



 CENKOS

Cenkos Securities plc
Annual Report 2012

Summary information

Cenkos Securities plc (the “Company” or “Cenkos”) together with its subsidiaries (the “Group”) is an independent, specialist institutional securities group, focused on growth companies and investment funds. The Company’s principal activities comprise of corporate broking and advisory and institutional equities.

Cenkos’ shares are admitted to trading on the Alternative Investments Market (“AIM”). The Company is authorised and regulated by the Financial Services Authority (FSA) and is a member of the London Stock Exchange (LSE).

Highlights

| | 31 December 2012 | 31 December 2011 |
|---|-----------------------------|-----------------------------|
| Revenue from continuing operations - up 16% | £43.2m | £37.4m |
| Operating profit from continuing operations - up 35% | £6.5m | £4.8m |
| Profit before tax from continuing operations - up 37% | £7.0m | £5.1m |
| Basic and diluted earnings per share from continuing operations - up 48% | 7.4p | 5.0p |
| Basic and diluted earnings per share from continuing and discontinued operations - up 132% | 12.1p | 5.2p |
| Full year dividend per share paid and proposed - up 50% | 7.5p | 5.0p |
| - Final dividend proposed 4.0p (2011: 1.0p) | | |
| Shares bought back and cancelled | £6.3m | £0.0m |
| - 12.3% of the share capital in issue at 1 January 2012 (2011: 0%) | | |
| Cash - up 59% | £22.3m | £14.0m |
| Capital resources in excess of Pillar 1 and 2 regulatory capital requirements – after share buy backs | £5.8m | £7.7m |
| Nominated adviser or corporate broker/financial adviser to | 119 companies | 111 companies |

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Information for Shareholders

Directors

Gerry Aherne (non-executive Chairman)
Jeff Hewitt (non-executive Director)
Dr Anthony Hotson (non-executive Director)
Mike Chilton (Finance Director)
Jim Durkin (Chief Executive Officer)
Paul Hodges (executive Director)
Joe Nally (executive Director)
Jeremy Warner Allen (executive Director)

Company Secretary

Stephen Doherty

Company Registration Number and Country of Incorporation

05210733, England and Wales

Registered Office

6.7.8 Tokenhouse Yard
London
EC2R 7AS

Bankers

HSBC
West End Corporate Banking Centre
70 Pall Mall
London
SW1Y 5EZ

Financial Calendar

| | |
|-------------|-----------------------------|
| March/April | Year end results announced |
| April/May | Annual General Meeting |
| May | Final dividend paid |
| September | Half year results announced |
| November | Interim dividend paid |

Solicitors

Travers Smith LLP
10 Snow Hill
London
EC1A 2AL

Auditors

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Registrars

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

Nominated Adviser & Broker

HSBC
8 Canada Square
London
E14 5HQ

Website

www.cenkos.com

The board of directors of Cenkos Securities plc

Non-executive Directors

Gerry Aherne (67)

Non-executive Chairman

Gerry was appointed a non-executive Director of the Company in April 2012, and was appointed Chairman of the Company in May 2012. Gerry enjoyed a long career as a fund manager and was an executive Director of Schrodgers Investment Management Limited until 2002, managing both institutional segregated and pooled pension funds and unit trusts. He is currently non-executive Chairman of Electric & General Investment Fund and Mecom Group plc, and a non-executive Director of Iveagh Limited. In addition, he was previously an executive Director of Majedie Investments plc and a non-executive Director of Henderson Group plc. He was also the founder and Chief Executive of Javelin Capital LLP until April 2011.

Gerry is Chairman of the Nomination Committee and a member of the Audit and the Remuneration Committees.

Jeff Hewitt (65)

Non-executive Director

Jeff was appointed a non-executive Director of the Company in June 2008. Jeff was the Group Finance Director of Electrocomponents plc from 1996 to 2005 and Deputy Chairman from 2000 to 2005. Prior to 1996 he held various executive Director roles, having started his career with Arthur Andersen, where he qualified as a Chartered Accountant and The Boston Consulting Group. He is a non-executive Director and Chairman of the Audit Committee of Vesuvius plc and Foreign & Colonial Investment Trust. He is Chairman of Electrocomponents Pension Trustees. He was previously Chairman of the Audit Committee of the John Lewis Partnership.

Jeff is Chairman of the Audit Committee and a member of the Remuneration and the Nomination Committees.

Dr. Anthony Hotson (59)

Non-executive Director

Anthony was appointed a non-executive Director of the Company in May 2012. Anthony joined the Bank of England in 1978 and worked in the Economics Division, Governors' Office and Money Markets Division. He subsequently worked for McKinsey & Company and then in the corporate finance division of S.G. Warburg. He was a director of S.G. Warburg & Co. Ltd. from 1992 to 1995 and subsequently Managing Director and Head of the Financial Institutions Group, SBC/UBS Warburg until 1998. He was a non-executive Director of Henderson Group plc from 2002 to 2009 and Chairman of its subsidiary companies, London Life and Towry Law, before their sale. Anthony has an MPhil in Economics from Nuffield College, Oxford, and a PhD from the Courtauld Institute of Art. He is a member of Wolfson College, Oxford and is currently a Research Fellow at the Winton Institute for Monetary History, Oxford.

Anthony is Chairman of the Remuneration Committee and a member of the Audit and the Nomination Committees.

Executive Directors

Mike Chilton (48)

Finance Director

Mike was appointed to the Board in June 2012. Mike has over 25 years of financial services experience and joined the Company in April 2011 from NS&I (National Savings and Investments) where he was Finance and Risk Director. Prior to this, Mike worked for 10 years at Standard Chartered PLC in a variety of senior finance and risk roles, including Group Head of Operational Risk and Chief Financial Officer for their Africa Region. After qualifying as a chartered accountant with PWC, Mike spent several years with them as a management consultant in their financial services practice. Mike is also a Trustee and the Honorary Treasurer of Sightsavers (the Royal Commonwealth Society for the Blind).

The board of directors of Cenkos Securities plc continued

Jim Durkin (53)

Chief Executive Officer

Jim was appointed as an executive Director and to the position of Chief Executive Officer of the Company in December 2011. Jim has more than 30 years' experience in the securities industry and joined the Company as Head of Corporate Broking in March 2005.

Paul Hodges (53)

Executive Director

Paul was appointed to the Board in June 2012. Paul has over 30 years' experience in the UK securities industry having first joined Laurie Milbank as an insurance analyst in 1981. He subsequently worked for a number of financial institutions and was a top ranked composite insurance analyst in the City for several years, specialising in the assessment of insurers' exposure to long-tail liability claims relating to tobacco and lead. Paul was one of the founder shareholders of Cenkos in 2005.

Joe Nally (61)

Executive Director

Joe was appointed to the Board in June 2012. Joe has over 35 years' experience in the UK securities industry having first joined Williams de Broe in 1976 as an investment analyst. He went on to become a stockbroker covering a wide range of institutions in the UK and Europe. In 1992 he was a founder of the institutional corporate finance department at Williams de Broe where he gained extensive experience across a broad range of sectors in IPO's, secondary fund raising and takeovers and mergers, particularly in natural resources. Joe was one of the founder shareholders of Cenkos in 2005 and has significant expertise in the mining and oil and gas sectors. He is currently the Head of the Natural Resources team.

Jeremy Warner Allen (58)

Executive Director

Jeremy was appointed to the Board in June 2012. Jeremy has over 25 years' experience in small and mid-cap institutional broking. He was a founding member of Beeson Gregory Limited in 1989, becoming head of the UK sales desk. Upon the merger with Evolution Group plc in 2002 he was appointed Head of Sales for Evolution Securities. He joined Cenkos in 2006 prior to the Company's flotation on AIM. He is currently the Head of the Growth Companies team.

Business review

Cenkos is pleased to report that, despite the difficult economic conditions that prevailed during the period, revenues and profits are well ahead of last year. We continue to grow our client base and raise equity capital for our corporate clients. We are rated as one of the leading brokers in London for growth companies. A March 2013 survey* ranks us as the top financial adviser for all AIM clients by clients' market capitalisation, number two by number of AIM clients and joint number two financial adviser by total number of stock market clients.

These results have been achieved against an on-going backdrop of fragile and volatile equity markets. Our business model ensures a relatively low fixed cost base and a remuneration structure highly geared to performance. We maintain a positive cash cycle and a limited exposure to credit and market risk. This, combined with the high quality, dedication and experience of our employees, and the much appreciated support of our clients, has enabled Cenkos to be profitable every year since the Company was founded in 2005. Prior to the declaration of a final dividend of 4p per share, we have paid out 68.5p in dividends to our shareholders.

Our strategy

Our prime strategy is to become the principal UK institutional broker to growth companies who are admitted to trading or listed on a UK market. We aim to achieve this through:

- Understanding the needs of our clients, enabling us to provide successful fund raising and advice through an innovative and entrepreneurial approach;
- Delivering sustainable, diversified and growing income streams;
- Adding high quality individuals to the teams; and
- Managing costs and risks carefully,

thereby providing shareholder value through earnings growth and an attractive dividend yield.

Our business

We provide corporate advice, broking and a complete securities service to growth companies across a wide range of industry sectors, including investment funds. We focus on companies that want their shares to be admitted to trading on AIM or are already traded on AIM or listed on the LSE's main market. For growing companies that require access to capital and international exposure, AIM's flexibility, with its Nominated Adviser (Nomad) system of control, provides a strong basis for financing and corporate development. We offer our clients advice and access to equity finance at all stages of their development.

Revenue streams

Cenkos earns fees from primary and secondary equity fund raising, acting as a key intermediary between growth companies or investment funds and institutional providers of capital. From when we were founded in 2005 to the end of 2012 we have raised circa £7.4 billion for our clients. We aim to provide strong and supportive shareholder lists for companies, and healthy returns for institutional investors. Corporate finance fees are earned from providing strategic advice and regulatory guidance to clients, as well as advice on all forms of corporate transactions including fundraisings, mergers and acquisitions, disposals, restructurings and tender offers. Fees are also generated from acting as Nomad or broker or financial adviser to our corporate clients. Commission is earned from published equity research. Our experienced trading teams earn commission from market making and sales trading in equities on markets such as AIM and the LSE Official List.

Management systems and controls

We operate an efficient and flexible business model, well adapted to a highly regulated environment. It is therefore important that we continue to maintain an appropriate and proportionate level of systems and controls, commensurate with our size and complexity. Our risk management processes are outlined in more detail in the Corporate Governance section of this Annual Report.

* Adviser Rankings Limited's Corporate Advisers Ranking Guide (the successor to the Morningstar All-Market Rankings Guide).

Business review continued

We manage our cost base carefully. We offer our client facing staff relatively low basic salaries but reward their performance based on factors that include their net income generation. This cost flexibility allows us to manage economic downturns better than many of our competitors who have higher levels of fixed or guaranteed pay. Further details on pay are disclosed in the Directors' Remuneration Report. We selectively use outsourcing partners to help us maintain this cost flexibility in areas where volumes can be unpredictable. Our core trading systems, settlement systems and internal audit function are all outsourced.

Culture and people

Our success is based on maintaining experienced and stable teams whose members build professional relationships and achieve results through a committed and entrepreneurial approach. We endeavour to remunerate our staff to a level which not only retains but also motivates them to behave in line with our required standards and the longer-term growth objectives of the Company.

Key performance indicators (KPIs)

Cenkos' Key Performance Indicators (KPIs) include, but are not limited to, measures such as:

- Profit before tax, earnings per share;
- The size and quality of our corporate client base (Nomad/broker appointments), the aggregate funds raised for clients; and
- Various key risk indicators, including capital resources and cash.

Our main KPIs are noted in the Summary Information section of this Annual Report and commented on below.

Financial results

Total revenue from continuing operations for the year increased by 16% to £43.2 million (2011: £37.4 million). The rise in revenues reflects higher income from placings, corporate finance fees and market making revenues. This is a creditable result given that the economic slowdown continues to impact equity markets, with the total funds being raised by all companies on AIM falling by 26% in the year. This fall continues to impact the stockbroking and advisory industry's profitability and is leading to long overdue consolidation of our sector. Given our continued profitability, this backdrop provides us with an opportunity to win new clients and to add high quality individuals to our existing teams.

Costs of continuing operations rose by £4.1 million (13%) in the period, primarily driven off higher levels of staff costs including performance related pay. Operating profit from continuing operations rose 35% to £6.5 million and profit before tax from continuing operations was £7.0 million (2011: £5.1 million). This 37% rise reflects higher revenues being only partially offset by higher performance related pay. The tax charge for the year from continuing operations was £1.9 million (2011: £1.5 million), which equates to an effective rate of tax of 26% (2011: 30%). Basic and diluted earnings per share from continuing operations rose by 48% to 7.4 pence (2011: 5.0p).

Segment results

Corporate Broking and Advisory

Revenue in this segment is made up of placing commissions on fund raisings, corporate finance fees and retainer income, market making profits and commissions on secondary market transactions. Revenue was up 14% to £40.1 million (2011: £35.2 million) due largely to Cenkos undertaking more fundraisings in 2012, an expanding list of corporate clients and more profitable trading conditions experienced by our market making operations. Corporate finance revenues were £27.2 million (2011: £25.8 million), whilst corporate broking and market making fees were £10.7 million (2011: £6.7 million). The segment result before unallocated administrative expenses was up 16% to £18.8 million (2011: £16.2 million) as set out in note 3 to the financial statements.

In our core market, AIM, the total value of all primary admissions to AIM rose slightly from £609 million in 2011 to £707 million in 2012, but subsequent placings on AIM fell from £3,660 million to £2,437 million in 2012 (source: LSE AIM factsheet December 2012). Against this backdrop, we are pleased to announce that during the year we completed 46 transactions, raising a total of £711 million (2011: £838 million), which included seven primary issuances. This performance is particularly encouraging as it was achieved during a period of limited transactional revenue and continued competitive pressure. Our broking teams cover a wide range of sectors. We have been ranked highly by Morningstar Professional Services Rankings Guide for Q4 2012, where we were the top Nomad by number of clients for the Oil & Gas sector, and ranked second for both the Telecommunications and Financial sectors.

As at 31 December 2012, the Company was nominated adviser, broker or financial adviser to 119 companies or trusts (2011: 111).

We make markets in the securities of all the companies where we have a broking relationship to support the other services we provide to our clients. We actively provide liquidity to the market and facilitate institutional business in both small and large cap equities. Our trading desks now make markets in the shares of 342 companies and investment trusts. We continue to actively restrict the amount of capital committed to this activity to limit the market risk exposure without adversely affecting the revenue generated.

Institutional Equities

Commission is earned from institutional investors for our published equity research based on its perceived value. Whilst many of our clients continue to pay for our research services directly, more are choosing to transact business through Cenkos as well.

Revenues for the year for this segment were up 40% to £3.0 million (2011: £2.2 million). The segment result improved to £1.0 million (2011: £0.5 million). The pressure on secondary commissions shows no sign of relenting, despite investors' requirement for more independent research around takeovers and IPOs. We are confident that we can prosper in this environment because of our flexible cost model in which remuneration is linked to net income.

Our execution business is strictly focused on client facilitation. We believe that this segment continues to enhance Cenkos' overall service offering to its expanding client base.

Fund and Wealth Management

Our offshore fund and wealth management services were provided through Cenkos Channel Islands Limited (CCIL), a Guernsey based company. Following a strategic review, in April 2012 we sold our controlling interest in CCIL, reducing our stake from 50% to 10%. This remaining 10% stake was sold in October 2012.

As noted in our 2011 Annual Report, in February 2012 we also completed the sale of our onshore fund management business, Cenkos Fund Managers Limited (CFM).

Cenkos generated a profit after tax from discontinued operations of £3.3 million in 2012 (2011: £0.4 million).

Financial position and cash flow

We continue to manage the amount of capital committed to our market making activities closely. As at 31 December 2012, our net trading investments were £6.9 million (2011: £7.7 million).

Cash held at 31 December 2012 is £22.3 million (2011: £14.0 million), including £0.5 million (2011: £0.5 million) held on trust for creditors as a result of the cancellation of our share premium account in 2010. The year to 31 December 2012 saw an inflow of cash and cash equivalents of £8.3 million against an outflow of cash of £14.5 million in 2011. The inflow in 2012 reflects a number of factors including the Company's profitable trading over the period generating £16.2 million, net cash inflow from the sale of our shareholding in CCIL, lower dividend payments made during the year when compared to 2011 and the receipt of premiums to pay up for some Cenkos B shares, partially offset by £6.3 million of cash used to buy back and cancel own shares.

Business review continued

Dividend and capital levels

As we have consistently stated, we intend to retain sufficient capital and reserves to meet the Company's regulatory capital and cash requirements, after taking account of the likely future working capital requirements of the Company. Since our flotation onto AIM in October 2006, we have paid out 68.5 pence in dividends, prior to the 4p proposed final dividend for 2012. During the year, the Company bought back and cancelled 8.9 million shares at a cost of £6.3 million (2011: nil), thereby increasing the Company's prospective earnings per share. Additionally, the Cenkos Securities Employee Benefit Trust ("EBT") purchased shares at a cost of £0.8 million (2011: £42,875).

The Board proposes a final dividend of 4p per share (2011: 1p). This makes a total dividend of 7.5p for the year (2011: 5p). Subject to approval at the Annual General Meeting to be held on 10 May 2013, the final dividend will be paid on 14 May 2013 to all shareholders on the register at 19 April 2013.

The Company retains sufficient capital to satisfy the UK Financial Services Authority's capital requirements. These requirements vary from time to time depending on the business conducted by the Company. As at 31 December 2012, Cenkos had a solvency ratio based on capital resources against Pillar 1 capital requirement of 198% (2011: 227%) based on audited profits and a capital resources surplus (including £0.5 million held on trust for creditors) of £5.8 million (2011: £7.7 million) in excess of our Pillar 1 and 2 regulatory capital requirements. Surplus capital fell by £2.0 million from 2011 due to the value of share buy backs exceeding both the £3.3 million profit on sale of discontinued operations and the receipt of £1.4 million of premiums to fully pay up 1.5 million Cenkos B shares. See note 21 to the financial statements for further details of capital movements.

Principal risks and uncertainties

We face a range of risks and uncertainties which could affect both our financial performance and the achievement of our strategic objectives. One of our key risks is that our income is dependent on the health of the financial markets and in particular the economic conditions of the UK. The continued uncertain economic outlook may lead to a continuation of the slowdown in primary and secondary fundraising seen in 2012. Our business model has been designed to minimise the impact of lower revenues by ensuring that performance related pay also falls to help compensate for this. The primary economic environment in which we operate is the UK and the majority of our transactions are in UK based equities. We therefore have limited direct exposure to the Eurozone or any material foreign exchange risk due to any weakness in sterling.

Aside from the health of UK equity markets, the remaining risks outlined below are those that we believe have the potential to have a significant detrimental impact on our financial performance and future prospects. These risks should not be regarded as a comprehensive list of all the risks and uncertainties that the Company may potentially face, which could adversely impact performance or future prospects. The key risk areas that could impact the Company's future performance and how they are managed are noted below, along with comments as to how our risk profile has changed in the year.

Reputational risk

The Company believes that one of the greatest risks it faces comes from the potential loss of our reputation. All new business proposals are subject to a rigorous appraisal process followed by consideration by the New Business Committee. This Committee's remit is designed to ensure that new business proposals meet our strict criteria.

Operational risk

Operational risk is the risk that the Company suffers a loss directly or indirectly from inadequate or failed internal processes, people, systems, or external events. The Company's control functions and senior management continually review the risk framework to ensure it properly reflects the risks to which Cenkos is exposed and that any significant operational risks and their controls are reviewed, tested and assessed and, where applicable, corrective action plans put in place. There is also an on-going process for identifying, evaluating and managing the significant risks faced by the Company, including fraud. Cenkos' low cost and responsive business model relies on consistent delivery from our key suppliers for our trading systems and settlements. We maintain regular dialogue and meetings with these vendors and ensure there is the necessary oversight of the risks associated with outsourcing. We continuously review our business continuity plans, and have disaster recovery facilities in place in order to mitigate any substantial disruption to our operations. In February 2013 the Company's business continuity plan was tested. No issues of concern were raised in respect of this test.

Other specific operational risks that are material to the Company's performance are regulatory risk, people risk and litigation risk. These are commented on in more detail below.

Regulatory risk

The Company has a strong culture of regulatory and legal compliance. There is strict adherence to applicable regulation, focusing particularly on our on-going obligations and responsibilities as an AIM nominated adviser (Nomad) and a UK Listing Authority (UKLA) Sponsor. We continue to ensure that the appropriate systems and controls, reporting, capital and liquidity requirements are in place to meet the on-going obligations of an FSA regulated (BIPRU Investment) firm. As at 31 December 2012 the Company's capital resources were £5.8 million in excess of Pillar 1 and 2 regulatory requirements. In light of the increasing regulatory burden being placed on regulated entities such as ourselves, we have increased resources in our compliance function in the year, and continued to enhance our systems, processes and controls. This expanded compliance function undertook a wide range of risk based reviews and other assurance tasks.

People risk

Our employees are our greatest asset and the future success of the Company depends on our ability to attract and retain high quality employees. We seek to minimise this risk by creating the right culture and working environment and by rewarding employees through an overall remuneration package that is geared towards performance and aims to align the interests of both employees and shareholders. People risk is also mitigated via a succession planning process overseen by the Nomination Committee. During the year we upgraded our appraisal processes. As noted below in the 'People' section of this Business Review, there have been a number of Board changes in 2012. All of the new Board members have extensive experience in financial services.

Litigation risk

There is always a risk that some form of litigious action may be taken against the Company. Before any decision to enter into litigation is made the Board, senior management and the Company's legal advisers will review all aspects of the case to assess and consider if it is in the best interests of the Company and ultimately the shareholders to either instigate proceedings or defend ourselves against any potential litigation. During the year settlement was agreed with a former member of staff over a dispute. See note 19 to the financial statements for further details.

Credit risk

Although Cenkos' transaction fees are generally paid out of the proceeds of any funds raised, Cenkos faces some credit risk in respect of collecting fees due for other advice provided, such as Nomad fees. We also face credit risk in terms of our bank deposits and in respect of the unpaid share premium due on B shares. The Company faces limited credit risks in the normal course of business as our market making activities are carried out on a delivery versus payment basis. Hence any counterparty exposure here will manifest itself as either an operational risk (in the form of settlement risk), or a market risk in terms of an underlying exposure to equities. Overdue fees are reviewed regularly and appropriate action taken to ensure recoverability. The banks with which the Company deposits money are reviewed on an annual basis by the Board and are required to have at least an investment grade credit rating. A number of banks are used in order to limit the concentration risk in relation to cash deposits.

Market risk

The Company is exposed to market risk arising from our short-term positions in predominantly market making stocks in AIM listed companies. To mitigate this risk the Company manages market risk by establishing individual stock position limits and overall trading book limits. There are daily procedures in place to monitor any position limit excesses. These limits are reviewed on an on-going basis by the Chief Executive Officer and also by the Risk and Compliance Committee. Cenkos does, from time to time, take shares in lieu of fees subject to appropriate internal sign offs. Some stocks traded on AIM are subject to low levels of underlying liquidity.

Business review continued

Liquidity risk

The Company is also exposed to liquidity risk being that we are unable to fund our commitments as and when they arise. To mitigate this risk, the Company has in place an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Board has oversight and approves the liquidity risk management framework and Individual Liquidity Adequacy Assessment at least annually. The Company also manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 17 to the financial statements is a description of additional undrawn facilities that Cenkos has available to reduce liquidity risk further. Given the nature of the Company's business, the Company does not run any significant liquidity mismatches and financial liabilities are on the whole short-term.

Financial risks are also discussed in more detail in note 25 to the financial statements and include capital, equity price risk, credit risk and liquidity risk. Our internal control and risk management processes are discussed in more detail in the Corporate Governance section of this Annual Report. It is not anticipated that our risk profile will change materially in 2013.

People

The professionalism of our employees has enabled us to achieve a robust performance for the year. I am proud to lead a company of such dedicated and talented individuals. Their skill, commitment and determination will continue to provide us with a solid platform on which to continue to build our franchise.

During the year there were a number of changes to the Board. Gerry Aherne was appointed as a non-executive Director of the Company on 4 April 2012 and replaced Peter Sullivan as Chairman on 10 May 2012. Both Peter Sullivan and David Henderson stepped down as non-executive Directors of the Company on 10 May 2012. On 15 May 2012 Dr Anthony Hotson was appointed as a non-executive Director. On 8 June 2012, Mike Chilton, Paul Hodges, Joe Nally and Jeremy Warner Allen were all appointed executive Directors of the Company.

Outlook

Whilst not immune to events in the general economy, our pipeline remains strong and we have made an encouraging start to 2013.

Jim Durkin

Chief Executive Officer

5 April 2013

Forward-looking statements

These financial statements contain forward-looking statements with respect to the financial condition, results, operations and businesses of the Company. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct. Such statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by forward-looking statements and forecasts. Forward-looking statements and forecasts are based on the Directors' current view and information known to them at the date of this statement. The Directors do not make any undertaking to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 December 2012.

Principal activities

Cenkos is an independent, specialist institutional securities group, focused on growth companies and investment funds. The Company's principal activities comprise corporate finance, broking and advisory services.

Business review and future developments

A review of the Company's operations and performance during the financial year, setting out the position at the year end, significant changes during the year and providing an indication of the outlook for the future, is described within the Business Review.

Results and dividends

The consolidated results for the year are set out in the Consolidated income statement on page 32.

An interim dividend of 3.5p per share was paid to shareholders on 15 November 2012 (2011: interim dividends of 4p per share). The Directors recommend the payment of a final dividend of 4p per share in respect of the year ended 31 December 2012 (2011: final dividend of 1p per share). The total interim and final dividend in respect of the year ended 31 December 2012 is 7.5 pence (2011: 5 pence). Subject to approval at the Annual General Meeting to be held on 10 May 2013, the dividend will be paid on 14 May 2013.

Directors

The names of the Directors of the Company appear on pages 3 and 4. The Directors have served throughout the year or since their respective appointments to the Board. Gerry Aherne was appointed to the Board on 4 April, 2012 and became Chairman on 10 May 2012. Dr. Anthony Hotson was appointed to the Board on 15 May 2012. Mike Chilton, Paul Hodges, Joe Nally and Jeremy Warner Allen were appointed to the Board on 8 June 2012. Peter Sullivan and David Henderson served as Directors of the Company until 10 May 2012.

In accordance with current best practice, the Board has decided that all the Directors should be subject to an annual re-election to the Board; accordingly at the forthcoming Annual General Meeting Gerry Aherne, Jim Durkin and Jeff Hewitt will offer themselves for re-election. Dr. Anthony Hotson, Mike Chilton, Paul Hodges, Joe Nally and Jeremy Warner Allen, having been appointed to the Board since the last Annual General Meeting, will also offer themselves for election to the Board.

Share capital

The authorised share capital of the Company is £2,000,000 comprising of 179,185,700 ordinary shares of 1p each and 20,814,300 B shares of 1p each.

As at 31 December 2012 the issued share capital of the Company was £638,379 (2011: £727,712). This comprised 61,153,717 (2011: 68,598,553) ordinary shares of 1p each, which are admitted to trading on AIM and 2,684,243 (2011: 4,172,617) B shares of 1p each, which are not admitted to trading on AIM. All shares have equal voting rights.

The B shares were issued on a partly-paid basis to certain employees prior to the Company's admission and trading on AIM in October 2006. Holders of the B shares are required to pay a further amount (the "required premium") that was specified at the time of allotment for the relevant B shares. Upon payment of the required premium the B shares convert automatically into ordinary shares and will be admitted to trading on AIM. During the year, following the payment of the required premium, 1,488,375 B shares with a nominal value of 1p each were converted into 1,488,375 ordinary shares with a nominal value of 1p each.

During the year, pursuant to shareholder authority, a total of 8,933,211 (2011: nil) ordinary shares in the Company were purchased by the Company at 70 pence per share for cancellation. On 29 January 2013, 215,837 ordinary shares in the Company were purchased by the Company at 75 pence per share for cancellation.

Directors' report continued

The authority given at the Company's Annual General Meeting on 10 May 2012 to purchase up to 9.9% of its ordinary issued share capital was fully utilised during the year. Authorisation to purchase up to a further 9.9% of the Company's ordinary issued share capital was given by shareholders at a General Meeting of the Company held on 4 December 2012. The Board considers that it would be appropriated to renew this authority and intends to seek shareholder approval to purchase up to 9.9% of the Company's ordinary issued share capital at the forthcoming Annual General Meeting.

No options over ordinary shares in the Company were exercised during the year (2011: nil).

Directors' interests in ordinary shares

The under mentioned Directors had interests in the share capital of the Company as shown below:

| Name of Director | 31 December 2012* | 31 December 2011 | Percentage interest as at 31 December 2012* | Percentage interest as at 5 April, 2013 |
|------------------------------------|-------------------|----------------------------------|---|---|
| | | or date of appointment if later* | | |
| Paul Hodges ⁽¹⁾ | 5,860,750 | 5,841,750 | 9.18% | 9.21% |
| Jim Durkin | 5,722,500 | 5,675,000 | 8.96% | 8.99% |
| Jeremy Warner Allen ⁽¹⁾ | 1,558,700 | 1,558,700 | 2.44% | 2.45% |
| Joe Nally ⁽¹⁾ | 1,250,000 | 1,250,000 | 1.96% | 1.96% |
| Jeff Hewitt | 36,480 | 17,480 | 0.06% | 0.06% |
| Gerry Aherne ⁽²⁾ | 28,500 | – | 0.04% | 0.04% |
| Mike Chilton ⁽¹⁾ | 9,500 | – | 0.01% | 0.01% |

* Percentage of the Company's ordinary and B shares combined

¹ Paul Hodges, Joe Nally, Jeremy Warner Allen and Mike Chilton were appointed to the Board on 8 June 2012

² Gerry Aherne was appointed to the Board on 4 April 2012

The Directors have confirmed that none of their ordinary shares have been used for security purposes or had a charge, lien or other encumbrance placed over them.

Directors' interest in options

Joe Nally and Jeremy Warner Allen both have an interest in options over ordinary shares in the Company as at 31 December 2012. Details of their options held are shown on page 28 of the Directors' Remuneration Report.

Directors' and Officers' liability insurance

The Company maintains liability insurance for its Directors and Officers as permitted by the Companies Act 2006. To the extent permitted by law, and in accordance with its Articles of Association, the Company indemnifies its Directors against any claim made against them as a consequence of the execution of their duties as a Director of the Company.

Significant shareholdings

In addition to the current Directors' interests shown above, the Directors have been notified by the following companies and individuals that they had interests in 3% or more of the Company's share capital at 31 December 2012 and at 5 April, 2013:

| Holder | Number of shares | Percentage interest as at 31 December, 2012* | Number of shares | Percentage interest as at 5 April, 2013* |
|---|------------------|--|------------------|--|
| Invesco Limited | 11,113,869 | 17.41% | 11,113,869 | 17.47% |
| Paul Hodges | 5,860,750 | 9.18% | 5,860,750 | 9.21% |
| Jim Durkin | 5,722,500 | 8.96% | 5,722,500 | 8.99% |
| J.P.Morgan Asset Management Limited | 2,334,163 | 3.67% | 4,668,326 | 7.34% |
| Hargreave Hale Limited | 3,368,690 | 5.27% | 3,368,690 | 5.29% |
| Andy Stewart | 6,000,000 | 9.40% | 3,000,000 | 4.72% |
| Cenkos Securities EBT | 2,843,724 | 4.45% | 2,878,724 | 4.52% |
| Cenkos Securities (Trustees) Limited ** | 2,684,243 | 4.20% | 2,634,243 | 4.14% |
| Nicholas Wells | 2,550,000 | 3.99% | 2,550,000 | 4.00% |

* Percentage of the Company's ordinary and B shares combined

** These B shares are held as a nominee on behalf of certain B shareholders

Employee benefit trust

The Company has established an employee benefit trust (EBT) in respect of the Company's share schemes, which is funded by the Company and has the power to acquire shares from the Company or in the open market to meet the Company's future obligations under its share schemes. At 31 December 2012, the employee benefit trust held 2,843,724 ordinary shares representing 4.45% (2011: 1,583,750 ordinary shares representing 2.18%) of the Company's issued share capital for an aggregate consideration of £2,945,158 (2011: £2,190,008).

Employment policies, including diversity

The Company aims to maintain the highest possible standards of ethical and moral behaviour in the pursuit of its business objectives. Equal opportunity is accorded to all applicants for employment and employees alike without regard to sex, age, marital status (including civil partnerships), race, religion, colour, disability, sexual orientation, ethnic or national origin. The Company is committed to maintaining a workforce of the highest quality through recruitment and advancement of the most qualified applicants without regard to any personal characteristics other than honesty, ability and commitment to success. It is our policy to ensure that subsequent progression within the organisation is determined solely by the application of individual performance and merit.

The Company provides employees with information on matters of concern to them so that their views can be taken into account when making decisions that are likely to affect their interests. Employees participate in the success of the Company through performance-based incentive schemes incorporating formula based profit sharing arrangements and share option arrangements.

Charitable and political donations

The Company did not make any charitable donations during the year (2011: £nil), nor any political donations during the year (2011: £nil).

Supplier payment policy

It is the Company's policy to settle debts with its creditors on a timely basis, taking into consideration the terms and conditions offered by each supplier. The number of supplier days outstanding at 31 December 2012, based on the average monthly outstanding Company creditor balances, was 16 days (2011: 16 days).

Directors' report continued

Principal risks and uncertainties

The major risks to which the Company is exposed, along with the controls in place to minimise these risks, are described on pages 8 to 10.

Going Concern

As shown in note 1 to the financial statements, the Directors consider it appropriate to adopt the going concern basis in preparing these financial statements.

Director's statement as to disclosure of information to the auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed on pages 3 and 4. Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information (that is, information needed by the Group's auditors in connection with preparing their report) of which the Company's auditors are unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditors

Ernst & Young LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint Ernst & Young LLP as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Annual General Meeting of the Company will be held at 6.7.8 Tokenhouse Yard, London EC2R 7AS on 10 May 2013 at 12.00 noon. A copy of the Notice of Annual General Meeting together with an explanation of the resolutions to be proposed is set out on pages 77 to 82.

This report was approved by the Board of Directors on 5 April 2013 and signed on its behalf by:

Stephen Doherty

Company Secretary

5 April 2013

Statement of directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the Business Review on pages 5 to 10, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

This statement was approved by the Board of Directors on 5 April 2013 and signed on its behalf by:

Jim Durkin

Chief Executive Officer

5 April 2013

Corporate governance report

Introduction

Whilst the Company (being an AIM quoted company) is not required to comply with the UK Corporate Governance Code 2010 (“the Code”), the Directors do, however, fully support high standards of corporate governance and intend to comply with the Code, in so far as practicable given the Company’s size. In this respect, the Directors consider that the Company has applied the principles and complied with the provisions of the Code, with the exception of the requirement for at least half of the Board to comprise non-executive Directors, appointment of a senior independent Director and undertaking an annual evaluation of its Board and its Committees during the year. The rationale for these exceptions is noted below. The information in the Corporate Governance Report is not subject to audit.

The role of the Board

The Directors collectively bring a broad range of business experience to the Board and this is considered essential for the effective management of the Company. The Board is responsible for strategic and major operational issues affecting the Company. It reviews financial performance, regulatory compliance, monitors key performance indicators and will consider any matters of significance to the Company, including corporate activity. Certain matters can only be decided by the Board and these are contained in the schedule of matters reserved to the Board. The Board also delegates certain responsibilities to committees of the Board; the Board reviews the decisions of these committees at each of its meetings. The day-to-day management of the Company’s business is delegated to the Chief Executive Officer and executive Directors of the Company.

The composition of the Board and division of responsibilities

The Board currently consists of five executive and three non-executive Directors. The composition of the Board ensures that no single individual or group of individuals is able to dominate the decision-making process.

Details of the individual Directors and their biographies are set out on page 3 to 4.

Roles of Chairman and Chief Executive Officer

The roles of the Chairman and the Chief Executive Officer are separated, ensuring a clear division of authority and responsibility at the most senior level within the Company.

Chairman

At the Company’s Annual General Meeting on 10 May 2012, Gerry Aherne replaced Peter Sullivan as non-executive Chairman. The Chairman is responsible for the leadership of the Board and ensuring the effective running and management of the Board. He is also responsible for the Board’s oversight of the Company’s affairs, which includes ensuring that the Directors receive accurate, timely and clear information, ensuring the effective contribution of the non-executive Directors and implementing effective communication with shareholders.

Chief Executive Officer

Jim Durkin served as the Chief Executive Officer throughout the year. He is responsible for the day-to-day management and the executive leadership of the business. His other responsibilities include the progress and development of objectives for the Company, managing the Company’s risk exposure, implementing the decisions of the Board and ensuring effective communication with shareholders and regulatory bodies.

Non-executive Directors and independence

As well as the non-executive Chairman, the Board also has two other non-executive Directors. The non-executive Directors bring independent judgement, knowledge and experience to the Board. The non-executive Directors have confirmed that they are able to allocate sufficient time to the Company to discharge their responsibilities effectively.

The Board is of the opinion that each non-executive Director acts in an independent and objective manner. The Board’s opinion was determined by considering for each non-executive Director whether he is independent in character and judgement, his conduct at Board and committee meetings, whether he has any interests that may give rise to an actual conflict of interest and whether he acts in the best interests of the Company and its shareholders at all times.

Executive Directors

Following a review of the composition of the Board that took place during the year, four executive Directors were appointed to the Board from within the senior management of the Company. The increased executive representation on the Board enhanced the Board's effective oversight of the running of the business and allowed it to have a greater insight into the operational and strategic issues that the business faces.

Senior independent Director

The Board has agreed not to appoint a senior independent Director. Given the size of the Company, the shareholdings held by Board members and the policy of active dialogue being maintained with institutional shareholders by senior management, including the Directors, the Board is of the opinion that the appointment of a senior independent Director would not assist further in communication with shareholders.

Election and re-election of Directors

The Board has decided that all serving Directors should be subject to an annual re-election. Any Director appointed by the Board during the year holds office only until the next Annual General Meeting when they are eligible for election.

Board meetings and information to the Board

Before each Board meeting the Directors receive, on a timely basis, comprehensive papers and reports on the issues to be discussed at the meeting. In addition to Board papers, Directors are provided with relevant information between meetings. Any Director wishing to do so may take independent professional advice at the expense of the Company. All Directors are able to consult with the Company Secretary who is responsible for ensuring that Board procedures are followed.

The Board has regular scheduled meetings. During the year there were six scheduled meetings and five additional meetings were called to deal with specific time-critical business matters or operational issues.

Attendance at meetings

The attendance in the year of the Directors at Board and principal committee meetings is shown below. The maximum number of meetings in the year when the individual was a Board member is shown in brackets.

| | Board Meeting | Audit Committee | Remuneration Committee | Nomination Committee |
|--|------------------|--------------------|---------------------------|-------------------------|
| <i>Chairman:</i> | | | | |
| Gerry Aherne ⁽¹⁾ | 7 (8) | 3 (3) | 1 (1) | 2 (2) |
| <i>Chief Executive Officer:</i> | | | | |
| Jim Durkin | 11 (11) | n/a | n/a | n/a |
| <i>Non-executive Directors:</i> | | | | |
| Jeff Hewitt | 11 (11) | 5 (5) | 2 (2) | 3 (3) |
| Dr. Anthony Hotson ⁽²⁾ | 7 (7) | 3 (3) | 1 (1) | 1 (1) |
| <i>Executive Directors:</i> | | | | |
| Mike Chilton ⁽³⁾ | 5 (5) | n/a | n/a | n/a |
| Paul Hodges ⁽³⁾ | 4 (5) | n/a | n/a | n/a |
| Jeremy Warner Allen ⁽³⁾ | 5 (5) | n/a | n/a | n/a |
| Joe Nally ⁽³⁾ | 4 (5) | n/a | n/a | n/a |
| <i>Former non-executive Directors:</i> | | | | |
| David Henderson ⁽⁴⁾ | 3 (3) | 2 (2) | 1 (1) | 1 (1) |
| Peter Sullivan ⁽⁴⁾ | 3 (3) | 2 (2) | 1 (1) | 1 (1) |

1. Gerry Aherne was appointed to the Board on 4 April 2012 and appointed as Chairman on 10 May 2012

2. Dr. Anthony Hotson was appointed to the Board on 15 May 2012

3. Paul Hodges, Joe Nally, Jeremy Warner Allen and Mike Chilton were appointed to the Board on 8 June 2012

4. David Henderson and Peter Sullivan served as members of the Board until 10 May 2012

Corporate governance report continued

Induction and professional development

All new Directors, on joining the Board, receive an induction that is tailored to their specific requirements which includes meetings with senior management and the Company's professional advisers. During the year specific training sessions were held covering compliance, regulation and corporate governance issues. A number of these training sessions were undertaken on an individual basis with both Dechert LLP and Ashurst LLP. Board members are encouraged to attend relevant training programmes as part of their continuing professional development programmes and additional business, compliance and regulatory updates are also arranged as appropriate. Executive members of the Board have to date been appointed from within the Company and have undertaken a number of regulatory training sessions as part of their continuing professional development programme as FSA Approved Persons.

Board evaluation

Given the number of Board changes that took place during the year, it was decided not to hold a Board evaluation process in 2012. A Board evaluation has been fixed to take place in 2013.

Board committees

The Board has a supporting committee structure in line with the Code. The Board has three committees, namely: the Audit Committee, the Remuneration Committee and the Nomination Committee, as described below. A summary of the terms of reference of these committees can be viewed on the Company's website (www.cenkos.com).

Audit Committee

The Audit Committee comprises all non-executive Directors and is chaired by Jeff Hewitt. As shown in his biography on page 3, as well as being a qualified accountant, he is also an experienced Audit Committee chair and hence has recent and relevant financial experience. The other members of the Committee have extensive experience of corporate financial matters in the financial services industry. The Committee usually meets four times a year. The Chief Executive Officer, Finance Director, other executive Directors, senior management, internal and external auditors are invited to attend these meetings, as appropriate.

This Committee is responsible for:

- reviewing and monitoring the effectiveness of the Company's systems of risk management, regulatory compliance and internal controls;
- assessing the Company's financial risks and plans for mitigating these risks;
- reviewing the Company's financial reporting process, including the financial statements, reports and announcements, along with the accounting policies and judgements that underline them, on behalf of the Board;
- agreeing the internal audit plan and monitoring progress against this;
- monitoring the statutory audit of the annual accounts;
- recommending to the Board any proposed changes to the appointment and remuneration of the external auditors; and
- monitoring of the independence of the external auditors and the establishment of a policy for their use for non-audit work.

The Committee reports to the Board on how it discharged its responsibilities, including reporting on all these issues identifying any matters in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken.

In discharging its duties during the year, the Committee undertook the following tasks:

- reviewed and reported to the Board on the Company's Interim and Annual Results announcements and the Annual Report and Accounts, respectively. The Committee considered the Company's significant accounting policies and ensured compliance with relevant accounting standards and received reports from the Finance Director and Chief Financial Officer and external auditor identifying any accounting or judgmental issues requiring attention. Significant issues considered by the Audit Committee included:
 - the recoverability of B share debtors. As noted in the Business Review, £1.4 million was received in the year to fully pay up 1.5 million B shares. As disclosed in note 25 to the financial statements, the partly paid B shares are held as collateralised security against these debtors. As at 31 December 2012, the net unsecured amount was £0.8 million, which, due to an increase in the Company's share price, had fallen to £0.5 million by 2 April 2013;
 - accounting for the disposals of CCIL and CFM. The accounting treatment and associated disclosures have been reviewed by the Audit Committee and conform to the relevant accounting standards;
 - provisions associated with litigation. As disclosed in note 19 to the financial statements, the Company agreed to settle all outstanding litigation prior to the year end; and
 - valuations of warrants and options over AIM stocks held by the Company. Factors considered included an externally validated option pricing model and associated inputs.
- reviewed reports from management which addressed the appropriateness of the production of the financial statements on a 'going concern' basis;
- at each meeting, reviewed both the risk management process operated by the Company (designed to identify the Company's key risks) and how those risks were being managed. This included reviewing the risk dashboard and associated key risk indicators, the results of any assurance tests and reviews carried out in the period, along with the regulatory capital calculation;
- at each meeting, received a report from the Head of Compliance on the compliance activities for that respective period including the results and recommendations arising from Compliance monitoring, reviews and surveillance and any regulatory correspondence;
- considered, reviewed and recommended for approval to the Board the Internal Liquidity Adequacy Assessment Process and the Internal Capital Adequacy Assessment Process;
- considered the qualification, expertise, resources and independence of the external auditor, and whether to propose to shareholders that they are reappointed. The Committee also considered the level of audit fees and non-audit fees and the provisions of such services, along with the processes to ensure the independence of the external auditors, as well as timely closure of any issues raised by the external auditor;
- reviewed and agreed the internal audit plan; reviewed progress against the plan, ensuring timely closure of any issues raised. At each of the meetings, the Committee received reports from the internal auditors on their audit reviews. During the year this included reviews on client lifecycle (including customer take-on and exit processes), equity research and the Company's risk management arrangements; and
- discussed any other matters of interest with the internal and external auditors without senior management or executive Directors being present.

An outsourced internal audit function provides independent assurances over the adequacy and effectiveness of the systems of internal control throughout the business and assurance on the extent to which the Company's approach to continuous improvement is maintained.

In addition, the Committee reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditors.

Corporate governance report continued

In 2011 the Company put its external audit out to tender. After a rigorous selection process, the Audit Committee recommended, and the Board appointed, Ernst & Young LLP as its external auditors in July 2011. There were no contractual obligations that acted to restrict the Audit Committee's choice of external auditors. Although the Company has no formal policy on the rotation of its external auditors, the external auditor's performance will be evaluated annually by the Audit Committee.

As the Audit Committee's scope includes oversight over the processes covering risk and compliance issues, and the current Risk and Compliance Committee includes two executive Directors, the Board do not, at this stage, consider that the size and complexity of the organisation warrants the establishment of a separate Board level risk committee.

Remuneration Committee

Full details of the composition and work of the Remuneration Committee is provided in the Directors' Remuneration Report on pages 23 to 29.

Nomination Committee

The Nomination Committee, which comprises the non-executive Directors, is chaired by Gerry Aherne. The Committee has the following responsibilities:

- considering the size, structure and composition of the Board of the Company;
- reviewing senior management succession plans;
- making appropriate recommendations in respect of appointments to the Board; and
- reviewing the balance of skills and experience of the Board and identifying any areas of weakness.

The Committee reports to the Board on all these issues identifying any matters in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken.

In discharging its duties during the year, the Committee undertook the following tasks:

- reviewed the Board's composition, size, balance of skills, knowledge and experience;
- led the process to recruit a new non-executive Chairman;
- identified, and nominated for approval of the Board a candidate to act as non-executive Chairman;
- identified, and nominated for approval of the Board, candidates to fill the post of a non-executive Director;
- reviewed the executive representation on the Board;
- led the process to consider the appointment of further executive representation on the Board;
- identified, and nominated for approval of the Board, executive Directors; and
- reviewed the membership and chairmanship of the Audit and Remuneration Committees; and recommended appropriate changes to the membership of these Committees.

The Committee formally met three times during the year. However, during the year the Board also undertook a number of duties that would have normally been undertaken by the Committee. This included reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board. During the year the Committee undertook a comprehensive review of the Board composition. This culminated in the successful recruitment of a new Chairman; a further non-executive Director and the appointment of a number of senior managers to the Board as executive Directors.

Management Committees

To assist the Chief Executive Officer and senior management in the discharge of their duties, the Company has a number of management committees.

Management Committee

This Committee, which is chaired by the Chief Executive Officer, meets weekly and deals with communicating the strategic and operational issues to the senior management of the business as well as reviewing current business activities. The members of the committee are the executive Directors and the heads of each fee-earning team.

New Business Committee

This Committee, which is chaired by the Chief Executive Officer, meets weekly and is responsible for exercising senior management oversight in relation to the Company taking on new corporate client relationships and considering new transactions for existing corporate clients.

Risk and Compliance Committee

This Committee is chaired by the Chief Executive Officer and meets monthly to monitor, review and manage the key risks including market, credit, operational and regulatory risks within the business and to provide an oversight of the risk management and compliance framework of the Company. This Committee reports to the Audit Committee.

Investor relations

The Company places a great deal of importance on communicating with its shareholders. All shareholders are given at least twenty one days' notice of the Annual General Meeting, and are encouraged to attend. An opportunity is provided for them to ask questions at the meeting. The Chief Executive Officer and Chairman are also in regular contact with the Company's major institutional investors throughout the year and they are responsible for ensuring that shareholders' views are communicated to the Board as a whole.

Auditors' independence

The Audit Committee and the external auditors, Ernst & Young LLP, have safeguards in place to avoid the possibility that the auditors' objectivity and independence could be compromised. These safeguards include the auditors' report to the Audit Committee on the actions they take to comply with the professional and regulatory requirements and best practice, designed to ensure their independence from the Group.

The overall performance and the independence of the auditors are reviewed annually by the Audit Committee taking into account the views of management, the cost effectiveness, objectivity and a review of the principal findings arising from the inspection of the auditors' carried out by the Audit Quality Review team of the Financial Reporting Council.

The annual appointment of the auditors by shareholders in General Meeting is a fundamental safeguard to auditor independence, but beyond this, appropriate consideration is given to whether additional work performed by the auditors may be appropriate for sound commercial and practical reasons, including confidentiality. Examples of work that would fall into this category include regulatory advice, taxation services and financial due diligence work. To this end, the Audit Committee has agreed that the fees paid to the auditor for any individual item of non-audit work should not exceed £20,000 without prior Audit Committee approval. The Audit Committee also gives due consideration to appointing other firms where it is felt that the impact of an assignment may compromise the independence of the auditors.

The level of audit and non-audit fees charged by the Group's auditors is set out in note 7 to the financial statements.

Internal control and risk management

The Board is responsible for the overall adequacy of the Company's system of internal controls. Its role includes agreeing the risk management framework (including financial, operational and compliance controls and associated risk management systems), setting risk appetite and reviewing the effectiveness of this framework. It also identifies, evaluates and, where relevant, manages the significant risks faced by the Company. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives. As such it can provide only reasonable and not absolute assurance against material misstatement or loss.

Corporate governance report continued

The Board, through the Audit Committee, reviewed the effectiveness of the system of internal control in March 2013. The Audit Committee considered the progress that had been made during the year ended 31 December 2012 and assessed the status of the Company's risk management framework and associated internal controls. It also considered how risks are identified, monitored, mitigated and reported throughout the Company. Following this review, the Audit Committee agreed that the internal control framework continued to provide reasonable assurance that appropriate internal controls are in place. Accordingly the Board confirms that throughout the year ended 31 December 2012, and up to the approval date of these Financial Statements, there had been an on-going process of identifying, evaluating and managing significant risks faced by the Company.

The following is a summary of the internal control framework that was in place during 2012:

- as part of the overall control framework in place, the Board and Audit Committee oversee the operation of the risk management framework. This framework requires senior management to take responsibility for the identification and evaluation of significant risks applicable to their areas of business, together with the design and operation of suitable internal controls;
- senior management review and evaluate the business processes and associated risks within each area of the Company's business, identifying and assessing the mitigating controls and procedures in place as well as developing an action plan to enhance or improve controls where required. This framework is assured by both the Risk and Compliance functions, with oversight and challenge from the Risk and Compliance Committee, Audit Committee and Board;
- risks associated with taking on new corporate finance clients or new types of business are reviewed by the New Business Committee;
- during the year the Risk and Compliance teams carried out an in depth review and assessment of each of the key risks faced by the Company and the internal controls that were in place to mitigate those risks. The results of this were then fed into the Internal Capital Adequacy Assessment Process and Individual Liquidity Adequacy Assessment Process and associated reports. The Audit Committee and Board reviewed and approved these reports;
- at each Audit Committee and Board Meeting a report is submitted from the risk function detailing the key risks and issues identified during the period, together with a schedule of key risk indicators and associated management actions to remediate risks to within appetite (where possible). In addition, any material new risk issues are immediately escalated to the Board by the Chief Executive Officer as required; and
- internal audit services are outsourced. A rolling three-year audit programme is approved annually by the Audit Committee using a risk based approach. Reviews were undertaken during the year on client lifecycle (including customer take-on and exit processes), research and the Company's risk management arrangements. Management actions to remediate identified risk are tracked and followed up on a risk-based approach to provide validation of completion. As part of the internal audit process, the internal auditors report directly to the Chairman of the Audit Committee and they also liaise directly with the Chief Executive Officer and Finance Director. The internal auditors also attend and report back at each Audit Committee meeting.

This report was approved by the Board of Directors on 5 April 2013 and signed on its behalf by:

Stephen Doherty

Company Secretary

5 April 2013

Directors' remuneration report

Introduction

Whilst the Group is not obliged to comply with the Directors' Remuneration Report Regulations, the Directors have agreed to produce a report in the spirit of those regulations and to disclose information relating to the current Directors. The report is not intended to comply with the relevant provisions of Schedule 8 to the Accounting Regulations under the Companies Act 2006 and is not subject to audit. However, the Remuneration Committee has agreed that in the interests of good corporate governance, a resolution will be proposed at the forthcoming Annual General Meeting for the shareholders to receive the Directors' Remuneration Report for the year ended 31 December 2012.

Remuneration Committee

Membership of the Remuneration Committee is limited to non-executive Directors. The current members are Dr. Anthony Hotson (Chairman), Jeff Hewitt, and Gerry Aherne. David Henderson and Peter Sullivan served as members of the Committee until 10 May 2012.

The Committee meets as and when required in order to ensure that it discharges its duties in determining the remuneration policy for the Company.

Advisers

During the year the Committee received advice on benchmarking of the Chief Executive Officer's and Finance Director's remuneration from New Bridge Street Consulting. They are independent and have no connection with the Company. The Committee also received advice from Ashurst LLP on a variety of remuneration matters and in particular on the FSA Remuneration Code.

Duties of the Committee

The main duties of the Committee are to:

- determine and agree with the Board the framework and broad policy for the remuneration of the executive Directors of the Company together with such other members of the senior management;
- within the terms of the agreed policy, determine the total individual remuneration package of each executive Director including where appropriate, basic salaries, director fees, annual performance awards, share and option based incentives;
- review the remuneration packages of the senior management;
- consider remuneration schemes to attract and retain employees and where appropriate determine the terms and allocations for any performance related share or option schemes operated by the Company; and
- review the ongoing appropriateness and relevance of the remuneration policy.

The full terms of reference of the Committee are available from the Company Secretary. A summary of these terms is also set out on the Company's website: www.cenkos.com.

The Committee reports to the Board on all those issues identifying any matters in respect of which it considers that action or improvement is needed and makes recommendations as to the steps to be taken.

In discharging their duties during the year the Committee undertook the following tasks:

- reviewed the senior management remuneration and received reports from the Chief Executive Officer on senior management's remuneration, including that of key management considered to be related parties (see note 26 to the financial statements);
- reviewed the Company's share schemes, including the formal granting of options and considered the effect on the dilution limits. It also considered how to incentivise existing employees;

Directors' remuneration report continued

- received a benchmarking report from New Bridge Street Consulting in respect of the Chief Executive Officer's and Finance Director's remuneration;
- reviewed the performance of the Chief Executive Officer and the Finance Director for 2012;
- considered the Chief Executive Officer's and Finance Director's remuneration and approved a number of personal and financial objectives in respect of their performance awards for 2012 and 2013;
- undertook a review of the Company's remuneration policies;
- received a presentation from Ashurst LLP on the FSA's Remuneration Code; and
- considered the Company's disclosures in respect of the FSA's Remuneration Code.

Remuneration policy

The Committee views a successful remuneration policy as one that is sufficiently flexible to take account of future changes in the Company's business model and remuneration practices and therefore the Company's policy is also subject to change.

The Company has established a remuneration framework which is designed to be market competitive and which motivates employees to improve individual and business performance and aligns their interest with those of shareholders.

The Company has a policy to attract and retain individuals of the highest calibre and reward them so that they are motivated to meet the Company's required standards and to grow the value of the business, thereby maximising shareholder return. This policy is applied Company-wide to all employees.

An integral aspect of the Company's business model is its approach to remuneration of employees. Remuneration consists of two components, namely a fixed basic salary and variable performance related pay.

The performance related aspect reflects the success or failure of the Company in meeting its targets and objectives and is therefore substantially reflective of the Company's overall financial performance.

Variable remuneration (which can form a substantial part of the overall remuneration) is only paid when it is demonstrated that a team or an individual's performance has increased the profitability of the business and return to shareholders. There is a profit sharing model in place for revenue generating teams, which is based on a percentage of revenues made by the team (after relevant direct and associated costs have been deducted and general business risk factors taken into account). The distribution of the actual profit sharing arrangement is discretionary and is based on performance. If no profits are made by the revenue generating team then no variable remuneration will be distributed to them. The profit sharing arrangement compensates for relatively low base salaries.

With regard to employees who are not in revenue-generating teams or directly involved in revenue generation, as well as receiving a basic salary they will only be considered for a discretionary variable performance award if the Company has made a profit at the end of the financial year and this will be based on their individual performance and the Company's overall financial performance, once general business risk factors have been taken into account.

The Committee believes that the Company's resilient performance over the past few years shows the Company's remuneration policy provides an effective incentive for executive Directors, senior management and employees while striking a balance between risk and reward for the business as a whole.

Components of Chief Executive Officer's remuneration for 2012

Basic salary (fixed remuneration) and benefits

The policy in 2012 was to provide regular remuneration through a basic fixed salary at a level both appropriate to the position of a Chief Executive Officer, and comparable to the Company's peers. The Company also provided the Chief Executive Officer with benefits, which consisted of healthcare cover and life assurance cover. These were provided on the same basis as those available to all other employees.

Performance awards (variable remuneration)

The discretionary annual performance award is a significant variable component of the Chief Executive Officer's overall remuneration. The annual performance award is at the discretion of the Committee. In determining the level of award to the Chief Executive Officer, consideration is given to matters specific to the Company such as returns to shareholders and the Company's profitability. In assessing the level of award, consideration will be given not only to the financial performance of the Company but to the performance of the Chief Executive Officer based on a number of personal objectives that have been set by the Committee. The overall weighting of the reward is 70% towards financial performance and 30% towards personal performance. The personal objectives include issues set around the strategic development of the Company, leadership and culture, operational performance, risk management and regulatory compliance, Board and governance effectiveness, and the external interface with shareholders and other key stakeholders. In terms of financial performance metrics, stretching targets were set, benchmarked against both relevant competitors performance and the Committee's own expectations. These metrics were based on factors such as the Company's profitability, revenue growth, post-tax return on equity and total shareholder returns.

At the beginning of 2012 the Committee agreed that the maximum award entitlement if all the objectives and targets were achieved would be capped at four times the basic salary. Towards the end of 2012, following market data that had been received, the Committee had agreed that the maximum award entitlement if all the objectives and targets had been met would be capped at eight times basic salary for outstanding performance. The capped maximum entitlement will only be varied in exceptional circumstances, such as there being an exceptional return to shareholders or a significant increase in the profitability of the Company.

Components of Chief Executive Officer's remuneration for 2013

Basic salary (fixed remuneration) and benefits

The Committee has considered the key elements of the remuneration for 2013 in respect of the Chief Executive Officer. His basic salary has been set at £150,000 per annum for 2013. This is consistent with the Company's goal of containing its fixed costs, and rewarding its employees in line with performance.

Performance awards (variable remuneration)

The Committee has agreed to retain the discretionary performance award as set out above. In early 2014, the Committee will consider how successful the Chief Executive Officer has been in achieving the objectives set and ensuring that the relevant targets have been met. The Committee will then assess the level (if any) of the discretionary performance award that should be made.

Directors' remuneration report continued

Executive Directors remuneration for 2012

Basic salary (fixed remuneration) and benefits

Mike Chilton received a basic salary to reflect his role as Finance Director. Paul Hodges and Jeremy Warner Allen also received a moderate basic salary in respect of work they undertook within their revenue generating teams. Joe Nally did not receive any basic salary in this respect.

During the year Paul Hodges, Joe Nally and Jeremy Warner Allen received £12,500 as a fee for the additional duties that they undertook while acting as a Board member.

The Company also provided the executive Directors with benefits, which consisted of healthcare cover and life assurance cover. These were provided on the same basis as those available to all other employees.

Performance awards (variable remuneration)

Mike Chilton received a discretionary performance award. This performance award is at the discretion of the Committee. In deciding the level of award consideration was given to the personal performance of the Finance Director as well as the Company's financial performance.

Paul Hodges, Joe Nally and Jeremy Warner Allen received discretionary performance related awards. Their discretionary award is based on the profit sharing arrangement within their respective revenue generating teams. The profit sharing model that is in place for each revenue generating team is based on a percentage of revenues received by the whole team, after relevant direct and associated costs have been deducted and general business risk factors have been taken into account. From this allocation, discretionary awards are distributed to employees within the team based on their individual performance and a recommendation is made to the Committee in respect of an appropriate award to the executive Director. This variable component of the Directors' remuneration directly reflects the financial success of their respective teams and rewards them so that they can develop the value of the business, and maximise shareholder returns.

Executive Directors remuneration for 2013

The Committee has considered the key elements of the remuneration for 2013 in respect of the current executive Directors. Mike Chilton's basic salary has been fixed at £125,000 per annum with effect from 1 February 2013. He will also be considered for a discretionary performance award. This performance award is at the discretion of the Committee. In deciding the level of award consideration will be given to the performance of the Finance Director against a number of personal objectives as well as the Company's financial performance.

The Committee has agreed that Paul Hodges, Joe Nally and Jeremy Warner Allen should receive a fee of £25,000 per annum for the Board duties that they undertake. Paul Hodges and Jeremy Warner Allen also receive a moderate basic salary in respect of work they undertake within their revenue generating teams. Paul Hodges, Joe Nally and Jeremy Warner Allen will continue to receive a discretionary performance related award, based on the profit sharing arrangement for their respective revenue generating teams.

Directors' remuneration

A summary of the total remuneration paid to Directors who served during the year is set out below:

| | Basic salary/ Director's fees £000's | Annual performance award £000's | Benefits in kind £000's | Cash bonus in respect of options held* £000's | Total 2012 £000's | Total 2011 £000's |
|---------------------------------------|--|--|-------------------------------|---|----------------------|----------------------|
| <i>Chairman</i> | | | | | | |
| Gerry Aherne ⁽¹⁾ | 56 | – | – | – | 56 | – |
| <i>Non-executive Directors</i> | | | | | | |
| Jeff Hewitt | 50 | – | – | – | 50 | 50 |
| Dr. Anthony Hotson ⁽²⁾ | 33 | – | – | – | 33 | – |
| <i>Executive Directors</i> | | | | | | |
| Jim Durkin ⁽³⁾ | 103 | 570 | 4 | – | 677 | – |
| Mike Chilton ⁽⁴⁾ | 84 | 138 | 2 | – | 224 | – |
| Paul Hodges ^{(4) **} | 37 | 388 | 2 | – | 427 | – |
| Joe Nally ^{(4) **} | 13 | 309 | 4 | 35 | 361 | – |
| Jeremy Warner Allen ^{(4) **} | 28 | 469 | 11*** | 8 | 516 | – |
| <i>Former Directors</i> | | | | | | |
| Simon Melling ⁽⁵⁾ | – | – | – | – | – | 457 |
| Peter Sullivan ⁽⁶⁾ | 29 | – | – | – | 29 | 80 |
| David Henderson ⁽⁶⁾ | 18 | – | – | – | 18 | 50 |
| Oliver Ellingham ⁽⁷⁾ | – | – | – | – | – | 23 |
| | 451 | 1,874 | 23 | 43 | 2,391 | 660 |

* In accordance with the terms and conditions of the grant of options that had previously been made to Joe Nally and Jeremy Warner Allen, they had the right to receive a cash bonus equal to the amount of any dividend per share declared by the Company multiplied by the number of options held

** Within the Basic salary/Director's fees figure Paul Hodges, Joe Nally and Jeremy Warner Allen received £12,500 as a Director's fee for Board duties that they undertook during the year

*** In accordance with the terms and conditions of the issue of the B shares which were allotted to a number of senior employees in 2006, only the nominal value was paid on the allotment of these shares. The outstanding premium on the shares was to be paid at a later date and must be paid by 1 July 2013. The Company has been treated as having made a loan to Jeremy Warner Allen of an amount equal to the outstanding premium to be paid (the "Notional Loan"). As the Notional Loan that has been made to Jeremy Warner Allen is free of interest it is considered to be a taxable benefit in kind. This therefore equated to a benefit in kind of £8,721 during the year. Due to repayments made in the year, the balance of this Notional Loan as at 31 December 2012 was £227,780 (2011: £501,135)

- Gerry Aherne was appointed to the Board on 4 April 2012 and appointed as Chairman on 10 May 2012
- Dr. Anthony Hotson was appointed to the Board on 15 May 2012
- Jim Durkin was appointed to the Board on 13 December 2011. He received no salary as a Board member in 2011
- Mike Chilton, Paul Hodges, Joe Nally and Jeremy Warner Allen were all appointed to the Board on 8 June 2012
- Simon Melling served as a member of the Board until 16 December 2011
- Peter Sullivan and David Henderson served as members of the Board until 10 May 2012
- Oliver Ellingham served as a member of the Board until 4 July 2011

Directors' remuneration report continued

Pension arrangements

The Company does not operate or contribute to any pension scheme on behalf of its employees. It does, however, provide access to a Company designated stakeholder pension scheme.

Directors' service contracts

Mike Chilton, Jim Durkin, Paul Hodges, Joe Nally and Jeremy Warner Allen are employed on a rolling service contract which is subject to six months' notice. Copies of Directors' service contracts will be available for review at the Annual General Meeting on 10 May 2013.

Long term incentives

The Company has established a Long Term Incentive Plan ("LTIP"), a Company Share Option Plan ("CSOP"), and a Compensatory Award Plan 2009 ("the Schemes"). During the year options over a total of 6,425,000 (2011: 150,000) ordinary shares were granted under the Schemes. These options had in principle been agreed in 2011, however as at 31 December 2011 these awards had not been formally granted as a result of the Company being in close period restrictions during substantial parts of 2011. These options were subsequently formally granted in 2012 by the Remuneration Committee. The Board has delegated to this Committee the responsibility to supervise the Schemes and the grant of options under their terms. The Company's policy is to use the Schemes to attract and retain key senior employees. Any grant of options is at the discretion of this Committee and takes into account individual performance and responsibilities. Where appropriate, a grant of options will incorporate a performance condition.

Directors' interests in share options

Two Directors have interests in options over ordinary shares in the Company as at 31 December 2012.

| Name of Director | Held at 1 January 2012 or date of appointment if later* | Held at 31 December 2012 | Exercise price | Grant date | Earliest exercise date | Last exercise date |
|------------------------------|---|--------------------------|----------------|------------|------------------------|--------------------|
| Long Term Incentive Plan | | | | | | |
| Joe Nally* | 1,000,000 | 1,000,000 | £1.00 | 16.03.2012 | 16.03.2015 | 16.09.2015 |
| 2009 Compensatory Award Plan | | | | | | |
| Jeremy Warner Allen* | 178,710 | 178,710 | £1.69 | 01.10.2009 | 01.10.2009 | 30.09.2019 |

* Joe Nally and Jeremy Warner Allen were appointed to the Board on 8 June 2012.

In accordance with the terms of the grant of the above options, the option holder had the right to receive a cash bonus equal to the amount of any dividend per share declared by the Company, multiplied by the number of options held. The amount received by Joe Nally and Jeremy Warner Allen are shown on page 27 in the Directors' remuneration table.

At 31 December 2012 the mid-market price of the Company's ordinary shares was 71.5p. The highest daily closing price during the year was 79.75p and the lowest daily share price was 46.0p.

Non-executive Directors

Each non-executive Director has a letter of appointment. Non-executive Directors are subject to annual re-election and are not subject to serving a fixed term. There are no specific contractual provisions for non-executive Directors to receive compensation upon early termination.

Fees for the non-executive Directors are determined by the Chairman and the executive Directors and are also benchmarked against fees paid by other listed Companies of a similar size and complexity. Non-executive Directors do not participate in decisions concerning their own fees. Fees are reviewed annually, although it is anticipated that, in the absence of any significant market movement, fees will remain unchanged for two years. The fees will be reviewed next in 2013. Non-executive Directors received annual fees of £45,000 each together with an additional fee of £5,000 if they acted as the Chairman of one of the Board Committees. The Chairman's fee has been set at £75,000 per annum.

Non-executive Directors are reimbursed all reasonable expenses incurred solely in relation to their duties as non-executive Directors.

FSA Remuneration Code

The Committee considered the FSA Remuneration Code during the year. Information on the remuneration arrangements of senior management and other employees whose activities have a material impact on the Company's risk profile ("Code Staff") is set out below.

Information concerning the decision-making process used for determining the remuneration policy, including the composition and the mandate of the Remuneration Committee, and the Committee's approach to linking pay and performance is set out in pages 23 to 28.

| | 2012 | 2011 |
|-------------------------------|-------------|-------------|
| Fixed remuneration (£'000) | 783 | 654 |
| Variable remuneration (£'000) | 4,707 | 6,212 |
| Total remuneration (£'000) | 5,490 | 6,866 |
| Number of staff | 11 | 12 |

During the year the Committee approved the disclosures required by the FSA Remuneration Code. A copy of these disclosures is available on the Company's website: www.cenkos.com.

This report was approved by the Board of Directors on 5 April 2013 and signed on its behalf by:

Dr. Anthony Hotson

Chairman of the Remuneration Committee

5 April 2013

Independent auditor's report to the members of Cenkos Securities Plc

We have audited the financial statements of Cenkos Securities plc for the year ended 31 December 2012 which comprise the Group Income Statement, the Group and Parent Company Statements of Financial Position, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Changes in Equity and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 15, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2012 of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Paul Sater (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London, UK

5 April 2013

The maintenance and integrity of the Cenkos Securities plc web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Consolidated income statement for the year ended 31 December 2012

| | Notes | 1 January 2012 to 31 December 2012 £ 000's | Restated 1 January 2011 to 31 December 2011 £ 000's |
|--|-------|--|--|
| Continuing operations | | | |
| Revenue | 3 | 43,155 | 37,360 |
| Administrative expenses | | (36,670) | (32,556) |
| Operating profit | | <u>6,485</u> | <u>4,804</u> |
| Investment income - interest income | 4 | 357 | 319 |
| Gain on disposal of available-for-sale financial asset | 13 | 170 | – |
| Interest expense | 5 | (6) | (8) |
| Profit before tax from continuing operations for the year | 7 | 7,006 | 5,115 |
| Tax | 8 | (1,855) | (1,537) |
| Profit after tax from continuing operations for the year | | <u>5,151</u> | <u>3,578</u> |
| Discontinued operations | | | |
| Profit after tax from discontinued operations for the year | 9 | 3,329 | 433 |
| Profit for the year | | <u>8,480</u> | <u>4,011</u> |
| Attributable to: | | | |
| Equity holders of the parent | | 8,392 | 3,711 |
| Non-controlling interests | | 88 | 300 |
| | | <u>8,480</u> | <u>4,011</u> |
| Earnings per share | | | |
| From continuing operations | | | |
| Basic and diluted | 11 | 7.4p | 5.0p |
| From continuing and discontinued operations | | | |
| Basic and diluted | 11 | 12.1p | 5.2p |

The notes on pages 40 to 76 form an integral part of these financial statements.

The 2011 figures have been restated to reflect the reclassification of the Fund and Wealth Management segment as a discontinued operation.

The profit after tax attributable to the Company in the year ended 31 December 2012 was £8,758,102 (31 December 2011: £3,933,666).

Consolidated statement of comprehensive income for the year ended 31 December 2012

| | 1 January 2012 to 31 December 2012 | 1 January 2011 to 31 December 2011 |
|---|---|---|
| | £ 000's | £ 000's |
| Profit for the year | 8,480 | 4,011 |
| Available-for-sale financial assets: | | |
| Mark to market gain on valuation of available-for-sale financial assets | 170 | – |
| Gain on disposal of available-for-sale financial assets transferred to income statement | (170) | – |
| Other comprehensive income for the year | – | – |
| Total comprehensive income for the year | 8,480 | 4,011 |
| Attributable to: | | |
| Equity holders of the parent | 8,392 | 3,711 |
| Non-controlling interests | 88 | 300 |
| | 8,480 | 4,011 |

The notes on pages 40 to 76 form an integral part of these financial statements.

Consolidated statement of financial position as at 31 December 2012

| | Notes | 31 December 2012 £ 000's | 31 December 2011 £ 000's |
|--|-------|--------------------------------|--------------------------------|
| Non-current assets | | | |
| Property, plant and equipment | 12 | 550 | 1,133 |
| Deferred tax asset | 20 | 272 | 97 |
| Trade and other receivables | 16 | – | 3,839 |
| | | <hr/> 822 | <hr/> 5,069 |
| Current assets | | | |
| Trade and other receivables | 16 | 15,534 | 21,800 |
| Available-for-sale financial assets | 13 | 1,000 | – |
| Other current financial assets | 15 | 9,786 | 10,263 |
| Cash and cash equivalents | 17 | 22,271 | 14,010 |
| | | <hr/> 48,591 | <hr/> 46,073 |
| Total assets | | <hr/> 49,413 | <hr/> 51,142 |
| Current liabilities | | | |
| Trade and other payables | 18 | (24,336) | (23,518) |
| Other current financial liabilities | 15 | (2,848) | (2,539) |
| | | <hr/> (27,184) | <hr/> (26,057) |
| Net current assets | | <hr/> 21,407 | <hr/> 20,016 |
| Total liabilities | | <hr/> (27,184) | <hr/> (26,057) |
| Net assets | | <hr/> 22,229 | <hr/> 25,085 |
| Equity | | | |
| Share capital | 21 | 638 | 728 |
| Own shares | 22 | (2,945) | (2,190) |
| Retained earnings | | 24,536 | 25,142 |
| Equity attributable to equity holders of the parent | | <hr/> 22,229 | <hr/> 23,680 |
| Non-controlling interests | | – | 1,405 |
| Total equity | | <hr/> 22,229 | <hr/> 25,085 |

The notes on pages 40 to 76 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 5 April 2013. They were signed on its behalf by:

Gerry Aherne

Chairman

5 April 2013

Registered Number: 05210733

Jim Durkin

Chief Executive Officer

5 April 2013

Company statement of financial position as at 31 December 2012

| | Notes | 31 December 2012 £ 000's | 31 December 2011 £ 000's |
|--|-------|--------------------------------|--------------------------------|
| Non-current assets | | | |
| Property, plant and equipment | 12 | 550 | 776 |
| Deferred tax asset | 20 | 272 | 97 |
| Investments in subsidiary undertakings | 14 | 1 | 256 |
| Trade and other receivables | 16 | – | 3,839 |
| | | <hr/> 823 | <hr/> 4,968 |
| Current assets | | | |
| Trade and other receivables | 16 | 17,525 | 19,104 |
| Available-for-sale financial assets | 13 | 1,000 | – |
| Other current financial assets | 15 | 9,786 | 10,210 |
| Cash and cash equivalents | 17 | 22,271 | 11,088 |
| | | <hr/> 50,582 | <hr/> 40,402 |
| Total assets | | <hr/> 51,405 | <hr/> 45,370 |
| Current liabilities | | | |
| Trade and other payables | 18 | (24,336) | (18,354) |
| Other current financial liabilities | 15 | (2,848) | (2,539) |
| | | <hr/> (27,184) | <hr/> (20,893) |
| Net current assets | | <hr/> 23,398 | <hr/> 19,509 |
| Total liabilities | | <hr/> (27,184) | <hr/> (20,893) |
| Net assets | | <hr/> 24,221 | <hr/> 24,477 |
| Equity | | | |
| Share capital | 21 | 638 | 728 |
| Retained earnings | | 23,583 | 23,749 |
| Total equity | | <hr/> 24,221 | <hr/> 24,477 |

The notes on pages 40 to 76 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 5 April 2013. They were signed on its behalf by:

Gerry Aherne

Chairman

5 April 2013

Registered Number: 05210733

Jim Durkin

Chief Executive Officer

5 April 2013

Consolidated cash flow statement for the year ended 31 December 2012

| | Notes | 1 January 2012 to 31 December 2012 £ 000's | 1 January 2011 to 31 December 2011 £ 000's |
|--|-------|--|--|
| Profit for the year | | 8,480 | 4,011 |
| Adjustments for: | | | |
| Net finance income | | (351) | (315) |
| Tax expense | | 1,855 | 1,549 |
| Depreciation of property, plant and equipment | 12 | 331 | 362 |
| Profit on sale of fixed assets | | – | (1) |
| Gain on disposal of available-for-sale financial asset | 13 | (170) | – |
| Attributable tax expense from discontinued operations | | – | (105) |
| Gain on disposal of discontinued operation and change in fair value of interest retained before deduction of non-controlling interest | | (1,586) | 296 |
| Non-controlling interest in net assets sold | | (1,567) | (162) |
| Shares in lieu of fees and options received in kind | | (2,898) | (607) |
| Share-based payment expense | | 335 | 195 |
| Operating cash flows before movements in working capital | | 4,429 | 5,223 |
| Adjustment for deconsolidation of subsidiaries | | 184 | (190) |
| Decrease in net trading investments | | 2,685 | 365 |
| Decrease in trade and other receivables | | 10,152 | 6,151 |
| Increase/(decrease) in trade and other payables | | 297 | (17,199) |
| Net cash flow from operating activities | | 17,747 | (5,650) |
| Interest paid | | (6) | (9) |
| Tax paid | | (1,509) | (2,172) |
| Net cash flow from operating activities | | 16,232 | (7,831) |
| Investing activities | | | |
| Interest received | | 309 | 124 |
| Acquisition of interest in a subsidiary by a subsidiary | | – | (8) |
| Net proceeds from sale of available-for-sale financial assets | 13 | 1,170 | – |
| Net proceeds from sale of fixed assets | | – | 5 |
| Purchase of property, plant and equipment | 12 | (92) | (568) |
| Cash flow from sale of discontinued operations, net of cash disposed | 9 | 848 | – |
| Net cash flow from investing activities | | 2,235 | (447) |
| Financing activities | | | |
| Dividends paid | 10 | (3,165) | (5,699) |
| Distributions made to non-controlling interests | | – | (345) |
| Payments in relation to pre-IPO share options | | – | (69) |
| Acquisition of own shares by Cenkos Securities Employee Benefit Trust | 22 | (755) | (43) |
| Acquisition of own shares for cancellation | | (6,286) | – |
| Acquisition of own shares by a subsidiary | | – | (24) |
| Net cash used in financing activities | | (10,206) | (6,180) |
| Net increase/(decrease) in cash and cash equivalents | | 8,261 | (14,458) |
| Cash and cash equivalents at beginning of year | | 14,010 | 28,468 |
| Cash and cash equivalents at end of year | | 22,271 | 14,010 |

The notes on pages 40 to 76 form an integral part of these financial statements.

Company cash flow statement for the year ended 31 December 2012

| | Notes | 1 January 2012 to 31 December 2012 £ 000's | 1 January 2011 to 31 December 2011 £ 000's |
|---|-------|--|--|
| Profit for the year | | 8,758 | 3,933 |
| Adjustments for: | | | |
| Net finance income | | (400) | (366) |
| Gain on disposal of discontinued operation | | (4,470) | – |
| Tax expense | 8 | 1,855 | 1,537 |
| Depreciation of property, plant and equipment | 12 | 310 | 279 |
| Gain on disposal of available-for-sale financial asset | 13 | (170) | – |
| Shares in lieu of fees and options received in kind | | (2,898) | (608) |
| Share-based payment expense | | 335 | 111 |
| Operating cash flows before movements in working capital | | 3,320 | 4,886 |
| Decrease/(increase) in net trading investments | | 2,632 | (384) |
| Decrease in trade and other receivables | | 5,465 | 4,500 |
| Increase/(decrease) in trade and other payables | | 5,458 | (16,232) |
| Net cash flow from operating activities | | 16,875 | (7,230) |
| Interest paid | | (26) | (10) |
| Tax paid | | (1,506) | (2,115) |
| Net cash flow from operating activities | | 15,343 | (9,355) |
| Investing activities | | | |
| Interest received | | 377 | 118 |
| Purchase of property, plant and equipment | 12 | (84) | (202) |
| Net proceeds from the sale of available-for-sale investments | 13 | 1,170 | – |
| Net proceeds from the sale of discontinued operations | 9 | 3,828 | – |
| Net cash flow from investing activities | | 5,291 | (84) |
| Financing activities | | | |
| Dividends paid | 10 | (3,165) | (5,699) |
| Payments in relation to pre-IPO share options | | – | (69) |
| Acquisition of own shares for cancellation | | (6,286) | – |
| Net cash used in financing activities | | (9,451) | (5,768) |
| Net increase/(decrease) in cash and cash equivalents | | 11,183 | (15,207) |
| Cash and cash equivalents at beginning of year | | 11,088 | 26,295 |
| Cash and cash equivalents at end of year | | 22,271 | 11,088 |

The notes on pages 40 to 76 form an integral part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2012

| | Equity attributable to equity holders of the parent | | | | | | Total £ 000's |
|---|---|--------------------------|--|---------------------------------|------------------|---|------------------|
| | Share capital £ 000's | Own shares £ 000's | Available- for-sale reserve £ 000's | Retained earnings £ 000's | Total £ 000's | Non- controlling interests £ 000's | |
| At 1 January 2011 | 728 | (2,147) | – | 27,134 | 25,715 | 1,540 | 27,255 |
| Profit for the year | – | – | – | 3,711 | 3,711 | 300 | 4,011 |
| Total comprehensive income for the year | – | – | – | 3,711 | 3,711 | 300 | 4,011 |
| Own shares acquired in the year | – | (43) | – | – | (43) | – | (43) |
| Increase of investment in subsidiary | – | – | – | (62) | (62) | 54 | (8) |
| Subsidiary's acquisition of own shares | – | – | – | – | – | (24) | (24) |
| Share of profit/(loss) from discontinued operations attributable to non-controlling interests | – | – | – | – | – | (162) | (162) |
| Credit to equity for equity-settled share-based payments | – | – | – | 153 | 153 | 42 | 195 |
| Payments in relation to pre-IPO share options | – | – | – | (69) | (69) | – | (69) |
| Deferred tax on share-based payments | – | – | – | (26) | (26) | – | (26) |
| Dividends paid | – | – | – | (5,699) | (5,699) | (345) | (6,044) |
| At 31 December 2011 | 728 | (2,190) | – | 25,142 | 23,680 | 1,405 | 25,085 |
| Profit for the year | – | – | – | 8,392 | 8,392 | 88 | 8,480 |
| Mark to market gain on valuation of available-for-sale financial assets | – | – | 170 | – | 170 | – | 170 |
| Gain on disposal of available-for-sale financial assets transferred to income statement | – | – | (170) | – | (170) | – | (170) |
| Total comprehensive income for the year | – | – | – | 8,392 | 8,392 | 88 | 8,480 |
| Own shares acquired in the year | – | (755) | – | – | (755) | – | (755) |
| Own shares acquired in the year for cancellation | (90) | – | – | (6,196) | (6,286) | – | (6,286) |
| Share of profit/(loss) from discontinued operation attributable to non-controlling interests | – | – | – | – | – | (1,567) | (1,567) |
| Adjustment for capital contribution previously made from sale of discontinued operation | – | – | – | 102 | 102 | – | 102 |
| Credit to equity for equity-settled share-based payments | – | – | – | 233 | 233 | 102 | 335 |
| Other reserve movements | – | – | – | 28 | 28 | (28) | – |
| Dividends paid | – | – | – | (3,165) | (3,165) | – | (3,165) |
| At 31 December 2012 | 638 | (2,945) | – | 24,536 | 22,229 | – | 22,229 |

The notes on pages 40 to 76 form an integral part of these financial statements.

Company statement of changes in equity for the year ended 31 December 2012

| | Share capital £ 000's | Available- for-sale reserve £ 000's | Retained earnings £ 000's | Total £ 000's |
|--|--------------------------|--|---------------------------------|------------------|
| At 1 January 2011 | 728 | – | 25,499 | 26,227 |
| Profit for the year | – | – | 3,933 | 3,933 |
| Total comprehensive income for the year | – | – | 3,933 | 3,933 |
| Credit to equity for equity-settled share-based payments | – | – | 111 | 111 |
| Payments in relation to pre-IPO share options | – | – | (69) | (69) |
| Deferred tax on share-based payments | – | – | (26) | (26) |
| Dividends paid | – | – | (5,699) | (5,699) |
| At 31 December 2011 | 728 | – | 23,749 | 24,477 |
| Profit for the year | – | – | 8,758 | 8,758 |
| Mark to market gain on valuation of available-for-sale financial assets | – | 170 | – | 170 |
| Gain on disposal of available-for-sale financial assets transferred to income statement | – | (170) | – | (170) |
| Total comprehensive income for the year | – | – | 8,758 | 8,758 |
| Own shares acquired in the year for cancellation | (90) | – | (6,196) | (6,286) |
| Credit to equity for equity-settled share-based payments | – | – | 335 | 335 |
| Adjustment for capital contribution previously made from sale of discontinued operation | – | – | 102 | 102 |
| Deferred tax on share-based payments | – | – | – | – |
| Dividends paid | – | – | (3,165) | (3,165) |
| At 31 December 2012 | 638 | – | 23,583 | 24,221 |

The notes on pages 40 to 76 form an integral part of these financial statements.

Notes to the financial statements for the year ended 31 December 2012

1. Accounting policies

General information

Cenkos Securities plc is a company incorporated in the United Kingdom under the Companies Act 2006 (Company Registration No. 05210733). These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates. The Company has taken advantage of the exemption under section 408 of the Companies Act 2006 and therefore has not produced a Company income statement or accompanying notes.

Prior year comparatives have been amended to conform to the presentation in the current period due to the treatment of discontinued operations as required by IFRS 5 in the Consolidated income statement.

Basis of accounting

The Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS, with the prior period being presented on the same basis.

Adoption of new and revised standards

During the year, a number of amendments to IFRS became effective and were adopted by the Group, none of which had a material impact on the Group or Company's net cash flows, financial position, statement of comprehensive income or earnings per share.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling party's share of changes in equity since the date of the combination. Losses applicable to the non-controlling party in excess of the non-controlling party's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling party has a binding obligation and is able to make an additional investment to cover the losses.

The results of subsidiaries acquired or disposed of during a year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Going concern

The Group's business activities, together with the factors likely to affect its future development and performance, the financial position of the Group, its cash flows and liquidity position are set out in the Business Review on pages 5 to 10. In addition, note 25 includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to credit risk and liquidity risk.

The Directors have considered forecasts taking account of the current uncertain market conditions which demonstrate that the Group can continue to operate within its own resources without recourse to the banking facilities available to it (see note 17). The forecasts used for this exercise are based on various assumptions regarding expected levels of income and cost. They have stress tested these basic assumptions and this testing reveals that the Group can maintain acceptable cash levels even if it relies only on recurring revenue streams and maintains its existing cost base. A major factor allowing this to be the case is the flexible nature of the Group's performance related remuneration policy.

As a result, the Directors believe that, at the time of approving the financial statements, the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook and that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, at least 12 months from the date of signature of the financial statements. Accordingly, the Directors consider it appropriate to adopt the going concern basis in preparing the financial statements of the Group and the Company.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial Assets

Financial assets are recognised and derecognised on trade date when the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the time frame established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as fair value.

Financial assets are classified into the following specified categories: financial assets as "at fair value through profit or loss" (FVTPL), "held-to-maturity", "available-for-sale", and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

Trading investments

Trading investments pertain to investment securities which are held for trading purposes. These investments comprise both long and short positions and are initially measured at fair value excluding transaction costs. Subsequently, and at each reporting date, these investments are measured at their fair values, with the resultant gains and losses arising from changes in fair value being taken to the income statement. Trading investments include securities which have been received as consideration for corporate finance and other services rendered.

Derivative financial assets

Derivative financial assets include equity options and warrants over listed securities earned by the Company as part of fee arrangements. The Directors consider that the initial valuation reflects fair consideration for the services provided. All gains and losses on subsequent valuations are recorded within revenue in the income statement.

Financial assets are classified as financial assets at FVTPL where the Group acquires the financial asset principally for the purpose of selling it in the near term, the financial asset is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit taking as well as all derivatives that are not designated as FVTPL and hedging instruments. Financial assets at FVTPL are stated at fair value, with any resulting gain or loss recognised in the income statement. The net gain or loss recognised in the income statement incorporates any dividend or interest earned on the financial asset.

Held-to-maturity investments

Debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

Notes to the financial statements continued

1. Accounting policies (continued)

Available-for-sale investments

Listed shares and unlisted shares held by the Group are classified as available-for-sale investments and are initially measured at fair value, including transaction costs. At each reporting date, these investments are measured at their fair values and the resultant gains and losses, after adjusting for taxation, are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

Trade and other receivables

Market debtors are measured at fair value. Unpaid share premium and loans due from staff are initially measured at fair value and amortised back to par using the EIR (Effective Interest Rate) method. All other debtors are measured at amortised cost using the effective interest method, less any impairment. Appropriate allowance for estimated irrecoverable amounts is recognised in the profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the assets carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Impairment of financial assets

Financial assets, other than those held for trading purposes or held at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For loans and receivables the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL upon initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of disposal in the near future; or
- it is part of an identified portfolio of financial instruments that the Group manages together and has a recent pattern of short-term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the Group is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Trade and other payables

Trade payables are initially measured at fair value. At each reporting date, these trade payables are measured at amortised cost using the effective interest rate method.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Derivative financial instruments

The Group has no significant exposure to derivative financial instruments but will occasionally enter into futures to manage its exposure to market risk.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognised in the income statement immediately.

Notes to the financial statements continued

1. Accounting policies (continued)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups classified as held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held-for-sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the income statement, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the income statement. Property, plant and equipment and intangible assets once classified as held-for-sale are not depreciated or amortised.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are reported at the rates of exchange prevailing at that date. Gains and losses arising during the year on transactions denominated in foreign currencies are translated at the prevailing rate and included in the income statement.

Investments in subsidiary undertakings

Investments held as fixed assets are stated at cost less any provision for diminution in value.

Operating leases

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Where a rent free period or discount is negotiated it is amortised over the period of the lease.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its estimated useful life as follows:

| | |
|-------------------------|-----------------------------|
| Leasehold improvements: | Remaining term of the lease |
| Fixtures and fittings: | Three years |
| IT equipment: | Three years |

The carrying values of property, plant and equipment are subject to annual review and any impairment is charged to the income statement.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. It is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of pay aways, discounts, VAT and other sales related taxes.

Revenue comprises fees for corporate finance advisory services which are taken to the income statement at the point in time when, under the terms of the contract, the conditions have been met such that Cenkos is entitled to the fees specified. Revenue also comprises profits on dealing operations, being gains less losses, both realised and unrealised, on financial assets, arrived at after taking into account attributable dividends and directly related interest, together with commission income receivable.

Interest income is recognised at the effective interest rate applicable, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Revenue includes the fair value of equity options and warrants over listed securities which have been received as consideration for corporate finance or other services rendered.

Notes to the financial statements continued

1. Accounting policies (continued)

Segment reporting

IFRS 8 requires that an entity discloses financial and descriptive information about its reportable segments, which are operating segments or aggregations of operating segments. These operating segments are identified on the basis of internal reports that are regularly reviewed by the Chief Executive Officer to allocate resources and to assess performance. Using the Group's internal management reporting as a starting point, the reporting segments set out in note 3 have been identified.

Share-based payments

The Group has applied the requirements of IFRS 2 Share-based payment. The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the income statement such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Related party disclosures

The compensation of the key management personnel of the Company and their interests in the shares and options over the shares of Cenkos Securities plc are set out in note 26. Key management personnel comprise Directors of the Company as they are able to exert significant influence over the financial and operating policies of the Group.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IAS 1 Presentation of items of Other Comprehensive income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement, on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be classified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendments become effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group's first annual report after becoming effective.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g. collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with *IAS 32 Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but *Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard, including all phases, is issued.

IFRS 12 Disclosure of Interest in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associated and structured entities. A number of new disclosures are also required, but has no impact on the Group's financial position or performance. The standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to sue fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance but, based on the preliminary analysis, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

2. Critical accounting judgement and key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are set out below:

a) Equity-settled share-based payments

The fair value of share based payments is calculated by reference to a Monte Carlo simulation model. Inputs into the model are based on management's best estimates of appropriate volatility, discount rate and share price growth, which are referred to in note 24.

Notes to the financial statements continued

2. Critical accounting judgement and key sources of estimation uncertainty (continued)

b) Valuation of derivative financial assets

Derivative financial assets comprise equity options and warrants over listed securities which include those received as non-cash consideration for advisory and other services. On grant, these instruments are fair valued by reference to a Monte Carlo Simulation model. Inputs to the model include share price, risk free rate of return and implied volatility. Although the underlying securities are listed, the equity options and warrants themselves are not. As a measure of implied volatility of the instrument is therefore not available, either the historic volatility of the underlying securities share price or that of a comparable company has been used as a proxy. The Directors consider that the initial valuation reflects fair consideration for the services provided.

c) Bad debt policy

The Group regularly reviews all outstanding balances, including the unpaid amounts relating to the partly paid B shares referred to in note 25, and provides for amounts where there is significant doubt over the recoverability of the balance.

d) Provisions and contingent liabilities

Provisions are measured at the Directors' best estimate of the expenditure required to settle obligations.

3. Business and geographical segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Executive Officer to monitor segment performance and to allocate resources between segments.

Based on its internal management reporting, the Group has identified three reportable segments:

Corporate Broking and Advisory

This segment reflects the corporate finance, corporate broking and market making services provided to growth companies and investment funds.

Institutional Equities

This segment reflects the institutional equities team who provide research-driven investment recommendations and execution capabilities to institutional clients.

Fund and Wealth Management

Offshore wealth management and stock broking services were provided through the Cenkos Channel Islands Group and fund management services were provided by Cenkos Fund Managers Limited. During the year, the Group sold its entire holding of shares in CFM and CCIL. The results of these companies comprise the entire performance of this segment and have been treated as discontinued operations. These transactions are fully described in note 9.

An analysis of the Group's revenue and result by reportable segment is as follows:

| | 1 January 2012 to 31 December 2012 | | | | |
|--|---|---|---|---|------------------------------------|
| | Corporate Broking and Advisory £ 000's | Institutional Equities £ 000's | Fund and Wealth Management £ 000's | Discontinued Operations* £ 000's | Group Total £ 000's |
| Segment revenues and results | | | | | |
| Corporate finance | 27,151 | 1,173 | – | – | 28,324 |
| Corporate broking & market making | 10,668 | 348 | – | – | 11,016 |
| Research fees & commission | 2,291 | 1,524 | – | – | 3,815 |
| Management fees & stockbroking services | – | – | 1,520 | (1,520) | – |
| Segment revenue | 40,110 | 3,045 | 1,520 | (1,520) | 43,155 |
| Allocated administrative expenses | (21,346) | (2,033) | (1,337) | 1,337 | (23,379) |
| Segment results | 18,764 | 1,012 | 183 | (183) | 19,776 |
| Unallocated administrative expenses | | | | | (13,291) |
| Operating profit | | | | | 6,485 |
| Investment income - interest income | | | | | 357 |
| Gain on disposal of available-for-sale financial asset | | | | | 170 |
| Interest expense | | | | | (6) |
| Profit before tax from continuing operations for the year | | | | | 7,006 |
| Tax | | | | | (1,855) |
| Profit after tax from discontinued operations for the year (in Fund and Wealth Management) * | | | | | 3,329 |
| Profit for the year | | | | | 8,480 |

*See note 9 for details.

| | 31 December 2012 | | | | | |
|-----------------------------------|---|---|---|---|--------------------------------|------------------------------------|
| | Corporate Broking and Advisory £ 000's | Institutional Equities £ 000's | Fund and Wealth Management £ 000's | Discontinued Operations* £ 000's | Unallocated £ 000's | Group Total £ 000's |
| Other segment information: | | | | | | |
| Assets | 11,640 | – | – | – | 37,773 | 49,413 |
| Liabilities | (13,643) | (165) | – | – | (13,376) | (27,184) |
| Depreciation and amortisation | – | – | – | – | 331 | 331 |
| Additions to non-current assets | – | – | – | – | 93 | 93 |

Segment assets have been allocated on the basis of the internal reports received by the Chief Executive Officer for the purposes of monitoring segment performance and allocating resources between segments.

Notes to the financial statements continued

3. Business and geographical segments (continued)

| | 1 January 2011 to 31 December 2011 | | | | |
|---|---|--------------------------------------|---|--|---------------------------|
| | Corporate Broking and Advisory £ 000's | Institutional Equities £ 000's | Fund and Wealth Management £ 000's | Discontinued Operations* £ 000's | Group Total £ 000's |
| Segment revenues and results | | | | | |
| Corporate finance | 25,754 | 239 | – | – | 25,993 |
| Corporate broking & market making | 6,665 | 548 | – | – | 7,213 |
| Research fees & commission | 2,760 | 1,394 | – | – | 4,154 |
| Management fees & stockbroking services | – | – | 6,745 | (6,745) | – |
| Segment revenue | 35,179 | 2,181 | 6,745 | (6,745) | 37,360 |
| Allocated administrative expenses | (18,995) | (1,638) | (6,226) | 6,226 | (20,633) |
| Segment results | 16,184 | 543 | 519 | (519) | 16,727 |
| Unallocated administrative expenses | | | | | (11,923) |
| Operating profit | | | | | 4,804 |
| Investment income - interest income | | | | | 319 |
| Interest expense | | | | | (8) |
| Profit before tax from continuing operations for the year | | | | | 5,115 |
| Tax | | | | | (1,537) |
| Profit after tax from discontinued operations for the year (in Fund and Wealth Management)* | | | | | 433 |
| Profit for the year | | | | | 4,011 |

*See note 9 for details.

| | 31 December 2011 | | | | | |
|-----------------------------------|---|--------------------------------------|---|--|------------------------|---------------------------|
| | Corporate Broking and Advisory £ 000's | Institutional Equities £ 000's | Fund and Wealth Management £ 000's | Discontinued Operations* £ 000's | Unallocated £ 000's | Group Total £ 000's |
| Other segment information: | | | | | | |
| Assets | 13,475 | – | 8,141 | (300) | 29,826 | 51,142 |
| Liabilities | (8,784) | (10) | (4,984) | 4 | (12,283) | (26,057) |
| Depreciation and amortisation | 21 | 4 | 85 | (1) | 253 | 362 |
| Additions to non-current assets | – | – | 368 | – | 200 | 568 |

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 1. Segment profit represents the profit earned by each segment before unallocated central administrative costs, investment revenue and finance costs, and income tax expense. This is the measure reported to the Chief Executive Officer for the purpose of resource allocation and assessment of segment performance.

An analysis of the Group's revenue and result by geographical location is as follows:

Geographical information

| | 1 January 2012 to 31 December 2012 | | | 1 January 2011 to 31 December 2011 | | |
|--|------------------------------------|----------------------------|------------------------|------------------------------------|----------------------------|------------------------|
| | United Kingdom £ 000's | Channel Islands £ 000's | Group Total £ 000's | United Kingdom £ 000's | Channel Islands £ 000's | Group Total £ 000's |
| Revenue from continuing operations | 43,155 | – | 43,155 | 37,360 | – | 37,360 |
| Revenue from discontinued operations | 67 | 1,453 | 1,520 | 402 | 6,343 | 6,745 |
| Revenue from continuing and discontinued operations ^(a) | 43,222 | 1,453 | 44,675 | 37,762 | 6,343 | 44,105 |
| Non-current assets | 822 | – | 822 | 4,712 | 357 | 5,069 |

(a) Revenues are attributed on the basis of the entities' location. Discontinued operations were located in both the United Kingdom and the Channel Islands.

Certain items have been reclassified from those previously reported.

Major clients

No one particular client's revenues amounted to more than 10% of the Group's total revenue.

4. Investment income - interest income

| | 1 January 2012 to 31 December 2012 £ 000's | 1 January 2011 to 31 December 2011 £ 000's |
|---------------------------------|--|--|
| Interest income generated from: | | |
| Cash and cash equivalents | 113 | 56 |
| Held-to-maturity investments | 19 | 22 |
| Trade and other receivables | 225 | 241 |
| | <u>357</u> | <u>319</u> |

Interest income generated from trade and other receivables includes the recognition of the unwinding of the discount factor applied to loans due from staff related to the issue of the partly paid B shares, which amounted to £224,597 (2011: £209,513). These loans were fair valued when granted and the discount factor unwinds over the period until they are due to be repaid (see note 25).

5. Interest expense

| | 1 January 2012 to 31 December 2012 £ 000's | 1 January 2011 to 31 December 2011 £ 000's |
|---------------------------------------|--|--|
| Interest on bank overdrafts and loans | <u>6</u> | <u>8</u> |

Notes to the financial statements continued

6. Staff costs

| | Continuing operations | | Discontinued operations | | Total | |
|------------------------------------|---|---|---|---|---|---|
| | 1 January 2012 to 31 December 2012 £ 000's | 1 January 2011 to 31 December 2011 £ 000's | 1 January 2012 to 31 December 2012 £ 000's | 1 January 2011 to 31 December 2011 £ 000's | 1 January 2012 to 31 December 2012 £ 000's | 1 January 2011 to 31 December 2011 £ 000's |
| Staff costs comprise: | | | | | | |
| Wages and salaries | 24,208 | 22,171 | 586 | 3,077 | 24,794 | 25,248 |
| Social security costs | 3,210 | 2,800 | 36 | 142 | 3,246 | 2,942 |
| IFRS 2 share-based payment expense | 335 | 111 | – | 148 | 335 | 259 |
| | <u>27,753</u> | <u>25,082</u> | <u>622</u> | <u>3,367</u> | <u>28,375</u> | <u>28,449</u> |

The Company does not operate a pension scheme on behalf of its employees. It does, however, provide access to a Company designated stakeholder pension scheme.

The average number of employees (including executive Directors) was:

| | 2012 | | Total No. | 2011 | | Total No. |
|-------------------|-----------------------|-------------------------|------------|-----------------------|-------------------------|-------------------------|
| | Continuing operations | Discontinued operations | | Continuing operations | Discontinued operations | |
| Corporate finance | 18 | – | 18 | 18 | – | 18 |
| Corporate broking | 53 | 5 | 58 | 56 | 19 | 75 |
| Administration | 27 | 5 | 32 | 23 | 21 | 44 |
| | <u>98</u> | <u>10</u> | <u>108</u> | <u>97</u> | <u>40</u> | <u>137</u> |
| | | | | | <u>2012 £ 000's</u> | <u>2011 £ 000's</u> |

The total emoluments of the highest paid Director serving during the year were: 677 457

Details of the remuneration of key management personnel are set out in note 26. Details of the Directors' remuneration are set out within the Directors' Remuneration Report on page 27.

7. Profit for the year

Profit for the year has been arrived at after charging/(crediting):

| | Continuing operations | | Discontinued operations | | Total | |
|---|---|---|---|---|---|---|
| | 1 January 2012 to 31 December 2012 £ 000's | 1 January 2011 to 31 December 2011 £ 000's | 1 January 2012 to 31 December 2012 £ 000's | 1 January 2011 to 31 December 2011 £ 000's | 1 January 2012 to 31 December 2012 £ 000's | 1 January 2011 to 31 December 2011 £ 000's |
| Operating lease rentals | 523 | 519 | 47 | 207 | 570 | 726 |
| Auditors' remuneration | 153 | 135 | 23 | 56 | 176 | 191 |
| Depreciation of property, plant and equipment | 310 | 279 | 21 | 83 | 331 | 362 |
| Staff costs (see note 6) | 27,753 | 25,082 | 622 | 3,367 | 28,375 | 28,449 |
| Change in fair value of financial assets designated as at fair value through profit or loss | (623) | 323 | – | – | (623) | 323 |

The analysis of auditors' remuneration is as follows:

Fees payable to the Company's auditor and their associates for the audit of the Group's annual accounts and consolidation

110 112

Fees payable to the Company's auditor for other services to the Group:

– The audit of the Company's subsidiaries

– 5

Fees payable to other auditors for the audit of the Company's subsidiaries

– 42

Total audit fees

110 159

Fees payable to the Company's auditor for other services to the Group:

– Half year review of the Group's interim statement

25 18

– Other advisory services - taxation

18 –

Fees payable to other auditors for the half year review of the Company's subsidiaries

23 14

Total non-audit fees

66 32

176 191

A description of the work of the Audit Committee is set out on pages 18 to 21 within the Corporate Governance Report and includes an explanation of how auditor's objectivity and independence is safeguarded when non-audit services are provided by the auditors.

8. Tax

The tax charge comprises:

| | 1 January 2012 to 31 December 2012 £ 000's | 1 January 2011 to 31 December 2011 £ 000's |
|--|--|--|
| Current tax | | |
| United Kingdom corporation tax at 24.5% (2011: 26.5%) based on the profit for the year | 1,943 | 1,473 |
| Adjustment in respect of prior period | | |
| United Kingdom corporation tax at 24.5% (2011: 26.5%) | 87 | 63 |
| Total current tax | 2,030 | 1,536 |
| Deferred Tax | | |
| Credit on account of temporary differences | (175) | (94) |
| Charge on account of temporary differences | – | 95 |
| Total deferred tax (see note 20) | (175) | 1 |
| Total tax on profit on ordinary activities from continuing operations | 1,855 | 1,537 |
| The tax expense in the income statement is disclosed as follows: | | |
| Income tax expense on continuing operations | 1,855 | 1,537 |
| Income tax expense/(credit) on discontinued operations | 5 | (93) |
| | 1,860 | 1,444 |

The tax charge for the year differs from that resulting from applying the standard rate of UK corporation tax of 24.5% (2011: 26.5%) to the profit before tax for the reasons set out in the following reconciliation.

Notes to the financial statements continued

8. Tax (continued)

| | 1 January 2012 to 31 December 2012 | 1 January 2011 to 31 December 2011 |
|--|---|---|
| | £ 000's | £ 000's |
| Profit before tax from continuing operations | 7,006 | 5,115 |
| Profit before tax from discontinued operations | 3,334 | 524 |
| | <u>10,340</u> | <u>5,639</u> |
| Tax on profit on ordinary activities at the UK corporation tax rate of 24.5% (2011: 26.5%) | 2,533 | 1,494 |
| Tax effect of: | | |
| Expenses that are not deductible in determining taxable profits | 211 | 172 |
| Non-taxable gain on disposal of discontinued operations | (853) | – |
| Different tax rates of subsidiaries operating in other jurisdictions | – | (226) |
| Income not subject to corporation tax | (55) | (61) |
| Expenses not allowable on disposal of discontinued operations | – | (13) |
| Adjustment for loss relief not claimed | 12 | 15 |
| Adjustment in respect of prior period | 12 | 63 |
| Tax expense for the year | <u>1,860</u> | <u>1,444</u> |

In addition to the amount credited to the income statement, deferred tax relating to share-based payments amounting to £nil has been charged directly to equity (2011: £25,992).

| | 1 January 2012 to 31 December 2012 | 1 January 2011 to 31 December 2011 |
|--|---|---|
| | £ 000's | £ 000's |
| Deferred tax | | |
| Arising on share-based payments | – | (26) |
| Total income tax recognised directly in equity | <u>–</u> | <u>(26)</u> |

9. Discontinued operations

As disclosed and accounted for in the Group's 2011 audited accounts, on 1 February 2012 Cenkos disposed of its entire holding in Cenkos Fund Managers Limited, which carried out all of the Group's onshore fund management activity.

Following a strategic review, Cenkos decided that CCIL was not core to Cenkos' business strategy and operations. On 2 April 2012 the Group completed the disposal of 80% of its 50% holding in CCIL, which carried out all of the Group's offshore wealth management and offshore stock broking activity, for a consideration of £4 million. This operation is based in the Channel Islands.

The remaining 10% interest in the shares of CCIL was classified in the statement of financial position as an available-for-sale financial asset. Thereafter, it was marked to market as the shares are quoted on the Channel Islands Stock Exchange. On 31 October 2012, Cenkos sold this remaining 10% interest in the shares of CCIL for £1.17 million (see note 13).

The results of the discontinued operations, which have been included in the consolidated income statement, were as follows:

| | 1 January 2012 to 31 December 2012 | 1 January 2011 to 31 December 2011 |
|--|---|---|
| | £ 000's | £ 000's |
| Revenue | 1,520 | 6,745 |
| Administrative expenses | (1,337) | (6,226) |
| Operating profit | 183 | 519 |
| Investment income - interest income | 1 | 6 |
| Interest expense | (3) | (1) |
| Profit before tax | 181 | 524 |
| Attributable tax expense | (5) | 93 |
| Gain/(loss) on disposal of discontinued operations | 2,467 | (184) |
| Gain on fair value of retained interest at the point of disposal of controlling interest | 686 | – |
| Profit after tax for the year from discontinued operations | 3,329 | 433 |

| | Cenkos Channel Islands Limited | Cenkos Fund Managers Limited | Total |
|--|---|---|----------------|
| | £ 000's | £ 000's | £ 000's |
| Cash inflow on sale | | | |
| Consideration received | 4,000 | – | 4,000 |
| Legal fees and other associated costs | (104) | (68) | (172) |
| | 3,896 | (68) | 3,828 |
| Cash disposed in sale of discontinued operations | (2,736) | (244) | (2,980) |
| | 1,160 | (312) | 848 |

Notes to the financial statements continued

9. Discontinued operations (continued)

| | Cenkos Channel Islands Limited £ 000's | Cenkos Fund Managers Limited £ 000's | Total £ 000's |
|--|--|--|------------------|
| The major classes of assets and liabilities disposed of were as follows: | | | |
| Property, plant and equipment | 344 | – | 344 |
| Trading investments - long positions | 56 | – | 56 |
| Trade and other receivables | 35,768 | 58 | 35,826 |
| Cash and cash equivalents | 2,736 | 244 | 2,980 |
| Trade and other payables | (35,768) | (298) | (36,066) |
| | <u>3,136</u> | <u>4</u> | <u>3,140</u> |
| Adjustment for interest in CCIL reclassified as available-for-sale * | (314) | – | (314) |
| Adjustment for capital contribution previously made | 102 | – | 102 |
| Adjustment for non-controlling interest in net assets sold | (1,565) | (2) | (1,567) |
| Parental share of net assets disposed | <u>1,359</u> | <u>2</u> | <u>1,361</u> |
| Gain on disposal of discontinued operations and fair value of interest retained | | | |
| Consideration received | 4,000 | – | 4,000 |
| Legal fees | (104) | (68) | (172) |
| Less: Parental share of net assets disposed | (1,359) | (2) | (1,361) |
| Gain/(loss) on disposal of discontinued operations | <u>2,537</u> | <u>(70)</u> | <u>2,467</u> |
| Gain on fair value of interest retained | 686 | – | 686 |
| | <u>3,223</u> | <u>(70)</u> | <u>3,153</u> |

As the decision to sell Cenkos Fund Managers Limited was taken prior to 31 December 2012, the assets and liabilities classified as part of a disposal group held for sale as at 31 December 2011 are no longer included in the statement of financial position.

* The adjustment above reflects the 10% interest Cenkos Securities plc retained in the shares of CCIL from the disposal on 2 April 2012. This was classified in the statement of financial position as an available-for-sale financial asset until its subsequent sale on 31 October 2012 (see note 13).

Earnings per share from discontinued operations

| | 1 January 2012 to 31 December 2012 £ 000's | 1 January 2011 to 31 December 2011 £ 000's |
|-------------------|--|--|
| Basic and diluted | <u>4.7p</u> | <u>0.2p</u> |

10. Dividends

Amounts recognised as distributions to equity holders in the period:

| | 1 January 2012 to 31 December 2012 | 1 January 2011 to 31 December 2011 |
|---|---|---|
| | £ 000's | £ 000's |
| Amounts recognised as distributions to equity holders in the year: | | |
| Final dividend for the year ended 31 December 2011 of 1p (December 2010: 4p) per share | 709 | 2,849 |
| Interim dividend for the period to 30 June 2012 of 3.5p (June 2011: 4p) per share | 2,456 | 2,850 |
| | <u>3,165</u> | <u>5,699</u> |

A final dividend of 4 pence per share has been proposed for the year ended 31 December 2012 (2011: 1p).

11. Earnings per share

| | 1 January 2012 to 31 December 2012 | 1 January 2011 to 31 December 2011 |
|--|---|---|
| | £ 000's | £ 000's |
| From continuing operations | | |
| Basic and diluted | 7.4p | 5.0p |
| From continuing and discontinued operations | | |
| Basic and diluted | 12.1p | 5.2p |
| | <u>12.1p</u> | <u>5.2p</u> |
| | 1 January 2012 to 31 December 2012 | 1 January 2011 to 31 December 2011 |
| | £ 000's | £ 000's |

The calculation of the basic and diluted earnings per share is based on the following data:

Earnings

| | | |
|---|--------------|--------------|
| Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent | 8,392 | 3,711 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | - | - |
| Earnings for the purpose of diluted earnings per share | <u>8,392</u> | <u>3,711</u> |
| | No. | No. |

Number of shares

| | | |
|--|-------------------|-------------------|
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 69,341,308 | 71,250,584 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | - | - |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | <u>69,341,308</u> | <u>71,250,584</u> |

The weighted average number of shares considered for the period also includes the total number of B shares, even though they are partly paid shares, as these shares are entitled to a full dividend payout.

Notes to the financial statements continued

11. Earnings per share (continued)

The Board has agreed to continue to fund the Company's Employee Benefit Trust (EBT) so that it can make market purchases in Cenkos Securities plc shares as and when market conditions allow. During the year, 1,259,974 ordinary shares were purchased for an aggregate consideration of £755,150. As at 31 December 2012 the EBT held a total of 2,843,724 ordinary shares at an aggregate consideration of £2.94 million, as shown in the table below. These shares are held by the trust in treasury and have been excluded from the weighted average number of shares calculation.

| | | 2012 | 2011 |
|---|-------------|---|---|
| | | No. | No. |
| Number of shares held by the Company's EBT | | | |
| At 1 January | | 1,583,750 | 1,518,750 |
| Acquired during the year | | 1,259,974 | 65,000 |
| | | <u>2,843,724</u> | <u>1,583,750</u> |
| | Note | 1 January 2012 to 31 December 2012 | 1 January 2011 to 31 December 2011 |
| | | £ 000's | £ 000's |
| From continuing operations | | | |
| Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent | | 8,392 | 3,711 |
| Adjustment to exclude parent share of discontinued operations: | | | |
| Profit after tax from discontinued operations for the year | 9 | (3,329) | (433) |
| Profit attributable to non-controlling interests up to the point of disposal | | 88 | 300 |
| Earnings from continuing operations for the purpose of basic earnings per share excluding discontinued operations | | <u>5,151</u> | <u>3,578</u> |
| Effect of dilutive potential ordinary shares: | | | |
| Share options | | <u>–</u> | <u>–</u> |
| Earnings from continuing operations for the purpose of diluted earnings per share excluding discontinued operations | | <u>5,151</u> | <u>3,578</u> |

The denominators used are the same as those detailed above for both basic and diluted earnings per share from continuing and discontinued operations.

12. Property, plant and equipment

| Group | Leasehold improvements £ 000's | Fixtures and fittings £ 000's | IT equipment £ 000's | Total £ 000's |
|--------------------------------------|---|--|---------------------------------|--------------------------|
| Cost | | | | |
| At 31 December 2010 | 1,298 | 226 | 832 | 2,356 |
| Additions | 301 | 79 | 188 | 568 |
| Disposals | – | (27) | – | (27) |
| At 31 December 2011 | 1,599 | 278 | 1,020 | 2,897 |
| Additions | 24 | 5 | 63 | 92 |
| Discontinued operations (see note 9) | (299) | (118) | (229) | (646) |
| At 31 December 2012 | 1,324 | 165 | 854 | 2,343 |
| Accumulated depreciation | | | | |
| At 31 December 2010 | (576) | (190) | (659) | (1,425) |
| Charge for the year | (206) | (33) | (123) | (362) |
| Disposals | – | 23 | – | 23 |
| At 31 December 2011 | (782) | (200) | (782) | (1,764) |
| Charge for the year | (197) | (17) | (117) | (331) |
| Discontinued operations (see note 9) | 57 | 67 | 178 | 302 |
| At 31 December 2012 | (922) | (150) | (721) | (1,793) |
| Net book value | | | | |
| At 31 December 2012 | 402 | 15 | 133 | 550 |
| At 31 December 2011 | 817 | 78 | 238 | 1,133 |

| Company | Leasehold improvements £ 000's | Fixtures and fittings £ 000's | IT equipment £ 000's | Total £ 000's |
|---------------------------------|---|--|---------------------------------|--------------------------|
| Cost | | | | |
| At 31 December 2010 | 1,261 | 140 | 655 | 2,056 |
| Additions | 39 | 20 | 143 | 202 |
| At 31 December 2011 | 1,300 | 160 | 798 | 2,258 |
| Additions | 24 | 5 | 55 | 84 |
| At 31 December 2012 | 1,324 | 165 | 853 | 2,342 |
| Accumulated depreciation | | | | |
| At 31 December 2010 | (551) | (128) | (524) | (1,203) |
| Charge for the year | (181) | (11) | (87) | (279) |
| At 31 December 2011 | (732) | (139) | (611) | (1,482) |
| Charge for the year | (190) | (11) | (109) | (310) |
| At 31 December 2012 | (922) | (150) | (720) | (1,792) |
| Net book value | | | | |
| At 31 December 2012 | 402 | 15 | 133 | 550 |
| At 31 December 2011 | 568 | 21 | 187 | 776 |

Notes to the financial statements continued

13. Available-for-sale investments

| | Number of shares held | % of share capital of | Group | | Company | |
|---|--------------------------|--------------------------|-----------------|-----------------|-----------------|-----------------|
| | | | 2012 £ 000's | 2011 £ 000's | 2012 £ 000's | 2011 £ 000's |
| Non-current assets | | | | | | |
| Opening balance (at fair value) | – | – | – | – | – | – |
| Re-classification of retained interest in CCIL | 1,000,000 | 10% | 314 | – | 51 | – |
| Gain on fair value upon disposal of controlling interest | – | – | 686 | – | 949 | – |
| Gain on fair value of remaining interest | – | – | 170 | – | 170 | – |
| Disposal of shares | (1,000,000) | (10%) | (1,170) | – | (1,170) | – |
| Closing balance (at fair value) | – | – | – | – | – | – |
| Current assets | | | | | | |
| Acquired during the year | | | 1,000 | – | 1,000 | – |

Subsequent to the disposal of 80% of its 50% holding in CCIL, the remaining 10% interest in the shares of CCIL was classified in the statement of financial position as an available-for-sale financial asset and fair valued as the shares are quoted on the Channel Islands Stock Exchange. The gain was credited to the income statement. Thereafter, the shares were marked to market and the gain credited to reserves. On 31 October, Cenkos sold this remaining 10% interest in the shares of CCIL for £1.17 million. For further details see note 9.

Available-for-sale investments include unlisted equity shares received in lieu of fees. These are classified as Level 3 within the fair value hierarchy and are valued based on the prices paid by other participants to the transaction, when the shares were acquired. Due to the proximity of the transaction date to the year end and there being no other factors coming to the Board's attention, no impairment in value is considered to have taken place by the year end.

14. Investments in subsidiaries

| Company | Shares in subsidiary undertakings | |
|--|-----------------------------------|-----------------|
| | 2012 £ 000's | 2011 £ 000's |
| Cost | | |
| At 1 January | 256 | 256 |
| Part disposal of shares in CCIL | (204) | – |
| Re-classification of retained interest in CCIL upon disposal of controlling interest | (51) | – |
| At 31 December | 1 | 256 |

The parent company has investments in the following subsidiary undertakings consisting solely of ordinary shares of:

| | Country of registration and operation | Principal activity | Proportion of ordinary shares and voting rights held |
|--------------------------------------|--|---------------------------|---|
| Direct holdings | | | |
| Cenkos Nominee UK Limited | England and Wales | Nominee company | 100% |
| Cenkos Securities (Trustees) Limited | England and Wales | Nominee company | 100% |
| Cenkos Fund Management Limited | England and Wales | Dormant company | 98% |
| Tokenhouse Limited | England and Wales | Dormant company | 100% |
| Tokenhouse Stockbrokers Limited | England and Wales | Dormant company | 100% |
| Tokenhouse Yard Securities Limited | England and Wales | Dormant company | 100% |
| Tokenhouse Partners Limited | England and Wales | Dormant company | 100% |
| THY Securities Limited | England and Wales | Dormant company | 100% |

In the opinion of the Directors the value of the investments is not less than the amount at which they are stated in the statement of financial position.

The assets and liabilities of the Cenkos Securities Employee Benefit Trust ("EBT") are included in the Group's statement of financial position.

15. Financial assets and liabilities

| | Group | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2012 | 2011 | 2012 | 2011 |
| | £ 000's | £ 000's | £ 000's | £ 000's |
| Financial assets at FVTPL | | | | |
| Trading investments carried at fair value | 9,060 | 9,952 | 9,060 | 9,899 |
| Derivative financial assets | 726 | 103 | 726 | 103 |
| | <u>9,786</u> | <u>10,055</u> | <u>9,786</u> | <u>10,002</u> |
| Held-to-maturity investments | | | | |
| Held-to-maturity investments carried at amortised cost | – | 208 | – | 208 |
| | <u>9,786</u> | <u>10,263</u> | <u>9,786</u> | <u>10,210</u> |
| Financial liabilities at FVTPL | | | | |
| Contractual obligation to acquire securities | (2,848) | (2,539) | (2,848) | (2,539) |
| | <u>(2,848)</u> | <u>(2,539)</u> | <u>(2,848)</u> | <u>(2,539)</u> |

The trading investments carried at fair value included above under financial assets at FVTPL and financial liabilities at FVTPL include long positions and short positions (contractual obligations to acquire securities), respectively, in listed equity securities that present the Group with opportunity for return through dividend income and trading gains. The fair values of these securities are based on quoted market prices. The management of risk resulting from these positions is set out in note 25. The Group's trading investments carried at fair value, under financial assets at FVTPL, have been used as a security with respect to the undrawn borrowing facility of £5 million. For more details see note 17.

Derivative financial assets include options and warrants over the shares of client companies taken in lieu of fees. See notes 1 and 2 (b) for an explanation of how they have been treated in these financial statements.

Held-to-maturity investments carried at amortised cost represent convertible bonds in Providence Resources plc taken by the Company in lieu of fees. These bonds matured on 29 July 2012, were denominated in Euros and had a 12% coupon rate. Their carrying amount approximated their fair value.

Notes to the financial statements continued

16. Trade and other receivables

| | Group | | Company | |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2012 £ 000's | 2011 £ 000's | 2012 £ 000's | 2011 £ 000's |
| Non-current assets | | | | |
| Unpaid share capital due from staff | – | 3,839 | – | 3,839 |
| Current assets | | | | |
| Market and client receivables | 10,787 | 18,845 | 10,787 | 14,680 |
| Amounts owed by Group undertakings | – | – | 1,991 | 2,152 |
| Unpaid share capital due from staff | 2,617 | – | 2,617 | – |
| Prepayments and accrued income | 1,360 | 2,340 | 1,360 | 1,665 |
| Other receivables | 770 | 615 | 770 | 607 |
| | <u>15,534</u> | <u>21,800</u> | <u>17,525</u> | <u>19,104</u> |

The average credit period taken is 33 days (2011: 38 days). A specific provision of £75,467 (2011: £17,312) has been made against the full amount of specific market and client receivables deemed to be doubtful. The amount charged to the profit and loss account for bad or doubtful debts is £85,110 (2011: £57,484).

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

Unpaid share capital and loans due from staff include loans made to certain employees related to the issue of partly paid B shares referred to in the Directors' Report on page 11 and in note 25.

Credit risk

The Group's principal financial assets are bank balances and cash (see note 17), trade and other receivables and investments.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The Group has no significant concentration of credit risk, other than those covered in note 25. In addition, the risk associated with these financial assets is further discussed in note 25.

17. Cash and cash equivalents

| | Group | | Company | |
|---------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2012 £ 000's | 2011 £ 000's | 2012 £ 000's | 2011 £ 000's |
| Cash and cash equivalents | 22,271 | 14,010 | 22,271 | 11,088 |

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies (see note 25).

The cash balance includes £0.5 million (2011: £0.5 million) held in trust against liabilities still in existence, identified at the time of the reorganisation of the Company's share capital and reserves in 2010.

Undrawn borrowing facilities

At 31 December 2012, the Group had an undrawn borrowing facility of up to £5 million (2011: £5 million). The facility is secured against the Group's trading investments carried at fair value, under financial assets at FVTPL. The actual amount available is the lower of £5 million, the pre-tax profit derived from the last audited accounts or the value of the Group's trading investments carried at fair value, under financial assets at FVTPL (see note 15) after applying various haircuts. This facility is due to be renewed at the end of April 2013.

Other guarantees and charges

On 9 February 2007 Cenkos Securities plc and Cenkos Nominee UK Limited gave HSBC Bank plc an unlimited and multilateral guarantee to secure all liabilities of each other. In addition, HSBC holds a debenture including a fixed charge over all present freehold and leasehold property; a first fixed charge over book and other debts, chattels, goodwill and uncalled capital, both present and future; and a first floating charge over all assets and undertakings both present and future, dated 8 March 2007.

18. Trade and other payables

| | Group | | Company | |
|------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2012 £ 000's | 2011 £ 000's | 2012 £ 000's | 2011 £ 000's |
| Trade creditors | 7,183 | 12,654 | 7,183 | 8,656 |
| Corporation tax payable | 1,050 | 541 | 1,050 | 526 |
| Accruals and deferred income | 15,618 | 9,373 | 15,618 | 8,640 |
| Other creditors | 485 | 950 | 485 | 532 |
| | <u>24,336</u> | <u>23,518</u> | <u>24,336</u> | <u>18,354</u> |

The Directors consider that the carrying amount of trade payables approximates to their value.

19. Provisions

As disclosed in the 2011 Financial Statements, a cash-settled shadow equity scheme was set up in 2009 for the Cenkos team based in Edinburgh. The Company re-organised this office in 2010 resulting in the cessation of this arrangement and a number of staff leaving the Company. A provision for this re-organisation was established in 2010 to cover any resultant liabilities. During the year the Company remained in dispute with a former member of staff on this issue, resulting in a claim being issued against the Company. Cenkos agreed to settle this dispute with the former employee in December 2012. The terms of this settlement are confidential. The Company is not aware of any residual claims arising from this re-organisation.

Notes to the financial statements continued

20. Deferred tax

Deferred tax arises in respect of unrealised gains on temporary differences. The following are the deferred tax liabilities and assets recognised by the Group and the parent Company and the movement thereon during the current and prior reporting year.

| | Group and Company | |
|--|--|--------------------------|
| | Temporary differences £ 000's | Total £ 000's |
| At 31 December 2010 | 123 | 123 |
| Credit on account of temporary differences | 94 | 94 |
| Charge on account of temporary differences | (94) | (94) |
| Charge to equity | (26) | (26) |
| At 31 December 2011 | 97 | 97 |
| Credit on account of temporary differences | 175 | 175 |
| At 31 December 2012 | 272 | 272 |

Deferred tax comprises the following:

| | 2012 £ 000's | 2011 £ 000's |
|---|-------------------------|-------------------------|
| Relating to bonus payments | 243 | 97 |
| Accelerated depreciation for tax purposes | 29 | – |
| | 272 | 97 |

The Finance Bill 2012 was substantively enacted on 3 July 2012. The reduction to the standard rate of corporation tax from 24% to 23% will be effective from 1 April 2013. Accordingly the deferred tax balances at 31 December 2012 have been stated at 23%. A further rate reduction of 3% has been announced on 20 March 2013 which will reduce the tax rate to 21% in 2014 and 20% in 2015 respectively. These additional changes will be enacted as part of the 2013 Finance Bill.

The maximum effect on deferred tax of the reduction in the UK corporation tax rate to 20% is expected to be £8,170.

21. Share capital

| | Group and Company 2012 £ 000's | Group and Company 2011 £ 000's |
|---|---|---|
| Authorised: | | |
| 179,185,700 (2011 - 179,185,700) ordinary shares of 1p each | 1,792 | 1,792 |
| 20,814,300 (2011 - 20,814,300) B shares of 1p each | 208 | 208 |
| | 2,000 | 2,000 |
| Allotted: | | |
| 61,153,717 (2011: 68,598,553) ordinary shares of 1p each fully paid | 611 | 686 |
| 2,684,243 (2011: 4,172,617) B shares of 1p each fully paid | 27 | 42 |
| | 638 | 728 |

1 January 2011 to 31 December 2011

On 4 February 2011, 21,056 B shares of 1p each were converted into 21,056 ordinary shares of 1p each.

On 28 April 2011, 42,112 B shares of 1p each were converted into 42,112 ordinary shares of 1p each.

On 23 November 2011, 224,161 B shares of 1p each were converted into 224,161 ordinary shares of 1p each.

1 January 2012 to 31 December 2012

On 13 January 2012, 179,852 B shares of 1p each were converted into 179,852 ordinary shares of 1p each.

On 1 November 2012, 700,000 B shares of 1p each were converted into 700,000 ordinary shares of 1p each.

On 18 December 2012, 608,523 B shares of 1p each were converted into 608,523 ordinary shares of 1p each.

On 2 November 2012, the Company purchased in the market 6,800,000 ordinary shares of 1p at 70p each. These shares were cancelled by the Company.

On 12 December 2012, the Company purchased in the market 2,133,211 ordinary shares of 1p at 70p each. These shares were cancelled by the Company.

The ordinary shares are admitted to trading on AIM. The B shares are not admitted to trading on AIM. The B shares were issued on a partly-paid basis to certain employees prior to the Company's admission and trading on AIM in October 2006. Holders of the B shares are required to pay a further amount (the "required premium") which was specified at the time of allotment of the B shares. Upon payment of the required premium the B shares convert automatically into ordinary shares and are admitted to trading on AIM. All shares have equal voting rights.

22. Own shares

During 2009, the Company established an employee benefit trust, EBT. It is funded by the Company and has the power to acquire Cenkos Securities plc shares. During the year 1,259,974 (2011: 65,000) ordinary shares of 1p each were purchased. As at 31 December 2012 EBT held 2,843,724 (2011: 1,538,750) ordinary shares of 1p each in the Company with a market value of £2,033,263 (2011: £1,013,600).

| | 2012 | | 2011 | |
|--------------------------|-----------------------------|-------------------------|-----------------------------|-------------------------|
| | Number of shares | Cost £ 000's | Number of shares | Cost £ 000's |
| At 1 January | 1,583,750 | 2,190 | 1,518,750 | 2,147 |
| Acquired during the year | 1,259,974 | 755 | 65,000 | 43 |
| At 31 December | 2,843,724 | 2,945 | 1,583,750 | 2,190 |

23. Operating lease arrangement**The Group as lessee**

At the date of the statement of financial position, the Group and Company had outstanding annual commitments for future minimum lease payments under non-cancellable operating leases in relation to land and buildings, which fall due as follows:

| | Group | | Company | |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2012 £ 000's | 2011 £ 000's | 2012 £ 000's | 2011 £ 000's |
| Within one year | 521 | 611 | 521 | 481 |
| In the second to fifth years inclusive | 649 | 1,613 | 649 | 1,001 |
| After five years | 121 | 519 | 121 | – |

Notes to the financial statements continued

Operating lease payments represent rentals payable by the Group and Company for office properties. They are negotiated for an average term of ten years and rentals are fixed for an average of two and a half years.

24. Share-based payments

Equity-settled share option scheme

The Company had a pre-IPO share option scheme and has a Company Share Option Plan ("CSOP"), a long-term incentive plan ("LTIP") and a Compensatory Award Plan 2009 for all employees.

Pre-IPO share option scheme

Under the pre-IPO share scheme options were exercisable at a price agreed in accordance with the rules of the scheme on the date of grant. The vesting period for the options was from the publication of the Company's Annual Report and Accounts for the financial period ended 31 December 2008. As the option remained unexercised after a period of 5 years from the date of grant (23 October 2011), the options expired.

CSOP

The Company Share Option Plan is a HMRC approved share option plan. It allows participants to take part in an option scheme that allows the participant to acquire options with a favourable tax treatment. No options have been issued under the CSOP.

LTIP

The Company has established a Long Term Incentive Plan. The measurement period in respect of a performance condition is 36 months after the grant date and the vesting period is a further 6 months after this date. If a call has not been made in respect of the vested options within this period then the options will lapse. Where a holder ceases to hold office or employment within the Group (whether or not vested), the option will lapse.

Compensatory Award Plan 2009

Options are exercisable at a price agreed in accordance with the rules of the scheme on the date of grant and vest immediately. If the option remains unexercised after a period of 10 years from the date of grant, the options will expire. If the option holder ceases to be an employee or office holder within the Group before the options vest, the options will lapse on the date of such cessation.

Details of the share options outstanding during the year are as follows:

| | 2012 | | 2011 | |
|---|--------------------------------|---|--------------------------------|---|
| | Number of shares options | Weighted average exercise price (in £) | Number of shares options | Weighted average exercise price (in £) |
| Outstanding at beginning of year | 14,052,620 | 1.21 | 17,354,629 | 1.24 |
| Granted during the year | 6,425,000 | 0.99 | 150,000 | 0.95 |
| Exercised during the year | – | – | – | – |
| Lapsed during the year | (1,854,578) | | (3,452,009) | |
| Outstanding and exercisable at the end of the year | 18,623,042 | 1.14 | 14,052,620 | 1.21 |

| | Date of grant | Vesting date | Date of Expiry | Remaining contractual life, months | 2012 Number of shares options | 2011 Number of shares options |
|---|----------------------|---------------------|-----------------------|---|--|--|
| Options exercisable at £0.71 per share | Mar-09 | Mar-12 | Sep-12 | – | – | 500,000 |
| Options exercisable at £1.00 per share | Mar-09 | Mar-12 | Sep-12 | – | – | 275,000 |
| Options exercisable at £1.01 per share | Mar-09 | Mar-12 | Sep-12 | – | – | 250,000 |
| Options exercisable at £1.15 per share | Jul-09 | Jul-09 | Jul-19 | 79 | 9,194,292 | 9,378,870 |
| Options exercisable at £1.38 per share | Oct-09 | Oct-12 | Jan-13 | – | – | 250,000 |
| Options exercisable at £1.43 per share | Oct-09 | Oct-12 | Jan-13 | – | – | 170,000 |
| Options exercisable at £1.69 per share | Oct-09 | Oct-09 | Oct-19 | 82 | 1,428,750 | 1,428,750 |
| Options exercisable at £1.70 per share | Oct-09 | Oct-12 | Jan-13 | – | – | 125,000 |
| Options exercisable at £1.24 per share | Mar-10 | Mar-13 | Sep-13 | 9 | 275,000 | 275,000 |
| Options exercisable at £1.28 per share | Mar-10 | Mar-13 | Sep-13 | 9 | 725,000 | 825,000 |
| Options exercisable at £1.44 per share | Mar-10 | Mar-13 | Sep-13 | 9 | 250,000 | 250,000 |
| Options exercisable at £1.03 per share | Nov-10 | Nov-13 | May-14 | 17 | 175,000 | 175,000 |
| Options exercisable at £0.95 per share | Mar-11 | Mar-14 | Sep-14 | 22 | 150,000 | 150,000 |
| Options exercisable at £1.00 per share | Mar-12 | Mar-12 | Mar-22 | 111 | 1,500,000 | – |
| Options exercisable at £0.95 per share | Mar-12 | Mar-15 | Sep-15 | 33 | 1,425,000 | – |
| Options exercisable at £1.00 per share | Mar-12 | Mar-15 | Sep-15 | 33 | 3,500,000 | – |
| Options exercisable at the end of 31 December | | | | | <u>18,623,042</u> | <u>14,052,620</u> |

The options outstanding at 31 December 2012 have a weighted average exercise price of £1.14 (2011: £1.21) and a weighted average remaining contractual life of 5 years (2011: 6 years). At the date of grant, they had an average estimated fair value of £5,055,102 (2011: £4,999,667).

The inputs into the Monte Carlo simulation model are as follows:

| | 2012 | 2011 |
|-----------------------------|-------------|-------------|
| Expected volatility | 40% | 30% |
| Risk free rate of return | 6% | – |
| Expected share price growth | 6% | 5% |
| Discount rate | 6% | 25% |

Expected volatility was based on the 20-day moving average of the Cenkos Securities plc share price over the period from flotation. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions and behavioural considerations.

During the year the Group recognised expenses of £335,333 (2011: £195,939) related to equity-settled share-based payment transactions with regard to the issue of share options and other share-based payment expenses of £nil (2011: £63,375) of other share based payment expenses relating to the distribution of shares in CCIL to employees of the Cenkos Channel Islands Group by the Cenkos Channel Islands Employee Benefit Trust.

Notes to the financial statements continued

25. Financial risk management

Capital risk management

The Group manages capital to ensure that entities in the Group will be able to continue as a going concern while aiming to maximise the return to stakeholders. The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the Consolidated Statement of Changes in Equity. At present the Group has no gearing and it is the responsibility of the Board to review the Group's gearing levels on an on-going basis. As at 31 December 2012 Cenkos Securities plc had a solvency ratio of 198% (2011: 227%).

Externally imposed capital requirement

The Group has to retain sufficient capital to satisfy the UK Financial Services Authority's ("FSA") capital requirements. These requirements vary from time to time depending on the business conducted by the Group. The Group always retains a buffer above the FSA minimum requirements and has complied with these requirements during and subsequent to the period under review.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

Categories of financial instruments

| | Carrying value | |
|---|-----------------------|----------------|
| | 2012 | 2011 |
| | £ 000's | £ 000's |
| Available-for-sale investments | 1,000 | – |
| Financial assets at fair value through profit or loss (FVTPL) | | |
| Trading investments carried at fair value | 9,060 | 9,952 |
| Derivative financial assets | 726 | 103 |
| Held-to-maturity investments carried at amortised cost | – | 208 |
| Financial liabilities at fair value through profit or loss (FVTPL) | | |
| Trading investments carried at fair value | 2,848 | 2,539 |
| Financial liabilities held at amortised cost | | |
| Amortised cost | 24,336 | 23,518 |

Financial risk management objectives

The Chief Executive Officer monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including price risk), credit risk and liquidity risk. Summaries of these reports are reviewed by the Board.

Compliance with policies and exposure limits is reviewed by the Chief Executive Officer and senior management on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Interest rate risk management

The Group is exposed to interest rate risk because entities within the Group have financial instruments on their statement of financial position which are at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate instruments.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity and interest rate risk table section of this note.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date. For floating rate assets, the analysis is prepared based on the average rate due on the asset or liability through the year. A 10 basis point increase or decrease is used when reporting interest rate risk internally to senior management and represents management's assessment of reasonably possible changes in interest rates.

If interest rates had been 10 basis points higher/lower and all other variables were held constant, the Group's:

- profit for the year ended 31 December 2012 would increase/decrease by £0.01 million (2011: increase/decrease by £0.01 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate instruments; and
- other comprehensive income would increase/decrease by £0.01 million (2011: increase/decrease by £0.01 million)

Equity price risks

The Group is exposed to equity price risks arising from equity investments. The financial instruments represent investments in equity securities that present the Group with opportunity for return through dividend income and trading gains. There are limits set for each financial instrument to limit the concentration of risks.

Equity price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date and, in the opinion of senior management, a material movement in equity prices. This is based on the largest fall in the All Share AIM index in one day and over a two week period. These parameters are also considered in the Group's Individual Liquidity Adequacy Assessment (ILAA). If equity prices had been 10% higher/lower:

- net profit for the year ended 31 December 2012 would have been £0.69 million higher/lower (2011: £0.76 higher/lower) due to change in the value of FVTPL held for trading investments.

The Group's exposure to equity price risk is closely managed. The Group has built a framework of overall and individual stock limits and these are actively monitored by the Chief Executive Officer and senior management on a daily basis. This framework also limits the concentration of risks. The Group's overall exposure to equity price risk is set by the Board.

Foreign currency risk

The Group does not have any material dealings in foreign currency, as the majority of transactions are in UK based equities and hence denominated in sterling.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. These parties may default on their obligations due to the bankruptcy, lack of liquidity, operational failure and other reasons. The exposure of the Group to its counterparties is closely monitored and limits are set to minimise the concentration of risks, ensuring this does not exceed 25% of the Company's regulatory capital.

The vast majority of the Group's credit risk arises from the settlement of security transactions. However, the settlement model primarily used by the Group does not expose it to a risk as a principal to a trade. Rather, the Group's exposure lies solely with Pershing Securities Limited ("Pershing"), a wholly owned subsidiary of the Bank of New York Mellon Corporation, an AA- (2011: AA) rated bank. In addition, in circumstances in which the Group does act as principal, when acting as a market maker, the counterparty will normally be an FSA regulated market counterparty, rather than a corporate or individual trader.

Notes to the financial statements continued

25. Financial risk management (continued)

Cash resources also give rise to potential credit risk. The Group's cash balances are held with HSBC Bank plc ("HSBC"), Royal Bank of Scotland plc and Barclays Bank plc. The banks with which the Group deposits money are reviewed on an annual basis by the Board and are required to have at least an investment grade credit rating. To limit the concentration risk in relation to cash deposits, the maximum amount which may be deposited with any one financial institution is set at no more than 100% of the Company's regulatory capital.

Trade receivables not related to the settlement of market transactions consist almost entirely of outstanding corporate finance fees and retainers and are spread across a wide range of industries. All new corporate finance clients are subject to a review by the New Business Committee. This Committee considers, amongst other issues, the financial soundness of any client taken on.

In 2006, the Company issued various tranches of partly paid B shares to a number of employees serving with the Company at that time. The carrying value of the unpaid portion is included in financial assets and is currently due to be repaid on 1 July 2013. As at 31 December 2012 these had a carrying value of between 84p and 103p per share, whilst the mid-market share price of the Company was 71.5p. The recoverability of these amounts is reviewed on a monthly basis. These shares are capable of converting into the Company's ordinary shares and as a result they have a positive intrinsic value if the market price of the Company's shares is greater than the value at which they were issued. The Company has a legally enforceable contract with each individual who holds these partly paid B shares. Under the terms of this, the partly paid B shares are held as collateralised security against the loan. As at 31 December 2012 the net unsecured amount was £0.8 million, which, due to an increase in Cenkos' share price, had fallen to £0.5 million by 2 April 2013.

The Group does not have any significant credit risk exposure to any single counterparty with the exception of Pershing (a wholly owned subsidiary of the Bank of New York Mellon Corporation, a AA- rated bank) HSBC (an AA- rated bank), Royal Bank of Scotland plc (an A rated bank) and Barclays Bank plc (an A rated bank).

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Exposure to Credit Risk

| | | Group | | Company | |
|---|------------------|---------|---------|---------|---------|
| | | 2012 | 2011 | 2012 | 2011 |
| | | £ 000's | £ 000's | £ 000's | £ 000's |
| Derivative financial assets | Uncollateralised | 726 | 103 | 726 | 103 |
| Market and client receivables | Uncollateralised | 10,787 | 18,845 | 10,787 | 14,680 |
| Amounts owed by Group undertakings | Uncollateralised | – | – | 1,991 | 2,152 |
| Unpaid share capital and loans due from staff | Collateralised | 1,919 | 2,670 | 1,919 | 2,670 |
| Unpaid share capital and loans due from staff | Uncollateralised | 698 | 1,169 | 698 | 1,169 |
| Prepayments and accrued income | Uncollateralised | 1,360 | 2,340 | 1,360 | 1,665 |
| Other receivables | Uncollateralised | 770 | 615 | 770 | 607 |
| Cash and cash equivalents | Uncollateralised | 22,271 | 14,010 | 22,271 | 11,088 |
| | | 38,531 | 39,752 | 40,522 | 34,134 |

Credit rating table

| | | Group | | Company | |
|---|------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | | 2012 £ 000's | 2011 £ 000's | 2012 £ 000's | 2011 £ 000's |
| Derivative financial assets | Unrated | 726 | 103 | 726 | 103 |
| Market and client receivables | Unrated | 6,097 | 9,256 | 6,097 | 5,526 |
| Market and client receivables | Fitch rating AA- | 3,769 | 7,671 | 3,769 | 7,236 |
| Market and client receivables | Fitch rating A+ | – | 1,918 | – | 1,918 |
| Market and client receivables | Fitch rating A | 328 | – | 328 | – |
| Market and client receivables | S&P rating BBB | 593 | – | 593 | – |
| Amounts owed by Group undertakings | Unrated | – | – | 1,991 | 2,152 |
| Unpaid share capital and loans due from staff | Unrated | 2,617 | 3,839 | 2,617 | 3,839 |
| Prepayments and accrued income | Unrated | 1,360 | 2,340 | 1,360 | 1,665 |
| Other receivables | Unrated | 770 | 615 | 770 | 607 |
| Cash and cash equivalents | Fitch rating AA- | 15,162 | 5,087 | 15,162 | 5,087 |
| Cash and cash equivalents | Fitch rating A | 7,109 | 8,923 | 7,109 | 6,001 |
| | | 38,531 | 39,752 | 40,522 | 34,134 |

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board. It has, however, delegated day-to-day management to the Chief Executive Officer. The Group has in place an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 17 is a description of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk. Given the nature of the Group's business, the Group does not run any material liquidity mismatches, financial liabilities are on the whole short-term and the Group has sufficient liquid assets to cover all of these liabilities.

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group is required to pay. The tables include both interest and principal cash flows. The tables also detail the Group's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets.

Notes to the financial statements continued

25. Financial risk management (continued)

| | | Weighted average effective interest rates | Less than | Less than | 1-5 years £ 000's | Total £ 000's |
|-------------------------------------|------------------------------------|--|--------------------|-------------------|----------------------|------------------|
| | | | 1 month £ 000's | 1 year £ 000's | | |
| 31 December 2012 | | | | | | |
| Available-for-sale financial assets | Non-interest bearing | | 1,000 | | | 1,000 |
| Financial assets at FVTPL | Non-interest bearing | | 9,428 | 358 | – | 9,786 |
| Trade and other receivables | Fixed interest rate instruments | 5.00% | – | 2,617 | – | 2,617 |
| Trade and other receivables | Non-interest bearing | | 12,917 | – | – | 12,917 |
| Financial liabilities at FVTPL | Non-interest bearing | | (2,848) | – | – | (2,848) |
| Trade and other payables | Non-interest bearing | | (24,336) | – | – | (24,336) |
| Cash and cash equivalents | Variable interest rate instruments | 1.00% | 2,600 | – | – | 2,600 |
| Cash and cash equivalents | Variable interest rate instruments | 0.30% | 4,500 | – | – | 4,500 |
| Cash and cash equivalents | Variable interest rate instruments | 0.25% | 15,171 | – | – | 15,171 |
| | | | 17,432 | 2,975 | – | 20,407 |
| 31 December 2011 | | | | | | |
| Trade and other receivables | Fixed interest rate instruments | 5.00% | – | – | 3,839 | 3,839 |
| Held to maturity investments | Fixed interest rate instruments | 12.00% | – | 208 | – | 208 |
| Financial assets at FVTPL | Non-interest bearing | | 9,952 | – | 103 | 10,055 |
| Trade and other receivables | Non-interest bearing | | 21,800 | – | – | 21,800 |
| Cash and cash equivalents | Fixed interest rate instruments | 2.10% | 3,000 | – | – | 3,000 |
| Cash and cash equivalents | Fixed interest rate instruments | 1.40% | 3,000 | – | – | 3,000 |
| Cash and cash equivalents | Variable interest rate instruments | 0.25% | 8,010 | – | – | 8,010 |
| Financial liabilities at FVTPL | Non-interest bearing | | (2,539) | – | – | (2,539) |
| Trade and other payables | Non-interest bearing | | (23,518) | – | – | (23,518) |
| | | | 19,705 | 208 | 103 | 20,016 |

Except as detailed below, the carrying amounts of financial assets recorded at amortised cost in the financial statements approximate their fair values.

| | Carrying value | | Fair value | |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2012 £ 000's | 2011 £ 000's | 2012 £ 000's | 2011 £ 000's |
| Non-current assets: | | | | |
| Loans and receivables | – | 3,839 | – | 3,929 |
| Other non-current assets | 822 | 1,230 | 822 | 1,230 |
| | 822 | 5,069 | 822 | 5,159 |
| Available-for-sale investments | 1,000 | – | 1,000 | – |
| Financial assets at FVTPL | 9,786 | 10,055 | 9,786 | 10,055 |
| Held-to-maturity investments | – | 208 | – | 208 |
| Loans and receivables | 2,617 | – | 2,643 | – |
| Trade and other receivables | 12,917 | 21,800 | 12,917 | 21,800 |
| Cash and cash equivalents | 22,271 | 14,010 | 22,271 | 14,010 |
| | 48,591 | 46,073 | 48,617 | 46,073 |
| Financial liabilities at FVTPL | (2,848) | (2,539) | (2,848) | (2,539) |
| Trade and other payables | (24,336) | (23,518) | (24,336) | (23,518) |
| | (27,184) | (26,057) | (27,184) | (26,057) |

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 – fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | 2012 | | | Total £ 000's |
|---|--------------------|--------------------|--------------------|------------------|
| | Level 1 £ 000's | Level 2 £ 000's | Level 3 £ 000's | |
| Available-for-sale financial assets | – | – | 1,000 | 1,000 |
| Financial assets at FVTPL | | | | |
| Derivative financial assets | – | – | 726 | 726 |
| Non-derivative financial assets held for trading | 9,060 | – | – | 9,060 |
| | 9,060 | – | 726 | 9,786 |
| Total | 9,060 | – | 1,726 | 10,786 |
| Financial liabilities at FVTPL | | | | |
| Non-derivative financial liabilities held for trading | 2,848 | – | – | 2,848 |

Notes to the financial statements continued

25. Financial risk management (continued)

| | Level 1 £ 000's | Level 2 £ 000's | Level 3 £ 000's | 2011 Total £ 000's |
|---|--------------------|--------------------|--------------------|--------------------------|
| Financial assets at FVTPL | | | | |
| Derivative financial assets | – | – | 103 | 103 |
| Non-derivative financial assets held for trading | 9,952 | – | – | 9,952 |
| | 9,952 | – | 103 | 10,055 |
| Held-to-maturity investments | 208 | – | – | 208 |
| | 10,160 | – | 103 | 10,263 |
| Financial liabilities at FVTPL | | | | |
| Non-derivative financial liabilities held for trading | 2,539 | – | – | 2,539 |

There were no transfers between Level 1, 2 and 3 during the year.

Prior year comparatives have been amended to conform with the presentation in the current period.

Reconciliation of fair value measurements of Level 3 financial instruments

| | 2012 | | | 2011 | | |
|---|--------------------------------|---------------------------------------|------------------|--------------------------------|---------------------------------------|------------------|
| | Unlisted securities £ 000's | Share options and warrants £ 000's | Total £ 000's | Unlisted securities £ 000's | Share options and warrants £ 000's | Total £ 000's |
| 1 January | – | 103 | 103 | – | 443 | 443 |
| Unquoted equity shares acquired | 1,000 | – | 1,000 | – | – | – |
| Share options and warrants granted | – | 576 | 576 | – | 107 | 107 |
| Gains and losses recognised in income statement | – | 47 | 47 | – | (447) | (447) |
| | 1,000 | 726 | 1,726 | – | 103 | 103 |

Level 3 financial instruments consist of derivative financial assets and unlisted shares received in lieu of fees.

The unlisted equity shares are carried as available-for-sale financial assets, classified as Level 3 within the fair value hierarchy and are valued based on the prices paid by other participants to the transaction, when the shares were acquired. Due to the proximity of the transaction date to the year end and there being no other factors coming to the Board's attention, no impairment in value is considered to have taken place by the year end.

The derivative financial assets are carried as financial assets at FVTPL classified as Level 3 within the fair value hierarchy and comprise equity options and warrants over listed securities. See notes 1 and 2 (b) for an explanation of how they have been treated in these financial statements.

Impact of reasonably possible alternative assumptions

A sensitivity analysis based on a 10% increase/decrease in the volatility measure used as an input in the valuation of the share options and warrants shows the impact of such a movement would be to increase by £86,283 / decrease by £107,602 respectively the profit in the income statement.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial instruments measured at fair value on an on-going basis include trading assets and liabilities and financial investments classified as available-for-sale.

Determination of fair value

Fair values are determined according to the following hierarchy:

(a) Quoted market price

Financial instruments with quoted prices for identical instruments in active markets.

(b) Valuation technique using observable inputs

Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

(c) Valuation technique with significant non-observable inputs

Financial instruments valued using models where one or more significant inputs are not observable. The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are not observable. For these instruments, the fair value derived is more judgemental. 'Not observable' in this context means that there are few or no current market data available from which to determine the level at which an arm's length transaction would be likely to occur. It generally does not mean that there is absolutely no market data available upon which to base a determination of fair value (historical data may, for example, be used). Furthermore, the assessment of hierarchy level is based on the lowest level of input that is significant to the fair value of the financial instrument.

The valuation models used where quoted market prices are not available incorporate certain assumptions that Cenkos anticipates would be used by a third party market participant to establish fair value.

26. Related party transactions

Transactions with related parties are made at arm's length. Transactions or balances between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and, in accordance with IAS 24, are not disclosed in this note. There have been some changes to related parties during the year to 31 December 2012. A number of these related parties were appointed to the Board of Cenkos in June 2012. The Board now includes all employees considered to be key management personnel.

The compensation of the key management personnel of the Company (including the Directors) and their interests in the shares and options over the shares of Cenkos Securities plc were as follows:

| | 1 January 2012 to 31 December 2012 | 1 January 2011 to 31 December 2011 |
|----------------------|---|---|
| | £ 000's | £ 000's |
| Aggregate emoluments | 3,379 | 5,904 |

The fall in aggregate emoluments between 2011 and 2012 reflects timing differences associated with performance related pay. There were no Directors who were members of any Company pension scheme as at the period end (2011: none).

Notes to the financial statements continued

26. Related party transactions (continued)

Related party interests in ordinary and B shares of Cenkos Securities plc

| | 31 December 2012 No. | 31 December 2011 No. |
|---------------------|-------------------------|-------------------------|
| Number of shares | 14,466,430 | 14,679,362 |
| Percentage interest | 23% | 20% |

Related party interests in share options

| | <u>1 January 2012 to 31 December 2012</u> | | <u>1 January 2011 to 31 December 2011</u> | |
|--|---|---------------------------------------|---|---------------------------------------|
| | Number | Weighted average exercise price | Number | Weighted average exercise price |
| Outstanding at beginning of the year | 2,793,828 | 1.18 | 4,220,874 | 1.33 |
| Adjustment arising from the reclassification of related parties | (2,615,118) | 1.15 | – | – |
| Issued during the year | 1,000,000 | 1.00 | – | – |
| Granted/(lapsed) during the year | – | – | (1,427,046) | 1.61 |
| Outstanding at the end of the year | <u>1,178,710</u> | 1.11 | <u>2,793,828</u> | 1.18 |

Among the Group's transactions with key management personnel was a loan to Jeremy Warner Allen, a Director of Cenkos Securities plc. As at 31 December 2012 this loan had a carrying value of £227,780 and related to the premium due on B shares in the Company (2011: £501,135). The premium due is to be repaid in July 2013 and amounts to £233,406 (2011: £539,203). The loan was made in accordance with the terms and conditions of the issue of the B shares which were allotted to a number of senior employees in 2006 and only the nominal value was paid on the allotment of these shares. The Company has been treated as having made a loan to Jeremy Warner Allen of an amount equal to the outstanding premium to be paid (the "Notional Loan"). As the Notional Loan to Jeremy Warner Allen is free of interest, it is considered to be a taxable benefit in kind. Due to repayments made in the year, the balance of this Notional Loan as at 31 December 2012 was £227,780 (2011: £501,135). There were no other outstanding balances or bad debt provisions for any related party balances as at 31 December 2012, and no related party balances have been written off during the period (2011: nil).

27. Contingent liabilities

As noted in the Group's 2011 Financial Statements, certain underlying clients of CCIL had exposure to MF Global UK Limited when that company entered the Special Administration Regime on 31 October 2011. These exposures were subsequently settled in August 2012 with no material financial impact on CCIL or Cenkos.

28. Events after the reporting period

On 29 January 2013, the Company purchased in the market 215,837 ordinary shares of 1p at 75p each. These shares were cancelled by the Company.

There have been no other events subsequent to the year end which have had a material impact on the estimates, provisions or other balances in these financial statements.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Cenkos Securities plc (the 'Company') will be held at 6.7.8 Tokenhouse Yard, London EC2R 7AS on 10 May 2013 at 12.00 noon (the 'Meeting') for the transaction of the following business:

To consider and, if thought fit, to pass the following Resolutions, each of which will be proposed as an ordinary resolution, save for Resolutions 15, 16 and 17, which will be proposed as special resolutions:

1. **That** the Company's Annual Accounts for the year ended 31 December 2012, together with the Directors' Report and the Auditors' Report on those accounts, be received.
2. **That** the Company's Directors' Remuneration Report for the year ended 31 December 2012 be received.
3. **That** the final dividend recommended by the Directors of 4 pence per share for the year ended 31 December 2012 be declared payable on 14 May 2013 to shareholders registered at the close of business on 19 April 2013.
4. **That** Gerry Aherne be re-elected as a Director of the Company.
5. **That** Jeff Hewitt be re-elected as a Director of the Company.
6. **That** Jim Durkin be re-elected as a Director of the Company.
7. **That** Dr. Anthony Hotson, who has been appointed as a Director of the Company since the last Annual General Meeting, be elected as a Director of the Company.
8. **That** Mike Chilton, who has been appointed as a Director of the Company since the last Annual General Meeting, be elected as a Director of the Company.
9. **That** Paul Hodges, who has been appointed as a Director of the Company since the last Annual General Meeting, be elected as a Director of the Company.
10. **That** Joe Nally, who has been appointed as a Director of the Company since the last Annual General Meeting, be elected as a Director of the Company.
11. **That** Jeremy Warner Allen, who has been appointed as a Director of the Company since the last Annual General Meeting, be elected as a Director of the Company.
12. **That** Ernst & Young LLP be re-appointed as auditors to the Company until the conclusion of the next Annual General Meeting of the Company.
13. **That** the Directors be authorised to fix the auditors' remuneration.
14. **That** for the purposes of Section 551 of the Companies Act 2006 (the 'Act') (and so that expressions used in this Resolution shall bear the same meanings as in the said Section 551):
 - 14.1. the Directors be and are generally and unconditionally authorised to exercise all powers of the Company to allot shares and grant such subscriptions and conversion rights as are contemplated by Sections 551(1)(a) and (b) of the Act respectively up to a maximum nominal amount of £209,953.00 to such persons and at such times and on such terms as they think proper during the period expiring at the conclusion of the Annual General Meeting of the Company to be held in 2014 (unless previously revoked or varied by the Company in general meeting); and further
 - 14.2. the Directors be and are generally and unconditionally authorised to exercise all powers of the Company to allot equity securities (as defined in Section 560 of the Act) in connection with a rights issue in favour of the holders of equity securities and any other persons entitled to participate in such issue where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective number of equity securities held by them up to an aggregate nominal amount of £209,953.00 during the period expiring at the conclusion of the Annual General Meeting of the Company to be held in 2014 subject only to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws or requirements of any recognised regulatory body or stock exchange in any territory; and

Notice of Annual General Meeting continued

14.3. the Company be and is hereby authorised to make, prior to the expiry of such period, any offer or agreement that would or might require such shares or rights to be allotted or granted after the expiry of the said period and the Directors may allot such shares or grant such rights in pursuance of any such offer or agreement notwithstanding the expiry of the authority given by this Resolution,

so that all previous authorities of the Directors pursuant to the said Section 551 be and are hereby revoked.

15. That, subject to the passing of Resolution 14 set out in the Notice convening the Meeting, the Directors be and are empowered in accordance with Section 570 of the Act to allot equity securities (as defined in Section 560 of the Act) for cash, pursuant to the authority conferred on them to allot such shares or grant such rights by that Resolution, as if Section 561 (1) and sub-sections (1) - (6) of Section 562 of the Act did not apply to any such allotment, provided that the power conferred by this Resolution shall be limited to:

15.1. the allotment of equity securities in connection with an issue or offering in favour of holders of equity securities (but in the case of any authority granted under Resolution 14.2 by way of a rights issue only) and any other persons entitled to participate in such issue or offering where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective number of equity securities held by or deemed to be held by them on the record date of such allotment, subject only to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws or requirements of any recognised regulatory body or stock exchange in any territory; and

15.2. the allotment (otherwise than pursuant to sub-paragraph 15.1 above) of equity securities up to an aggregate nominal value not exceeding £31,811.06,

and this power shall, unless previously renewed, varied or revoked by the Company in general meeting, expire at the conclusion of the Annual General Meeting of the Company to be held in 2014, but shall extend to the making, before such expiry of an offer or agreement that would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the authority conferred had not expired.

16. That the Company be and is hereby generally and unconditionally authorised for the purpose of Section 701 of the Act to make market purchases (as defined in Section 693 of the Act) of ordinary shares of 1 penny each in the capital of the Company ('ordinary shares') provided that:

16.1. the maximum number of ordinary shares hereby authorised to be purchased is 6,037,800 (representing approximately 9.9% of the Company's issued ordinary shares at the date of this Resolution);

16.2. the minimum price (exclusive of expenses) that may be paid for such ordinary shares is 1 penny per ordinary share, being the nominal amount thereof;

16.3. the maximum price (exclusive of expenses) that may be paid for such ordinary shares shall be an amount equal to the higher of (i) 5% above the average of the middle market quotations for such shares taken from the AIM appendix to The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the purchase is made and (ii) the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the trading venue where the purchase is carried out;

16.4. the authority hereby conferred shall (unless previously renewed or revoked) expire on the earlier of the end of the next Annual General Meeting of the Company and the date which is 18 months after the date on which this Resolution is passed; and

16.5. the Company may make a contract to purchase its own ordinary shares under the authority conferred by this Resolution prior to the expiry of such authority, and such contract will or may be executed wholly or partly after the expiry of such authority, and the Company may make a purchase of its own ordinary shares in pursuance of any such contract.

- 17. That** the Articles of Association produced to the Meeting and initialled by the chairman of the Meeting for the purpose of identification only be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association with effect from the end of the Meeting.

By order of the Board

Stephen Doherty

Company Secretary

5 April 2013

Registered office:

6.7.8 Tokenhouse Yard

London

EC2R 7AS

Notice of Annual General Meeting continued

Notes

1. A member entitled to attend and vote at the Meeting convened by the above Notice is entitled to appoint one or more proxies to exercise all or any of the rights of the member to attend and speak and vote in his/her place. A proxy need not be a member or the Company.
2. A member may appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member.
3. To appoint a proxy you may use the Form of Proxy enclosed with this Notice. To be valid, the Form of Proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified or office copy of the same, must be deposited by 12.00 noon on 8 May 2013 (being not less than 48 hours before the Meeting) at the offices of the Company's registrars, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Completion of the Form of Proxy will not prevent you from attending and voting in person.
4. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the Meeting and any adjournment(s) thereof by utilising the procedures described in the CREST manual. CREST personal members or other CREST sponsored members and those CREST members who have appointed (a) voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
5. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK and Ireland's specifications and must contain the information required for such instructions, as described in the CREST manual. The message must be transmitted so as to be received by the issuer's agent (ID RA10), by the latest time for receipt of proxy appointments specified in this Notice. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK and Ireland does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed (a) voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) of the Uncertificated Securities Regulations 2001 (as amended).

Appointment of a proxy through CREST will not prevent a member from attending and voting in person.

6. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), only shareholders registered in the register of members of the Company as at 6.00pm on 8 May 2013 shall be entitled to attend and vote at the Meeting in respect of the number of shares registered in their name at such time. If the Meeting is adjourned, the time by which a person must be entered on the register of members of the Company in order to have the right to attend and vote at the adjourned Meeting is 6.00pm on the day preceding the date fixed for the adjourned Meeting. Changes to the register of members after the relevant times shall be disregarded in determining the rights of any person to attend and vote at the Meeting.
7. In the case of joint holders, the vote of the senior holder who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.
8. Copies of the existing Articles of Association and proposed new Articles of Association, together with a document comparison, are available for inspection at the registered office of the Company, 6.7.8 Tokenhouse Yard, London, EC2R 7AS, during usual business hours on any weekday (Saturdays, Sundays and public holidays excluded) from the date of this Notice until the conclusion of the Annual General Meeting.
9. As at 4 April 2013 (being the last business day prior to publication of the Notice), the Company's issued share capital consists of 60,987,880 ordinary shares and 2,634,242 B shares, carrying one vote each. Therefore, the total voting rights in the Company as at 5 April 2013 are 63,622,122.

Explanatory notes to the notice of Annual General Meeting

Resolution 1 - Company's Annual Report and Accounts 2012 (ordinary resolution)

Company law requires the Directors to present to the Annual General Meeting the Annual Accounts, the Directors' Report and the Auditors' Report on those accounts.

Resolution 2 - Company's Directors' remuneration report (ordinary resolution)

Whilst the Company is not obliged to comply with the Directors' Remuneration Report Regulations 2002, the Directors have agreed to produce a report in the spirit of those Regulations and to disclose information relating to the current Directors. The Remuneration Committee considers that in the interests of good corporate governance, the Company should present the Directors' Remuneration Report for the year ended 31 December 2012 to the Annual General Meeting.

Resolution 3 - Final dividend (ordinary resolution)

The payment of a final dividend of 4 pence per share in respect of the year ended 31 December 2012, which is recommended by the Board, requires the approval of the shareholders at the Annual General Meeting.

Resolutions 4, 5 and 6 - Re-election of Directors (ordinary resolutions)

In accordance with recommended best practice the Company has agreed that all serving Directors should submit themselves for re-election each year. At the Annual General Meeting, Gerry Aherne, Jeff Hewitt, and Jim Durkin will retire and submit themselves for re-election. Resolutions 4, 5 and 6 propose their respective re-elections. The proposed changes to the Company's Articles of Association (further details of which are set out below) include changes to require the annual re-election of each Director of the Company at future Annual General Meetings.

Resolutions 7, 8, 9, 10 and 11 - Election of Directors (ordinary resolutions)

The Articles require that each of Dr. Anthony Hotson, Mike Chilton, Paul Hodges, Joe Nally and Jeremy Warner Allen retires at the conclusion of the Annual General Meeting because they have been appointed, in accordance with the Articles, as a Director by the Board of Directors since the conclusion of the previous Annual General Meeting of the Company. Resolutions 7, 8, 9, 10 and 11 propose their respective elections as Directors.

Resolutions 12 and 13 - Re-appointment of auditors and determination of their remuneration (ordinary resolutions)

The Company is required to appoint auditors at each Annual General Meeting at which accounts are presented, to hold office until the conclusion of the next such meeting. The Audit Committee has reviewed the effectiveness, independence and objectivity of the external auditors, Ernst & Young LLP, on behalf of the Board, who now propose their re-appointment as the auditors of the Company. Resolution 13 authorises the Directors, in accordance with standard practice, to negotiate and agree the remuneration of the auditors. In practice, the Audit Committee will consider the audit fees for recommendation to the Board.

Resolution 14 - Authority to allot shares (ordinary resolution)

Resolution 14 asks shareholders to grant the Directors authority under Section 551 of the Act to allot shares or grant subscription or conversion rights as are contemplated by Section 551 (a) and (b) of the Act respectively up to a maximum aggregate nominal value of £419,906.00 being approximately 66% of the nominal value of the issued share capital of the Company as at 5 April 2013 (being the latest practical date prior to the publication of the Annual Report and Accounts), including the 2,634,242 B shares of 1 penny each in the capital of the Company (the 'B Shares') which were then in issue. £209,953.00 of this authority is reserved for a fully pre-emptive rights issue. This is the maximum permitted amount under best practice corporate governance guidelines. The authority will expire at the end of the Annual General Meeting of the Company in 2014. The Directors have no present intention of exercising such authority. The Resolution replaces a similar resolution passed the Annual General Meeting held in 2012.

Explanatory notes to the notice of Annual General Meeting continued

Resolution 15 - Disapplication of pre-emption rights (special resolution)

If the Directors wish to allot new shares or other equity securities for cash or sell any shares which the Company holds in treasury following a purchase of its own shares pursuant to the authority in Resolution 16 below (or otherwise), the Act requires that such shares or other equity securities are offered first to existing shareholders in proportion to their existing holding. Resolution 15 asks shareholders to grant the Directors authority to allot equity securities for cash up to an aggregate nominal value of £31,811.06 (being approximately 5% of the Company's issued share capital as at 5 April 2013) without first offering the securities to existing shareholders. The Resolution also disapplies the statutory pre-emption provisions in connection with a rights issue, but only in relation to the amount permitted under Resolutions 14.1 and/or 14.2, and allows the Directors, in the case of a rights issue, to make appropriate arrangements in relation to fractional entitlements or other legal or practical problems which might arise. The authority will expire at end of the Annual General Meeting of the Company in 2014. The Resolution replaces a similar resolution passed at the Annual General Meeting of the Company held in 2012.

Resolution 16 - Authority to purchase the Company's own ordinary shares (special resolution)

Resolution 16 to be proposed at the Annual General Meeting seeks authority from shareholders for the Company to make market purchases of its own ordinary shares, such authority being limited to the purchase of 9.9% of the ordinary shares of 1 penny each in issue as at 5 April 2013. The maximum price payable for the purchase by the Company of its own ordinary shares will be limited to the higher of 5% above the average of the middle market quotations of the Company's ordinary shares, as derived from AIM Appendix to the Daily Official List of the London Stock Exchange, for the five business days prior to the purchase and the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the trading venue where the purchase is carried out. The minimum price payable by the Company for the purchase of its own ordinary shares will be 1 penny per share (being the nominal value of an ordinary share). The authority to purchase the Company's own ordinary shares will only be exercised if the Directors consider there is likely to be a beneficial impact on the earnings per ordinary share and that it is in the best interests of the Company at the time. This Resolution renews a similar resolution passed at the General Meeting held on 4 December 2012. The Company is allowed to hold in treasury any shares purchased by it using its distributable profits. Such shares will remain in issue and capable of being re-sold by the Company or used in connection with certain of its share schemes. The Company would consider, at the relevant time, whether it was appropriate to take advantage of this ability to hold the purchased shares in treasury.

Options to subscribe for up to 17,373,042 ordinary shares have been granted and are outstanding as at 5 April 2013 (being the latest practicable date prior to publication of this document) representing 28.49% of the issued ordinary share capital at that date. If the Directors were to exercise in full the power for which they are seeking authority under Resolution 16, the options outstanding as at 5 April 2013 would represent 31.83% of the ordinary share capital in issue following such exercise.

Resolution 17 - Authority to adopt new Articles of Association (special resolution)

Resolution 17 to be proposed at the Annual General Meeting seeks authority from the shareholders for the Company to adopt new Articles of Association.

The principal proposed amendments to the Articles of Association are summarised below. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the Act, have not been noted.

1. Annual re-election of Directors

It is proposed that the Articles of Association be amended to include a provision that all Directors of the Company be subject to annual re-election. Such a provision would bring the Articles of Association of the Company into line with UK Corporate Governance Code recommendations for FTSE 350 companies (notwithstanding that such recommendations do not apply to the Company).

2. Laser seal

It is proposed that the Articles of Association be amended to allow the use of laser sealed or signed share certificates.

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Cenkos Securities plc

London
6.7.8 Tokenhouse Yard
London
EC2R 7AS
Telephone: 020 7397 8900
Fax: 020 7397 8901

Edinburgh
3rd Floor
66 Hanover Street
Edinburgh
EH2 1EL
Telephone: 0131 220 6939
Fax: 0131 220 2051

