk) and credit risk (at present collateral management and netting) which operate within the Firmament architecture. Although revenue from these modules is less than 10 per cent. of the Group's revenues at present, the Directors believe this will be a significant growth area in the future. The Company's risk management modules are:

- **FirmRisk**, a Value at Risk product which calculates the risk inherent in a portfolio based on VAR analysis. It is capable of handling several different types of VAR methodology such as variance co-variance, historic simulation, Monte Carlo Simulation and Extreme Value Theory. It is licensed to customers in conjunction with Oberon and Firmament trading modules. The Directors intend to replicate FirmRisk's functionality in the Firmament architecture within the next year.
- **Firmament Collateral** handles collateral management and has been licensed to its first customer.
- **Firmament Netting** has been developed but will not be actively marketed until **Firmament Credit Risk**, another product in development that will evaluate the risk exposure, becomes available next year.

The Directors believe that the new capital rules for banks and financial institutions due to come into effect at the end of 2006 (known as Basel II or CAD3 in Europe) will create an environment where financial institutions not only need to spend money but can at the same time improve their business processes to make them more cost effective. The Directors believe that this combination of "regulatory stick" and "business improvement carrot" is a powerful one for driving a business forward, and that it presents an appreciable revenue opportunity for a well thought out solution.

Similarly, the Directors believe that the adoption of new International Accounting Standards, such as IAS 39, that require fair value accounting for derivatives, represent a significant growth opportunity for the Group. The Group's software products already have many of the trader analytics and valuation routines required to exploit this opportunity.

### **Managed Services**

The Group's principal managed service is a credit derivative price verification service called ValuSpread, one of the market leaders in this area. This service, delivered over the internet, assists banks in valuing their credit derivative positions independently. It allows banks and other market participants to verify their trading prices for complex or illiquid derivative products such as credit default swaps or baskets of credit default swaps without relying on their trading teams to value an institution's own positions.

At present 23 organisations contribute data to ValuSpread. This has enabled the Group to grow the coverage of this service to over 7,400 single name credit curves submitted as at the end of April 2004. This compares with just over 3,200 in February 2003 and 362 names on start-up in 1999.

As a by-product of the ValuSpread service, a number of contributors have given permission for their data to be used by the Group for other purposes. It has licensed such data to, or used such data to value the positions of, more than 30 other firms. Additional managed services include the valuation of derivative portfolios for clients using the Group's proprietary financial software and ValuSpread data.

### **Customers**

The Group's customers are situated in London, New York and other major financial centres. The Group has offices in London, New York, Hong Kong and Cape Town.

Apart from ValuSpread, whose subscribers comprise the principal credit derivative market makers, including some of the largest global banks, the Group's customers are a variety of banks and, increasingly, hedge funds and hedge fund administrators.

At present LRM has some 30 customers licensed to use Oberon, with 8 customers now using the Firmament product suite either as software customers or on a managed service basis. Users of the Group's software include Mizuho Bank, Nedbank, UFJ Bank and Vega Asset Management.

The Group currently does business with 20 of the largest 50 banks in the world by assets as well as a majority of the leading investment banks and a number of leading hedge funds and hedge fund administrators. The breadth of the Group's exposure to the financial sector is demonstrated by the

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fact that during its life it has supplied its products and services to over 70 per cent. of these 50 banks.

### **2.2.2 Market Opportunities from Regulatory Developments**

The Group has already begun, and intends to continue, to work on products and services designed to take advantage of opportunities arising from important regulatory developments, including:

- The introduction internationally of new capital rules for regulated financial institutions. In June 2004 the Basel Committee on Banking Supervision finalised proposals, known as Basel II, for updating the current regulatory capital requirements for internationally active banks. For implementation in the European Union, this will require a new Capital Adequacy Directive, CAD3, from the European Commission to overwrite the existing capital adequacy rules. CAD3 is not identical to Basel II; for example it extends the scope of the new Basel regime to all credit institutions and investment firms as defined by the Investment Services Directive. CAD3 is due to come into force in the European Union on 31 December 2006 and will then need to be incorporated into national laws in order to take effect. It is not yet certain when (or if) similar regulations based on Basel II will come into effect in the United States. Many other countries are expected to adopt similar rules to those in Basel II.
- The introduction of new international accounting standards such as that for the fair value accounting of financial instruments such as derivatives ("IAS 39"). In September 2003 the Financial Services Authority wrote to all companies with securities on the UK Listing Authority's Official List stating that the FSA was very concerned that many issuers were poorly prepared for this and other accounting standards due to come into effect in 2005. The IAS 39 accounting standard has caused considerable controversy among European Union financial institutions and is subject to revision and possible delay, but if or when it or a similar standard comes into effect it will have substantial cost implications for many companies. A survey by JMH Treasury in 2003 found that UK companies with market capitalisations of over £2 billion would spend at least £1 million each to ensure that their treasury systems met the new rules on derivatives and other financial instruments listed in IAS 39.

The Directors believe that both Basel II/CAD3 and IAS 39 (and/or any related successor standards) offer significant opportunities to LRM. For example one of the key issues in Basel II/CAD3 is the requirement to allocate capital differentially according to credit quality. Through its ownership of both software and one of the most comprehensive databases of credit default swap prices available, the Directors believe that the Group is well placed to benefit from this requirement both directly and through alliances. An important aspect of Basel II/CAD3 is that it more closely aligns regulatory capital calculations with economic capital calculations, and there are therefore real benefits to an institution in implementing such models over and above the need to comply with regulations, thus providing the Group with further selling opportunities.

## **2.3 THE MARKET**

The principal markets to which the Group provides its products and services are those for fixed income derivatives (e.g. interest rate swaps and options), credit derivatives and risk management. The main types of organisations with which the Group does business are banks, hedge funds and hedge fund administrators.

The Group expects to benefit from growth in the market for credit derivatives in the near term, and in the medium term from the growth in risk management as the effects of the Basel II/CAD3 regulations impact. The growth in the hedge fund sector is expected particularly to benefit the Group.

### **Fixed Income Derivatives**

The fixed income derivatives market is very large and quite mature, having started about twenty years ago, but is still fast growing. According to a survey produced in April 2004 by the International Swaps and Derivatives Association ("ISDA"), the notional amount of interest rate derivatives outstanding at the end of 2003 among 120 ISDA member firms responding to the survey was US\$142.3 trillion, a growth rate over the previous year of 43 per cent.

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## Credit Derivatives

The credit derivatives market is much smaller and younger, but faster growing, than its fixed income counterpart. According to the same ISDA survey, the notional amount of credit derivatives outstanding at the end of 2003 among 110 ISDA member firms responding to the survey was US\$3.58 trillion, a growth rate over the previous year of 67 per cent. The same survey noted that the credit derivatives market had overtaken the equity derivatives market in size for the first time. This growth has been partly driven by the growth in the number of participants in the credit derivatives market. The Directors believe that the Group can benefit from the growth in the demand for credit derivative software and services that will accompany the growth in the number of participants.

## Risk Management

The market for risk management software in financial institutions is large at present and, if the Basel II arrangements progress as envisaged, is expected to grow rapidly over the next few years. The timing of any acceleration in growth will depend, *inter alia*, on the dates by which financial institutions must implement Basel II and the geographical scope of the institutions affected.

- Meridien Research estimated that global spending on risk management technology was around US\$3 billion in 2002 and that spending on collateral management software alone would reach US\$134 million by 2005.
- More recently in late 2003 Mercer Oliver Wyman estimated that the top 25 banks in the world would need to spend US\$100 million to US\$200 million each to comply with Basel II.
- In early 2004, Datamonitor reported that the twin challenges of adopting International Accounting Standards in 2005 and Basel II in 2006 would see banks spend US\$1.93 billion on technology alone in 2004 and a further US\$2 billion in 2005.
- A 2003 Professional Risk Managers International Association (PRMIA) survey showed that 31 per cent. of banks did not expect to be ready for Basel II by the end of 2006.

## Hedge Funds

According to Hedge Fund Research Inc. the global hedge fund sector managed approximately US\$800 billion of assets at the end of 2003. This is forecast to grow to US\$2 trillion by the end of 2006. The Group's products are becoming well recognised within the hedge fund sector and the Directors expect the Group to benefit from this projected growth.

## 2.4 COMPETITION

The principal competition for the Group's trading and desk risk management software products comes from subsidiaries of Sungard Data Systems Inc. and of Misys plc. Other competitors include Murex S.A. and subsidiaries of Reuters plc.

In the wider risk management market Algorithmics Inc., Sungard Data Systems Inc. and Riskmetrics Group Inc. are all considered competitors in different segments of the market.

In the managed services areas, there is competition from Mark-It Partners Ltd and Reech Capital, a subsidiary of Sungard Data Systems Inc.

For the Group's provision of data service, there is currently limited competition, but equally co-operation potential, with the main data vendors such as Bloomberg, Reuters and Thomson Financial.

## 2.5 RAISING OF FUNDS AND USE OF PROCEEDS

The Group intends to raise funds through the placing of new Ordinary Shares to raise £0.985 million net of expenses. This sum is required to drive the sales and marketing of the existing products in the banking and hedge fund areas by building up the sales team and to exploit the momentum being gained in the software and managed services business with hedge fund and other buy-side institutions. Funds will also be used for continued product development of Firmament and its modules, including the development of new product in the risk management and regulatory areas.

£316,000 of the Placing proceeds has been applied by the Company in purchasing from Advanced Technology Trust (being one of the Places and a trust in which John Wisbey is beneficially

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interested) 2,633,334 ordinary shares in IDOX at the mid market value (as at 13 September 2004, being the most recent dealing day prior to the publication of this document) of 12p per share.

Certain of the Directors and or persons connected with them intend to subscribe for Placing Shares having an aggregate value, at the Placing Price, of £486,000.

The Directors will consider opportunities to obtain further investment in the Company with the aim of further accelerating the Group's expansion, however further Ordinary Shares will not be issued at less than the Placing Price during the period upto the next Annual General Meeting of the Company without seeking Shareholder approval by way of a Special Resolution.

## 2.6 INTELLECTUAL PROPERTY RIGHTS

The Group is not dependent for its software on third parties for any intellectual property rights that are of fundamental importance to the Group. For its managed services business, the ability to run a price verification service is necessarily dependent on various banks and financial institutions continuing to supply their data.

## 2.7 CONVERSION OF PREFERENCE SHARES AND S & F WARRANT

### Preference Shares

As a result of share issues in 2002, there are in issue a total of 530,000 'A' Preference Shares and 189,470 'B' Preference Shares, all of which will be converted into Ordinary Shares on Admission.

The 'A' Preference Shares are convertible into Ordinary Shares at a ratio of 9.00061132 Ordinary Shares for every 'A' Preference Share, being a conversion at £1.00 per 'A' Preference Share (adjusted to include accrued dividends) into Ordinary Shares at a fixed price of £0.1218 per share.

The 'B' Preference shares are convertible into Ordinary Shares at a ratio of 19.3235393 Ordinary Shares for every 'B' Preference Shares, being a conversion of £1.00 per 'B' Preference Share (adjusted to include accrued dividends) into Ordinary Shares at a discount of 30 per cent. to the Placing Price.

As a result, on Admission, all of the outstanding Preference Shares will convert into a total of 8,431,555 Ordinary Shares on the following basis:

	<i>No. of Preference Shares</i>	<i>Ordinary Shares</i>	<i>Deferred Shares</i>
'A' Preference Shares	530,000	4,770,324	241,147,600
'B' Preference Shares	189,470	3,661,231	76,428,845

To the extent that the aggregate nominal value of Ordinary Shares arising on conversion is less than the aggregate nominal value of the Preferred Shares being converted, the balance will be accounted for by the Deferred Shares. The Deferred Shares have no rights to vote or to receive a dividend and only very limited rights to receive a payment on a return of capital. As such, the Directors believe that the Deferred Shares have no commercial value. The Directors may seek to remove the Deferred Shares from the Company's balance sheet at an appropriate time in the future by way of a court approved reduction of share capital.

### S & F Warrant

The terms of the S&F Warrant entitle S&F to subscribe at par value for 2.25 per cent. of the Company's issued Ordinary Shares as enlarged by such subscription. Further details of the S&F Warrant are set out in paragraph 7.2.4 of this document.

## 2.8 CURRENT TRADING AND PROSPECTS

Sales in the year to 31 March 2004 increased by 1.3 per cent. over the previous year to £4.53 million, resulting in a loss before interest and tax and exceptional items of £673,000. 54 per cent. of this loss was recorded in April and May 2003. Moreover, a significant proportion of the Group's new business in the year to 31 March 2004 is on a recurrent basis, helping monthly recurrent revenue rise in the same period by 12.4 per cent. from £258,000 in April 2003 to £290,000 in March 2004, meaning that for the current financial year the Company began with annualised recurrent revenues of approximately £3.4 million. Several new projects are in advanced stages of negotiation with customers and partners.

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It should be noted that although the Company intends to apply part of the Placing proceeds towards building up the sales team, it will inevitably take some time for revenues from this to come through, and it is unlikely to have significant effect on the results for the half year to 30 September 2004, and may not for the full year.

Further financial information can be found in Parts 5 and 6 of this document.

## **2.9 DIRECTORS AND SENIOR MANAGEMENT**

The Directors of the Company are:

### **John Wisbey, aged 48, Chairman and Chief Executive Officer**

John Wisbey founded the business of the Group in 1989 and has led the Group from start-up to its current international status. He is responsible for the main strategic issues of the Group and for supervising the senior management team. He also contributes to product innovation and definition and uses his high-level client relationships to initiate and complete key deals.

John is Chairman of IDOX, the AIM quoted company formerly wholly-owned by the Group, although in May 2004 he announced his intention to step down from this position as soon as a suitable successor could be found in order to allow him to concentrate his energies on the Group. Before establishing the Group, he was Head of Interest Rate Option Trading and a director in the Swap Group at Kleinwort Benson Limited. Before that he spent eight years at Kleinwort Benson in the banking division where he gained experience in the area of credit risk, including several years based in Hong Kong and Singapore.

### **Ian Peacock, aged 57, Non-executive Deputy Chairman**

Ian Peacock joined the Board of the Company in 2000, having previously been an advisor to the Group. He has considerable knowledge of the financial sector from his time in the banking industry where he held a number of senior positions in London, New York and Asia, including serving as a member of the Barclays Bank Group Credit Committee, as a member of the Group Board of Kleinwort Benson Group plc and as Chairman of the Kleinwort Benson Credit Committee as well as serving for two years as a special advisor to the Bank of England.

Ian is also Chairman of MFI Furniture Group plc, Chairman of Mothercare plc, and a director of Norwich and Peterborough Building Society, and a trustee of the WRVS.

### **Christopher Rose, aged 47, Managing Director and Chief Operating Officer**

Christopher Rose joined the Group in March 2000. He has been heavily involved in developing the Group's software business, and in 2003 assumed responsibility for the Group's managed services business centred around the ValuSpread service; and is involved in initiating and completing key deals.

Christopher has considerable financial sector experience. Prior to joining the Group, he was COO of ANZ Investment Bank. Before that, he spent 18 years at Barclays and its investment banking business, BZW. For most of this period he was based in Hong Kong and New York. His most recent role in Hong Kong was as Barclays/BZW Regional Director for Asia and the Barclays Group Country Head in Hong Kong.

### **Christopher Wright, aged 47, Non-executive Director**

Christopher Wright was a personal investor in the Group before becoming a director of the Company in March 2002. He became involved with the Group in 2000 when the Dresdner Bank group led a private equity pre-IPO investment in IDOX.

His previous roles included Head of Global Private Equity for Dresdner Kleinwort Capital and Chairman of the Dresdner Bank Group Private Equity Board. He currently holds various directorships and/or advisor roles, including Merifin Capital, Maxcess International Corporation, i-documentsystems group plc and Tritex Corporation and has chaired several Advisory Boards of third party managed LBO and venture capital funds.

### **Brian Crowe, aged 47, Non-executive Director**

Brian Crowe will join the Board on Admission as a Non-executive Director

Brian Crowe is Deputy Chief Executive of Corporate Banking and Financial Markets ("CBFM") at the Royal Bank of Scotland plc ("RBS"). He is also Managing Director of Financial Markets. The CBFM division embraces all the wholesale banking activities of RBS, and Financial Markets conducts all its trading activities including foreign exchange, derivatives, capital markets and money markets. He is

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a member of the Credit Committee of RBS and a member of the Group Executive Management Committee. He has had considerable personal involvement with the FSA in getting RBS's internal models approved for capital purposes. Prior to joining RBS, he was Head of Derivatives at Chase Manhattan Bank in London. He is a former member of the International Swaps and Derivatives Association board.

### **Senior Management**

The senior management of the Group include Cliff van Tonder, Head of Sales, Eran Tuv, Chief Technology Officer, Lee Wakeman, Chief Product Officer and Spencer Backhouse, Financial Controller.

### **Employees**

The Group has 62 employees, including the Directors and senior management referred to above.

## **2.10 CORPORATE GOVERNANCE**

The Company and the Directors intend to comply with the Combined Code on the Principles of Good Governance and the Code of Best Practice so far as is reasonably practicable for a company of LRM's size.

The Company will hold at least nine Board meetings each year. The Board is responsible for formulating, reviewing and approving the Company's strategy, budgets, major items of capital expenditure and acquisitions. The Board has established the following committees having the following roles within the Company:

- (a) An audit committee, consisting on Admission of Christopher Wright, John Wisbey and Ian Peacock, has been established to operate with effect from Admission. The audit committee will make recommendations concerning the application of the financial reporting and internal control principles, including reviewing the effectiveness of the Company's financial reporting, internal control and risk management procedures and the scope, quality and results of the external audit. It will meet at least twice each year.
- (b) A remuneration committee, consisting on Admission of Ian Peacock, John Wisbey and Brian Crowe, has also been established to operate with effect from Admission. The remuneration committee will review the performance of the executive directors and senior management and will make recommendations concerning their remuneration, determine the payment of bonuses to executive directors and consider bonus and option schemes. It will meet at least twice each year.

## **2.11 DIVIDEND POLICY**

It is not the Directors' present intention to pay dividends. For at least the next two years the Directors expect to retain any earnings to finance the further growth of the Company's business.

## **2.12 SHARE OPTIONS**

The Directors believe that equity incentives are and will continue to be a means of retaining, attracting and motivating key employees. The Company intends to create an option pool of up to 15 per cent. of the fully diluted Ordinary Share capital of the Company to be available to management and staff. The exercise price will normally be at or above the market value of the ordinary shares at the date of grant.

## **2.13 CREST**

CREST is a paperless settlement procedure enabling securities to be evidenced other than by a physical certificate and transferred other than by written instrument. The Board has resolved that the Ordinary Shares may be held and transferred both in certificated form and in uncertificated form in accordance with the Uncertificated Securities Regulations and the Articles contain provisions implementing this. The Directors will apply for the Ordinary Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if the relevant shareholders so wish.

## **2.14 QUALIFYING INVESTMENT FOR EIS AND VCTS**

The Inland Revenue has provided provisional approval that, based on the information disclosed, the Company and its activities should qualify under the EIS and VCT legislation. Further information is

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set out in Part 7 of this document. Any person who is in any doubt as to his or her taxation position should consult his or her professional taxation advisor.

### **2.15 FURTHER CONSIDERATIONS**

Your attention is drawn to the risk factors set out in Part 4 of this document. An investment in the Company may not be suitable for you for several reasons.

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## PART 3

### The Placing

#### 3.1 SHARES SUBJECT TO THE PLACING

The Company intends to issue 15,625,000 Ordinary Shares by way of the Placing in order to raise net proceeds of £0.985 million. In making the Placing, Nobles are acting as agent of the Company in respect of the offer of Ordinary Shares.

#### 3.2 THE PLACING

Ordinary Shares will be placed with institutional and other investors. The terms and conditions relating to the Placing are set out in the Placing Agreement. A Placing Letter and application form will be circulated to those institutional and other investors which, having been approached by Nobles, express an interest in applying for Ordinary Shares. Allotments of Placing Shares are wholly at the discretion of Nobles in consultation with the Company.

The Placing is subject to the satisfaction of conditions contained in the Placing Agreement, including the absence of any breach of representation or warranty made by the Company and the Directors and Admission occurring on or before 30 September 2004 (or such later date that may be agreed between Nobles and the Company and not being later than 31 October 2004). Certain conditions are not capable of waiver. Further details of the Placing Agreement are set out in Part 7 of this document.

Admission is expected to take place and dealings in the Ordinary Shares are expected to commence on AIM on 30 September 2004.

#### 3.3 ALLOCATION AND PRICING

All Ordinary Shares issued pursuant to the Placing will be issued at the Placing Price. The Placing Shares represent approximately 15 per cent. of the issued ordinary share capital of the Company on Admission and all are new shares.

Nobles will be soliciting indications of interest in acquiring Ordinary Shares under the Placing from prospective institutions and other investors. Such investors will be required to specify the number of Ordinary Shares they would be prepared to acquire at the Placing Price. Investors will also be required to specify whether or not they wish to subscribe for Ordinary Shares under EIS or VCT legislation. This process was completed on 15 September 2004, but the time may be brought forward or extended at the absolute discretion of Nobles.

The Company intends to supply EIS certificates to those investors who have so specified that they wish to subscribe under the EIS as soon as possible after Admission to AIM and the Company has received authority from the Inland Revenue to issue certificates to investors.

#### 3.4 LOCK-IN ARRANGEMENTS

The Directors have agreed, subject to certain exceptions (including, for example, in the case of a take over offer for the Company), not to dispose of any of their Ordinary Shares held prior to the Placing for a period of six months after Admission without the consent of Nobles and for a further six months thereafter only to dispose of Ordinary Shares in accordance with the orderly marketing criteria of Nobles.

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## PART 4

### Risk Factors

In addition to the information contained elsewhere in this document prospective investors should consider carefully the risk factors set out below when evaluating an investment in the Company. The risks associated with subscribing for new Ordinary Shares include, but may not be limited to, the following identifiable risks which, individually or in aggregate, could have a material effect on Lombard Risk Management plc and on shareholders.

The following factors do not purport to be a complete list or explanation of all the risk factors involved in investing in Lombard Risk Management plc. In particular, the Company's performance may be affected by changes in the market and/or economic conditions and in legal, regulatory and tax requirements.

#### 4.1 AIM

The value of the Ordinary Shares may go down as well as up. Investors may therefore realise less than the original amount subscribed pursuant to the Placing and could lose their entire investment. Furthermore, an investment in a share that is traded on AIM is likely to carry a higher risk than an investment in a share listed on the Official List of the UK Listing Authority. The market value of the Ordinary Shares may not necessarily reflect the underlying net asset value of the Company.

#### 4.2 EIS/VCT

The Company has received provisional approval from the Inland Revenue confirming that its activities and the shares to be issued through the Placing should qualify under the EIS and VCT legislation. Neither the Company, nor the Company's advisors give any warranties or undertakings that EIS relief or VCT qualifying status will be available or that, if given, such relief or status will not be withdrawn.

Circumstances may arise where the Directors believe that the interests of the Company are not best served by acting in a way that preserves the EIS relief (including Capital Gains Tax) or VCT qualifying status. In such circumstances, the Company cannot undertake to conduct its activities in a way designed to preserve any such relief or status claimed by investors.

Should the law regarding EIS or VCT change then any reliefs or qualifying status previously obtained may be lost.

If the Company ceases to carry on the business outlined in this document during the three year period from the last allotment of Ordinary Shares, this could prejudice the qualifying status of the Company under EIS and VCT legislation. This situation will be closely monitored with a view to preserving the Company's qualifying status but this cannot be guaranteed.

#### 4.3 THE WORLD ECONOMY AND THE FINANCIAL SECTOR

In former economic downturns or financial sector downturns such as that in 2002 and 2003, there was an appreciable level of cost cutting in banks and financial organisations which led to reductions in spending on information technology generally. While most commentators seem to believe that the economic environment in 2004 is more positive than in the previous two years, there is a risk that another economic downturn, particularly in the financial sector, or a temporary loss of confidence due to, for example, a major terrorist attack in a financial centre, could lead to similar reductions in spending by financial institutions or delays in taking up the Company's products and services.

#### 4.4 CHANGES IN THE MARKET AND IN REGULATORY POLICY

The Basel II capital accord being introduced by financial regulators is an example of a large and fundamental change in the market that, for reasons explained in Part 2 of this document, the Directors believe will allow the Company to grow revenue more easily than if there were no changes. There could also in future be changes in regulations, legislation or practice (or delays in implementing expected regulations or legislation) which the Company has not factored into its calculations, some of which might benefit the Company, others which might hinder the Company. An example of such a delay that might adversely affect revenues could be a material further postponement beyond the anticipated date of 31 December 2006 on which Basel II and CAD3 are expected to come into force.

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#### **4.5 BANK MERGERS**

There is a continuing trend for banks to merge. While this provides opportunities for the Group to expand the size of its customer relationships, it also carries with it the threat that the Group's products will not be chosen for the larger merged entity, and in macro terms, the possibility that IT spending of the merged institution will be lower than that of the two original banks.

#### **4.6 COMPETITION**

There is a risk that the competition the Group faces from established competitors in the financial software, managed services or data markets may frustrate its ability to grow revenues as quickly as the Board hopes. There is always an additional risk of other competitors emerging that the Group does not currently perceive as a threat or does not even know about.

#### **4.7 BANKS OPERATING AS VENDORS INDIVIDUALLY OR AS A CONSORTIUM**

The past few years have seen some banks investing directly in technology products and services themselves. Similarly, banks have been investors in a variety of technology companies where the desire has been to share in the growth of the market or to commercialise internal operations.

The Group does not have significant investments from any of its customers. While this allows the Group to position itself as free from the vested interests of major banking groups, and also allows the Company to make quicker decisions than some of its competitors (where multiple bank shareholder entities have to wait for consent from several shareholder directors) there is a risk to the Group that banks may at times prefer to direct business towards entities in which they have a financial stake.

#### **4.8 BUSINESS MODEL FOR MANAGED SERVICES**

The business model for one of the Group's managed services, ValuSpread, relies on major banks and financial institutions contributing and continuing to contribute data for credit derivatives. This is then used to produce peer group validation of data to assist the contributors in producing accurate mark to market numbers independently of their traders' own prices, and as the basis for a subset of the data which is licensed to third parties. At present there are 23 institutions contributing such data on a regular basis. If a significant number of major institutions were to withdraw from the service, there is a risk that the remainder of the Group's customers for this service might find the service of lower value and withdraw too.

#### **4.9 PRICING OF LRM'S PRODUCTS**

The Group has been able to sell or license its products in the past year at certain average prices. There can be no guarantee that competitors will not reduce their prices in the future, thereby decreasing the Group's ability to sell at similar average prices and/or reducing the Group's profit margins.

#### **4.10 SIZE OF LRM**

While the Group has rarely to its knowledge lost contracts because of its size, this could become a factor as the Group attempts to win larger contracts. The enhanced status associated with the Placing and Admission can be expected to mitigate customers' perceptions of the risk of dealing with a relatively small company, but there is still a risk that the Group may lose contracts because of its size.

#### **4.11 ABILITY TO HIRE AND RETAIN STAFF**

The success of the Group is dependent on its ability to recruit and retain senior executives and other key staff.

While senior executives of the Group are compensated with a combination of salary, performance related bonus and share options, there is no guarantee that the Group will be able to retain such senior executives.

At a less senior level, technologists leaving the Group have typically been recruited by banks. If financial markets stage a major upturn and banks start aggressively recruiting again, then there may be upward pressure on salary packages and greater difficulty in recruiting and retaining such staff.

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#### **4.12 PROJECT ESTIMATION**

All software projects have risks associated with delays or the accuracy of delivery dates. Typically, delays arise from a combination of inadequate specification and design, poor time estimation for development and inadequate testing of a product in its target environment. The consequence of delays is to produce both cost overruns and revenue shortfalls, the latter because revenue is normally dependent on delivery. Although important parts of the Group's Firmament software product have already been delivered, there is a risk that those parts not already delivered may be subject to such delays or inaccuracies in delivery dates.

#### **4.13 TECHNOLOGY RISK**

Some of the technologies the Group needs to use, for example Enterprise Java Beans servers, do not have years of testing in the market. There is therefore a risk that our solution may fail to perform properly because of other vendors' products, (although this risk is likely to be a risk that our competitors face too). The best way of reducing this risk is to ensure thorough testing of our own products and to repeat those tests in our customers' environment.

#### **4.14 SECURITY OF CONFIDENTIAL INFORMATION**

For the Group's price verification services such as ValuSpread, which rely on the Group maintaining confidentiality, a security lapse (either through people or technology) could seriously damage the Group's reputation and sales prospects.

#### **4.15 OPERATIONAL ISSUES**

The ValuSpread service relies on the Group's operational capability to receive and deliver daily prices to our contributors. There is potential to suffer operational disruption that might lead to the inability to service these customers in a timely fashion and consequently suffer loss of revenues and reputation.

#### **4.16 QUALITY CONTROL**

The reputation of all the Group's products and services (in common with those of all of its competitors) depends partly on a perception of quality control. There is always some risk that one small mistake could cause disproportionate damage to the Group's reputation.

#### **4.17 RESEARCH AND DEVELOPMENT TAX CREDITS**

The Group has, in common with many other companies, taken advantage of United Kingdom tax reliefs that allow a tax credit against corporation tax for research and development costs as defined in legislation and various guidance notes. Tax credit refunds have been received from the Inland Revenue for the three financial years ending March 2001, 2002 and 2003. The tax credit refunds received amount to £570,000. Under the tax legislation, the Inland Revenue are able to review claims to research and development tax credits as part of their normal enquiries into tax returns and in certain circumstances reduce or deny the relief so that the refunds received are wholly or partly repayable to the Inland Revenue. The Directors received professional advice when making the claims and believe they meet all of the conditions for the relief.

#### **4.18 VALUE OF EQUITY HOLDINGS**

The Group will hold on Admission 5.4 per cent. of the issued ordinary shares in its former subsidiary IDOX, and may from time to time increase or decrease its investment in IDOX or other quoted securities. As for any investment, there is a risk that the price and the value of the Group's holdings may go down as well as up.

#### **4.19 CURRENCY RISK**

The Group has customer contracts denominated in U.S. Dollars and Euros as well as Sterling. Rises in Sterling against any of these currencies will cause a fall in the Sterling equivalent of such revenues. Furthermore, to the extent that receivables from such contracts are not offset by payables in the same currency, the Group has foreign exchange exposure which may also have a negative effect on the Group's profitability.

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#### **4.20 REQUIREMENT FOR ADDITIONAL CAPITAL**

The Group may be required to conduct further fundraising exercises in the future in order to develop its business, sustain cash resources and pursue acquisitions.

#### **4.21 OTHER**

The Group is subject to most of or all of the commercial, legal, employment, operational and reputational risks that also affect others in similar industries.

The information in this document is based upon current tax law and practice and other legislation and any changes in the legislation or in the levels and bases of, and reliefs from, taxation may affect the value of an investment in the Group.

**AN INVESTMENT IN LOMBARD RISK MANAGEMENT PLC MAY NOT BE SUITABLE FOR ALL RECIPIENTS OF THIS DOCUMENT. POTENTIAL INVESTORS ARE ACCORDINGLY ADVISED TO CONSULT A PERSON AUTHORISED UNDER THE FINANCIAL SERVICES AND MARKETS ACT 2000 WHO SPECIALISES IN INVESTMENTS OF THIS KIND BEFORE MAKING A DECISION.**

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## PART 5

### Accountant's Report on The Group

The following is the full text of a report on Lombard Risk Management plc from Grant Thornton UK LLP, the Reporting Accountants, to the Directors of Lombard Risk Management plc and Noble & Company Limited.

**Grant Thornton** 

The Directors  
Lombard Risk Management plc  
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21 New Fetter Lane  
LONDON  
EC4A 1AJ

Grant Thornton UK LLP  
Grant Thornton House  
Melton Street  
Euston Square  
LONDON  
NW1 2EP

and

The Directors  
Noble & Company Limited  
120 Old Broad Street  
LONDON  
EC2N 1AR

17 September 2004

Dear Sirs,

### **LOMBARD RISK MANAGEMENT PLC ("THE COMPANY") AND ITS SUBSIDIARY UNDERTAKINGS ("THE GROUP")**

#### **1. INTRODUCTION**

We report on the financial information set out in sections 3 to 9 below. This financial information has been prepared for inclusion in the prospectus of the Company dated 17 September 2004.

#### **Basis of preparation**

The financial information set out in sections 3 to 9 below is based on the audited consolidated financial statements of Lombard Risk Management plc for the three years ended 31 March 2004 and has been prepared on the basis set out in section 3 after making such adjustments as we considered necessary.

#### **Responsibility**

Such financial statements are the responsibility of the directors of Lombard Risk Management plc who approved their issue.

The directors of Lombard Risk Management plc are responsible for the contents of the prospectus in which this report is included.

It is our responsibility to compile the financial information set out in our report from the audited consolidated financial statements, to form an opinion on the financial information and to report our opinion to you.

#### **Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information

and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

### Opinion

In our opinion the financial information gives, for the purposes of the prospectus dated 17 September 2004, a true and fair view of the results and cash flows of the Group for the years ended 31 March 2002, 2003 and 2004 and the state of affairs of the Group at the end of each of those years.

### Consent

We consent to the inclusion in the prospectus dated 17 September 2004 of this report and accept responsibility for this report for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

## 2. STATUTORY INFORMATION

Name	Proportion of ordinary share capital held		Country of Incorporation	Business	Previous Name
	By parent %	By Group %			
Lombard Risk Management plc	controlling party		UK	Software	Timedwatch PLC
Lombard Risk Systems Limited	100	100	UK	Software	Systemidol Ltd
Lombard Risk Systems Inc.	—	100	USA	Software	
Lombard Risk Systems (Pty) Limited	—	100	South Africa	Software	
Lombard Risk Consultants Limited	100	100	UK	Training	Cherrymead Ltd
Lombard Risk Systems (Asia Pacific) Limited	—	100	Hong Kong	Non-trading	
Swapval Limited	100	100	UK	Dormant	

## 3. ACCOUNTING POLICIES

### Accounting convention

The financial information has been prepared under the historical cost convention, as amended by the revaluation of certain investments, and in accordance with the applicable accounting standards.

The principal accounting policies of the Group are set out below and have remained unchanged throughout the period.

### Basis of consolidation

The Group financial statements consolidate those of the Company and its subsidiary undertakings. The results of subsidiary undertakings acquired during the period have been included from the date of acquisition. Profits or losses on intra-group transactions are eliminated in full. On acquisition of a subsidiary, all of the subsidiary's assets and liabilities existing at the date of acquisition are recorded at their fair values reflecting their condition at that date. Goodwill arising on consolidation has been written off to reserves in accounting periods ended in 31 March 1999. Goodwill arising after this date is capitalised and amortised over its useful economic life.

The Company reduced its investment in i-documentsystems group plc ("IDOX") between 10 May 2002 and 18 December 2002 from 26.3 per cent. to 19.2 per cent. owing to a sale of shares by the Company and a simultaneous placing of shares by IDOX. This took the investment below the threshold for associate accounting. It has been held as a trade investment for the remainder of 2003 and throughout 2004. In order to allow comparison of the year on year investment in IDOX the investment is shown as a current asset investment throughout the period from 1 April 2001 to 31 March 2004.

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### 3. ACCOUNTING POLICIES (CON'T)

#### Turnover

Turnover represents the invoiced amount of the goods sold and services provided during the year, stated net of value added tax. Turnover and pre-tax profit are wholly attributable to the principal activities of the Group. The recognition of revenue is dependent upon the type of income.

Licence income	recognised as soon as the software is accepted by the client.
Customisation income	recognised once the customisation has taken place.
Maintenance income	recognised evenly over the term of the maintenance contract.
Rental income	recognised evenly over the term of the rental contract.
Training income	recognised when the relevant courses are run.

#### Depreciation

Depreciation is provided using the following rates and bases in order to write off the cost or valuation of tangible fixed assets over their useful lives in the Group's business:

Computer software	50 per cent. to 100 per cent. straight line
Computer hardware	50 per cent. straight line
Fixtures, fittings and equipment	25 per cent. straight line
Motor vehicles	25 per cent. straight line

#### Valuation of investments

Investments held as current assets are stated at cost or Directors' valuation less any provision for a permanent diminution in value.

#### Foreign exchange

Assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange prevailing at the accounting date. Transactions in foreign currencies are recorded at the rate ruling on the date of the transaction. All differences are taken to the profit and loss account, except for exchange differences arising from the retranslation of the opening net investment in subsidiary undertakings which are taken to reserves.

#### Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the Group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance date.

#### Leased assets

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their estimated useful economic lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

#### Pension costs

Contributions to a stakeholder pension scheme are charged to the profit and loss account in the year in which they become payable.

#### Research and development

Research and development expenditure is charged to profits in the year in which it is incurred.

#### 4. CONSOLIDATED PROFIT AND LOSS ACCOUNTS

		<i>Year ended 31 March 2002 £'000</i>	<i>Year ended 31 March 2003 £'000</i>	<i>Year ended 31 March 2004 £'000</i>
Turnover	2	5,384	4,468	4,525
External charges		(178)	(155)	(241)
Gross profit		5,206	4,313	4,284
Staff costs	1	(4,062)	(4,829)	(3,636)
Other operating charges		(1,968)	(1,958)	(1,321)
Exceptional costs	9	(81)	(396)	(385)
		(6,111)	(7,183)	(5,342)
<b>Operating loss</b>				
Before exceptional costs		(824)	(2,474)	(673)
Exceptional costs	9	(81)	(396)	(385)
Total operating loss	2	(905)	(2,870)	(1,058)
<b>Exceptional items</b>				
(Loss)/profit on disposal of current asset investment	8	—	(35)	2
Interest payable	3	(68)	(167)	(157)
Interest receivable	4	2	3	5
<b>Loss on ordinary activities before taxation</b>		(971)	(3,069)	(1,208)
Tax on loss on ordinary activities	5	—	110	460
<b>Loss on ordinary activities after taxation</b>		(971)	(2,959)	(748)
Non equity appropriation	6	—	(8)	(21)
<b>Loss for the year transferred from reserves</b>	14	(971)	(2,967)	(769)

All of the activities of the Group are classed as continuing.

## 5. CONSOLIDATED BALANCE SHEETS

	Note	As at 31 March 2002 £'000	As at 31 March 2003 £'000	As at 31 March 2004 £'000
<b>Fixed assets</b>				
Tangible assets	7	216	121	94
<b>Current assets</b>				
Debtors due within one year	10	765	1,164	915
Debtors due after one year	10	120	51	—
Current asset investment	8	4,052	2,073	599
Cash at bank and in hand		16	30	73
		<u>4,953</u>	<u>3,318</u>	<u>1,587</u>
<b>Creditors: amounts falling due within one year</b>	11	<u>(2,433)</u>	<u>(4,079)</u>	<u>(3,010)</u>
<b>Net current assets/(liabilities)</b>		2,520	(761)	(1,423)
<b>Creditors: amounts falling due after more than one year</b>	12	<u>(215)</u>	<u>(336)</u>	<u>(356)</u>
		<u>2,521</u>	<u>(976)</u>	<u>(1,685)</u>
<b>Capital and reserves</b>				
Called up share capital	13	766	866	868
Share premium account	14	260	449	487
Revaluation reserve	14	3,145	1,412	408
Other reserves	14	120	120	119
Profit and loss account	14	<u>(1,770)</u>	<u>(3,823)</u>	<u>(3,567)</u>
<b>Shareholders' funds/(deficit)</b>	15	<u>2,521</u>	<u>(976)</u>	<u>(1,685)</u>
Equity shareholders' funds/(deficit)		1,991	(1,686)	(2,416)
Non-equity shareholders' funds		<u>530</u>	<u>710</u>	<u>731</u>
<b>Shareholders' funds/(deficit)</b>		<u>2,521</u>	<u>(976)</u>	<u>(1,685)</u>

## 6. CONSOLIDATED CASH FLOW STATEMENTS

		<i>Year ended 31 March 2002 £'000</i>	<i>Year ended 31 March 2003 £'000</i>	<i>Year ended 31 March 2004 £'000</i>
<b>Net cash outflow from operating activities</b>	16	(548)	(2,495)	(411)
<b>Returns on investments and servicing of finance</b>				
Interest received		2	3	5
Interest paid		(67)	(64)	(156)
Hire purchase interest		—	(1)	(1)
<b>Net cash outflow from returns on investments and servicing of finance</b>		<u>(65)</u>	<u>(62)</u>	<u>(152)</u>
<b>Taxation</b>		—	—	570
<b>Capital expenditure and financial investment</b>				
Purchase of tangible fixed assets		(187)	(140)	(96)
Sale of tangible fixed assets		1	—	—
Disposal of current asset investments		—	1,124	1,476
<b>Net cash (outflow)/inflow from capital expenditure and financial investment</b>		<u>(186)</u>	<u>984</u>	<u>1,380</u>
<b>Financing</b>				
Issue of shares		519	289	—
Capital element of finance lease rentals		(2)	(5)	(5)
<b>Net cash inflow/(outflow) from financing</b>		<u>517</u>	<u>284</u>	<u>(5)</u>
<b>(Decrease)/increase in cash</b>	17	<u><u>(282)</u></u>	<u><u>(1,289)</u></u>	<u><u>1,382</u></u>

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**7. STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

	<i>Year ended 31 March 2002 £'000</i>	<i>Year ended 31 March 2003 £'000</i>	<i>Year ended 31 March 2004 £'000</i>
Loss for the financial year	(971)	(2,967)	(769)
Currency differences on foreign currency net investments	—	—	(1)
<b>Total gains and losses recognised for the financial year</b>	<b>(971)</b>	<b>(2,967)</b>	<b>(770)</b>

**8. NOTE OF HISTORICAL COST PROFITS AND LOSSES**

	<i>Year ended 31 March 2002 £'000</i>	<i>Year ended 31 March 2003 £'000</i>	<i>Year ended 31 March 2004 £'000</i>
Reported loss on ordinary activities before taxation	(971)	(3,069)	(1,208)
Realisation of revaluation gains of previous years	—	914	1,004
<b>Historical cost loss on ordinary activities before taxation</b>	<b>(971)</b>	<b>(2,155)</b>	<b>(204)</b>

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## 9. NOTES TO THE FINANCIAL INFORMATION

### 9.1 DIRECTORS AND EMPLOYEES

Staff costs during the year were as follows:

	<i>Year ended</i> <i>31 March</i> <i>2002</i> <i>£'000</i>	<i>Year ended</i> <i>31 March</i> <i>2003</i> <i>£'000</i>	<i>Year ended</i> <i>31 March</i> <i>2004</i> <i>£'000</i>
Wages and salaries	3,653	4,335	3,273
Social security costs	383	489	352
Pension costs	26	5	11
Total staff costs – ongoing	4,062	4,829	3,636
Exceptional staff costs (see note 9.9)	70	315	299
	<u>4,132</u>	<u>5,144</u>	<u>3,935</u>

The average weekly number of employees (excluding directors) during each year were:

	<i>Year ended</i> <i>31 March</i> <i>2002</i> <i>Number</i>	<i>Year ended</i> <i>31 March</i> <i>2003</i> <i>Number</i>	<i>Year ended</i> <i>31 March</i> <i>2004</i> <i>Number</i>
Office and administration	14	12	7
Operational	43	60	49
	<u>57</u>	<u>72</u>	<u>56</u>

Remuneration in respect of directors was as follows:

	<i>Year ended</i> <i>31 March</i> <i>2002</i> <i>£'000</i>	<i>Year ended</i> <i>31 March</i> <i>2003</i> <i>£'000</i>	<i>Year ended</i> <i>31 March</i> <i>2004</i> <i>£'000</i>
Aggregate emoluments	282	483	422

No pension contributions were made in respect of the directors in the three years ended 31 March 2004.

	<i>Year ended</i> <i>31 March</i> <i>2002</i> <i>£'000</i>	<i>Year ended</i> <i>31 March</i> <i>2003</i> <i>£'000</i>	<i>Year ended</i> <i>31 March</i> <i>2004</i> <i>£'000</i>
Highest paid director: Aggregate emoluments	<u>179</u>	<u>179</u>	<u>179</u>

## 9.2 TURNOVER AND LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

The turnover and loss on ordinary activities before taxation is attributable to the principal activity of the Group.

The loss on ordinary activities before taxation is stated after:

	<i>Year ended 31 March 2002 £'000</i>	<i>Year ended 31 March 2003 £'000</i>	<i>Year ended 31 March 2004 £'000</i>
Depreciation:			
Tangible fixed assets owned	271	229	116
Tangible fixed assets held under finance leases and hire purchase contracts	3	6	6
Auditors' remuneration:			
– audit services	17	18	24
– non-audit services	—	9	14
Operating lease rentals	425	367	286
	<u>425</u>	<u>367</u>	<u>286</u>

## 9.3 INTEREST PAYABLE AND SIMILAR CHARGES

	<i>Year ended 31 March 2002 £'000</i>	<i>Year ended 31 March 2003 £'000</i>	<i>Year ended 31 March 2004 £'000</i>
On bank loans and overdrafts	50	59	44
Other interest	18	108	113
	<u>68</u>	<u>167</u>	<u>157</u>

Other interest payable includes £74,000 in the year to 31 March 2004 and £79,000 in the year to 31 March 2003 in respect of exceptional costs (see Note 9.9).

## 9.4 INTEREST RECEIVABLE

	<i>Year ended 31 March 2002 £'000</i>	<i>Year ended 31 March 2003 £'000</i>	<i>Year ended 31 March 2004 £'000</i>
Interest on bank and building society deposits	2	3	2
Other interest receivable	—	—	3
	<u>2</u>	<u>3</u>	<u>5</u>

## 9.5 TAX ON LOSS ON ORDINARY ACTIVITIES

There is no charge to tax in the period because of the availability of losses within the Group. A research and development tax credit was applied for and received relating to the year ended 31 March 2003 totalling £237,000 which has been credited to the profit and loss account. In addition, the remaining element of the research and development tax credit for the two years ended 31 March 2002 was released to the profit and loss account during the year ended 31 March 2004.

The Company has received R&D tax credits of £570,000 to date. In common with all companies that have received such credits, the amounts received are subject to potential future clawback by the Inland Revenue.

## 9.5 TAX ON LOSS ON ORDINARY ACTIVITIES (CON'T)

	<i>Year ended 31 March 2002 £'000</i>	<i>Year ended 31 March 2003 £'000</i>	<i>Year ended 31 March 2004 £'000</i>
Adjustments in respect of prior periods -research and development tax credit	—	110	460
	<u>—</u>	<u>110</u>	<u>460</u>

The tax assessed for the period is the standard rate of corporation in the UK – 30 per cent. The differences are explained as follows:

	<i>Year ended 31 March 2002 £'000</i>	<i>Year ended 31 March 2003 £'000</i>	<i>Year ended 31 March 2004 £'000</i>
Loss on ordinary activities before tax	(971)	(3,069)	(1,208)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	(291)	(921)	(362)
Effect of:			
Expenses not deductible for tax purposes	7	310	31
Capital allowances for the period in excess of depreciation	1	(2)	(26)
Movement on investment value in consolidation	97	(115)	—
Movement on intra group balances on consolidation	(6)	(290)	—
Loan to associated company	6	—	27
Movement on unprovided deferred tax	81	280	—
Losses available to carry forward	105	738	330
Adjustment in respect of prior period	—	(110)	(460)
Current tax charge/(credit) for period	—	(110)	(460)
	<u>—</u>	<u>(110)</u>	<u>(460)</u>

A deferred tax asset of £1,650,000 (2003; £1,319,000) (2002; £1,238,000) arising on trading losses carried forward has not been recognised.

## 9.6 NON EQUITY APPROPRIATION

	<i>Year ended 31 March 2002 £'000</i>	<i>Year ended 31 March 2003 £'000</i>	<i>Year ended 31 March 2004 £'000</i>
'A' Preference appropriation at 6% from 1 April 2003	—	8	12
'A' Preference appropriation at 8% from 1 January 2004	—	—	5
'B' Preference appropriation at 6% from 1 July 2003	—	—	4
	<u>—</u>	<u>8</u>	<u>21</u>

## 9.7 TANGIBLE FIXED ASSETS

	<i>Computer Hardware £'000</i>	<i>Fixtures, Fittings and Equipment £'000</i>	<i>Motor Vehicle £'000</i>	<i>Software £'000</i>	<i>Total £'000</i>
<b>Cost</b>					
At 1 April 2001	1,473	392	—	501	2,366
Additions	121	1	24	121	267
Disposals	(1)	—	—	—	(1)
At 31 March 2002	1,593	393	24	622	2,632
Additions	90	—	—	50	140
At 31 March 2003	1,683	393	24	672	2,772
Additions	75	1	—	19	95
At 31 March 2004	1,758	394	24	691	2,867
<b>Depreciation</b>					
At 1 April 2001	1,390	382	—	371	2,143
Provided in the year	98	4	3	169	274
Disposals	(1)	—	—	—	(1)
At 31 March 2002	1,487	386	3	540	2,416
Provided in the year	110	5	6	114	235
At 31 March 2003	1,597	391	9	654	2,651
Provided in the year	87	1	6	28	122
At 31 March 2004	1,684	392	15	682	2,773
<b>Net book amount</b>					
At 31 March 2002	106	7	21	82	216
At 31 March 2003	86	2	15	18	121
At 31 March 2004	74	2	9	9	94

The motor vehicle included in fixed assets has been purchased under a finance lease.

## 9.8 CURRENT ASSET INVESTMENT

	<i>As at 31 March 2002 £'000</i>	<i>As at 31 March 2003 £'000</i>	<i>As at 31 March 2004 £'000</i>
Current asset investment	4,052	2,073	599

The current asset investment relates to the Company's investment in i-documentsystems group plc, ("IDOX") an AIM listed company.

	<i>Year ended 31 March 2003</i>			<i>Year ended 31 March 2004</i>		
	<i>May 2002 Disposal £'000</i>	<i>Dec 2002 Disposal £'000</i>	<i>Total £'000</i>	<i>June 2003 Disposal £'000</i>	<i>Sep 2003 Disposal £'000</i>	<i>Total £'000</i>
Proceeds	800	326	1,126	731	744	1,475
Carrying value	(814)	(347)	(1,161)	(811)	(662)	(1,473)
(Loss)/profit on disposal	(14)	(21)	(35)	(80)	82	2

At 31 March 2002, the Group held 33,769,600 shares representing 26.3 per cent. of the IDOX share capital.

On 10 May 2002, the Group disposed of 6,799,999 shares representing 4.8 per cent. of the IDOX share capital for £800,000 net of costs.

On 18 December 2002, the Group disposed of 2,888,889 shares representing 2.1 per cent. of the IDOX share capital for £326,000 net of costs.

At 31 March 2003 the Group held 24,100,712 shares representing 17.1 per cent. of the IDOX share capital. At that date, the current asset investment was revalued from 12p to 8.6p per share, being the Directors valuation based on subsequent share disposals.

On 27 June 2003, the Group disposed of 9,432,500 shares representing 6.7 per cent. of the IDOX share capital for £731,000 net of costs.

On 9 September 2003, the Group disposed of a further 7,700,000 shares representing 5.0 per cent. of the IDOX share capital for £744,000 net of costs.

At 31 March 2004 the Group held 6,968,212 shares, held at Directors' valuation of 10p, representing 4.5 per cent. of the IDOX share capital.

The market value of the Group's holding in IDOX at 31 March (based on closing share value) was:

2004 – £0.7 million  
2003 – £2.3 million  
2002 – £5.6 million

## 9.9 EXCEPTIONAL COSTS IN RESPECT OF PURCHASE OF A BUSINESS INTEREST

On 6 February 2002 the Company became a party to an agreement entered into by Lombard Risk Systems Ltd to purchase a third party's interest in one of its operating divisions, which is an important business activity of the Group, and for the third party to perform future services to the Group.

The total consideration is £1,055,000 which is charged to the profit and loss account in instalments between 1 January 2002 and 31 December 2004, which is the period that the Group will benefit from the agreement.

£855,000 of the consideration is payable in monthly instalments from 6 February 2002 to 31 December 2004 and £200,000 is payable in monthly instalments from 31 December 2004 to 31 December 2006. The difference between the charge to the profit and loss account over three years and the payments over five years is accounted for as a deferred creditor or a deferred debtor as appropriate.

## 9.9 EXCEPTIONAL COSTS IN RESPECT OF PURCHASE OF A BUSINESS INTEREST (CON'T)

Interest is charged on the outstanding balance at 10 per cent. per annum.

Amounts charged to the profit and loss account in the period under review were as follows:

	<i>Year ended 31 March 2002 £'000</i>	<i>Year ended 31 March 2003 £'000</i>	<i>Year ended 31 March 2004 £'000</i>
Gross salary	63	282	266
Employer's NIC	7	33	33
Other operating costs	11	81	86
	<u>81</u>	<u>396</u>	<u>385</u>
Interest	—	79	74
	<u>81</u>	<u>475</u>	<u>459</u>

The Company has guaranteed the performance of the agreement by Lombard Risk Systems Ltd.

## 9.10 DEBTORS

	<i>At 31 March 2002 £'000</i>	<i>At 31 March 2003 £'000</i>	<i>At 31 March 2004 £'000</i>
Trade debtors	423	609	727
Other debtors	57	350	72
Prepayments and accrued income	217	136	65
Deferred expenditure (see Note 9.9)	188	120	51
	<u>885</u>	<u>1,215</u>	<u>915</u>

The debtors above include the following amounts due after more than one year:

	<i>At 31 March 2002 £'000</i>	<i>At 31 March 2003 £'000</i>	<i>At 31 March 2004 £'000</i>
Deferred expenditure (see Note 9.9)	120	51	—

## 9.11 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<i>At 31 March 2002 £'000</i>	<i>At 31 March 2003 £'000</i>	<i>At 31 March 2004 £'000</i>
Bank overdraft (secured)	232	1,535	196
Trade creditors	266	150	483
Other taxation and social security	360	228	160
Other creditors	570	739	408
Finance lease	6	4	5
Accruals and deferred income	999	1,400	1,750
Accrued interest	—	23	8
	<u>2,433</u>	<u>4,079</u>	<u>3,010</u>

### 9.11 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR (CON'T)

The bank overdraft is secured by a fixed and floating charge over the assets of the Group. Under the repayment terms of the facility a warrant was issued for £1.00 such that a right exists for the lender to subscribe, at par value, for 2.25 per cent. of the ordinary share capital in issue as enlarged by such subscription.

The Company extended its borrowing facility of £500,000 to 31 December 2005. John Wisbey has entered into a guarantee for £500,000 in relation to this loan and the Group by way of cross guarantee has in turn, indemnified John Wisbey for the same amount.

#### Amounts due under finance leases and HP agreements

	<i>As at 31 March 2002 £'000</i>	<i>As at 31 March 2003 £'000</i>	<i>As at 31 March 2004 £'000</i>
Amounts payable within 1 year	6	4	5
Amounts payable within 2 to 5 years	15	12	7
	<u>21</u>	<u>16</u>	<u>12</u>

### 9.12 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	<i>At 31 March 2002 £'000</i>	<i>At 31 March 2003 £'000</i>	<i>At 31 March 2004 £'000</i>
Deferred creditor (see Note 9.9)	200	316	341
Finance lease	15	12	7
Non equity appropriation	—	8	8
	<u>215</u>	<u>336</u>	<u>356</u>

### 9.13 SHARE CAPITAL

	<i>At 31 March 2002 £'000</i>	<i>At 31 March 2003 £'000</i>	<i>At 31 March 2004 £'000</i>
Authorised			
20,000,000 10p ordinary (2002: 15,000,000 10p ordinary and 2003: 20,000,000 10p ordinary)	1,500	2,000	2,000
1,000,000 50p 'A' Preference	500	500	500
3,000,000 50p 'B' Preference (2002:nil)	—	1,500	1,500
	<u>2,000</u>	<u>4,000</u>	<u>4,000</u>
Allotted, called up and fully paid			
5,081,441 10p ordinary (2002: 5,007,200 10p ordinary and 2003: 5,061,441 10p ordinary)	501	506	508
530,000 50p 'A' Preference	265	265	265
189,470 50p 'B' Preference	—	95	95
	<u>766</u>	<u>866</u>	<u>868</u>

### 9.13 SHARE CAPITAL (CON'T)

The 'A' Preference Shares have the right to receive a dividend of 6 per cent. per annum for the period 1 January 2003 to 31 December 2003 and 8 per cent. per annum from 1 January 2004. 'B' Preference Shares have the right to receive a dividend of 6 per cent. per annum for the period 1 July 2003 to 30 June 2004 and 8 per cent. from 1 July 2004. The shares also have the right to conversion to ordinary shares on the occurrence of certain events relating to the financing of the Company. On a winding up or other return of capital the 'A' and 'B' Preference shares are paid in priority to Ordinary shares.

The Group holds both an approved and an unapproved employee share option scheme, both open to all employees. No options were issued or exercised during 2004. Options under the schemes are exercisable at £4.20 per share and expire between 31 October 2005 and 20 August 2007. At 31 March 2004, 112,640 shares under the approved scheme and 104,787 shares under the unapproved scheme remained unexercised.

As referred to in Note 9.11 the repayment terms of the bank facility give the right to the lender to subscribe, at par value, for ordinary share capital of the Company depending on the date the facility is repaid with a maximum of 2.25 per cent. of the ordinary share capital in issue as enlarged by such subscription if the facility is repaid after 31 December 2003.

Allotment of shares during the period under review was as follows:

	<i>Share Capital £'000</i>	<i>Share Premium £'000</i>	<i>Total £'000</i>
<b>Year ended 31 March 2002</b>			
5,000 10p ordinary shares (at £3.00 per share)	—	15	15
530,000 'A' Preference Shares (at £1.00 per share)	265	265	530
	<u>265</u>	<u>280</u>	<u>545</u>
<b>Year ended 31 March 2003</b>			
30,075 10p ordinary shares (at £3.325 per share)	3	97	100
24,166 10p ordinary shares (at £2.00 per share)	2	46	48
189,470 'B' Preference Shares (at £0.95 per share)	95	85	180
	<u>100</u>	<u>228</u>	<u>328</u>
<b>Year ended 31 March 2004</b>			
20,000 10p ordinary shares (at £2.00 per share)	2	38	40
	<u>2</u>	<u>38</u>	<u>40</u>

## 9.14 SHARE PREMIUM ACCOUNT AND RESERVES

	<i>Share premium £'000</i>	<i>Other reserves £'000</i>	<i>Revaluation reserve £'000</i>	<i>Profit and loss £'000</i>
At 1 April 2001	6	120	584	(799)
Loss for the year	—	—	—	(971)
Premium on 5,000 10p ordinary shares	15	—	—	—
Premium on 530,000 'A' Preference shares	265	—	—	—
Share issue costs	(26)	—	—	—
Revaluation of current asset investment	—	—	2,561	—
<b>At 31 March 2002</b>	<b>260</b>	<b>120</b>	<b>3,145</b>	<b>(1,770)</b>
Loss for the year	—	—	—	(2,967)
Premium on 54,241 10p ordinary shares	143	—	—	—
Premium on 189,470 'B' Preference shares	85	—	—	—
Share issue costs	(39)	—	—	—
Revaluation of current asset investments	—	—	(819)	—
Part disposal of current asset investments	—	—	(914)	914
<b>At 31 March 2003</b>	<b>449</b>	<b>120</b>	<b>1,412</b>	<b>(3,823)</b>
Loss for the year	—	—	—	(769)
Premium on 20,000 10p ordinary shares	38	—	—	—
Non equity appropriation	—	—	—	21
Foreign exchange reserve	—	(1)	—	—
Part disposal of current asset investment	—	—	(1,004)	1,004
<b>At 31 March 2004</b>	<b>487</b>	<b>119</b>	<b>408</b>	<b>(3,567)</b>

Other reserves relate to negative goodwill arising on the acquisition of subsidiary undertakings in the period ended 31 March 1997 and net foreign exchange movements.

## 9.15 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<i>Year ended 31 March 2002 £'000</i>	<i>Year ended 31 March 2003 £'000</i>	<i>Year ended 31 March 2004 £'000</i>
Loss for the financial year	(971)	(2,967)	(769)
Revaluation of current asset investments	2,561	(819)	—
Foreign exchange reserve	—	—	(1)
Issue of 530,000 'A' Preference Shares (at £1.00 per share)	530	—	—
Issue of 189,470 'B' Preference Shares (at £0.95 per share)	—	180	—
Issue of 10p ordinary shares	15	148	40
Share issue costs	(26)	(39)	—
Non equity appropriation	—	—	21
Shareholders' funds/(deficit) at start of year	412	2,521	(976)
<b>Shareholders' funds/(deficit) at end of year</b>	<b>2,521</b>	<b>(976)</b>	<b>(1,685)</b>

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**9.16 NET CASH OUTFLOW FROM OPERATING ACTIVITIES**

	<i>Year ended 31 March 2002 £'000</i>	<i>Year ended 31 March 2003 £'000</i>	<i>Year ended 31 March 2004 £'000</i>
Operating loss	(905)	(2,870)	(1,058)
Depreciation	274	235	122
Profit on sale of fixed assets	(1)	—	—
Increase in debtors	(272)	(330)	(28)
Increase in creditors	356	470	553
Net cash outflow from operating activities	<u>(548)</u>	<u>(2,495)</u>	<u>(411)</u>

**9.17 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT**

	<i>Year ended 31 March 2002 £'000</i>	<i>Year ended 31 March 2003 £'000</i>	<i>Year ended 31 March 2004 £'000</i>
(Decrease)/increase in cash in the year	(282)	(1,289)	1,382
Cash outflow from finance leases	2	5	4
Change in net debt resulting from cash flows	<u>(280)</u>	<u>(1,284)</u>	<u>1,386</u>
Inception of finance leases	(23)	—	—
Movement in net debt in the year	<u>(303)</u>	<u>(1,284)</u>	<u>1,386</u>
Opening net funds/(debt)	66	(237)	(1,521)
Closing net debt	<u>(237)</u>	<u>(1,521)</u>	<u>(135)</u>

## 9.18 ANALYSIS OF CHANGES IN NET DEBT

	<i>At</i> <i>1 April</i> <i>2001</i> <i>£'000</i>	<i>Cash flow</i> <i>£'000</i>	<i>At</i> <i>31 March</i> <i>2002</i> <i>£'000</i>
Cash in hand and at bank	66	(50)	16
Overdraft	—	(232)	(232)
Finance leases	—	(21)	(21)
	<u>66</u>	<u>(303)</u>	<u>(237)</u>

	<i>At</i> <i>1 April</i> <i>2002</i> <i>£'000</i>	<i>Cash flow</i> <i>£'000</i>	<i>At</i> <i>31 March</i> <i>2003</i> <i>£'000</i>
Cash in hand and at bank	16	14	30
Overdraft	(232)	(1,303)	(1,535)
Finance leases	(216)	(1,289)	(1,505)
	<u>(21)</u>	<u>5</u>	<u>(16)</u>
	<u>(237)</u>	<u>(1,284)</u>	<u>(1,521)</u>

	<i>At</i> <i>1 April</i> <i>2003</i> <i>£'000</i>	<i>Cash flow</i> <i>£'000</i>	<i>At</i> <i>31 March</i> <i>2004</i> <i>£'000</i>
Cash in hand and at bank	30	43	73
Overdraft	(1,535)	1,339	(196)
Finance leases	(1,505)	1,382	(123)
	<u>(16)</u>	<u>4</u>	<u>(12)</u>
	<u>(1,521)</u>	<u>1,386</u>	<u>(135)</u>

## 9.19 LEASING COMMITMENTS

The Group had annual commitments under non-cancellable operating leases in respect of land and buildings as follows:

	<i>At</i> <i>31 March</i> <i>2002</i> <i>£'000</i>	<i>At</i> <i>31 March</i> <i>2003</i> <i>£'000</i>	<i>At</i> <i>31 March</i> <i>2004</i> <i>£'000</i>
On leases which expire in one year or less	<u>209</u>	<u>188</u>	<u>126</u>

## 9.20 CAPITAL COMMITMENTS

The Group had no material capital commitments at 31 March 2002, 2003 or 2004.

## 9.21 CONTINGENT LIABILITIES

The Company has guaranteed the performance by Lombard Risk Systems Limited of an agreement to purchase a third party's interest in a business of the Group (see Note 9.9).

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## 9.22 PENSIONS

The Company contributes to a defined contribution pension scheme. The assets of the scheme are administered by trustees in a fund independent from those of the Company.

## 9.23 RELATED PARTY TRANSACTIONS

A loan facility has been provided to the Group by John Wisbey, a director. The closing balance at 31 March 2004 amounted to £36,000 (2003; £182,000) (2002; £128,000). For the duration of the loan period interest is charged at 11 per cent. per annum. The principal amount is repayable at £15,000 per quarter.

John Wisbey has guaranteed the Group's overdraft facility from Singer & Friedlander, which facility amounted to £500,000 at 31 March 2004. A commission of 3.5 per cent. is payable by the Company to John Wisbey in respect of this guarantee.

The Group has a trading relationship with IDOX, a company of which John Wisbey, a director, is Chairman. During the three years ended 31 March 2004 the Group charged rent, rates, insurance and service charges to IDOX for their occupancy of office space. No amounts were written off during the period and there was no provision for bad debts.

	<i>Year ended 31 March 2002 £'000</i>	<i>Year ended 31 March 2003 £'000</i>	<i>Year ended 31 March 2004 £'000</i>
Amounts charged to IDOX by the Group	—	96	6
Debts owed by IDOX to the Group	—	26	5

## 9.24 POST BALANCE SHEET EVENTS

Subsequent to the financial year end the Group disposed of 4,000,000 ordinary shares in IDOX on 13 May 2004 representing 2.6 per cent. of IDOX share capital for £398,000 (£393,000 net of costs).

In May 2004 20,974 10p ordinary shares were issued at nominal value.

Yours faithfully

GRANT THORNTON UK LLP

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## PART 6

### Pro Forma Statement of Net Assets

The following is an unaudited pro forma statement of net assets of the Group which has been prepared on the basis set out in the notes below. The unaudited pro forma statement of net assets has been prepared for illustrative purposes only to show the effect on the Group's net liabilities as if the Placing, Admission and certain transactions had taken place on 31 March 2004. Because of its nature the unaudited pro forma statement of net assets may not give a true picture of the financial position of the Group.

	<i>The Group</i> <i>Note 1</i> <i>£'000</i>	<i>Note 2</i> <i>£'000</i>	<i>Note 3</i> <i>£'000</i>	<i>Proforma</i> <i>Group</i> <i>£'000</i>
<b>Fixed Assets</b>				
Tangible assets	94	—	—	94
<b>Current Assets</b>				
Debtors due within and after one year	915	—	—	915
Current asset investment	599	(344)	316	571
Cash at bank and in hand	73	393	944	1,410
	<u>1,587</u>	<u>49</u>	<u>1,260</u>	<u>2,896</u>
<b>Creditors: amounts falling due within one year</b>	<u>(3,010)</u>	<u>—</u>	<u>—</u>	<u>(3,010)</u>
<b>Net current (liabilities)/assets</b>	<u>(1,423)</u>	<u>49</u>	<u>1,260</u>	<u>(114)</u>
<b>Creditors: amounts falling due after more than one year</b>	<u>(356)</u>	<u>—</u>	<u>(275)</u>	<u>(631)</u>
<b>Net (liabilities)/assets</b>	<u><u>(1,685)</u></u>	<u><u>49</u></u>	<u><u>985</u></u>	<u><u>(651)</u></u>

#### Notes

- 1 Net liabilities of the Group as at 31 March 2004 as extracted from the Accountants' Report presented in Part 5 of this document.
- 2 On 13 May 2004 the Group disposed of 4,000,000 1p ordinary shares in its holding in the current asset investment, i-documentsystems group plc, at a price of 9.95p per share (before costs) giving rise to a net cash inflow of £393,000.
- 3 The net proceeds of the Placing available to the Group are expected to be £0.985 million, comprising gross proceeds of £1.25 million and transaction costs of £0.265 million. The Company has also acquired 2,633,334 shares in IDOX at a price of 12p per share for a total consideration of £316,000 from Advanced Technology Trust. In addition, on Admission, the Company will drawdown £275,000 of the loan facility from John Wisbey.
- 4 This pro forma statement of net assets does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985.
- 5 No adjustment has been made for trading or changes in working capital since 31 March 2004 for the Group.

The Directors  
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21 New Fetter Lane  
London  
EC4A 1AJ

Grant Thornton UK LLP  
Grant Thornton House  
Melton Street  
Euston Square  
London  
NW1 2EP

and

The Directors  
Noble & Company Limited  
120 Old Broad Street  
London  
EC2N 1AR

17 September 2004

Dear Sirs

**PRO FORMA STATEMENT OF NET ASSETS OF LOMBARD RISK MANAGEMENT PLC (THE "COMPANY") AND ITS SUBSIDIARY UNDERTAKINGS (TOGETHER THE "GROUP")**

We report on the pro forma statement of net assets set out in Part 6 of the AIM Admission Document dated 17 September 2004, which has been prepared, for illustrative purposes only, to provide information about how the admission to the AIM of the London Stock Exchange plc, Placing and certain transactions might have affected the net liabilities of the Group as at the Group's latest audited balance sheet date.

**RESPONSIBILITIES**

It is the responsibility solely of the directors of the Company to prepare the pro forma statement of net assets.

It is our responsibility to form an opinion on the pro forma statement of net assets and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on the balance sheet of the Group used in the compilation of the pro forma statement of net assets beyond that owed to those to whom the reports were addressed by us at the dates of their issue.

**BASIS OF OPINION**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board.

Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma statement of net assets with the directors of the Company.

**OPINION**

In our opinion:

- the pro forma statement of net assets has been properly compiled on the basis stated
- such basis is consistent with Group accounting policies
- the adjustments are appropriate for the purposes of the pro forma statement of net assets as disclosed

Yours faithfully

GRANT THORNTON UK LLP

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## PART 7

### Statutory & General Information

#### 7.1 THE COMPANY AND ITS SUBSIDIARIES

##### 7.1.1 The Company

- (a) The Company was incorporated on 15 July 1996 in England and Wales under the Act with registered number 3224870 under the name Timedwatch Public Limited Company. The principal legislation under which the Company operates is the Act.
- (b) On 9 December 1996, the Company changed its registered name to Lombard Risk Management plc.
- (c) On 8 May 1997, the Company received a certificate pursuant to section 117 of the Act (allowing it to carry on business and to borrow).
- (d) The Company's registered office is 13th Floor, 21 New Fetter Lane, London, EC4A 1AJ.
- (e) The liability of the members of the Company is limited.

##### 7.1.2 The Subsidiaries

The Company is the holding company directly or indirectly of the following wholly owned subsidiaries (collectively referred to as the "Subsidiaries").

<i>Name of Company</i>	<i> Holding</i>	<i>Country of Incorporation</i>	<i>Principal Activity</i>
Lombard Risk Systems Ltd	100%	England & Wales	Software and managed services
Lombard Risk Consultants Ltd	100%	England & Wales	Training courses
Swapval Limited	100%	England & Wales	Dormant
Lombard Risk Systems Inc.	100%	USA	Sales and support
Lombard Risk Systems (Pty) Ltd	100%	South Africa	Sales
Lombard Risk Systems (Asia Pacific) Ltd	100%	Hong Kong	Non-trading

#### 7.2 SHARE CAPITAL OF THE COMPANY

7.2.1 Since incorporation, the following changes to the authorised and issued share capital of the Company have taken place:

- (a) On incorporation, the authorised share capital of the Company was £100,000 divided into 100,000 ordinary shares of £1.00 each, two of which were issued, nil paid, to the subscribers to the memorandum of association.
- (b) On 25 November 1996, the Company issued 978 £1.00 ordinary shares at a price of £1.00 per share.
- (c) On 27 January 1997, the Company issued 20 £1.00 ordinary shares at a price of £1.00 per share.
- (d) On 14 February 1997:
  - (i) each of the existing ordinary shares of £1.00 each in the issued share capital of the Company were sub-divided into 10 ordinary shares of 10p per share; and
  - (ii) the authorised share capital of the Company was increased to £1,000,000 by the creation of a further 9,000,000 ordinary shares of 10p per share; and
  - (iii) The Company issued 4,990,000 ordinary shares of 10p at a price of 10p per share.
- (e) On 11 June 1998, the Company issued 2,200 10p ordinary shares at a price of £3.00 per share.
- (f) On 28 March 2002:
  - (i) the authorised share capital of the Company was increased to £2,000,000 by the creation of 1,000,000 'A' Preference Shares of 50p each and 5,000,000 ordinary shares of 10p each; and
  - (ii) 530,000 'A' Preference Shares were issued and allotted at a price of £1.00 per share.

- (iii) 5,000 10p ordinary shares were issued at a price of £3.00 per share.
- (g) On 15 November 2002:
- (i) the authorised share capital of the Company was increased to £4,000,000 by the creation of 5,000,000 additional ordinary shares of 10p each and 3,000,000 'B' Preference Shares of 50p each;
- (ii) 30,075 10p ordinary shares were issued at a price of £3.325 per share; and
- (iii) 189,470 'B' Preference Shares were issued at a price of £0.95 per share.
- (h) On 28 March 2003, a total of 24,166 10p ordinary shares were issued at a price of £2.00 per share.
- (i) On 26 March 2004, a total of 20,000 10p ordinary shares were issued credited as fully paid at £2.00 per share.
- (j) In May 2004, a total of 20,974 10p ordinary shares were issued at nominal value.
- (k) On Admission, further Ordinary Shares will be issued credited as fully paid in addition to the Placing Shares as set out below:

	<i>Shares on Conversion of 'A' Preference Shares</i>	<i>Shares on Conversion of 'B' Preference Shares</i>	<i>Total</i>
Ordinary Shares	4,770,324	3,661,231	8,431,555
Deferred Shares	241,147,600	76,428,845	317,576,445

7.2.2 On 17 September 2004, the following resolutions were passed by the Company's shareholders at an Extraordinary General Meeting of the Company:

- (a) an Ordinary Resolution to consolidate every 5 ordinary shares of 10p each into one intermediate ordinary share of 50p and then sub-divide each intermediate share of 50p into 78 new ordinary shares of 0.5p each and 110 deferred shares of 0.1p each;
- (b) an Ordinary Resolution to authorise the Directors pursuant to section 80 of the Act to allot relevant securities up to the amount of the Company's authorised but unissued share capital on Admission provided that the authority shall expire upon the earlier of the conclusion of the Company's Annual General Meeting in 2009 and the date falling five years after the passing of the Resolution; and
- (c) a Special Resolution that the Directors be empowered to allot equity securities pursuant to the authority referred to in sub-paragraph (b) above as if Section 89(1) of the Act did not apply to any such allotment provided that this authority was limited to:
- (i) the allotment of equity securities upto an aggregate nominal amount of £95,000 pursuant to the Placing;
- (ii) the allotment of Ordinary Shares pursuant to a rights issue or otherwise generally available to all shareholders of the Company in proportion to their shareholdings;
- (iii) in addition to sub-paragraphs (i) – (ii) above, the allotment of equity securities for cash up to an aggregate nominal amount equivalent to 30 per cent. of the Company's issued ordinary share capital on Admission; and
- (iv) provided that no share will be allotted under this authority at less than the Placing Price and provided further that such authority shall expire upon the earlier of the conclusion of the Company's Annual General Meeting in 2005 and 15 months after the passing of the Resolution.

7.2.3 (a) The authorised and issued fully paid-up share capital in the Company as it is expected to be on Admission are as follows:

<i>Authorised Share Capital</i>		<i>Issued and Fully paid up Share Capital</i>	
<i>£</i>	<i>Number</i>	<i>£</i>	<i>Number</i>
3,570,170.425	714,034,085 Ordinary Shares of 0.5p each	518,272	103,654,385

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- (b) The provisions of Section 89 of the Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are paid up in cash) apply to the authorised but unissued share capital of the Company.
  - (c) Save as stated in this paragraph 7.2 there has been no increase or reduction in the authorised or issued share capital of the Company since the date of incorporation.
  - (d) The new Ordinary Shares in issue following Admission will rank *pari passu* in all respects with the existing Ordinary Shares including the right to receive all dividends and other distributions declared, made or paid after Admission on the ordinary share capital.

**7.2.4** Under the terms of the S&F Warrant, S&F is entitled to subscribe, at par value, for such number of Ordinary Shares as will represent 2.25 per cent. of the issued ordinary share capital of the Company as enlarged by such allotment. The S&F Warrant also contains provisions providing for S&F to require the Company to purchase or, alternatively, for the Company to require S&F to sell the Ordinary Shares issued as a result of exercise of the S&F Warrant and/or unexercised rights at any time after 31 January 2005. Any such sale and purchase must be made in cash at a price per share equal to the higher of five times the earnings before interest and tax of the Group or a sum of £90,000 plus interest calculated at an annualised flat rate of 10 per cent. from 31 December 2001 until the date of purchase.

**7.2.5** Save as disclosed in this paragraph 7.2, no share capital or loan capital of the Company or any of its subsidiaries since such subsidiaries became wholly-owned (other than inter-group issues by wholly-owned subsidiaries) has been issued for cash or other consideration since the date of incorporation of the Company and no such issue is proposed.

### **7.3 MEMORANDUM AND ARTICLES OF ASSOCIATION**

#### **7.3.1 Memorandum of Association**

The Memorandum of Association of the Company provides that the Company's principal object is, *inter alia*, to carry on business as a general commercial company. The objects of the Company are set out in clause 4 of its Memorandum of Association.

#### **7.3.2 Articles of Association**

The Articles include provisions to the following effect:

- (a) *Voting of class rights and changes of capital*
  - (i) The special rights attached to any class of shares may, subject to any applicable law, be altered or abrogated either with the consent in writing of the holders of three fourths in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of shares of that class.
  - (ii) The Company may by ordinary resolution or otherwise in accordance with applicable laws increase its share capital, consolidate and divide all or any of its shares into shares of a larger amount, cancel any shares not taken or agreed to be taken by any person and sub-divide its shares into shares of a smaller amount.
- (b) Subject to applicable law, the Company may by special resolution reduce its share capital or any capital redemption reserve and any share premium account in any way. Subject to applicable law, the Company may purchase its own shares.
- (c) *Votes of members*

Subject to any rights or restrictions attached to any class of shares, at any general meeting, on a show of hands, every member who is present in person has one vote and, in the case of a poll, every member present in person or by proxy has one vote for every share of which he is the holder. Unless the Directors otherwise determine no member is entitled to vote at a general meeting either personally or by proxy if he or any person appearing to be interested in shares held by him has been duly served with a notice under Section 212 of the Act and is in default for the prescribed period in supplying to the Company the information required thereby or, unless the Directors determine otherwise, if any calls from him have not been paid.

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(d) *Directors*

- (i) A director is not required to hold any qualification shares.
- (ii) The Directors shall determine the amount of any fees payable to Directors provided that they shall not in any year exceed an aggregate amount of £500,000 or such other sum as may from time to time be approved by ordinary resolution. Any such fees shall be divisible among the Directors as they may agree, or failing agreement, equally. The Directors are also entitled to be repaid all expenses properly incurred by them respectively in the performance of their duties. Any director who serves on a committee or who otherwise performs services that in the opinion of the Directors are outside the scope of his ordinary duties as a director may be paid such extra remuneration as the Directors may determine.
- (iii) The directors may establish and maintain, or procure the establishment and maintenance of, any pension or superannuation funds (whether contributory or otherwise) for the benefit of, and give or procure the giving of donations, gratuities, pensions, allowances and emoluments to, any persons who are or were at any time in the employment or service of the Company, or of any company which is a subsidiary of the Company or is allied to or associated with the Company or any such subsidiary or of any of the predecessors in business of the Company or any such other company as aforesaid, or who may be or have been directors or officers of the Company or of any such other company as aforesaid and who hold or have held executive positions or agreements for service with the Company or any such other company as aforesaid, and the wives, widows, families, connections and dependants of any such persons, and also establish, subsidise and subscribe to any institutions, associations, societies, clubs or funds calculated to be for the benefit of, or to advance the interests and well-being of the Company or of any such other company as aforesaid, or of any such person as aforesaid, and make payments for or towards the insurance of any such person as aforesaid and subscribe or guarantee money for charitable or benevolent objects, or for any exhibition or for any public, general or useful object, and do any of the matters aforesaid either alone or in conjunction with any such other company as aforesaid. Subject to particulars with respect to the proposed payment being disclosed to the members of the Company and to the proposal being approved by the Company by ordinary resolution, if the Act shall so require, any director who holds or has held any such executive position or agreement for services shall be entitled to participate in and retain for his own benefit any such donation, gratuity, pension, allowance or emolument.
- (iv) The Directors may from time to time appoint one or more of their body to be the holder of any executive office on such terms and for such period as they may determine.
- (v) Subject to the provisions of the Articles and the Act, a director notwithstanding his office:
  - (A) may be a party to, or otherwise interested in, any contract or arrangement with the Company or in which the Company is otherwise interested;
  - (B) may be a director or other officer of, or member of or otherwise interested in any other company promoted by the Company or in which the Company is otherwise interested;
  - (C) may hold any other office or otherwise under the Company and no such director shall be accountable for any remuneration or other benefits received by him; and
  - (D) shall not, by reason of his office, be accountable to the Company for any benefit which he derives from any such office or employment or from any such contract, transaction or arrangement or from any interest in any such body corporate, and no such contract, transaction or arrangement shall be liable to be avoided on the grounds of any such interest or benefit.

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- (vi) Save as specifically provided in the Articles, a director may not vote in respect of any contract or arrangement in which he has any material interest otherwise, *inter alia*, than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through, the Company. A director will not be counted in the quorum at a meeting in relation to any resolution on which he is prohibited from voting.
- (vii) Subject to applicable law, a director is (in the absence of some material interest other than is indicated below) entitled to vote (and will be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:
- (A) the giving of any guarantee, security or indemnity to a third party in respect of money lent or obligations incurred by him at the request or for the benefit of the Company or any of its subsidiary undertakings;
  - (B) the giving of security to a third party in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has guaranteed or secured in whole or in part;
  - (C) any contract or arrangement by a director to subscribe for shares, debentures or other securities of the Company issued or to be issued pursuant to any offer or invitation to members or debenture holders of the Company or any class thereof or to the public or any section thereof, or to underwrite any shares, debentures or other securities of the Company;
  - (D) any contract or arrangement in which he is interested by virtue of his interest in shares or debentures or other securities of the Company or by reason of any other interest in or through the Company;
  - (E) any contract or arrangement concerning any other company (not being a company in which the director and any persons connected with him do not to his knowledge hold an interest in shares, as that term is used in Sections 198 to 211 of the Act representing one per cent or more of any class of the equity share capital of, or the voting rights in, such company) in which he is interested directly or indirectly whether as an officer, shareholder, creditor or otherwise howsoever;
  - (F) any proposal concerning the adoption, modification or operation of a pension fund or retirement death or disability benefits scheme which relates both to directors and employees of the Company or of any of its subsidiaries and does not provide in respect of any director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates;
  - (G) any arrangement for the benefit of employees of the Company or of any of its subsidiaries under which the director benefits in a similar manner as the employees and which does not accord to any director as such any privilege or advantage not accorded to the employees to whom such arrangement relates;
  - (H) any proposal, contract, transaction or arrangement concerning the purchase or maintenance of insurance for the benefit of the directors or for the benefit of persons who include directors.
- (viii) Subject to any applicable law, the Company may by ordinary resolution suspend or relax any of the provisions of the Articles prohibiting a director from voting at a meeting of directors either generally or in relation to any particular matter, or ratify any transactions not duly authorised by reason of a contravention of such provision.
- (ix) No director shall be or become incapable of being appointed or remaining a director by reason of his having attained the age of 70 or any other age.
- (e) *Transfer of shares*
- All transfers of shares may be effected by transfer in writing in any usual form, or, if uncertificated shares are transferred in accordance with the Uncertificated Securities Regulations 2001, or in any other form acceptable to the Directors and shall be executed by or on behalf of the transferor and, if the share is partly paid, the transferee. The Directors may refuse to register any transfer of a share which is not fully paid or over which the Company has a lien provided such that refusal shall not prevent dealings in the shares on an open and proper basis. The Articles do not contain any restriction on the transferability of
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fully paid shares, provided that the Company has no lien over the shares, the transfer is in favour of not more than four joint transferees and in respect of only one class of shares and is duly stamped (if so required), the provisions in the Articles relating to the deposit of instruments of transfer have been complied with (if applicable) and the member is not in default of any notice duly served under Section 212 of the Act as referred to in the Articles.

(f) *Dividends and distribution of assets on liquidation*

The holders of shares are entitled *pari passu* amongst themselves, but in proportion to the numbers of shares held by them and to the amounts paid up otherwise than in advance of calls on shares on which the dividend is paid, to share in the whole of the profits of the Company paid out as dividends and of the Company assets in the event of liquidation of the Company.

(g) *Unclaimed dividends*

Any dividend unclaimed after a period of 12 years from the date of its declaration shall be forfeited and shall revert to the Company.

(h) *Borrowing powers*

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property, assets and uncalled capital, or any part thereof, and, subject to applicable law, to issue debentures and other securities.

The Directors shall not resolve to approve or give effect to any option or agreement for the sale of all or a larger part of the goodwill and/or other assets of the Group without the prior sanction of an ordinary resolution passed by the holders of Ordinary Shares.

(i) *Treasury Shares*

The Company is not prohibited from purchasing, holding and dealing with Ordinary Shares in accordance with the provisions of the Act.

## 7.4 DIRECTORS' AND OTHER INTERESTS

7.4.1 The interests of the Directors and the Proposed Director (all of which are beneficial unless otherwise stated) in the issued ordinary share capital of the Company which are required to be notified by each Director and the Proposed Director to the Company under the provisions of Sections 324 and 328 of the Act or which are required to be disclosed in the Register of Directors Interests required to be maintained pursuant to Section 325 of the Act or which are interests of persons connected with the Directors or the Proposed Director within the meaning of Section 346 of the Act, the existence of which is known or which could, with reasonable diligence, be ascertained by a Director or the Proposed Director as at the date of this document and as they are expected to be on Admission, are as follows:

<i>Director</i>	<i>At Present</i>		<i>On Admission</i>	
	<i>Number of Ordinary Shares</i>	<i>Percentage of issued Ordinary Share capital</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of issued Ordinary Share capital</i>
John Wisbey *	76,762,062	96.44	81,024,562	78.17
Christopher Rose	—	—	125,000	0.12
Ian Peacock	467,532	0.59	780,032	0.75
Christopher Wright **	—	—	1,205,066	1.16
Brian Crowe	—	—	625,000	0.60

\* Advanced Technology Trust, a trust in which John Wisbey has a beneficial interest, will be subscribing for 3,950,000 Ordinary Shares in the Placing

\*\* Christopher Wright is the legal and beneficial owner of 120,000 'A' Preference Shares which convert into 1,080,066 Ordinary Shares on Admission.

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- 7.4.2** It is intended that options over unissued Ordinary Shares will be granted to Directors in the near future under the Share Option Schemes.
- 7.4.3** Save as set out in paragraphs 7.4.1 and 7.4.2 above, following Admission none of the Directors or the Proposed Director will have, and no person connected with them (within the meaning of Section 346 of the Act) is expected to have, any interest in the share capital of the Company or any of its subsidiaries.
- 7.4.4** On 7 February 2003, John Wisbey gave a guarantee to S&F ("Guarantee") in connection with the Company's obligation to repay amounts owed pursuant to certain loan facilities granted to it by S&F and on 7 February 2003 the Company agreed to indemnify John Wisbey against any liabilities incurred under the Guarantee. A commission of 3.5 per cent. of the amount guaranteed is payable annually by the Company for the duration of the Guarantee. It is intended that the Guarantee from John Wisbey and the counter-indemnity from the Company will terminate shortly after Admission.
- 7.4.5** On 17 September 2004, John Wisbey entered into an agreement with the Company whereby he agreed to loan on Admission £275,000 to the Company for working capital purposes. In addition, John Wisbey has agreed to lend such further amount as is equivalent to the amount below 10p per share received by the Company on selling up to 2,633,334 shares in IDOX during the period ending 31 March 2006. Interest will accrue on the loan at a rate of 8 per cent. per annum but no interest will be payable until 31 March 2006 ("the Fixed Loan Period"). After the end of the Fixed Loan Period, the loan will become repayable on demand, together with interest. The loan will be repayable easily by an amount equal to any equity finance received by the Company during the Fixed Loan Period. The loan can be converted into fully paid Ordinary Shares at John Wisbey's option, at any time, at a price of 10p per share or, at the Company's option, at any time after 31 March 2005 (but only if there has been no intervening equity financing) at the Placing Price.
- 7.4.6** Save for the above, no Director or the Proposed Director has or has had any interest, whether direct or indirect, in any transaction which is or was unusual in its nature and conditions or significant to the business of the Company taken as a whole and which was entered into by any member of the Company during the current or immediately preceding financial year or which was effected during any earlier financial year and which remains in any respect outstanding or unperformed.
- 7.4.7** There are no outstanding loans granted by the Company to any of the Directors or the Proposed Director nor, save as set out in Part 2 of this document, any guarantees provided by any member of the Company for their benefit.
- 7.4.8** On Admission, Merifin Capital N.V. will hold 3,150,264 Ordinary Shares equating to 3.04 per cent. of the issued Ordinary Share Capital of the Company. Christopher Wright is a non-executive director and/or advisor to certain companies within the Partnership. Save as disclosed above and in paragraph 7.4.1 above, the Directors and the Proposed Director are not aware of any person who is now or who is expected to be on Admission directly or indirectly interested (within the meaning of Part VI of the Act) in three per cent. or more of the ordinary share capital of the Company.
- 7.4.9** As at 17 September 2004 (being the last practicable date prior to publication of this document) and save as disclosed in this paragraph 7, the Directors and the Proposed Director are not aware of any person or persons other than the above who, directly or indirectly, jointly or severally, at the date of this document, exercise or could exercise control over the Company.

## **7.5 DIRECTORS' SERVICE AGREEMENTS AND LETTERS OF APPOINTMENT**

- 7.5.1** On 17 September 2004, the Company entered into a service agreement with John Wisbey to act as Chairman and CEO at a current annual salary of £178,500, terminable by the Company giving 12 months' written notice or by John Wisbey giving the Company six months' written notice (such notice not to expire prior to 31 July 2005). He is also entitled to family private health insurance and life assurance.
- 7.5.2** On 17 September 2004, the Company entered into a letter of appointment with Ian Peacock to act as Non-Executive Deputy Chairman, for an annual fee of £25,000, terminable by either party giving to the other not less than three months' notice.

- 7.5.3 On 17 September 2004, the Company entered into a service agreement with Christopher Rose at a current annual salary of £157,500, terminable by either party giving to the other not less than three months' written notice (such notice not to expire prior to 31 March 2005). He is also entitled to family private health insurance and life assurance.
- 7.5.4 On 17 September 2004, the Company entered into a letter of appointment with Christopher Wright for an annual fee of £20,000 terminable by either party giving to the other not less than three months' notice.
- 7.5.5 On 17 September 2004, the Company entered into a letter of appointment with Brian Crowe, effective from Admission, for an annual fee of £20,000 terminable by either party giving to the other not less than three months' notice.
- 7.5.6 Save as set out in paragraphs 7.5.1 to 7.5.5 above, there are no existing or proposed service contracts between the Directors or the Proposed Director and the Company.
- 7.5.7 It is estimated that under the arrangements currently in force, the aggregate remuneration be paid to the Directors and the Proposed Director for the financial period ending 31 March 2005 will be £401,000. In addition, executive Directors are entitled to discretionary bonuses, discretionary share options, health insurance, permanent health insurance and life assurance.

## 7.6 ADDITIONAL INFORMATION ON THE BOARD

- 7.6.1 Other than their directorships of the Company, directorships and partnerships currently held by the Directors and the Proposed Director and/or held at any time during the five years preceding the date of this document are as follows:

<i>Director</i>	<i>Current</i>	<i>Past</i>
John Wisbey	Lombard Risk Systems Limited Lombard Risk Consultants Limited Lombard Risk Systems Inc Lombard Risk Systems (Asia Pacific) Ltd Lombard Risk Systems (Pty) Ltd Swapval Limited i-documentssystemsgroup plc i-documentssystemsgroup Limited i-documentssystemsgroup Trustees Limited Wisbey Ventures Limited	Screen Referrals Limited Lombard Teknos Systems Limited e-primefinancial plc
Ian Peacock	MFI Furniture Group Plc WRVS WRVS Office Premises Limited Mothercare Plc Mothercare Employee Share Trustee Limited The Mothercare Foundation Limited Norwich and Peterborough Building Society	i-documentssystemsgroup Limited i-documentssystemsgroup plc i-documentssystemsgroup Trustees Limited
Christopher Rose	Lombard Risk Management plc Lombard Risk Systems Limited Lombard Risk Consultants Limited Swapval Limited	ANZ Grindlays Finance Corporation Limited Ebbgate Holdings Limited Barclays Capital Finance Limited Ashmore Investment Management Limited Ashmore Investments (UK) Limited ANZ Emerging Markets Holdings Limited ANZ Global Nominees Limited ANZ Leasing Limited

<i>Director</i>	<i>Current</i>	<i>Past</i>
		ANZ Leasing (No.2) Limited ANZ McCaughan (UK) Limited Brandts Nominees Limited ANZ Securities (UK) Limited Minerva Holdings Limited ANZMB Limited ANZ U.K. Dividends (Aud) Limited
Christopher Wright	Lombard Risk Management plc F2G Ltd Fine Art Management Services Limited Roper Industries Inc (NYSE) Genaissance Pharamceuticals Inc (NASDAQ) Mrs Fields Holdings LLC Maxcess International Inc Merifin Capital Inc Noble Venture Managers Ltd Catalyst Fund Managers Ltd B @ N Research Japan Ltd i-documentsystems group plc i-documentsystems Limited	Dresdner Kleinwort Wasserstein Limited Dresdner Kleinwort Capital Ventures Management Limited Dresdner Kleinwort Capital Investment Trust Limited Dresdner Kleinwort Benson Private Equity Limited Elderstreet Investments Limited KBEMF (GP) Limited Dresdner Kleinwort Capital Investment Company Limited Kleinwort Capital Partners Limited Kleinwort Capital Limited GDC International Inc
Brian Crowe	CNW Group Limited CNW Securities Japan (Holdings) Limited Greenwich NatWest Holdings Limited Greenwich NatWest Limited NatWest Global Securities Limited RBS Asset Management Limited RBS HP Finance St Andrew Square Limited The Royal Bank of Scotland International (Holdings) Limited The Royal Bank of Scotland International Limited National Westminster International Holdings B.V.	RBSG Capital Corporation The Royal Bank of Scotland Services Japan Limited Honroe (UK) Limited International Swaps and Derivatives Inc.

**7.6.2** None of the Directors or the Proposed Director have:

- (a) any unspent convictions in relation to indictable offences;
- (b) had a bankruptcy order made against him or made an individual voluntary arrangement;
- (c) been a director of a company which has been placed in receivership, compulsory liquidation, creditors' voluntary arrangement or made any composition or arrangement with its creditors generally or of any class of its creditors whilst he was a director of that company or within twelve months after he ceased to be a director of that company;
- (d) been a partner in a partnership which has been placed in compulsory liquidation, administration or made a partnership voluntary arrangement whilst he was a partner in that partnership or within twelve months after he ceased to be a partner in that partnership;

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- (e) had any asset placed in receivership or any asset of a partnership in which he was a partner placed in receivership whilst he was a partner in that partnership or within twelve months after he ceased to be a partner in that partnership;
  - (f) been publicly criticised by any statutory or regulatory authority (including recognised professional bodies);
  - (g) been disqualified by a court from acting as a director of any company or from acting in the management or conduct of the affairs of a Company.

**7.6.3** No Director or the Proposed Director or any member of a Director's or the Proposed Director's family have a related financial product referenced to the Ordinary Shares.

## **7.7 SHARE OPTION SCHEMES**

**7.7.1** The Company set up two Option Schemes in 1997, one being Inland Revenue Approved (as summarised in paragraph 7.7.2 below) and the other Unapproved (as summarised in paragraph 7.7.3 below). No further options will be granted under the 1997 Unapproved Scheme. The Company has also adopted two new schemes to take effect on Admission, one being the EMI Scheme (as summarised in paragraph 7.7.4 below), and the other, a new Unapproved Scheme (as summarised in paragraph 7.7.5 below).

### **7.7.2 Lombard Risk Management plc Revenue Approved Share Option Scheme ("Approved Scheme")**

The Approved Scheme was approved by the Inland Revenue under the relevant provisions of the Income and Corporation Taxes Act 1988 then in force and is operative until ten years after its adoption on 5 December 1997. The Rules of the Approved Scheme ("the Rules") have been updated to take account of recent legislation, Admission and changes in the share capital of the Company with these amendments being given conditional approval by the Inland Revenue on 22 June 2004 subject to their adoption by the Company.

#### *(a) Administration and Eligibility*

A committee of the Board will administer the Approved Scheme.

Options may be granted to employees and full-time directors of the Company or any of its subsidiaries which the Board has resolved shall participate in the Approved Scheme.

#### *(b) Individual Limit*

Options granted to an individual are limited so total acquisition prices of shares under option to that individual under the Approved Scheme and any other approved discretionary share option schemes pursuant to Schedule 4 Income Tax (Earnings and Pensions) Act 2003 established by the Company shall not exceed £30,000.

#### *(c) Overall Limit*

- (i) The maximum nominal amount of Ordinary Shares over which the Committee may grant Options shall not exceed fifteen per cent. of the nominal amount of Ordinary Shares remaining issuable in respect of options granted on or before that date under an employees' share scheme.
- (ii) For the purposes of the above limits, the Rules provide that options granted before Admission, and options that are already in issue and any which have lapsed are disregarded.

#### *(d) Grant of Options*

The Rules provide that the Committee, at its absolute discretion may grant options so long as it is not during a close period as defined under the rules of AIM or the Listing Rules of the UKLA or after the period permitted when agreeing with the Inland Revenue the market value of the shares.

The Committee will also be able to grant options in such exceptional circumstances as it determines outside a Close period.

#### *(e) Exercise Conditions*

The Committee may impose additional objective conditions (but have not done so for existing options).

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- (f) For options granted after 17 September 2004 (namely the date the amendments to the Rules of the Approved Scheme become effective) the option holder shall indemnify and make payment to the Company in respect of any income tax and national insurance contributions (both employer's and employees's) arising on the exercise of the option.
- (g) *Acquisition Price*  
The price payable on the exercise of an option granted will be not less than the market value per Ordinary Share on the date of grant and the nominal value per Ordinary Share.
- (h) *Exercise of Options*
- (i) In normal circumstances, an option will only be exercisable by an individual who remains in employment with the Company or a participating subsidiary and may only be exercised between the third and seventh anniversaries of the date on which the option was granted. Exercise is permitted after cessation of employment on death (within one year), injury, disability, redundancy, retirement, a transfer of undertakings or a Group company ceasing to be part of the Group or for another reason at the Committee's discretion.
- (ii) In the event of a change of control, a scheme of arrangement or demerger, options may be exercised within strict time limits but shall lapse thereafter if unexercised. In the event of a change of control of the Company, with the concurrence of the acquiring company optionholders may exchange their options under the Approved Scheme for options to acquire shares in the acquiring company or its parent company subject to certain provisions under the relevant legislation.
- (iii) If a resolution is proposed for the voluntary winding-up of the Company, options may be exercised within a two month period.
- (i) *Voting, dividend, transfer and other rights*
- (i) Shares issued and allotted under the Approved Scheme following the exercise of an option will rank *pari passu* in all respects with the then existing shares of the same class of the Company, with the exception of rights attaching by reference to a record date on or before the date of allotment. The Company will enable such shares to be traded on AIM. Options are non-transferable.
- (j) *Amendments*  
Amendments to the Approved Scheme may be made by Board resolution with the approval of the Inland Revenue. Approval of the Company in general meeting will be required for all amendments save for alterations to benefit the administration of the Approved Scheme, to take account of or comply with legislation or to obtain or maintain favourable tax treatment.
- (k) *Variation of Capital*  
In the event of a rights issue, open offer, placing, capitalization of reserves or a reduction, sub-division or consolidation of capital of the Company, the Board may (subject to Inland Revenue approval) make such adjustments as it considers appropriate, and the auditors of the Company confirm as being fair and reasonable, to the number of shares subject to options and the price payable on exercise of options.
- (l) *Termination*  
The Approved Scheme may be terminated at any time by the Company in general meeting or by the Committee but options then subsisting will remain exercisable.
- (m) *Employment*  
The rights and obligations of an optionholder under his terms of employment with any member of the Group shall not be affected by his participation in the Approved Scheme and it shall not afford an optionholder any additional right to compensation on termination of employment.
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### 7.7.3 Lombard Risk Management plc 1997 Executive Share Option Scheme (“the 1997 Unapproved Scheme”)

#### *Introduction*

The 1997 Unapproved Scheme is operative until ten years after its adoption in 1997 but the Company intends that no more options shall be granted under this scheme. The rules of the 1997 Unapproved Scheme (“the Rules”) are substantially the same as for the Approved Scheme but the principal differences are noted below.

#### *(a) Principal differences from Approved Scheme*

- (i) Inland Revenue approval is not required for any provision in the Rules.
- (ii) The individual limit is four times relevant emoluments and the overall limit is calculated by reference to a maximum of ten per cent of the nominal value of the Ordinary Share capital for options granted under all relevant share option schemes in the preceding ten years and five per cent. for options under any unapproved scheme in ten years.
- (iii) Ordinarily options are not exercisable until a condition precedent (relating to the Company’s percentage growth in its annualized earnings per share) has been satisfied.

### 7.7.4 Lombard Risk Management plc Enterprise Management Incentive Scheme (“EMI Scheme”)

#### *(a) Administration and Eligibility*

The Rules provide that the Board may from time to time in its absolute discretion select any number of persons who are employees or full time directors of the Company or any other member of the Group (“Eligible Employees”) and grant them options to acquire shares in the Company (“EMI Options”). The provisions under the Rules satisfy the EMI Code, including the requirement that the grant of options must be for commercial reasons in order to recruit or retain an employee in the Group.

#### *(b) Limits*

- (i) The aggregate market value of the shares granted under the EMI Scheme and any option granted pursuant to an Inland Revenue approved company share option plan cannot exceed £100,000 for any one option holder, and the Rules provide that no further EMI Option can be granted to any Eligible Employee within three years of the date of grant with a maximum market value of £100,000. The exercise price of an EMI Option must not be less than the nominal value of the shares under option.
- (ii) The Rules provide that the Board may not issue shares under option in respect of the EMI Scheme and any other share option scheme which would exceed 15 per cent. of the shares in issue from time to time. The total value of shares in the Company in respect of which unexercised EMI Options exist must not exceed £3 million.

#### *(c) Grant of Options*

- (i) It is a condition of the grant of any EMI Option that the Eligible Employee must indemnify the Company to the extent permitted by law against any income tax and national insurance contribution liabilities arising on the exercise, assignment or release of the EMI Option.
- (ii) Each EMI Option shall only be exercisable by the option holder to whom it is granted and on any purported transfer, assignment or charge over the EMI Option it shall automatically lapse.
- (iii) The grant of an EMI Option shall not form part of the contract of employment of the option holder who participates in the EMI Scheme.

#### *(d) Exercise of Options*

- (i) The Rules provide that the exercise of any EMI Option may be dependent on specific performance conditions having been satisfied but the Board has discretion, in circumstances where it considers that the performance conditions no longer represent a fair measure of performance, to vary or remove them as a requirement of the exercise of the EMI Option.

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- (ii) The exercise period of an EMI Option will be set between the second anniversary and the seventh anniversary of the date of grant and, save for certain circumstances, EMI Options may not be exercised prior to the commencement of the exercise period, nor may they be exercised unless the option holder is an Eligible Employee.
  - (iii) The Rules provide that the personal representative of an option holder may exercise an EMI Option in the event of the death of the option holder within the period ending on the earlier of the expiry of twelve months after the date of death and the expiry of the exercise period. If the option holder ceases to be an Eligible Employee otherwise than on death, but by reason of cessation of employment due to ill health, injury or disability, redundancy or retirement, or by reason that his office or employment is in a company of which the Company ceases to have control, or his office or employment relates to a business which is transferred to a third party, then the EMI Option may be exercised at any time prior to the expiry of the period of forty days from the cessation of the employment. Early exercise is also possible on the winding up of a company. If an option holder ceases to be an employee for any other reason, then the EMI Option shall cease to be exercisable and shall lapse three months after such cessation unless the Board, in its absolute discretion, permits the EMI Option to be exercised.
  - (iv) In the event that the Company is acquired, the Rules allow the option holder to release the rights over his EMI Option in consideration of the grant to him of rights over replacement options in the acquiring company, if the acquiring company so allows, and whereby the replacement option satisfies the conditions of the EMI Code.

**(e) Amendments**

The Board may alter the Rules to the EMI Scheme as it thinks fit and where it is necessary to comply with and take account of any applicable legislation or any requirements of the Inland Revenue for the approval of the EMI Scheme. However, no alteration shall take effect if the result would be to increase the market value of the shares which are subject to the EMI Option or if the requirements of the EMI Code would cease to be met. No alteration can be made which would materially increase the liability of any option holder in respect of the EMI Option.

**7.7.5 Lombard Risk Management plc Unapproved Company Share Option Plan (“the Plan”)**

The Plan and the rules of the Plan (“the Rules”) have not been approved by the Inland Revenue.

**(a) Administration and Eligibility**

Under the Rules, the Board may from time to time in its absolute discretion select any number of persons who are, at the intended date of grant, employees or directors of the Company or any other member of the Group (“Eligible Employees”) and grant options to them subject to the terms of the Rules (“Unapproved Options”).

**(b) Limits**

The Rules provide that the Board may not grant Unapproved Options over shares whereby shares under option under the Plan or any other option scheme of the Company would exceed 15 per cent. of the shares in issue from time to time. The Board has discretion as to whether at the date of grant, performance conditions must be satisfied in order for the option holder to exercise the Unapproved Option. An Unapproved Option will lapse on any transfer, assignment or charge.

**(c) Grant of Options**

- (i) It is a condition of the grant of any Unapproved Option that each option holder agrees to indemnify the Company against any income tax and national insurance contribution charges which arise on the exercise of the Unapproved Option. Unapproved Options may not be exercised prior to the commencement of the exercise period, nor after the expiry of the exercise period nor at any time if the Unapproved Option holder is not an Eligible Employee, save for certain exceptions.
- (ii) The grant of an Unapproved Option shall not form part of a contract of employment of an option holder.

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**(d) Exercise of Option**

- (i) The exercise period commences on the second anniversary and ends on the day prior to the seventh anniversary of the date of grant.
- (ii) The Rules provide that at the Board's discretion Unapproved Options may be exercised in the event of a takeover or sale or trade sale of the Company. The Rules also provide for the rollover of an Unapproved Option in the event that the Company is taken over and the acquiring company agrees that the option holder may release his rights in respect of an Unapproved Option in consideration of the grant to him of rights which relate to shares in the acquiring company. Unexercised Unapproved Options may also be exercised in the event of the winding up of the Company.
- (iii) If an option holder dies before exercising any Unapproved Option, his personal representative may exercise the Unapproved Option within the period ending on the earlier of the expiry of the period of twelve months after the date of death and the expiry of the exercise period. If the option holder ceases to be an Eligible Employee by reason of ill health, injury or disability, redundancy or retirement then the option may be exercised at any time up to the last day of the sixth month following the date of cessation of employment but thereafter the Unapproved Option shall automatically lapse. If an option holder ceases to be an Eligible Employee for any other reason, then on cessation of employment the Unapproved Option shall immediately cease to be exercisable and shall lapse three months after such cessation unless within three months the Board, in its absolute discretion, permits the Unapproved Option to be exercised in whole or in part within a specified period.

**(e) Amendments**

The Rules provide that the Board may make alterations to the Rules which are necessary to comply with or take account of legislation or to obtain and maintain favourable taxation treatment for the Company or the option holders. No alteration may be made which would materially increase the liability of any option holder without the option holder's prior consent.

**7.8 MATERIAL CONTRACTS**

The following contracts, not being contracts entered into the ordinary course of business, have been entered into by the Group within the two years prior to the date of this document and are, or may be, material:

**7.8.1 Placing Agreement**

- (a) On 17 September 2004, the Company, the Directors and Nobles entered into a placing agreement ("Placing Agreement") pursuant to which Nobles has agreed conditionally, *inter alia*, upon Admission taking place by no later than 30 September 2004, (or such later date as the Company and the Nominated Advisor may agree), being in any event not later than 5 pm on 31 October 2004 to use its reasonable endeavours to procure subscribers for Placing Shares at the Placing Price.
- (b) Under the Placing Agreement, which is subject to satisfaction of certain conditions, the Company has agreed to pay Nobles a corporate finance fee of up to £125,000 payable on Admission or, if the amount raised in the Placing is less than £5 million, an amount equal to 2.5 per cent. of the gross Placing proceeds. The Company has also agreed to pay Nobles a commission of 3 per cent. of the value, at the Placing Price, of the Placing Shares for Places procured by Nobles and 1.5 per cent. of such value for Places procured by the Company or the Directors.
- (c) The Placing Agreement contains warranties from the Company and the Directors as to the accuracy and reliability of information contained in this document and certain other matters relating to the Group and its business.
- (d) Each of the Directors has agreed, subject to certain exceptions, not to dispose of any Ordinary Shares acquired by them prior to the Placing for a period of six months from admission and, for six months thereafter, only to dispose Ordinary Shares in accordance with the orderly, marketing criteria of Nobles.

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### **7.8.2 Nominated Advisor and Broker Agreement**

By an agreement entered into on 17 September 2004, the Company and Nobles entered into an agreement ("the Nominated Advisor and Broker Agreement"), pursuant to which the Company appointed Nobles to act as its Nominated Advisor and Broker for the purpose of the AIM Rules. The Nominated Advisor and Broker Agreement contains certain undertakings by the Company and indemnities given by the Company in respect of, *inter alia*, compliance with all applicable laws and regulations. The Nominated Advisor and Broker Agreement is subject to termination on the giving of three months' written notice by either party.

### **7.8.3 The John Wisbey Loan Agreement**

The agreement entered into on 17 September 2004 between the Company and John Wisbey referred to in paragraph 7.4.5 above.

### **7.8.4 Advanced Technology Trust**

On 17 September 2004 the Group purchased 2,633,334 shares from Advanced Technology Trust for £316,000. This amount was then immediately applied by Advanced Technology Trust in subscribing for Ordinary Shares in the Placing at the Placing Price. John Wisbey has a beneficial interest in Advanced Technology Trust.

## **7.9 PROPERTY**

The Company's principal premises are 13th Floor and part of 12th Floor at 21 New Fetter Lane, London EC4A 1AJ which the Company leases for a term from 25 December 2002 until 23 June 2005 and at an annual rent of £167,525 exclusive of VAT pursuant to a lease dated 21 January 2004 between (1) Cedric (New Fetter Lane) (No. 1) Limited and Cedric (New Fetter Lane) (No. 2) Limited and (2) the Company ("the Lease").

The Company has entered into an agreement with The City of London Real Property Company Limited dated 21 January 2004 pursuant to which compensation of a fixed sum of £117,250 exclusive of VAT will be paid to the Company on termination of the Lease on 28 September 2004 pursuant to the exercise of the break options by the landlord. The Company has identified new premises at Empress State House, Lillie Road, London SW6.

## **7.10 LITIGATION AND ARBITRATION**

There are no legal or arbitration proceedings (including any such proceedings which are pending or threatened), of which the Company is aware which may have or have had, during the twelve months prior to the publication of this document, a significant effect on the financial position of the Group.

## **7.11 WORKING CAPITAL**

The Directors are of the opinion, having made due and careful enquiry, that taking into account available bank and other facilities and the net proceeds of the Placing the working capital available to the Company and the Group will, from the time of Admission, be sufficient for its present requirements, that is for at least the next 12 months.

## **7.12 TAXATION**

The following statements are intended only as a general guide to the current tax position under UK taxation law and practice. They may not apply to certain classes of shareholders, such as dealers in securities, or to shareholders who are not absolute beneficial owners of their shares. An investor who is in any doubt as to his or her tax position or is subject to tax in any jurisdiction other than the UK should consult his or her professional advisor without delay.

### **7.12.1 Dividends**

Under current UK legislation, no tax is withheld from dividend payments by the Company.

A UK resident individual shareholder will be entitled to a tax credit in respect of any dividend received equal to one ninth of the amount of the dividend. The tax credit therefore equals 10 per cent. of the aggregate amount of the dividend and tax credit. Liability to UK income tax is calculated on the sum of the dividend and the tax credit. The tax credit will be available to offset such a shareholder's liability to income tax on the dividend.

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Individual shareholders whose income is within the starting rate or basic rate tax bands are subject to income tax at the rate of 10 per cent. on their dividend income, so that such shareholders will have no further liability to income tax on their dividends. The higher rate of income tax is 32.5 per cent. in respect of dividend income (rather than the main rate of 40 per cent.), so that a shareholder whose income is subject to higher rate income tax will, after allowing for the 10 per cent. tax credit, be liable to pay further income tax equal to 22.5 per cent. of the amount of the dividend and the tax credit or 25 per cent. of the dividend actually received, before the addition of the tax credit. A shareholder who is not liable to income tax on the dividend (or any part of it) is not able to claim payment of the tax credit (or part of it) in cash from the Inland Revenue.

UK resident corporate shareholders (including authorised unit trusts and open-ended investment companies) pension funds and registered charities will not normally be liable to UK taxation on any dividend received and are not entitled to payment in cash of the tax credit.

Whether shareholders who are resident for tax purposes in countries other than the UK are entitled to the whole or a proportion of the tax credit in respect of dividends on their shares depends in general upon the provisions of any double taxation convention or agreement which exists between such countries and the UK. In addition, individual shareholders who are resident in countries other than the UK but who are Commonwealth citizens, nationals of member states of the European Economic Area or fall within certain other categories of person within Section 278 of the Income and Corporation Taxes Act ("ICTA") 1988 are entitled to the entire tax credit which they may set against their total UK income tax liability. Such shareholders should consult their own tax advisors on the possible application of such provisions and any relief or credit which may be claimed in respect of such tax credit in their own jurisdictions. However, in general, no cash payment is recoverable from the Inland Revenue in respect of the tax credit.

#### **7.12.2 Capital Gains Tax**

Shareholders who are resident or ordinarily resident for tax purposes in the UK may, depending upon their individual circumstances, be liable to UK taxation on chargeable gains on a disposal of shares.

A shareholder who is not resident or ordinarily resident for tax purposes in the UK will not be liable to UK taxation on chargeable gains unless the shareholder carries on a trade, profession or vocation in the UK through a branch or agency or in the case of a non-resident company permanent establishment in the UK and the shares are, or have been, used, held or acquired for the purposes of such trade, profession or vocation or for the purposes of such branch or agency or in the case of a non-resident company permanent establishment.

#### **7.12.3 Inheritance Tax and Business Property Relief for Individuals**

For inheritance tax purposes, AIM listed securities are unquoted so that if such investments are held for at least two years and certain conditions are met at the time of the transfer, 100 per cent. business property relief is available. For transfers by an individual on death or during lifetimes, this relief at 100 per cent. reduces to nil the value of unquoted assets and the consequent inheritance tax liability.

#### **7.12.4 Stamp Duty and Stamp Duty Reserve Tax**

No stamp duty or stamp duty reserve tax ("SDRT") will be payable on the issue of shares, save to a person who issues depositary receipts or provides clearance services in respect of such shares or to a nominee or agent for such person, in which case SDRT will be payable at the rate of 1.5 per cent. of the issue price. The Company will not meet such SDRT.

Where shares are held in certificated form, no stamp duty or SDRT will arise on a transfer of such shares into CREST unless such transfer is made for a consideration in money or money's worth, in which case a liability to SDRT (usually at a rate of 0.5 per cent.) will arise. Transfers of shares within CREST will be liable to SDRT rather than stamp duty.

Any agreement to transfer shares outside CREST made for a consideration in money or money's worth will give rise to a liability on the purchaser to stamp duty or SDRT usually at the rate of 0.5 per cent. of the consideration paid.

Special rules apply to market makers, broker-dealers and certain other persons. Agreements to transfer shares to charities will not give rise to stamp duty reserve tax or stamp duty.

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### **7.12.5 Summary of the main provisions relating to EIS**

Set out below is a summary of the main provisions of the Enterprise Investment Scheme, so far as is relevant to the Company and investors, as set out in the Income and Corporation Taxes Act 1988 as amended by the Finance Acts 1994 to 2001. The provisions of the Finance Act 2004 *inter alia*, changes the limit on relief for maximum subscriptions. The summary does not set out the provisions in full and intending investors are strongly advised to seek independent professional advice.

#### **EIS tax relief**

The income tax relief, the capital gains tax exemption relief and capital gains tax deferral relief together comprise tax relief under EIS legislation. EIS can only be claimed by a qualifying individual who subscribes for eligible shares issued by a qualifying company on or after 1 January 1994, with the exception of capital gains tax deferral relief which may also be claimed by certain trustees.

#### **Income tax relief**

Individuals eligible for relief can credit an amount equal to tax at the lower rate on the amounts subscribed for qualifying shares in qualifying companies against their total liability to income tax for the tax year in which those shares are issued. For the tax year 2004/2005 the relief is obtained at a rate of 20 per cent. It does not matter where the individual is resident for tax purposes but relief is only available against United Kingdom taxable income. The amount of income tax relief cannot exceed an individual's tax liability before other reliefs given by way of discharge of tax.

An investor can claim to carry back part of his or her subscription to the previous tax year where EIS shares are issued before 6 October. The investor may claim relief as if up to one half of the shares had been issued in the preceding tax year of assessment, subject to an overall limit of £25,000.

#### **Capital Gains Tax relief**

To the extent EIS income tax relief is available and not liable to be withdrawn, any gain accruing to an individual on the first disposal 3 or more years after the issue of the qualifying shares is exempt from capital gains tax ("CGT").

#### **Capital Gains Tax deferral**

The liability to CGT arising from the disposal of any asset may be deferred by investing the gain in the shares of a qualifying company. Investment must be made within the time period beginning 1 year before and ending 3 years after the original gain. There is no limit upon the amount of gain which may be deferred, and the relief may be claimed by certain trustees as well as individuals.

#### **Reliefs Generally**

##### **Joint investors**

Applications from joint investors are permissible. The tax relief is apportioned equally.

##### **Claims**

An investor must claim EIS relief no later than the fifth anniversary of 31 January following the tax year in which the Company issued the shares.

##### **Limits of relief**

An individual cannot claim relief in respect of any amount subscribed for eligible shares in excess of £200,000 (across a number of qualifying companies) in any tax year, regardless of whether the shares are issued in that or a subsequent tax year. This limit does not apply in the case of CGT deferral relief.

Relief is only available if an individual subscribes an amount exceeding £500 in the tax year for shares in the Company (including amounts carried back in the previous year).

##### **Qualifying Status**

Although the Company presently expects to satisfy the relevant conditions contained in the legislation, neither the Company nor any of the Directors makes any warranty or gives any undertaking that EIS relief will be available in respect of any investment in the Ordinary Shares

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pursuant to this document, nor do they warrant or undertake that the Company will keep its qualifying status throughout the relevant three year period or that, once given, the relief will not be withdrawn.

### **Loss Relief**

Where a loss is incurred by an investor on the first disposal of his or her shares the net loss (after EIS income tax relief) may be set against either chargeable gains or taxable income at the election of the investor and at the then applicable marginal rate of tax.

### **Venture Capital Trusts**

On the basis of the information provided, the Inland Revenue has given provisional confirmation that the Company will comply with the requirements of Schedule 28B of ICTA 1988 and that the Ordinary Shares will be eligible shares. The status of the Ordinary Shares as a qualifying holding for VCT purposes will be conditional, inter alia, upon the Company continuing to satisfy the relevant requirements.

### **7.13 GENERAL**

- 7.13.1** Grant Thornton UK LLP have given and have not withdrawn their written consent to the inclusion in Parts 5 and 6 of this document of their reports, the references thereto and to their name in the form and context in which they appear.
- 7.13.2** Noble & Company Limited, which is regulated by the Financial Services Authority, has given and not withdrawn its written consent to the issue of this document with the inclusion herein of the references to its name in the form and context in which they appear.
- 7.13.3** Save as disclosed in this document, there has been no significant adverse change in the trading or financial position of the Company since 31 March 2004, being the date to which audited accounts for each member of the Company have been prepared.
- 7.13.4** Save as disclosed in this document, there have been no significant trends concerning the development of the business of the Company nor any significant acquisition or disposal of assets since 31 March 2004.
- 7.13.5** The expenses of and incidental to the Placing and Admission including commissions which are payable by the Company are estimated to amount to £265,000 (including Value Added Tax).
- 7.13.6** The Placing Shares have not previously been sold.
- 7.13.7** No admission to listing or trading of the Placing Shares is being sought on any stock exchange other than AIM.
- 7.13.8** The Placing Price represents a premium of 7.5p over the nominal value of 0.5p per Ordinary Share.
- 7.13.9** Save as disclosed in this document, there are no patents or other intellectual property rights, licences or particular contracts, which are of fundamental importance to the Company's business.
- 7.13.10** Except as detailed in this document, no person (excluding professional advisors as stated in this document and trade suppliers) has received, directly or indirectly, from the Company within the twelve months preceding the Company's application for Admission, and no persons have entered into contractual arrangements to receive, directly or indirectly, from the Company on or after Admission:
- (a) fees totalling £10,000 or more;
  - (b) securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price; or
  - (c) any other benefit with a value of £10,000 or more at the date of Admission.
- 7.13.11** Monies received by applicants pursuant to the Placing will be held in accordance with the terms of the application procedures determined by Nobles. If Admission does not take place, monies shall be returned to applicants as soon as practicable at their own risk and without interest.

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#### 7.14 DOCUMENTS ON DISPLAY

Copies of the following documents will be available for inspection at the offices of Memery Crystal during normal business hours on any weekday (Saturday, Sundays and public holidays excepted) from the date of this document until one month following Admission:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the audited consolidated accounts of the Company for the three years ended 31 March 2004;
- (c) the statement of adjustments in respect of the accountant's report as set out in Part 5 of this document;
- (d) the rules of the Share Option Schemes referred to in paragraph 7.7 above;
- (e) the Directors' service agreements and letters of appointment referred to in paragraph 7.5 above;
- (f) the material contracts referred to in paragraph 7.8 above;
- (g) the consent letters referred to in paragraph 7.13 above; and
- (h) this document.

Dated: 17 September 2004

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## DEFINITIONS AND GLOSSARY

### Definitions

<b>“Act”</b>	the Companies Act 1985, as amended;
<b>“Admission”</b>	Admission of the Ordinary Shares to trading on AIM becoming effective as provided in Rule 6 of the AIM Rules;
<b>“AIM”</b>	the Alternative Investment Market operated by the London Stock Exchange;
<b>“A Preference Shares”</b>	the ‘A’ preference shares of 50p in the Company in issue immediately prior to Admission;
<b>“Articles”</b>	the articles of association of the Company;
<b>“Board” or “Directors”</b>	the directors of the Company;
<b>“B Preference Shares”</b>	the ‘B’ preference shares of 50p in the Company in issue immediately prior to Admission;
<b>“Combined Code”</b>	The Combined Code on Corporate Governance adopted by the UK Financial Reporting Commission;
<b>“Company” or “LRM” or “Lombard Risk Management plc”</b>	Lombard Risk Management plc, registered number 3224870 and having its registered office at 13th Floor, 21 New Fetter Lane, London EC4A 1AJ;
<b>“Completion”</b>	Completion of the allotment and issue of the Ordinary Shares pursuant to the Placing;
<b>“CREST”</b>	the computerized settlement system to facilitate the transfer of title of shares in uncertificated form, operated by Crest Co Limited for UK, Irish and international securities;
<b>“Deferred Shares”</b>	deferred shares of 0.1 pence each in the capital of the Company arising on conversion of the Preference Shares;
<b>“EIS”</b>	the Enterprise Investment Scheme and related reliefs as detailed in Chapter III, part VII of the Income and Corporation Taxes Act 1988 and in sections 150A to 150C and Schedule 5B and 5BA of the Taxation of Chargeable Gains Act 1992 (as amended);
<b>“FSA”</b>	The Financial Services Authority;
<b>“Group”</b>	LRM and its subsidiaries and associates;
<b>“IDOX”</b>	idox plc;
<b>“ISDA”</b>	International Swaps and Derivatives Association;
<b>“London Stock Exchange”</b>	London Stock Exchange plc;
<b>“Nobles”</b>	Noble & Company Limited, regulated and authorised by the FSA;
<b>“Ordinary Shares” or “Shares”</b>	ordinary shares of 0.5 pence each in the capital of the Company;
<b>“Placing”</b>	The placing of the Placing Shares at the Placing Price, further details of which are set out in this document;
<b>“Placing Price”</b>	8 pence per Ordinary Share;
<b>“Placing Shares”</b>	the 15,625,000 Ordinary Shares to be issued pursuant to the Placing;
<b>“POS Regulations”</b>	The Public Offers of Securities Regulations 1995;
<b>“Preference Shares”</b>	The A Preference Shares and the B Preference Shares;
<b>“Recognised Investment Exchange”</b>	has the meaning ascribed thereto in Section 285 of the Financial Services and Markets Act 2000;
<b>“S &amp; F”</b>	Singer & Friedlander Limited;

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<b>“S &amp; F Warrant”</b>	an agreement made between the Company and S & F dated 7 March 2001 and updated and amended on 31 December 2001 pursuant to which S & F was granted the right to subscribe for ordinary shares in the Company on ( <i>inter alia</i> ) admission;
<b>“Share Option Schemes”</b>	the employee share option schemes of the Company, referred to in paragraph 7.7 of this document;
<b>“Uncertificated Securities Regulations”</b>	The Uncertificated Securities Regulations 2001 (SI 2001/3755) including any modification thereof or any regulations in substitution therefore made under section 207 of the Companies Act 1989 and for the time being in force;
<b>“UK Listing Authority”</b>	the United Kingdom Listing Authority, acting in its capacity on the competent authority for the purposes of the Financial Services and Market Act 2000;
<b>“UK”</b>	The United Kingdom of Great Britain and Northern Ireland;
<b>“VCT”</b>	means a venture capital trust for the purposes of section 842AA and Schedule 28B of the Income and Corporation taxes Act 1988.

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## Glossary of Terms

<b>Basel II</b>	The Basel Committee on Banking Supervision has proposed an update to the 1988 Basel I Accord, which set minimum capital requirements, based on a bank's credit risk, for the first time. This update, known as Basel II, encompasses not only minimum capital requirements, based on a combination of a bank's credit, market and operational risks, but also supervisory review and market discipline.
<b>Collateral Management</b>	The process of calling and pledging collateral. This includes the measurement of counterparty credit exposures to determine net collateral requirements, the determination of the eligibility of collateral instruments, the collection of all required collateral from counterparties and the provision of collateral to meet all outstanding exposure responsibilities. This process often involves daily market-to-market valuations of both deals and collateral, collateral calls and the notification of position information to other areas of the company.
<b>Credit Curves</b>	Curve of credit spreads obtained from credit default swap prices referenced to a particular reference entity, or alternatively the spread of bond yields over risk free bonds typically government bonds, and having different maturities. Credit spreads normally vary according to maturity, and they are higher for less credit worthy issuers or reference entities. Traders often look at spreads relative to a benchmark curve or index comprising a basket of issuers in a particular sector, credit rating or country. Credit curves relative to an index are one measure of the 'cheapness'/'richness' of the bond or credit default swap.
<b>Credit default swaps</b>	An over-the-counter contract in which the seller agrees to make a payment to the buyer in the event of one of a number of specified credit events befalling a specific company in exchange for a fixed payment or series of payments. The specified credit events can include bankruptcy, default, adverse debt rescheduling and restructuring. The payment can be either a fixed amount or equal to the loss incurred for a referenced bond issued by that company.
<b>Credit derivatives</b>	An over-the-counter contract that transfers credit risk from one party to another. For example, a lender may purchase credit derivatives to reduce the losses incurred if one or more of its borrowers defaults. The party assuming the credit risk is compensated by a fee. Common credit derivatives include Credit Default Swaps, Credit Spread Options, Credit-Linked Notes, First-to-Default Baskets and Synthetic Collateralised Debt Obligations.
<b>Derivatives</b>	Derivatives are financial instruments whose values are linked to, or 'derived' from, the price of some underlying financial or physical asset (e.g. a commodity, a currency, an interest rate or a stock market index) or combination of assets. Examples include futures, swaps, options and mortgage-backed securities. Derivatives span the entire risk spectrum and can be used either to hedge portfolios or to speculate. This has led to rapid growth in the trading volumes of interest rate, currency, equity, credit and energy derivatives, and new derivatives are being created all the time.
<b>Extreme Value Theory</b>	A branch of statistics dealing with the extreme deviations or "fat tails" of probability distributions. The relevance of this is that while a portfolio may have a 10 day 99 per cent. VAR of US\$3 million, this only means there is a 99 per cent. chance of losing not more than US\$3 million, but is no measure of how much the portfolio might actually lose if the 1 per cent. event were to take place, which could be considerably more than US\$3 million. Extreme Value Theory analyses more closely how much one could lose in such an event.

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<b>Fixed Income trading</b>	The buying and selling of securities whose nominal yield is fixed or determined with certainty at the time of purchase. These securities are typically debt instruments such as government and corporate bonds, floating rate notes and commercial paper and mortgage-backed securities. Futures on bonds and options on bond futures are traded on exchanges, but most fixed income trading takes place over-the-counter (off exchange).
<b>FRA</b>	Forward Rate Agreement. An agreement where two counterparties agree to pay or receive the difference, calculated on a certain fixing date and in most cases discounted back to that date, between an interest amount calculated on an actual market interest rate such as 3 month LIBOR on the fixing date and the pre-agreed rate (known as the FRA rate). Such calculation is based on an agreed principal amount for each trade (known as the FRA principal amount).
<b>Hedge Funds</b>	Any unregistered, privately-offered, managed pool of capital for wealthy, financially sophisticated investors. Hedge Fund managers attempt to produce targeted returns or absolute performance, regardless of the underlying trends in the financial markets. They implement a wide array of trading strategies, in equity, fixed-income or commodity portfolios, in order to capture market inefficiencies.
<b>Hedge Fund Administrator</b>	A firm which carries out a range of services for hedge funds and for investors in those hedge funds, typically involving money transfer, securities settlements, accounting, and the production of valuations and performance measurements. The range of services that a hedge fund requires depends on its size and on its own infrastructure.
<b>Investment Services Directive</b>	The ISD as revised is a key element of the European Union Financial Services Action Plan. The Directive, which regulates the authorisation, behaviour and conduct of business of securities firms and markets, aims to provide for an integrated securities market in the European Union and for the effective cross-border provision of investment services, whilst enhancing the protection of investors and market integrity and promoting fair, transparent and efficient financial markets.
<b>Monte Carlo Simulation</b>	A problem solving technique used to approximate the probability of certain outcomes by running multiple trial runs, called simulations, using random variables. This technique is applied particularly when there is no closed form solution formula for calculating the likelihood of an outcome. Examples in risk management include the simulation of market risk or credit risk exposure at times in the future in various interest rate and currency scenarios.
<b>Netting</b>	'Netting by Novation' reduces the settlement risk problem by replacing all payments between two counterparties on a given day by a single net payment. 'Close Out Netting' reduces counterparty exposure in the event of a default by requiring that all contracts outstanding with the defaulted counterparty that are subject to the netting agreement be marked to market and their values be replaced by one net amount.
<b>Recovery rates</b>	When a company defaults, the value of a financial claim on the company as a percentage of that claim's par value. Moody's calculates recovery rates using market prices one month after default, while Standard and Poor's takes the final workout payment and discounts it back to the default date. Recovery rates vary as a function of seniority, risk rating, type of debt and collateral, industry and economic conditions.
<b>Repos (Repurchase Agreement)</b>	A financial agreement in which the owner of a security sells it to another party and simultaneously agrees to repurchase it on a specified future date for a specified price. In effect, the owner is using the security as collateral for a loan. The difference between the bought and sold prices

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of the security constitutes the yield of the transaction, the repo rate. Most repos are done overnight, but there is a growing market for longer maturity transactions, known as term or structured repos.

**Risk management**

The process of first identifying and measuring the risks faced by an organisation due to its exposure to changes in financial market variables, such as foreign exchange and interest rates, equity and commodity prices or counterparty creditworthiness, and then using financial instruments such as derivatives to control these risks.

**Swaption**

The option to enter into a swap, typically an interest rate swap. In exchange for an option premium, the buyer gains the right, but not the obligation, to enter into a specified interest rate swap with the counterparty on a specified future date or range of dates. Other types of swaption are the option to enter into a currency swap or a credit default swaption which is the right to enter into a credit default swap

**VAR (Value at Risk)**

This is a measure of the potential change in the value of a portfolio resulting from changes in underlying market risk factors, such as interest or foreign exchange rates, over a specified time interval. For example, a 10 day 99 per cent. VAR of US\$3 million for a trading unit implies that there is a probability of 1 per cent. that the unit, running its current position, will lose in excess of US\$3 million over the next 10 trading days. Both Basel I and Basel II require a bank to measure the VAR of its trading portfolios and to hold capital against market risk based on this VAR number.