Cenkos Securities plc
Annual Report 2010

Highlights

Financial highlights

- Revenues up by 31% to £60.3 million (2009: £46.2 million).
- Underlying operating profit up by 10% to £14.4 million (2009: £13.0 million).
- Statutory operating profit up by 25% to £7.0 million (2009: £5.6 million).
- Underlying profit before tax up by 5% to £14.5 million (2009: £13.8 million).
- Statutory profit before tax down by 5% to £7.1 million (2009: £7.5 million).
- Underlying basic earnings per share 13.2p (2009: 13.8p).
- Underlying diluted earnings per share 13.1p (2009: 13.8p).
- Statutory basic and diluted earnings per share 5.2p (2009: 6.2p).
- The Board proposes a final dividend of 4p per share (2009: 5p). This makes a total dividend of 8p for the year (2009: 20p). This year's dividend represents current year performance, whereas last year's total dividend was made up of 10p per share reflecting the underlying performance of the Group in 2009 and a further 10p per share which was paid from profits generated in previous periods.
- Strong cash levels (including £5 million held on trust for creditors) at £28.5 million (2009: £20.0 million) and capital resources surplus (including £5 million held in trust for creditors) of £7.7 million (2009: £6.4 million) in excess of our Pillar 1 and 2 regulatory capital requirements.

Business highlights

- Ranked number one NOMAD, in respect of client market capitalisation, by Hemscott in January 2011 reflecting continued success in attracting new institutional and corporate clients helping to grow the Cenkos franchise.
- Continued success in raising funds for our clients even though conditions in equity capital markets remain unpredictable. In the year to 31 December 2010, we raised a total of £1.44 billion (2009: £0.95 billion).
- In April 2010, Cenkos, as sole book runner and listing sponsor, raised £460 million for the Anthony Bolton-managed Fidelity China Special Situations plc. In February 2011, we raised a further £166 million for this Fund.
- Strong growth in Fund and Wealth Management business with funds under management increasing 41% to £1.10 billion (2009: £0.78 billion) reflecting increasing diversification of revenue within the Group.
- Continuing investment in high quality personnel with the expectation of increasing the Group's level of recurring income.
- Since the period end a further £292 million has been raised for clients from 5 transactions.

Contents

Officers and professional advisers

Directors

Peter Sullivan (Chairman)

Simon Melling (Chief Executive Officer)

Jeff Hewitt (Non-executive Director)

David Henderson (Non-executive Director)

Oliver Ellingham (Non-executive Director)

Secretary

Stephen Doherty

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Auditor

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Registrars

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The Registry
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The board of directors

Peter Sullivan (62)
Non-executive Chairman

Peter was appointed a non-executive Director of the Company in June 2008, and was appointed Chairman of the Company on 29 March 2010. He was the Chief Executive Officer of Standard Chartered Bank (Hong Kong) Limited and was responsible for the bank's daily business and operations. He was also General Manager of Standard Chartered for the Philippines, Australia and joint ventures in China. He joined Standard Chartered in 1994 having previously spent fourteen years with Citibank where he held a number of senior positions in Australia, Singapore, the USA and the UK. He is also a non-executive Chairman of Healthcare Locums plc and a non-executive Director of J P Morgan Indian Investment Trust plc, AXA Asia Pacific Holdings, Techtronic Industries Limited and SmarTone-Vodafone Limited.

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

Simon Melling (50)
Chief Executive Officer

Simon was appointed Chief Executive Officer on 1 July 2009. He previously held the role of Group Finance Director and Chief Operating Officer, to which he was appointed in September 2006 when he joined the Company. He has over 20 years' experience in the banking and securities industry and is a Chartered Accountant, having qualified with Peat Marwick Mitchell in 1988. He subsequently joined the Singer & Friedlander Group, ultimately becoming Director of Group Financial Services. In 2001 Simon joined Collins Stewart and was appointed Chief Operating Officer of the Private Client Division in 2001.

Jeff Hewitt (63)
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 had various executive Director appointments, 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 Cookson Group plc and Cyril Sweett plc. He is also a non-executive Director of Foreign & Colonial Investment Trust and is the external Chairman of the Audit Committee of the John Lewis Partnership. He is Chairman of Electrocomponents Pension Trustees.

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

David Henderson (62)
Non-executive Director

David was appointed a non-executive Director of the Company on 20 July 2010. After qualifying as a Chartered Accountant in 1974 David joined Morgan Grenfell where he worked for ten years in London and New York in the International Banking division. In 1984 he joined Russell Reynolds, where he worked until 1995 as a Managing Director specialising in financial services executive recruitment. In 1995 he joined the Board of Kleinwort Benson Group plc as Personnel Director and was appointed Chief Executive of its private banking business in 1997, a position he held until he became Chairman in 2004. Following the sale of Kleinwort Benson Private Bank in 2009, David became a Special Advisor to the Bank where he continues to support a number of senior client relationships. David is also a non-executive Director of Novae Group plc, Price Forbes & Partners Ltd, MM & K Limited and Healthcare Locums plc.

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

The board of directors continued

Oliver Ellingham (53)
Non-executive Director

Oliver was appointed a non-executive Director of the Company on 23 July 2010. After qualifying as a Chartered Accountant in 1984 Oliver joined Robert Fleming's Corporate Finance department where he worked for eleven years. Following this he spent two years at Charterhouse Bank, again in the Corporate Finance Department before he joined BNP Paribas in 1997. At BNP Paribas he held the position as Head of Corporate Finance for Europe. He was also a member of the BNP Paribas UK Executive Committee. Oliver retired from BNP Paribas in 2007 and became a non-executive Director of Vislink plc and Notting Hill Housing Trust. He is also the Chairman and Owner of Woking Storage Solutions Limited.

Oliver is a member of the Audit, Remuneration and Nomination Committees.

Business and financial review

Overview

During the year, Cenkos Securities plc ("Cenkos" or the "Company") and its subsidiaries (together the "Group") increased both its revenue and underlying profits. This has been achieved against a backdrop of challenging equity markets throughout the year, caused in part by uncertainty surrounding the change of government, the various European sovereign debt crises and the potential effects of Government austerity measures. Our robust business model combined with the high quality, dedication and experience of our employees have enabled us to continue this market-leading performance.

In these uncertain markets the Group has continued to raise substantial capital for its corporate clients, with the result that we are now one of the leading brokers in London for growth companies. In January 2011, Cenkos was ranked first in terms of the aggregate market capitalisation of its clients and was also ranked first for the number of clients within the Oil and Gas sector as per Hemscott's AIM Advisers Rankings Guide.

Total revenue for the year increased by 31% to £60.3 million (2009: £46.2 million), which, we believe, is a solid performance given the economic climate. This puts the Group in a strong position to continue its organic growth by adding high quality individuals to our existing teams as well as recruiting new teams with complementary income streams and who are seeking the entrepreneurial ethos of Cenkos.

One of the Group's goals is to increase the spread of revenues both across different teams and activities and to increase the proportion of total revenues made up by recurring revenues. Significant progress in this direction has been achieved over the period, with a more even spread among departments, and increases in retained clients and revenues from Fund Management.

The table below shows a breakdown of revenue by segment.

	2010 £000's	**2009 £000's**
Corporate broking and advisory	46,733	35,583
Institutional equities	4,955	4,706
Fund and wealth management	8,619	5,915
	60,307	46,204

Corporate Broking and Advisory

This business segment includes the results of our small/mid cap, investment funds and credit market activities, including the results of our market making capability carried on to support these areas. Revenue by segment is made up of placing commission on fund raisings, corporate finance fees and retainer income, market making profits and commissions on secondary market transactions. Revenue was up 31% to £46.7 million (2009: £35.6 million) and the segment result before unallocated administrative expenses was up 7% to £18.9 million (2009: £17.7 million) as set out in note 3 to the financial statements.

During the year, we completed 30 transactions (excluding investment funds) raising a total of £833 million (2009: £551 million), which included 8 primary issues. As at 31 December 2010, the Group was nominated adviser or corporate broker/financial adviser to 104 companies or trusts (2009: 105) with a market capitalisation of £18.6 billion (2009: £13.4 billion). In the year we also completed 17 M&A corporate finance transactions (2009: 19). This performance is particularly encouraging as it was achieved during a period where there has been limited transactional revenue.

Our investment funds team provides a broad range of services to investment companies including primary and secondary sales, market making, research, corporate broking and corporate finance advice. Its sales team services both institutional and wealth management clients. In April 2010, Cenkos, as sole book runner and listing sponsor, raised £460 million for the Anthony Bolton-managed Fidelity China Special Situations plc, bringing the total raised for investment funds in the year to 31 December 2010 to £609 million (2009: £400 million). In February 2011 the team raised a further £166 million for Fidelity China Special Situations plc.

Business and financial review continued

The Group makes markets in the securities of all the companies where it has a broking relationship to support the other services it provides to its clients. We continue to actively restrict the amount of the Group's capital committed to this activity to limit our market risk exposure without adversely affecting the revenue generated. The Group does not engage in proprietary trading and applies position limits and monitoring procedures to ensure it controls any risks taken. The Group does from time to time take stock in lieu of fees and the market movement on these items is also included in this income stream. In December 2010 the decision was taken to close the credit markets division as it had been loss making for most of the year. The environment within which the division operated changed significantly during the course of 2010. Most business was being transacted directly between principals and as an agency business we were not prepared to use our balance sheet to support this activity.

Institutional Equities

The Institutional Equities team based in London provides research-driven investment recommendations to institutional clients. While many of our clients continue to pay for our research services directly, more are choosing to transact business through Cenkos as well. The demise of the trading capacity of the larger investment houses has levelled the playing field for other firms. In the same way that Cenkos specialises in researching certain areas of the market, we now specialise in facilitating business in these same areas.

We continue to strengthen the research team and now provide research in food, retail, technology and building/construction. Cenkos is actively pursuing the recruitment of leading analysts covering other sectors, although the significant upfront guarantees offered by many larger banks have increased competition and hindered recruitment. Cenkos will not change its business model, but will seek to attract individuals who embrace our performance-driven culture and who can assist in bringing us capital markets transactions. Group revenue, in this segment, increased by 5% to £5.0 million (2009: £4.7 million). The segment result before unallocated administrative expenses is down by 31% to £1.5 million (2009: £2.2 million). This reduction in profits reflects the fact that we have continued to invest in this area through the economic downturn. We believe that this investment will be repaid when volumes and more benign conditions return.

Our execution business within this segment is strictly focused on client facilitation. We do not engage in proprietary trading. We believe that the continued organic growth of this area will enhance Cenkos' overall service to its expanding client base. It is also important to point out that the team's income also increases the proportion of recurring revenue coming into the Group.

Fund and Wealth Management

Our offshore fund and wealth management services are provided through Cenkos Channel Islands Limited, a 50% owned subsidiary based in Guernsey and its own subsidiary based in Jersey. Varying levels of stock broking services are offered, from fully discretionary to execution only, to high net worth individuals, financial intermediaries and institutions. The offshore asset management business has continued to grow and has made a positive contribution to the Group's results, with 2,197 clients (2009: 1,669) and £1.10 billion funds under management (2009: £0.78 billion).

The onshore fund management business is provided by Cenkos Fund Managers Limited, a subsidiary 70% owned by Cenkos Fund Management Limited, which is a 65% subsidiary of Cenkos Securities plc. This operation has an investment management agreement with an AIM-quoted fund. The fund has been put into run off and although investment management fees will continue to be generated we expect it to make only a minimal contribution to the Group.

Segment revenue has increased by 46% to £8.6 million (2009: £5.9 million) and principally due to the operational gearing in these activities the segment result before unallocated administrative expenses has increased by 49% to £2.0 million (2009: £1.4 million). This has helped Cenkos to diversify its revenue base, complementing its continued strong performance in corporate broking and advisory division.

Income statement

Total Group revenue was £60.3 million compared to £46.2 million last year, an increase of 31%.

Underlying operating profit increased by 10% to £14.4 million from £13.0 million. Underlying operating profit is analysed in the table below and excludes the effects of capital restructuring resulting from the paying up of partly paid shares and granting of options which took place in July 2009, dividend bonus payments to holders of share options, re-organisation of the Edinburgh office, redundancy costs associated with the closure of the Credit Markets operation, aborted acquisition costs and the net cost of settlement of litigation with a sub-broker previously disclosed as a contingent liability. These adjusting items amount to £7.4 million (2009: £7.4 million). This re-analysis allows an insight into the underlying performance of the Group.

	2010			2009		
	Underlying income statement £ 000's	**Adjusting items £ 000's**	**Statutory income statement £ 000's**	**Underlying income statement £ 000's**	**Adjusting items £ 000's**	**Statutory income statement £ 000's**
Revenue	60,307	–	60,307	46,204	–	46,204
Adjusted administrative expenses	(45,935)	–	(45,935)	(33,190)	–	(33,190)
Re-organisation of Edinburgh office	–	(2,165)	(2,165)	–	–	–
Redundancy costs: closure of Credit Markets operation	–	(206)	(206)	–	–	-
Bonus resulting from the Compensatory Award Phantom Dividend Plan 2009	–	(2,135)	(2,135)	–	(2,426)	(2,426)
Aborted acquisition costs	–	(1,285)	(1,285)	–	–	–
Net cost of settlement of litigation with sub-broker	–	(1,598)	(1,598)	–	–	–
Fair value of options awarded under Compensatory Award Plan 2009	–	–	–	–	(4,455)	(4,455)
Extension of the repayment terms of loans to B shareholders	–	–	–	–	(532)	(532)
Operating profit	14,372	(7,389)	6,983	13,014	(7,413)	5,601
Acceleration of the discount due to early repayment of loans to B shareholders	–	–	–	–	1,139	1,139
Investment income - interest receivable	454	–	454	764	–	764
Finance costs - interest payable	(1)	–	(1)	(258)	–	(258)
(Loss)/gain on sale of available-for-sale financial asset	(294)	–	(294)	254	–	254
Profit before tax	14,531	(7,389)	7,142	13,774	(6,274)	7,500
Tax	(4,071)	1,753	(2,318)	(3,232)	763	(2,469)
Profit for the period	10,460	(5,636)	4,824	10,542	(5,511)	5,031
Attributable to:						
Equity holders of the parent	9,362	(5,636)	3,726	10,005	(5,511)	4,494
Minority interests	1,098	–	1,098	537	–	537
	10,460	(5,636)	4,824	10,542	(5,511)	5,031
Earnings per share						
Basic	13.2 p		5.2 p	13.8 p		6.2p
Diluted	13.1 p		5.2 p	13.8 p		6.2p

Business and financial review continued

The reduction in underlying operating margins to 24% from 28% reflects a number of factors, namely the continued investment in building our teams as the business matures, as shown by the increase in average head count, and a change in the mix in revenue by team. In the year lower margin teams, such as Institutional Equities and Fund and Wealth Management, have performed well in revenue terms. In addition, whilst retaining the direct link to performance, we have increased bonus rates from a third of revenues after direct cost to 40%. This is consistent with other financial sector companies in our peer group and enables us to remain competitive. Cenkos endeavours to remunerate its staff to a level which not only retains but also motivates them to behave in line with the longer-term growth objectives of the Company. Cenkos continues to pursue a policy of maintaining a low fixed cost base and a remuneration policy of low basic salaries and rewarding net income generation.

Statutory operating profit increased by 25% to £7.0 million (2009:£5.6 million). This, in addition to the items explained above, includes charges for bonuses under the Compensatory Award Phantom Dividend Plan 2009 and a provision for a cash-settled shadow equity scheme, set up in 2009 for our team based in Edinburgh. Also, as previously disclosed in 2009 as a contingent liability, a sub-broker instigated proceedings for payment of commission he claimed was due for assisting the Company in introducing investors to an investee company. The Company defended the claim and the case went to trial in the High Court in February 2010, with judgment handed down in March 2010. The judge dismissed the claim. The claimant was subsequently granted leave to appeal and the appeal hearing took place at the Court of Appeal in November 2010. As disclosed previously, the appeal was upheld and we decided not to appeal the Court's decision. The net settlement amount shown above is after the deduction from employee bonuses. In addition, during the year we unfortunately had to abort a major acquisition.

Statutory profit before tax is down by 5% to £7.1 million (2009: £7.5 million). This decrease is due to the effects mentioned above as well as the fact that as a result of the paying up of unpaid shares there was no unwinding of the discount whereas during the comparative period there was a credit of £1.1 million, which was a non-cash item.

The tax charge for the year is £2.3 million (2009: £2.5 million), which equates to an effective rate of tax of 32% (2009: 33%).

The underlying basic earnings per share for the year is 13.2p (2009: 13.8p), whilst the underlying diluted earnings per share is 13.1p (2009: 13.8p). The statutory basic and diluted earnings per share for the year is 5.2p (2009: 6.2p).

Balance sheet and cash flow

As mentioned above, we continue to closely manage the amount of capital committed to our market making activities and consequently have net trading investments of £7.5 million (2009: £6.1 million). In addition, during the year we sold our available-for-sale investment in Plus Market Group plc realising a loss of £0.29 million.

We currently hold very healthy cash levels (including £5 million held on trust for creditors) at £28.5 million (2009: £20.0 million). The year to 31 December 2010 saw an inflow of cash from operating activities of £14.8 million against an inflow of £28.1 million in 2009. The prior year included £10.5 million inflow resulting from employees paying up premium on 10.6 million partly paid B shares.

The Company and its subsidiaries are able to continue as going concerns while maximising the return to stakeholders. At present the Group has no gearing and the Board continues to review gearing levels on an ongoing basis. The Group has to retain 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 Group. As at 31 December 2010, the Group had a solvency ratio based on capital resources against Pillar 1 capital requirement of 212% (2009: 204%) based on audited profits and a capital resources surplus (including £5 million held on trust for creditors) of £7.7 million (2009: £6.4 million) in excess of our Pillar 1 and 2 regulatory capital requirements.

Dividend

As we have consistently stated, we only intend to retain sufficient capital and reserves to meet the Group's regulatory capital and cash requirements, after taking account of the likely future working capital requirements of the Group. The 2009 reorganisation of the B share employee incentive scheme resulted in an increase in cash and regulatory capital from the payment of unpaid share premium by employees, to a level in excess of requirements. The major constraining factor in pursuing the dividend policy has been the Company's distributable reserves.

The Company obtained shareholder and Court approval for the cancellation of its share premium account on 1 November 2010 and 17 November 2010 respectively. This reduction created a further £22.7 million of distributable reserves.

The Board proposes a final dividend of 4p per share (2009: 5p). This makes a total dividend of 8p for the year (2009: 20p). This year's dividend represents current year performance, whereas last year's total dividend was made up of 10p per share reflecting the underlying performance of the Group in 2009 and a further 10p per share which was paid from profits generated in previous periods.

Subject to approval at the Annual General Meeting to be held on 14 April 2011, the final dividend will be paid on 28 April 2011 to all shareholders on the register at 25 March 2011.

People

Whilst the market in which we operate remains unsettled, the continued professionalism of our employees has enabled us to continue our strong performance. I am proud to lead a group of such dedicated and talented individuals. Their skill, commitment and determination will continue to provide us with a solid platform on which to build our franchise.

During the year there were a number of changes to the Board. John Hodson stepped down as Chairman at the AGM and Peter Sullivan agreed to take on John's role. Andy Stewart also decided to step down from the Board on 20 July 2010. Paul Roy stepped down from the Board on 30 September 2010. Once again I would like to express my thanks to John, Paul and Andy for their contribution to Cenkos. We previously announced that David Henderson and Oliver Ellingham have joined the Board as non-executive Directors and I am sure their experience and knowledge will be invaluable to the Group in the next stage of our growth.

Principal risks and controls

As you would expect the fundamental risk to the Group is dependent on the health of the financial markets and in particular the economic conditions of the UK. Notwithstanding this risk the remaining principal risks and uncertainties currently faced by the Group are outlined below. The risks outlined are those that the Group believes have the potential to have a significant detrimental impact on its financial performance and future prospects. These risks should not be regarded as a comprehensive list of all the risk and uncertainties the Group may potentially face, which could adversely impact its performance.

Reputational and litigation risk

The Group believes that one of the greatest risks to the Group comes from the potential loss of its reputation. Whilst entrepreneurial employees are encouraged to develop new clients and streams of revenue, all new business is subject to a rigorous appraisal process from the New Business Committee to ensure that it meets the Group's strict criteria. The Group also aims to demonstrate the highest level of integrity in all of its activities and the Executive Management Committee as well as Group Compliance instils awareness in all employees of the need to display the highest ethical standards and confidentiality in all the work that they undertake for the Group.

There is always a risk that some form of litigious action may be taken against the Group. Before any decision to enter into litigation is made the Board, the senior management and the Group's legal advisers will review all aspects of the case to assess and consider if it is in the best interests of the Group and ultimately the shareholders to either instigate proceedings or defend itself against litigation.

Regulatory risk

The Group's principal subsidiaries are regulated entities. The Board's policy is to promote a strong culture of regulatory and legal compliance throughout the Group. Strong relations are maintained with the Group's regulators and the Group engages in dialogue with the regulators on a regular basis. During the year a number of reviews were undertaken specifically focusing on reinforcing conflict management and "Chinese Wall' procedures and policies within the Group.

Business and financial review continued

Business processes and operational risk

Business processes and operational risk is the risk that the Group suffers a loss directly or indirectly from inadequate or failed internal processes, people and systems or from external events. To mitigate this risk the Group has adopted a formal approach to operational risk event reporting, which involves the identification of an event, assessment of its materiality, analysis of the cause, the establishment of remedial action required and escalation to me as Chief Executive Officer and the Group Risk and Compliance Committee.

During this process Group Compliance and senior management closely ensure that this process is followed and that any significant operational risks and their controls are continually reviewed, tested and assessed and where applicable corrective action plans are put in place. There is also an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. As part of general corporate governance requirements Cenkos has a framework covering all aspects of the firms' risks. Cenkos's senior management review and evaluate the business processes and associated risks within each area of the firm's business, identifying and assessing the mitigating controls and procedures in place and the action plan to address any weaknesses in control.

The Group continuously reviews its business continuity planning, and has disaster recovery facilities in place in order to mitigate any substantial disruption to its operations. In February 2011 the Company's annual Business Continuity Plan was tested. No issues of concern were raised in respect of this test.

People risk

The Group's employees are its greatest asset and the future success of the Group depends on the Group's ability to attract and retain high quality employees. Failure to recruit or retain such employees could significantly affect the performance of the Group. The Group seeks to minimise this risk by rewarding employees through an overall remuneration package that is geared towards performance and share-based payments that align the interests of the employees and shareholders.

Market risk

The Group is exposed to market risk arising from its short-term positions in predominantly market making stocks. To mitigate this risk the Group manages market risk by establishing individual stock limits and overall trading book limits. There are daily procedures in place to monitor the utilisation of these limits. These limits are reviewed on a continuous basis by me as Chief Executive Officer and also by the Group Risk and Compliance Committee.

Prudential and liquidity risk

Cenkos continues to focus heavily on prudential risks to ensure the appropriate systems and controls and reporting requirements are in place to meet the obligations of a BIPRU Investment firm. Financial risks are discussed in more detail in note 26 and include capital, equity price risk, credit risk and liquidity risk.

The Group is also exposed to liquidity risk being that it is unable to fund its commitments as and when they arise. To mitigate this risk 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 liquidity risk management framework was approved by the Board during the year. The Group 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 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 significant liquidity mismatches, financial liabilities are on the whole short-term and the Group has sufficient cash retained to cover all these liabilities.

Outlook

We remain cautious regarding the general economy for the rest of the year. Confidence levels are still delicate, fuelled by concerns about the Middle East, the strength of the global economy and the potential for a second recession in the UK. There are signs that the speed of recovery has slowed, with the economy contracting in the fourth quarter of 2010, in addition to jobs growth weakening and a widening trade deficit. We also believe that there is an underestimate of the effect of dealing with the UK public deficit.

Whilst not immune to events in the general economy, our pipeline remains strong and we have made an encouraging start to 2011. Since 31 December 2010 we have undertaken a number of corporate and issuance transactions and raised over £292 million for our clients.

Simon Melling
Chief Executive Officer

11 March 2011

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 December 2010.

Principal activities

Cenkos Securities plc ("Cenkos" or "the Company") and its subsidiaries (together "the Group") are an independent, specialist institutional securities group, focused on UK small and mid-cap companies and investment funds. The Group's principal activities comprise corporate broking and advisory, institutional equities, and fund and wealth management. The Company carries out all the activities with the exception of wealth management, which is undertaken by Cenkos Channel Islands Limited.

Business review and future developments

A review of the Group'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 contained in the Business and Financial Review.

Results and dividends

The consolidated results for the year are set out in the Consolidated Income Statement on page 30.

An interim dividend of 2p per share was paid to shareholders on 4 November 2010. On 23 December 2010, the Board declared a second interim dividend of 2p per share. This was paid to shareholders on 4 February 2011 (2009: 15p per share).

The Directors recommend the payment of a final dividend of 4p per share in respect of the year ended 31 December 2010 (2009: 5p per share). Subject to approval at the Annual General Meeting to be held on 14 April 2011, the dividend will be paid on 28 April 2011.

Directors

The names of the Directors of the Company appear on pages 3 and 4. David Henderson and Oliver Ellingham served as members of the Board from their appointments on 20 and 23 July 2010 respectively.

John Hodson, Andy Stewart and Paul Roy served until their resignations from the Board on 29 March, 20 July and 30 September 2010 respectively.

In accordance with the Company's Articles of Association, Simon Melling will retire by rotation at the forthcoming Annual General Meeting and, being eligible, will offer himself for re-election. David Henderson and Oliver Ellingham, having been appointed to the Board since the last Annual General Meeting, will 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 2010 the issued share capital of the Company was £727,712 (2009: £727,359). This comprised 68,311,224 (2009: 66,787,651) ordinary shares of 1p each, which are admitted to trading on AIM and 4,459,946 (2009: 5,948,269) 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 are admitted to trading on AIM. During the year, following the payment of the Required Premium 1,488,323 B shares of 1p each were converted into 1,488,323 ordinary shares of 1p each.

During the year 35,250 ordinary shares of 1p each were issued following the exercise of 35,250 options in accordance with a share option scheme that was in place prior to the admission and trading of the Company's shares on AIM in October 2006.

Directors' interests in ordinary shares

The undermentioned Directors had interests in the ordinary share capital of the Company as shown below:

Name of director	31 December 2010	31 December 2009	Percentage interest as at 31 December 2010*
Simon Melling	50,000	–	0.069%
Oliver Ellingham	30,000	–	0.041%
Jeff Hewitt	17,480	2,830	0.024%

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

David Henderson, a Director of the Company, purchased 30,000 ordinary shares (0.041%) on 7 January 2011.

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

Directors' interest in options

The Directors' interest in options over ordinary shares in the Company is set out on page 27 within the Directors' Remuneration Report.

Significant shareholdings

In addition to the current Directors' interests shown above, the Directors have been notified that the following shareholders had interests in 3% or more of the Company's share capital at 11 March 2011 and 31 December 2010:

Registered holder	Number of and class of shares	Percentage interest as at 11 March 2011 and 31 December 2010*
Invesco Limited	11,113,869 ordinary shares	15.27%
Andy Stewart **	8,829,964 ordinary shares	12.13%
Prudential plc (group of companies)	6,000,000 ordinary shares	8.24%
Paul Hodges	5,801,750 ordinary shares	7.97%
Jimmy Durkin	5,675,000 ordinary shares	7.80%
Cenkos Securities (Trustees) Limited ***	4,978,277 shares consisting of 518,330 ordinary and 4,459,947 B shares	6.84%
Nick Wells	2,550,000 ordinary shares	3.50%

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

** 300,000 shares are held in The Andrew Stewart Charitable Trust. Andy is a trustee of this Charitable Trust and therefore has a non-beneficial interest in these shares.

*** These shares are held as a nominee on behalf of certain employees of the Group.

Employee benefit trust

The Group currently operates an employee benefit trust, Cenkos Securities Employee Benefit Trust ("CSEBT"), which administers the Company's share schemes. At 31 December 2010, the Trust held 1,518,750 ordinary shares (2009: 1,428,750).

Directors' report continued

Employment policies

The Group's employment policies are based on a commitment to equal opportunities from the selection and recruitment process through to training, development, appraisal and promotion. Employees are encouraged to participate in the success of the Group through performance-based incentive schemes incorporating formula based profit sharing bonuses and share option arrangements.

Charitable and political donations

During the year the Group made charitable donations amounting to £250,000* (2009: £9,400). The Group did not make any political donations during the year (2009: £nil).

* Andy Stewart, a former executive Director of the Company, had proposed that were the Remuneration Committee to consider it appropriate to make an award to him in respect of 2009 then instead of making such an award to him, that a corresponding amount might be donated to The Andy Stewart Charitable Foundation (the 'Foundation') the beneficiaries of which are all charitable organisations. In January 2010 the Board agreed that a charitable donation of £250,000 be made to the Foundation in 2010.

Trade payment policy

It is the Group'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 2010 based on the average monthly outstanding Group creditor balances, was 15 days (2009: 14 days).

Trade receivables policy

The Group's trade receivables policy is set out in note 16 on page 57.

Directors and Officers liability insurance

The Company maintains liability insurance for its Directors and Officers as permitted by the Companies Act 2006.

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 and Financial Review on pages 5 to 11. In addition, note 26 to the financial statements 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 market conditions, which demonstrate that the Group shall 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. A stress test of these basic assumptions has been undertaken 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 fixed 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 the Group is well placed to manage its business risks successfully even if the current economic outlook deteriorates and that the Group has adequate resources to continue in operational existence for the foreseeable future, a period of not less than twelve months from the date of this Annual Report. Accordingly, they consider it appropriate to adopt the going concern basis in preparing the Annual Report and Accounts.

Disclosure of relevant audit information

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

- so far as he is aware, there is no relevant audit information of which the Company's auditor is unaware of; and
- he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is 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.

Auditor

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint Deloitte 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 14 April 2011 at 12.00 noon. A copy of the Notice of Annual General Meeting together with an explanation of the resolutions to be proposed are set out on pages 70 to 74.

This report was approved by the Board of Directors on 11 March 2011 and signed on its behalf by:

Stephen Doherty

Company Secretary

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 are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. 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, International Accounting Standard 1 requires that Directors:

- 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 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 11 March 2011 and signed on its behalf by:

Simon Melling

Chief Executive Officer

Corporate governance report

Introduction

The Group is not subject to the UK Corporate Governance Code, June 2010 ("Combined Code"), which is obliged to be adopted by companies admitted to the Official List. The Directors do, however, fully support high standards of corporate governance and intend to comply with the Combined Code, in so far as practicable given the Group's size and nature, and will follow the recommendations on corporate governance made by the Quoted Companies Alliance. The Group has therefore decided to disclose the following information relating to corporate governance.

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 Group. The Board is responsible for strategic and major operational issues affecting the Group. It reviews financial performance, regulatory compliance and monitors key performance indicators and will consider any matters of significance to the Group 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 Group's business is delegated to the Chief Executive Officer and he is assisted by the Executive Management Committee of the Company.

The composition of the Board

The Board currently consists of one executive and four non-executive Directors. The Directors contribute a range of complementary skills, knowledge and experience. Details of the individual Directors and their biographies are set out on pages 3 and 4.

Peter Sullivan is the Chairman of the Company and was appointed to this position on 29 March 2010, when he succeeded John Hodson, who stood down as Chairman and as a non-executive Director of the Company.

On 29 March 2010 Andy Stewart moved from the position of executive Deputy Chairman to non-executive Deputy Chairman, a position he held until 20 July 2010, when he resigned from the Company.

Simon Melling was the Chief Executive Officer throughout the year.

David Henderson and Oliver Ellingham were appointed as non-executive Directors of the Company on 20 and 23 July 2010 respectively.

On 30 September 2010 Paul Roy resigned as a non-executive Director of the Company.

The composition of the Board ensures that no single individual or group of individuals is able to dominate the decision-making process.

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.

Corporate governance report continued

Chairman

The non-executive Chairman is Peter Sullivan. He 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 Group'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

The Chief Executive Officer is Simon Melling. 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 Group, managing the Group's risk exposure, implementing Board decisions and ensuring effective communication with shareholders, and regulatory bodies.

Non-executive Directors

As well as the non-executive Chairman the Board also has three independent non-executive Directors. The independent non-executive Directors bring independent judgement, knowledge and experience to the Board.

Senior Independent Director

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

Independence

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.

Election and re-election of Directors

In accordance with the Company's Articles of Association, the Directors are obliged to retire by rotation and are eligible for re-election at the third Annual General Meeting after the Annual General Meeting at which they were elected. Any Director appointed by the Board holds office only until the next Annual General Meeting, when he is eligible for election.

Board meetings and information to the Board

The Board has regular scheduled meetings. During the year there were eight scheduled Board meetings and three ad hoc Board meetings were called to deal with specific time-critical business matters or to deal with operational issues.

Before each board meeting the Directors receive 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.

Attendance at meetings

The attendance of the Directors who served during the year at Board and principal Committee meetings together with the maximum number of meetings held in the year when the individual was a Board member (as shown in brackets), was as follows:

	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee*
Chairman:				
Peter Sullivan	11 (11)	5 (5)	3 (3)	2 (2)
John Hodson[(1)]	3 (3)	1 (1)	–	–
Deputy Chairman:				
Andy Stewart[(2)]	4 (4)	n/a	n/a	n/a
Chief Executive Officer:				
Simon Melling	11 (11)	n/a	n/a	n/a
Non-executive Directors:				
Jeff Hewitt	11 (11)	5 (5)	3 (3)	2 (2)
David Henderson[(3)]	7 (7)	4 (4)	1 (1)	–
Oliver Ellingham[(4)]	6 (6)	3 (3)	1 (1)	–
Paul Roy[(5)]	3 (8)	1 (4)	–	–

* During the year the Nomination Committee met formally on two occasions. However, a number of duties performed by this Committee were undertaken by the full Board during the year.

1. John Hodson was a member of the Board until 29 March 2010
2. Andy Stewart was a member of the Board until 20 July 2010
3. David Henderson has served as a member of the Board since 20 July 2010
4. Oliver Ellingham has served as a member of the Board since 23 July 2010
5. Paul Roy was a member of the Board until 30 September 2010

Support to the Board

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.

Board evaluation

Due to the number of changes that were made to the Board composition during the year it was felt that it was not appropriate to undertake a Board evaluation during the year.

Board committees

The Board has a supporting committee structure in line with the Combined 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).

Corporate governance report continued

Audit Committee

The Audit Committee comprises all the non-executive Directors. Jeff Hewitt undertook the chairmanship of the Committee. The Committee usually meets four times a year. Other Directors, members of staff, internal auditors and the external auditor are invited to attend these meetings, as appropriate.

This Committee has the following responsibilities:

- reviewing and monitoring the Group's systems of risk management, regulatory compliance and internal controls;
- the assessment of the Group's financial risks and plans for mitigating these risks;
- review of the Group's financial statements, reports and announcements and the accounting policies that underline them, on behalf of the Board;
- the recommendation to the Board on the appointment and remuneration of the external auditor;
- the monitoring of the independence of the external auditor and the establishment of a policy for the use of the auditor for non audit work; and
- the monitoring of the internal auditors.

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

- reviewed the Company's Interim and Annual Results Announcements and the Annual Report and Accounts, respectively. On both occasions, the Committee received reports from the auditor identifying any accounting or judgmental issues thereon, requiring attention;
- reviewed reports from management which addressed the appropriateness of the production of the financial statements on a going concern basis;
- reviewed reports from the Chief Financial Officer on identified accounting or judgmental issues;
- at each meeting reviewed both the risk management process operated by Group management designed to identify the key risks and how those risks were being managed;
- at each meeting received reports from the Group Compliance Officer on the compliance activities for that respective period together with key performance indicators;
- considered, reviewed and approved to the Board the Individual Liquidity Adequacy Assessment and the Internal Capital Adequacy Assessment Process;
- reviewed the Company's operational risk assessment, Senior Management Arrangements, Systems and Control Risk Management Programme and the Pillar 1 calculation;
- considered reports on the effectiveness of chinese walls, conflicts policy, business continuity planning, accounting policies and on segmental reporting in particular IFRS 8 Operating Segments;
- considered reports on a review of the governance and risk management process within the Company;
- considered the level of audit fees and non-audit fees and the provisions of such services;
- reviewed and agreed the internal audit plan; and
- at each of the meetings the Committee received reports from the internal auditors on their audit reviews. During the year this included reviews on the Compliance function, the Corporate Finance function and on Information Technology General Controls.

The Committee also reports to the Board on the Group's financial results, having examined the accounting policies on which they are based and ensured compliance with relevant accounting standards. In addition, it reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditor as detailed on page 22.

There is a dedicated internal audit function in order to provide further independent assurances over the adequacy and effectiveness of the systems of internal control throughout the business and to ensure that the Group's approach to continuous improvement is maintained.

Remuneration Committee

Full details of the composition and duties of the Remuneration Committee is provided in the Directors' Remuneration Report on pages 24 and 25.

Nomination Committee

The Nomination Committee, which comprises the non-executive Directors, was chaired by John Hodson until 26 January 2010, when Peter Sullivan agreed to undertake the Chairmanship. It considers appointments to the Board and is responsible for nominating candidates to fill Board vacancies and for making recommendations on the Board composition.

The Committee formally met twice 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. Where appropriate the Committee will use external advisors to facilitate searches for potential candidates, and a wide range of backgrounds will be considered for appointment to the Board.

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.

Executive management committee

The Committee, which is chaired by the Chief Executive Officer, deals with the implementation of strategic and operational issues as well as reviewing current business activities. The members of the Committee are the Chief Executive Officer and the heads of each significant fee-earning team.

New business committee

The Committee, which is chaired by the Chief Executive Officer, is responsible for the management and quality of new business taken on.

Risk and compliance committee

The Committee is chaired by the Chief Executive Officer and meets monthly to monitor, review and manage the market, credit, operational and regulatory risks within the business. This Committee reports to the Group Audit Committee.

Shareholder relations

The Company places a great deal of importance on communicating with its shareholders. All shareholders are encouraged to attend and are given at least 21 days' notice of the Annual General Meeting, at which an opportunity is provided to ask questions. 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.

Corporate governance report continued

Auditor's independence and re-appointment review.

The Audit Committee and the external auditor, Deloitte LLP, have safeguards in place to ensure the auditor's objectivity and independence is not compromised. These safeguards include the auditor's 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. During the year in accordance with the auditor's rotation procedures a new audit engagement partner was appointed.

The overall performance and the independence of the auditor is reviewed annually taking into account the views of management, cost effectiveness, objectivity and a review of the principal findings arising from the inspection of the auditor's carried out by the Audit Inspection Unit of the Financial Reporting Council.

In assessing their independence, the Audit Committee also considers the level on non-audit work that has been undertaken by the auditor to ensure that such engagement does not impair their objectivity and independence. During the year the auditor undertook a corporate finance assignment in respect of a potential corporate transaction. The Audit Committee's view was that there were benefits to the auditor carrying out this non-audit work as it required a detailed understanding of the Group. During the year the Audit Committee also appointed a number of other firms to undertake regulatory advice and taxation assignments. The Audit Committee has adopted a policy where it must pre approve non-audit work to be undertaken if the fees are to exceed £25,000. This policy also applies to work undertaken by KPMG LLP who act as the Company's external providers of internal audit and taxation services.

A breakdown of the fees paid to the auditor in respect of audit and non-audit work is included in note 7 on page 49.

The Audit Committee having given consideration to the extra work undertaken by the auditor and after a review with the audit partner and the Company's senior management is satisfied as to the independence of the audit. Following this review, the Audit Committee recommended to the Board that the auditor be re-appointed and a resolution to re-appoint them as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

Internal control and risk management

The Board is responsible for identifying, evaluating and managing significant risks faced by the Group and it acknowledges that it is responsible for the Group's system of internal controls and for setting the control framework including financial, operational, compliance controls and risk management systems, and for reviewing the effectiveness of these systems. 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.

The Board, through the Audit Committee, reviewed the effectiveness of the internal control systems in March 2011. The Audit Committee considered the progress that had been made during the year ended 31 December 2010 and assessed the status of the Group's internal control framework and it also considered how risks were identified, monitored, mitigated and reported throughout the Group. Following this review the Audit Committee agreed that the internal control framework continued to provide reasonable assurances that appropriate internal controls are in place. Accordingly the Board confirms that throughout the year ended 31 December 2010 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 Group.

The following is a summary of the internal control framework that was in place during 2010.

- The Group has an established Group Risk and Compliance committee. This committee's overall purpose is to assist the Chief Executive Officer in the discharge of his responsibility for the group wide management of risk and regulatory compliance; he is assisted by senior management and the Group Compliance Officer. The Committee's role is to monitor, review and evaluate the risks and the controls that are in place across the businesses and where appropriate take action to address any weaknesses in the controls. In considering these risks the Committee also considers the Risk Management programme for the Group as well as issues that could affect the significant and principal risks faced by the Group. The Committee is chaired by the Chief Executive Officer and during the year met on a monthly basis. Reports and issues from these meetings are reported to the Audit Committee on a quarterly basis and to the Board at each of its scheduled meetings.

- As part of the overall control framework in place, the Board has approved a Risk Management programme. This programme required the 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. The senior management is required to review the risks within their own business areas on at least a quarterly basis. This review included detailing any additional risks, any changes to the existing risks within their business, detailing the controls in place and any corrective actions that are required to take place. Group Compliance monitors this programme through its quarterly compliance testing process. A review of the effectiveness of the Risk Assessment and Management Programme is included in the annual compliance monitoring programme for the Audit Committee.
- During the year the Chief Financial Officer and the Group Compliance Officer carried out an in depth review and assessment of each of the risks faced by the Group and the internal controls that were in place to mitigate those risks as part of the process in approving the Internal Capital Adequacy Assessment Process. The Board reviewed and considered the risks and controls in relation to this approval process.
- There is a dedicated internal audit function and this function is outsourced to KPMG LLP. A three-year audit programme has been approved. Three reviews were undertaken during the year on the Compliance function, the Corporate Finance function and on Information Technology General Controls. As part of the internal audit process KPMG LLP reports directly to the Chief Executive Officer and they also liaise directly with the Chairman of the Audit Committee. The internal auditors also report and attend each Audit Committee meeting.
- At each Audit Committee and Board Meeting a report is submitted from Group Compliance detailing any risk issues that had been identified during the period together with a schedule of Key Risk Indicators. Any immediate issues relating to risk is immediately escalated to the Board by the Chief Executive Officer.

Whistle blowing

The Company operates a whistle blowing policy to encourage and enable employees to raise concerns without being subject to any detriment or victimisation. Such issues that may be raised under this policy include suspicion of an actual or planned wrong doing or mal practice, criminal offences or failure to comply with other legal or regulatory obligations.

This report was approved by the Board of Directors on 11 March 2011 and signed on its behalf by:

Stephen Doherty

Company Secretary

Directors' remuneration report

Introduction

Whilst the Group 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 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 2010.

On 1 January 2011, the FSA's revised Remuneration Code of Practice (the "Code") came into force. The Committee will be assessing the impact of the Code on the Company's remuneration policy for 2011.

Remuneration Committee

Membership of the Remuneration Committee is limited to non-executive Directors. The current members are David Henderson, Jeff Hewitt, Peter Sullivan and Oliver Ellingham. Paul Roy was the Chairman of the Committee until 26 January 2010, when Jeff Hewitt was appointed to the position of Chairman. On his appointment to the Board David Henderson was appointed Chairman of the Committee on 20 July 2010.

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

Advice

During the year the Committee received advice on the Company's remuneration structure from Kepler Associates and on the benchmarking of the Chief Executive Officer's remuneration from MCG Consulting.

Duties of the Committee

The main duties of the Committee are to:

- determine and agree with the Board the framework or broad policy for the remuneration of the executive Directors of the Company or such other members of the senior management as it is designated to consider;
- within the terms of the agreed policy, determine the total individual remuneration package of each executive Director including where appropriate, basic salaries, 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 disclosed 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 making 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; received presentations from the Company's remuneration consultants on a review of the senior management's performance award;
- received reports from the Chief Executive Officer on senior management's remuneration;
- undertook a review of the Company's Long Term Incentive Plan, the number of options that had been awarded, the effect on the dilution limits, and how to incentivise existing employees and potential new employees and teams;
- reviewed the performance of the Chief Executive Officer;
- received a report from the Company's remuneration consultants on the setting of personal objectives for the Chief Executive Officer;
- considered and approved a number of personal objectives in respect of the setting of the Chief Executive Officer's performance award for 2010;
- received a benchmarking report from MCG Consulting in respect of the Chief Executive Officer's remuneration; and
- considered and approved the performance award for the Chief Executive Officer.

Remuneration policy

The Group has a policy to attract and retain individuals of the highest calibre and reward them such that they are motivated to grow the value of the business and to maximise returns to shareholders. This policy is as relevant to the executive Directors as it is to the senior management and employees, and the rewards of executive Directors will be aligned with those of shareholders.

The Group operates in an arena where it is common practice to pay significant variable remuneration. However, the Group's policy is to pay large awards only where it can be demonstrated that individuals and team performances have increased the profitability of the business and the return to shareholders, and this is operated through a formula-based profit sharing arrangement for senior management. These profit sharing arrangements compensate for basic salaries, which are capped at relatively modest levels. The current executive Director does not participate in the current arrangement concerning a formula-based profit sharing arrangement.

Following a review of the Company's senior management remuneration that was undertaken by Kepler Associates towards the end of 2009, a number of changes were made to improve effectiveness and strengthen shareholder alignment, including a revision of the formula-based profit sharing arrangements. The revenue teams profit sharing arrangement is based on 40% (2009: 33.33%) of revenues made by the team after direct costs have been deducted. Implementation of this change, which took place in early 2010, increased the compensation-to-revenue ratio depending on the level of revenue generated. However, the overall benefits of the scheme to shareholders are believed to be positive as the ratio is more in line with its market competitors.

Components of Chief Executive Officer's remuneration

Basic salary

The policy is to provide basic salaries, which are set at relatively modest levels.

Annual performance awards

The annual performance award is a significant component of the Chief Executive Officer's 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. Consideration is also given to the performance of Chief Executive Officer against a number of financial and personal objectives that are set each year. A review of comparable market data is also undertaken.

Directors' remuneration report continued

Benefits
The Company also provides the Chief Executive Officer with benefits, which consist of healthcare cover and life assurance cover. These are on the same basis as all other employees.

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

	Basic salary or fees £ 000's	Annual performance award £ 000's	Benefits in kind £ 000's	Cash bonus in respect of options held* £ 000's	Total 2010 £ 000's	Total 2009 £ 000's
Peter Sullivan	72	–	–	–	72	35
Simon Melling*	150	750	2	100	1,002	924
Jeff Hewitt	53	–	–	–	53	35
David Henderson(1)	31	–	–	–	31	–
Oliver Ellingham(2)	20	–	–	–	20	–
Andy Stewart(3)	42	–	2	–	44	52
John Hodson*(4)	13	–	1	–	14	174
Paul Roy(5)	37	–	–	–	37	35
	418	750	5	100	1,273	1,255

* In accordance with the terms and conditions of the grant of options to these Directors they have 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 shares in respect of which the option subsists.

1. David Henderson has served as a member of the Board since 20 July 2010
2. Oliver Ellingham has served as a member of the Board since 23 July 2010
3. Andy Stewart was a member of the Board until 20 July 2010
4. John Hodson was a member of the Board until 29 March 2010
5. Paul Roy was a member of the Board until 30 September 2010

Pension arrangements
The Company does not operate a pension scheme.

Directors' service contracts
No executive Director has a service contract for longer than twelve months and no contract contains provisions for sums to be paid on termination. Copies of Directors' service contracts will be available for review at the Annual General Meeting.

Long term incentives
The Company has established a Long Term Incentive Plan ("LTIP") and a Company Share Option Plan ("the CSOPs") ("the Schemes"). During the year awards over a total of 1,858,333 shares were granted under the LTIP scheme. No grants were made under the CSOP scheme. The Board has delegated to the Remuneration Committee the responsibility to supervise the Schemes and the grant of options under its terms. The Company's policy is to use the Schemes to attract and retain key senior employees including the executive Director. Any grant of options is at the discretion of the Committee and takes into account individual performance and responsibilities. Where appropriate, a grant of options may incorporate a performance condition.

Directors' interests in share options

The under mentioned executive Director had interests in options over ordinary shares in the Company as shown below:

Name of Director	31 December 2010	31 December 2009	Exercise price	Grant date	First possible exercise date	Expiry date
Simon Melling	427,046	427,046	140.5p	23.10.2006	15.04.2008	23.10.2011
	1,000,000	1,000,000	169.5p	09.10.2009	09.10.2012	09.04.2013

The options granted on 23 October 2006, prior to the Company's admission to AIM were not granted under the terms and conditions of the Company's LTIP or CSOP schemes.

On 9 October 2009 the Committee awarded Simon Melling 1,000,000 options under the LTIP. These awards were granted with a performance condition, which specifies that the Company's total shareholder returns must exceed 5% per annum over a three-year period for the award to vest.

In accordance with the terms of the grant of the above options the option holder has 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 shares in respect of which the option subsists. The amounts received by Simon Melling are shown on page 26 in the Directors' remuneration table.

On 4 February 2011 the Committee agreed to award Simon Melling 1,000,000 options under the LTIP. These awards will be granted with a performance condition, which specifies that the Company's total shareholder returns must exceed 5% per annum over a three-year period for the award to vest. This award will be made at the next permissible open period.

Non-executive Directors

Each non-executive Director has a letter of appointment. Non-executive Directors' appointments are subject to the re-election requirements of the Company's Articles of Association and are without a fixed term. There are no specific contractual provisions for non-executive Directors to receive compensation upon early termination.

Fees for the Chairman and the non-executive Directors are determined by the executive Directors based on market information. Non-executive Directors do not participate in decisions concerning their fees. Fees are reviewed annually, although it is anticipated that, in the absence of any significant market movement, fees would remain unchanged for two years. In January 2010 the fees were reviewed and the executive Directors agreed to increase the base fee for non-executive Directors to £45,000 and to implement an additional fee of £5,000 for each non-executive Director who acts as the Chairman of the Audit, Remuneration and Nomination Committees, respectively. It was also agreed to set the non-executive Chairman's fee at £80,000 with effect from the 29 March 2010. These were the first increases in the fees since the Company's admission to AIM in 2006.

Non-executive Directors are reimbursed all reasonable expenses incurred solely in relation to their duties as a non-executive Director. The Company provided life and healthcare cover to John Hodson.

This report was approved by the Board of Directors on 11 March 2011 and signed on its behalf by:

David Henderson

Chairman of the Remuneration Committee

Independent auditor's report

We have audited the financial statements of Cenkos Securities plc for the year ended 31 December 2010 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, the Consolidated 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.

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, 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.

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 2010 and 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; 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.

Michael W. Williams (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK

11 March 2011

Consolidated income statement for the year ended 31 December 2010

	Notes	1 January 2010 to 31 December 2010 £ 000's	1 January 2009 to 31 December 2009 Before non recurring item £ 000's	Non recurring item (note 8) £ 000's	After non recurring item £ 000's
Revenue	3	60,307	46,204	–	46,204
Administrative expenses		(53,324)	(35,616)	(4,987)	(40,603)
Operating profit/(loss)		6,983	10,588	(4,987)	5,601
Investment income – interest receivable	4	454	764	1,139	1,903
(Loss)/gain on sale of available-for-sale financial asset		(294)	254	–	254
Finance costs – interest payable	5	(1)	(258)	–	(258)
Profit/(loss) before tax	7	7,142	11,348	(3,848)	7,500
Tax	9	(2,318)	(2,553)	84	(2,469)
Profit/(loss) for the year		4,824	8,795	(3,764)	5,031
Attributable to:					
Equity holders of the parent		3,726	8,258	(3,764)	4,494
Minority interests		1,098	537	–	537
		4,824	8,795	(3,764)	5,031
Earnings per share					
From continuing operations					
Basic	11	5.24p	11.40p		6.20p
Diluted	11	5.21p	11.36p		6.18p

All amounts shown in the consolidated financial statement derive from continuing operations of the Group.

The profit attributable to the Company in the year ended 31 December 2010 was £3,382,141 (31 December 2009: £3,671,410).

Consolidated statement of comprehensive income for the year ended 31 December 2010

		1 January 2009 to 31 December 2009		
	1 January 2010 to 31 December 2010 £ 000's	Before non recurring item £ 000's	Non recurring item £ 000's	After non recurring item £ 000's
Profit/(loss) for the year	4,824	8,795	(3,764)	5,031
Available-for-sale financial assets:				
Gains arising during the period	48	195	–	195
Other comprehensive income for the year	48	195	–	195
Total comprehensive income for the year	4,872	8,990	(3,764)	5,226
Attributable to:				
Equity holders of the parent	3,774	8,453	(3,764)	4,689
Minority interests	1,098	537	–	537
	4,872	8,990	(3,764)	5,226

Company statement of comprehensive income for the year ended 31 December 2010

		1 January 2009 to 31 December 2009		
	1 January 2010 to 31 December 2010 £ 000's	Before non recurring item £ 000's	Non recurring item £ 000's	After non recurring item £ 000's
Revenue	51,794	40,668	–	40,668
Administrative expenses	(46,748)	(31,076)	(4,987)	(36,063)
Operating profit/(loss)	5,046	9,592	(4,987)	4,605
Investment income – interest receivable	504	767	1,139	1,906
Finance costs – interest payable	(10)	(450)	–	(450)
Profit/(loss) before tax	5,540	9,909	(3,848)	6,061
Tax	(2,158)	(2,474)	84	(2,390)
Profit/(loss) for the year	3,382	7,435	(3,764)	3,671
Available-for-sale financial assets:				
Gains arising during the period	48	195	–	195
Other comprehensive income for the year	48	195	–	195
Total comprehensive income for the year attributable to the owners of the Company	3,430	7,630	(3,764)	3,866

Consolidated balance sheet as at 31 December 2010

	Notes	31 December 2010 £ 000's	31 December 2009 £ 000's
Non-current assets			
Property, plant and equipment	12	931	872
Available-for-sale investments	13	–	511
Deferred tax assets	20	123	227
		1,054	1,610
Current assets			
Investments – long positions	15	10,962	8,153
Trade and other receivables	16	31,590	36,357
Cash and cash equivalents	17	28,468	19,994
		71,020	64,504
Total assets		72,074	66,114
Current liabilities			
Investments – short positions	15	(3,481)	(2,058)
Trade and other payables	18	(41,338)	(35,251)
		(44,819)	(37,309)
Net current assets		26,201	27,195
Net assets		27,255	28,805
Equity			
Share capital	21	728	727
Share premium account	23	–	22,700
Own shares	22	(2,147)	(2,037)
Available-for-sale reserves		–	(48)
Retained earnings		27,134	6,626
Equity attributable to equity holders of the parent		25,715	27,968
Minority interests		1,540	837
Total equity		27,255	28,805

The financial statements were approved by the Board of Directors and authorised for issue on 11 March 2011.
They were signed on its behalf by:

Peter Sullivan
Chairman

Simon Melling
Chief Executive Officer

Registered Number: 05210733

Company balance sheet as at 31 December 2010

	Notes	31 December 2010 £ 000's	31 December 2009 £ 000's
Non-current assets			
Property, plant and equipment	12	853	791
Available-for-sale investments	13	–	511
Deferred tax assets	20	123	227
Investments in subsidiary undertakings	14	256	256
		1,232	1,785
Current assets			
Investments – long positions	15	10,160	8,153
Trade and other receivables	16	27,186	28,502
Cash and cash equivalents	17	26,295	18,546
		63,641	55,201
Total assets		64,873	56,986
Current liabilities			
Investments – short positions	15	(3,481)	(2,058)
Trade and other payables	18	(35,165)	(26,174)
		(38,646)	(28,232)
Net current assets		24,995	26,969
Net assets		26,227	28,754
Equity			
Share capital	21	728	727
Share premium account	23	–	22,700
Available-for-sale reserves		–	(48)
Retained earnings		25,499	5,375
Total equity		26,227	28,754

The financial statements were approved by the Board of Directors and authorised for issue on 11 March 2011.
They were signed on its behalf by:

Peter Sullivan
Chairman

Simon Melling
Chief Executive Officer

Registered Number: 05210733

Consolidated cash flow statement for the year ended 31 December 2010

	Notes	1 January 2010 to 31 December 2010 £ 000's	1 January 2009 to 31 December 2009 £ 000's
Profit for the year		4,824	5,031
Adjustments for:			
Finance income		(453)	(1,645)
Loss /(gain) on sale of available-for-sale financial asset		294	(254)
Tax expense		2,318	2,470
Depreciation of property, plant and equipment	12	346	327
Shares and options received in kind		1,143	362
Share-based payment expense		489	5,572
Operating cash flows before movements in working capital		8,961	11,863
(Increase)/decrease in net trading investments		(2,529)	2,429
Decrease in trade and other receivables		5,156	6,368
Increase in trade and other payables		6,425	11,565
Net cash flow from operating activities		18,013	32,225
Interest paid		(1)	(258)
Tax paid		(2,543)	(2,358)
Net cash flow from operating activities		15,469	29,609
Investing activities			
Interest received		65	138
Net proceeds from the part disposal of a subsidiary		–	6
Purchase of property, plant and equipment	12	(405)	(88)
Proceeds from the sale of available-for-sale investments		265	701
Net cash (outflows)/inflows from investing activities		(75)	757
Financing activities			
Dividends paid	10	(6,416)	(14,547)
Distributions made to minority interests		(395)	(125)
Acquisition of own shares	22	(110)	(2,037)
Proceeds from issue of equity shares		1	–
Net cash used in financing activities		(6,920)	(16,709)
Net increase/(decrease) in cash and cash equivalents		8,474	13,657
Cash and cash equivalents at beginning of year		19,994	6,337
Cash and cash equivalents at end of year		28,468	19,994

Company cash flow statement for the year ended 31 December 2010

	Notes	1 January 2010 to 31 December 2010 £ 000's	1 January 2009 to 31 December 2009 £ 000's
Profit for the year		3,382	3,671
Adjustments for:			
Finance income		(494)	(1,456)
Loss/(gain) on sale of available-for-sale financial asset		294	(254)
Tax expense		2,158	2,390
Depreciation of property, plant and equipment	12	279	267
Shares and options received in kind		1,143	362
Share based payment expense		449	5,582
Operating cash flows before movements in working capital		7,211	10,562
(Increase)/decrease in net trading investments		(1,727)	2,429
Decrease/(increase) in trade and other receivables		1,705	664
Increase in trade and other payables		9,354	14,992
Net cash flow from operating activities		16,543	28,647
Interest paid		(10)	(450)
Tax paid		(2,408)	(2,269)
Net cash flow from operating activities		14,125	25,928
Investing activities			
Interest received		115	142
Purchase of property, plant and equipment	12	(341)	(75)
Proceeds from the sale of available-for-sale investments		265	701
Net cash flows from investing activities		39	768
Financing activities			
Dividends paid	10	(6,416)	(14,547)
Proceeds from issue of equity shares		1	–
Net cash used in financing activities		(6,415)	(14,547)
Net increase in cash and cash equivalents		7,749	12,149
Cash and cash equivalents at beginning of year		18,546	6,397
Cash and cash equivalents at end of year		26,295	18,546

Consolidated statement of changes in equity for the year ended 31 December 2010

	Equity attributable to equity holders of the parent							
	Share capital £ 000's	Share premium £ 000's	Own shares £ 000's	Available -for-sale reserve £ 000's	Retained earnings £ 000's	Total £ 000's	Minority Interests £ 000's	Total £ 000's
At 1 January 2009	727	22,700	–	(243)	11,614	34,798	429	35,227
Profit for the year	–	–	–	–	4,494	4,494	–	4,494
Other comprehensive income for the year	–	–	–	195	–	195	–	195
Total comprehensive income for the year	–	–	–	195	4,494	4,689	–	4,689
Profit allocated to minority interests	–	–	–	–	–	–	537	537
Own shares acquired in the year	–	–	(2,037)	–	–	(2,037)	–	(2,037)
Interest acquired by minority interest	–	–	–	–	9	9	(4)	5
Credit to equity for equity-settled share-based payments	–	–	–	–	5,040	5,040	–	5,040
Deferred tax on share-based payments	–	–	–	–	16	16	–	16
Dividends paid	–	–	–	–	(14,547)	(14,547)	(125)	(14,672)
At 31 December 2009	727	22,700	(2,037)	(48)	6,626	27,968	837	28,805
Profit for the year	–	–	–	–	3,726	3,726	–	3,726
Other comprehensive income for the year	–	–	–	48	–	48	–	48
Total comprehensive income for the year	–	–	–	48	3,726	3,774	–	3,774
Shares issued	1	–	–	–	–	1	–	1
Cancellation of share premium account	–	(22,700)	–	–	22,700	–	–	–
Profit allocated to minority interests	–	–	–	–	–	–	1,098	1,098
Own shares acquired in the year	–	–	(110)	–	–	(110)		(110)
Credit to equity for equity-settled share-based payments	–	–	–	–	489	489	–	489
Deferred tax on share-based payments	–	–	–	–	9	9	–	9
Dividends paid	–	–	–	–	(6,416)	(6,416)	(395)	(6,811)
At 31 December 2010	728	–	(2,147)	–	27,134	25,715	1,540	27,255

Company statement of changes in equity for the year ended 31 December 2010

	Share capital £ 000's	Share premium £ 000's	Available -for-sale reserve £ 000's	Retained earnings £ 000's	Total £ 000's
At 1 January 2009	727	22,700	(243)	11,195	34,379
Profit for the year	–	–	–	3,671	3,671
Other comprehensive income for the year	–	–	195	–	195
Total comprehensive income for the year	–	–	195	3,671	3,866
Credit to equity for equity-settled share-based payments	–	–	–	5,040	5,040
Deferred tax on share-based payments	–	–	–	16	16
Dividends paid	–	–	–	(14,547)	(14,547)
At 31 December 2009	727	22,700	(48)	5,375	28,754
Profit for the year	–	–	–	3,382	3,382
Other comprehensive income for the year	–	–	48	–	48
Total comprehensive income for the year	–	–	48	3,382	3,430
Shares issued	1	–	–	–	1
Cancellation of share premium account	–	(22,700)	–	22,700	–
Credit to equity for equity-settled share-based payments	–	–	–	449	449
Deferred tax on share-based payments	–	–	–	9	9
Dividends paid	–	–	–	(6,416)	(6,416)
At 31 December 2010	728	–	–	25,499	26,227

Notes to the financial statements for the year ended 31 December 2010

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). The Group's principal activity is the provision of investment banking services. These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates.

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
In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements.

Standards affecting the financial statements
IAS 27(2008) Consolidated and Separate Financial Statements;

IAS 28(2008) Investments in Associates

These standards have introduced a number of changes in the accounting for business combinations when acquiring a subsidiary or an associate.

The following amendments were made as part of improvements to IFRSs (2009).

Amendment to IFRS 2 *Share-based Payment*	IFRS 2 has been amended, following the issue of IFRS 3(2008), to confirm that the contribution of a business on the formation of a joint venture and common control transactions are not within the scope of IFRS 2. This has no impact on the financial statements.
Amendment to IAS 17 *Leases*	IAS 17 has been amended such that it may be possible to classify a lease of land as a finance lease if it meets the criteria for that classification under IAS 17. The amendment has been applied retrospectively in accordance with the relevant transitions. This has no impact on the financial statements.
Amendment to IAS 39 *Financial Instruments: Recognition and Measurement*	IAS 39 has been amended to state that options contracts between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date are not excluded from the scope of the standard. This has no impact on the financial statements.

Standards not affecting the reported results nor the financial position
The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements.

IFRIC 17 *Distributions of Non-cash Assets to Owners*	The Interpretation provides guidance on when an entity should recognise a non-cash dividend payable, how to measure the dividend payable and how to account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable when the payable is settled.

IFRS 2 (amended) *Group Cash-settled Share-based Payment Transactions*	The amendment clarifies the accounting for share-based payment transactions between group entities.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 9	Financial Instruments
IAS 24 (amended)	Related Party Disclosures
IAS 32 (amended)	Classification of Rights Issues
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
IFRIC 14 (amended)	Prepayments of a Minimum Funding Requirement

Improvements to IFRSs (May 2010)

The adoption of IFRS 9 which the Group plans to adopt for the year beginning on 1 January 2013 will impact both the measurement and disclosures of Financial Instruments.

The Directors do not expect that the adoption of the other standards listed above will have a material impact on the financial statements of the Group in future periods.

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.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority 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 the 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 and Financial Review on pages 5 to 11. In addition, note 26 to the financial statements 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. These demonstrate that the Group shall 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 has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they consider it appropriate to adopt the going concern basis in preparing the annual report and accounts.

Notes to the financial statements continued

1. Accounting policies (continued)

Financial instruments

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

Financial Assets

Investments 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 investments', '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.

Effective interest rate method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on 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 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 and options over securities which have been received as consideration for corporate finance services rendered.

Financial assets are classified as financial assets at FVTPL where the Group acquires the financial asset principally for the purpose of selling 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 and effective hedging instruments. Financial assets at fair value through profit or loss are stated at fair value, with any resulting gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss 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.

Available-for-sale investments

Listed shares held by the Group that are traded in an active market 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 revalued to amortised cost at each subsequent reporting date. 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

Notes to the financial statements continued

1. Accounting policies (continued)

- 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.

Other financial liabilities
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, 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 as the proceeds are 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 profit or loss immediately.

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 balance sheet 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.

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 balance sheet date are reported at the rates of exchange prevailing at that date. Gains and losses arising during the period on transactions denominated in foreign currencies are treated as normal items of income and expenditure 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.

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:	Ten years
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 profits 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 balance sheet 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, and 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 balance sheet 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.

Notes to the financial statements continued

1. Accounting policies (continued)

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 discounts, VAT and other related taxes.

Revenue comprises fees for corporate finance advisory services which are taken to the income statement when the services are performed. Revenue also comprises profits on dealing operations, being gains less losses on shares, 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 options over securities which have been received as consideration for corporate finance services rendered.

Segment reporting

IFRS 8 requires that an entity disclose 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 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 balance sheet 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 profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

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 managements 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 25.

b) Valuation of investments

Trading investments include options over securities which have been received as consideration for corporate finance services rendered. The fair value of these investments have been 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. The volatility input has been calculated based on the volatility of historic share price movements.

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 16 and provides for amounts it considers irrecoverable.

d) Provisions

Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation. Details of the judgements and estimates made by the directors are set out in note 19 to the financial statements.

3. Business and geographical segments

Adoption of IFRS 8, Operating Segments

The Group had adopted IFRS 8 Operating Segments with effect from 1 January 2009. 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 to allocate resources to the segments and to assess their performance.

Products and services from which reportable segments derive their revenues

Based on its internal management reporting, the Group has identified three reportable segments and the following products and services provided by these segments:

Corporate Broking and Advisory

This segment provides corporate finance, corporate broking and market making services to small to mid cap companies and investment funds.

Institutional Equities

The institutional equities team currently provides research driven investment recommendations and execution capabilities to institutional clients.

Fund and Wealth Management

Offshore wealth management and stockbroking services are primarily provided through Cenkos Channel Islands Limited.

Our fund management business is primarily provided by Cenkos Fund Managers Limited.

Notes to the financial statements continued

3. Business and geographical segments (continued)

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

	1 January 2010 to 31 December 2010			
	Corporate Broking and Advisory £ 000's	Institutional Equities £ 000's	Fund and Wealth Management £ 000's	Group Total £ 000's
Segment revenues and results				
Corporate finance	36,356	–	5	36,361
Corporate broking & market making	9,188	–	–	9,188
Research fees & commission	1,189	4,955	–	6,144
Management fees & stockbroking services	–	–	8,614	8,614
Segment revenue	46,733	4,955	8,619	60,307
Administrative expenses	(27,862)	(3,421)	(6,572)	(37,855)
Segment results	18,871	1,534	2,047	(22,452)
Unallocated Administrative expenses				(15,469)
Operating Profit				6,983
Investment income – interest receivable				454
Loss on sale of available-for-sale financial asset				(294)
Finance costs – interest payable				(1)
Profit before tax				7,142
Tax				(2,318)
Profit for the year				4,824

	1 January 2010 to 31 December 2010					
	Corporate Broking and Advisory £ 000's	Institutional Equities £ 000's	Fund and Wealth Management £ 000's	Segment Total £ 000's	Unallocated £ 000's	Group Total £ 000's
Other segment information						
Assets	13,254	–	8,317	21,571	50,503	72,074
Liabilities	(3,481)	–	(5,832)	(9,313)	(35,506)	(44,819)
Depreciation and amortisation	–	–	66	66	280	346
Additions to Non-current assets	–	–	44	44	361	405

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

			1 January 2009 to 31 December 2009	
	Corporate Broking and Advisory £ 000's	**Institutional Equities £ 000's**	**Fund and Wealth Management £ 000's**	**Group Total £ 000's**
Segment revenues and results				
Corporate finance	25,157	–	5	25,162
Corporate broking & market making	8,860	–	–	8,860
Research fees & commission	1,566	4,706	–	6,272
Management fees & stockbroking services	–	–	5,910	5,910
Segment revenue	35,583	4,706	5,915	46,204
Administrative expenses	(17,884)	(2,469)	(4,540)	(24,893)
Segment results	17,699	2,237	1,375	21,311
Unallocated Administrative expenses				(15,710)
Operating Profit				5,601
Investment income – interest receivable				1,903
Gain on sale of available-for-sale financial asset				254
Finance costs – interest payable				(258)
Profit before tax				7,500
Tax				(2,469)
Profit for the year				5,031

				1 January 2009 to 31 December 2009		
	Corporate Broking and Advisory £ 000's	**Institutional Equities £ 000's**	**Fund and Wealth Management £ 000's**	**Segment Total £ 000's**	**Unallocated £ 000's**	**Group Total £ 000's**
Other segment information						
Assets	9,688	–	11,230	20,918	45,196	66,114
Liabilities	(2,058)	–	(9,080)	(11,138)	(26,171)	(37,309)
Depreciation and amortisation	–	–	60	60	267	327
Additions to Non-current assets	–	–	13	13	75	88

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 without allocation of the central administration costs, investment revenue and finance costs, and income tax expense. This is the measure reported to the Group's Chief Executive Officer for the purpose of resource allocation and assessment of segment performance.

Notes to the financial statements continued

3. Business and geographical segments (continued)

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

Geographical information

	1 January 2010 to 31 December 2010			1 January 2009 to 31 December 2009		
	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*	53,464	6,843	60,307	41,585	4,619	46,204
Non-current assets	875	56	931	802	70	872

*Revenues are attributed on the basis of the entities location.

Major customers

The revenue generated from no one particular customer amounted to more than 10% of the Group's total revenue.

4. Investment income – interest receivable

	1 January 2010 to 31 December 2010 £ 000's	1 January 2009 to 31 December 2009 £ 000's
Interest income generated from:		
Cash and cash equivalents	47	74
Trading investments	19	21
Trade and other receivables	388	1,808
	454	1,903

Interest income generated from trade and other receivables includes the recognition of the unwinding of the discount factor applied to the partly paid B shares, which amounted to £387,720 (2009: £1,808,484).

5. Finance costs – interest payable

	1 January 2010 to 31 December 2010 £ 000's	1 January 2009 to 31 December 2009 £ 000's
Interest on bank overdrafts and loans	1	258

6. Staff costs

	1 January 2010 to 31 December 2010 £ 000's	1 January 2009 to 31 December 2009 £ 000's
Staff costs comprise:		
Wages and salaries	31,702	21,445
Social security costs	4,075	3,007
IFRS 2 share-based payments	489	5,784
	36,266	30,236

The Group does not operate any pension schemes.

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

	2010 No.	2009 No.
Corporate finance	12	11
Corporate broking	85	71
Administration	42	41
	139	123

	£ 000's	£ 000's
The total emoluments of the highest paid director serving during the year were:	1,002	969

Details of the remuneration of key management personnel are set out in note 27.

7. Profit for the year

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

	1 January 2010 to 31 December 2010 £ 000's	1 January 2009 to 31 December 2009 £ 000's
Operating lease rentals	676	626
Auditor's remuneration (refer to analysis below)	544	171
Depreciation of property, plant and equipment	346	327
Staff costs (see note 6)	36,266	30,236
Change in fair value of financial assets designated as at fair value through profit or loss	108	(320)
Costs associated with aborted acquisition	1,285	–

	£ 000's	£ 000's
The analysis of auditor's remuneration is as follows:		
Fees payable to the Company's auditor for the audit of the Group's annual accounts and consolidation	112	102
Fees payable to the Company's auditor for other services:		
– The audit of the Company's subsidiaries, pursuant to legislation	41	41
Total audit fees	153	143
– Other services, pursuant to legislation: half year review	43	28
– Corporate finance services	348	–
Total non-audit fees	391	28
	544	171

A description of the duties undertaken by the Audit Committee is set out on pages 20 to 23 within the Corporate Governance Report and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor.

Notes to the financial statements continued

8. Non-recurring item

Changes to the B share employee incentive scheme

	1 January 2010 to 31 December 2010 £ 000's	1 January 2009 to 31 December 2009 £ 000's
Charge relating to the extension of repayment terms of the remaining B share loans	–	532
Fair value of options awarded under the Compensatory Award Plan 2009	–	4,455
Administrative Expenses	–	4,987
Credit relating to the acceleration of the discount due to the early repayment of the B share loans where the shares were either placed or transferred to the CSEBT	–	(1,139)
Investment Income – interest receivable	–	(1,139)
	–	3,848

The following events occurred during the prior year in relation to B shares:

- on 21 May 2009, at the AGM, the Company resolved to extend the repayment term of the unpaid share premium and loans due from staff from 1 July 2011 to 1 July 2013.
- on 17 July 2009 the loans relating to 10.6 million B shares were repaid and the shares listed; and
- on 22 October 2009, the loans relating to a further 1.43 million shares were repaid and the shares transferred to the CSEBT.

These changes to the expected cash flows have been reflected in the adjustments made to the carrying amount of the loans as at 31 December 2009 and result in a credit of £1,139,005 from the acceleration of the discount due to the early repayment of the loans relating to the shares listed and a debit of £532,404 from the extension of the repayment term of the remaining loans.

The events detailed above were the result of three options offered to the holders of B shares. These were to:

1. Continue to hold some or all of their B shares.
2. Transfer a portion of their converted B shares to CSEBT, after settling the loan associated with the unpaid portion of the shares.
3. Place some or all of the converted B shares to third-party institutional investors, after settling the loan associated with the unpaid portion of the shares.

Where a B shareholder either transferred the converted B shares to the CSEBT or placed them with the third-party institutional investor, they became eligible for an award under the Compensatory Award Plan 2009 and entitled to a cash bonus under the Compensatory Award Phantom Dividend plan 2009.

The Compensatory Award Plan entitled the B shareholder to an award of options equivalent to the number of B shares transferred or placed at the transfer or placing price. These options are detailed below:

	Date of Grant and Vesting	Date of expiry	Remaining contractual life, months	2009 Number of share options	Exercise price in (£)
Granted under the Compensatory Award Plan for shares placed	Jul-09	Jul-19	114	9,378,870	1.15
Granted under the Compensatory Award Plan for shares transferred	Oct-09	Oct-19	117	1,428,750	1.69
				10,807,620	

The Group used the Monte-Carlo Simulation model to estimate the fair value of the options. The inputs to the model are as follows:

	2009 £
Expected volatility	30%
Expected share price growth	5%
Discount rate	25%

Expected volatility was determined by calculating the 20-day moving average of the share price since 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. A 20% discount to the quoted market price was applied to the share price used in the valuation model to reflect the size of the tranches of share options and the liquidity in the shares.

These options vest immediately, so the estimated fair value of £4,454,457 is recognised as an expense, at the date of grant, by the Group. Note 25 Share-based payments gives full details of all the options issued during the year.

The Compensatory Award Phantom Dividend plan 2009 entitles the B shareholder to a cash bonus equivalent to the amount of any dividend per share that the Company pays to ordinary shareholders multiplied by the number of share options awarded under the Compensatory Award Plan. This bonus is charged as an expense from the date of approval of a dividend by the Board.

Notes to the financial statements continued

9. Tax

The tax charge comprises:

	1 January 2010 to 31 December 2010 £ 000's	1 January 2009 to 31 December 2009		
		Before non-recurring item £ 000's	Non-recurring item £ 000's	After non-recurring item £ 000's
Current tax				
United Kingdom corporation tax at 28% (2009 – 28%) based on the profit for the period	2,200	2,967	–	2,967
Overseas tax charge bourne by subsidiaries operating in other jurisdictions	5	–	–	–
Adjustment in respect of prior period				
United Kingdom corporation tax	–	(345)	–	(345)
Overseas tax charge borne subsidiaries operating in other jurisdictions	–	(9)	–	(9)
Total current tax	2,205	2,613	–	2,613
Deferred tax				
Credit on account of timing differences	–	(60)	(84)	(144)
Charge on account of timing differences	113	–	–	–
Total deferred tax (refer note 20)	113	(60)	(84)	(144)
Total tax on profit on ordinary activities	2,318	2,553	(84)	2,469

The tax charge for the year differs from that resulting from applying the standard rate of UK corporation tax of 28% (2009: 28%) to the profit before tax for the reasons set out in the following reconciliation.

		1 January 2009 to 31 December 2009		
	1 January 2010 to 31 December 2010 £ 000's	**Before non-recurring item £ 000's**	**Non-recurring item £ 000's**	**After non-recurring item £ 000's**
Profit on ordinary activities before tax	7,142	11,348	(3,848)	7,500
Tax on profit on ordinary activities at the UK corporation tax rate of 28% (2009: 28%)	2,000	3,178	(1,077)	2,101
Tax effect of:				
Depreciation in excess of capital allowances	11	18	–	18
Expenses that are not deductible in determining taxable profits	432	374	1,396	1,770
Non-allowable loss on sale of available-for-sale financial asset	294	–	–	–
Different tax rates of subsidiaries operating in other jurisdictions	(419)	(280)	–	(280)
Income not subject to corporation tax	(94)	(307)	(319)	(626)
Adjustment for IFRS2 relating to staff options	94	(60)	(84)	(144)
Tax effect of utilisation of losses not previously recognised	–	(25)	–	(25)
Adjustment in respect of prior period	–	(345)	–	(345)
Tax expense for the period	2,318	2,553	(84)	2,469

In addition to the amount credited to the income statement, deferred tax relating to share-based payments amounting to £10,353 has been credited directly to equity (2009: £15,639 credited directly to equity).

		1 January 2009 to 31 December 2009		
	1 January 2010 to 31 December 2010 £ 000's	**Before non-recurring item £ 000's**	**Non-recurring item £ 000's**	**After non-recurring item £ 000's**
Deferred tax				
Arising on share-based payments	10	16	–	16
Total income tax recognised directly in equity	10	16	–	16

Notes to the financial statements continued

10. Dividends

Amounts recognised as distributions to equity holders in the period:

	1 January 2010 to 31 December 2010 £ 000's	1 January 2009 to 31 December 2009 £ 000's
Final Dividend for the year ended 31 December 2009 of 5p (December 2008: 5p) per share	3,565	3,637
Interim dividend for the period to 30 June 2010 of 2p (June 2009: 15p) per share	1,425	10,910
Interim dividend for the period to 30 November 2010 of 2p (November 2009: nil) per share	1,426	–
	6,416	14,547

A final dividend of 4p per share has been proposed for the year ended 31 December 2010 (2009: 5p).

11. Earnings per share

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

		1 January 2009 to 31 December 2009		
	1 January 2010 to 31 December 2010 £ 000's	Before non-recurring item £ 000's	Non-recurring item £ 000's	After non-recurring item £ 000's
Earnings				
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	3,726	8,258	(3,764)	4,494
Effect of dilutive potential ordinary shares:				
Share options	–	–	–	–
Earnings of the purposes of diluted earnings per share	3,726	8,258	(3,764)	4,494

	2010 No.	2009 No.
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	71,164,543	72,442,817
Effect of dilutive potential ordinary shares:		
Share options	401,417	234,906
Weighted average number of ordinary shares for the purpose of diluted earnings per share	71,565,960	72,677,723

The denominators for the purposes of calculating both basic and diluted earnings per share have been adjusted to reflect the sub-division of shares on 31 October 2006. The weighted average number of shares considered for the current 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. On 22 October 2009, 1,428,750 shares were transferred to the CSEBT and on 31 March 2010 it acquired a further 90,000 shares. These shares are held by the trust in treasury and have been included in the weighted average number of shares calculation up to these dates.

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 2009	1,038	206	707	1,951
Additions	260	20	125	405
At 31 December 2010	1,298	226	832	2,356
Accumulated depreciation				
At 31 December 2009	(404)	(133)	(542)	(1,079)
Charge for the year	(172)	(57)	(117)	(346)
At 31 December 2010	(576)	(190)	(659)	(1,425)
Net book value				
At 31 December 2010	722	36	173	931
At 31 December 2009	634	73	165	872

Company

	Leasehold improvements £ 000's	Fixtures and fittings £ 000's	IT equipment £ 000's	Total £ 000's
Cost				
At 31 December 2009	1,021	132	562	1,715
Additions	240	8	93	341
At 31 December 2010	1,261	140	655	2,056
Accumulated depreciation				
At 31 December 2009	(385)	(91)	(448)	(924)
Charge for the year	(166)	(37)	(76)	(279)
At 31 December 2010	(551)	(128)	(524)	(1,203)
Net book value				
At 31 December 2010	710	12	131	853
At 31 December 2009	636	41	114	791

13. Available-for-sale investments

	Number of shares held of Plus Markets Group plc	Group and Company 2010 £ 000's	Group and Company 2009 £ 000's
Opening balance (at fair value)	9,970,754	511	763
Fair value changes charged to reserves		48	195
Disposal of shares	(9,970,754)	(559)	(447)
Closing balance (at fair value)	–	–	511

During the year the Group disposed of its entire investment in the ordinary share capital of Plus Markets Group plc.

Notes to the financial statements continued

14. Investments in subsidiaries

	Shares in subsidiary undertakings	
	2010 £ 000's	2009 £ 000's
Company		
Cost		
At 1 January	256	266
Share based payments to employees in Cenkos Channel Islands Limited	–	(10)
At 31 December	256	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 Channel Islands Limited	Guernsey	Provision of investment services	50%
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	Provision of investment services	65%
Indirect holdings			
Cenkos Channel Islands Nominee Limited	Guernsey	Nominee company	100%
Cenkos Jersey Limited	Jersey	Provision of investment services	92%
Cenkos Channel Islands Investment Management Limited	Guernsey	Provision of investment services	100%
Cenkos Channel Islands Services Limited	Guernsey	Provision of investment services	100%
Cenkos Fund Managers Limited	England and Wales	Provision of investment services	70%

In the opinion of the Directors the value of the investments is not less than the amount at which they are stated in the balance sheet.

The assets and liabilities of CSEBT are included in the Group's balance sheet.

15. Investments

	Group 2010 £ 000's	Group 2009 £ 000's	Company 2010 £ 000's	Company 2009 £ 000's
Financial assets at FVTPL				
Trading investments carried at fair value	10,348	7,418	9,546	7,418
Derivative financial assets	443	565	443	565
Held to maturity investments carried at amortised cost	171	170	171	170
Investments – long positions	10,962	8,153	10,160	8,153
Financial liabilities at FVTPL				
Trading investments carried at fair value	(3,481)	(2,058)	(3,481)	(2,058)
Investment – short positions	(3,481)	(2,058)	(3,481)	(2,058)

The investments included above represent investments in listed equity securities that present the Group with opportunity for return through dividend income and trading gains. They have no fixed maturity or coupon rate. 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 26.

The Group's investments have been used as a security with respect to the undrawn borrowing facility of £5 million. For more details, refer to note 17.

16. Trade and other receivables

	Group 2010 £ 000's	Group 2009 £ 000's	Company 2010 £ 000's	Company 2009 £ 000's
Market and client receivables	23,919	28,023	18,623	18,992
Amounts owed by group undertakings	–	–	2,003	2,100
Unpaid share capital and loans due from staff	4,448	4,928	4,448	4,928
Other receivables	962	1,358	600	917
Prepayments and accrued income	2,261	2,048	1,512	1,565
	31,590	36,357	27,186	28,502

The average credit period taken is 22 days (2009: 30 days). A specific provision of £444,427 (2009: £273,937) has been made against debtors deemed to be doubtful.

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 page 12 in the Directors Report.

Credit risk

The Group's principal financial assets are bank balances and cash (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 balance sheet 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 26. In addition, the risk associated with these financial assets is further discussed in note 26.

Notes to the financial statements continued

17. Cash and cash equivalents

	Group		Company	
	2010 £ 000's	2009 £ 000's	2010 £ 000's	2009 £ 000's
Cash and cash equivalents	28,468	19,994	26,295	18,546

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 26)

The cash balance includes £5 million (2009: nil) held in trust against identified liabilities of £2.4 million, relating to the reorganisation of the firm's share capital and reserves (see note 23).

Undrawn borrowing facilities
At 31 December 2010, the Group had an undrawn borrowing facility of up to £5 million (2009: £5 million). The facility is secured against the Group's investments. The actual amount available is the lower of £5 million, the pre-tax profit derived from the last audited accounts and the value of the Group's investments after applying a 50% haircuts. This facility is due to be renewed at the end of April 2011.

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

18. Trade and other payables

	Group		Company	
	2010 £ 000's	2009 £ 000's	2010 £ 000's	2009 £ 000's
Trade creditors	18,220	22,158	13,009	14,148
Amounts owed to group undertakings	–	–	610	18
Corporation tax payable	1,163	1,501	1,104	1,467
Accruals and deferred income	19,420	10,036	18,357	9,335
Other creditors	2,535	1,556	2,085	1,206
	41,338	35,251	35,165	26,174

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

19. Provisions

A provision has been set up in respect of fees relating to a legal case, which has recently been determined.
A breakdown of the provision has not been given as any additional disclosure could, in the opinion of the Directors, prove seriously prejudicial to the interests of the Group.

20. Deferred tax assets

Deferred tax arises in respect of short-term timing differences. The following are the deferred tax liabilities and assets recognised by the Group and the parent Company and movement thereon during the current and prior reporting period.

	Group and Company	
	Short-term timing difference £ 000's	**Total £ 000's**
At 31 December 2008	67	67
Credit to income	144	144
Credit to equity	16	16
At 31 December 2009	227	227
(Charge) to income (refer note 9)	(113)	(113)
Credit to equity	9	9
At 31 December 2010	123	123

21. Share capital

	Group and Company	Group and Company
	2010 £ 000's	**2009 £ 000's**
Authorised:		
179,185,700 (2009 – 179,185,700) ordinary shares of 1p each	1,792	1,792
20,814,300 (2009 – 20,814,300) B shares of 1p each	208	208
	2,000	2,000
Allotted:		
68,311,224 (2009: 66,787,651) ordinary shares of 1p each fully paid	684	668
4,459,946 (2009: 5,948,269) B shares of 1p each, fully paid	44	59
	728	727

1 January 2009 to 31 December 2009

On 8 April 2009, 71,125 ordinary shares of 1p each were issued following the exercise of 71,125 options in accordance with the pre 2006 share option plan.

On 15 April 2009, 40,000 B shares of 1p each were converted with 40,000 ordinary shares of 1p each.

On 21 May 2009, 100,428 B shares of 1p each were converted into 100,428 ordinary shares of 1p each.

On 17 July 2009, 10,571,033 B shares of 1p each were converted into 10,571,033 ordinary shares of 1p each.

On 22 October 2009, 1,428,750 B shares of 1p each were converted into 1,428,750 ordinary shares of 1p each.

On 11 December 2009, 525,820 B shares of 1p each were converted into 525,820 ordinary shares of 1p each.

Notes to the financial statements continued

21. Share capital (continued)

1 January 2010 to 31 December 2010
On 8 March 2010, 1,287,000 B shares of 1p each were converted with 1,287,000 ordinary shares of 1p each.

On 12 April 2010, 94,299 B shares of 1p each were converted into 94,299 ordinary shares of 1p each.

On 24 May 2010, 35,250 ordinary shares of 1p each were issued following the exercise of 35,250 options in accordance with the pre 2006 share option plan.

On 17 August 2010, 85,470 B shares of 1p each were converted into 85,470 ordinary shares of 1p each.

On 22 December 2010, 21,554 B shares of 1p each were converted into 21,554 ordinary shares of 1p each.

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 Group established an employee benefit trust, the Cenkos Securities Employee Benefit Trust (CSEBT). It is funded by the Group and has the power to acquire shares in the open market and from the Group's employees. These shares represent the cost of 1,428,750 shares in Cenkos Securities plc transferred from the employees in settlement of their loan associated with these shares during 2009 (see note 8) and a further 90,000 shares purchased during the year for use by CSEBT to satisfy future share option obligations as and when they arise. As at 31 December 2010, CSEBT owned 1,518,750 ordinary 1p shares (2009: 1,428,750) with a market value of £1,685,813 (2009: £1,688,782).

		2010		2009
	Number of shares	**Cost £ 000's**	**Number of shares**	**Cost £ 000's**
At 1 January	1,428,750	2,037	–	–
Acquired during the year	90,000	110	1,428,750	2,037
At 31 December	1,518,750	2,147	1,428,750	2,037

23. Share premium

	Group and Company 2010 £ 000's	**Group and Company 2009 £ 000's**
At 1 January	22,700	22,700
Cancellation of share premium account	(22,700)	–
At 31 December	–	22,700

On 17 November 2010, the court approved the cancellation of the Company's entire share premium account, which has been used to provide distributable reserves for the Company.

24. Operating lease arrangement

The Group as lessee

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in relation to land and buildings, which fall due as follows:

	Group		Company	
	2010 £ 000's	**2009 £ 000's**	**2010 £ 000's**	**2009 £ 000's**
Within one year	568	593	493	493
In the second to fifth years inclusive	2,048	2,156	1,451	1,904
After five years	468	39	–	39

Operating lease payments represent rentals payable by the Group for its office properties and leases. They are negotiated for an average term of 10 years and rentals are fixed for an average of 4 years.

25. Share-based payments

Equity-settled share option scheme

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

Pre-IPO share option scheme

Options are 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. If the option remains unexercised after a period of 5 years from the date of grant (23rd October 2011), 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.

CSOP

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

LTIP

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.

Notes to the financial statements continued

25. Share-based payments (continued)

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

	2010 Number of shares options	2010 Weighted average exercise price (in £)	2009 Number of shares options	2009 Weighted average exercise price (in £)
Outstanding at beginning of year	16,406,646	1.23	2,250,151	1.20
Granted during the year	2,458,233	1.24	14,227,620	1.23
Exercised during the year	(35,250)	0.01	(71,125)	0.01
Lapsed during the year	(1,475,000)		–	
Outstanding and exercisable at the end of the year	17,354,629	1.24	16,406,646	1.23

	Date of grant	Vesting date	Date of Expiry	Remaining contractual life, months	2010 Number of shares options	2009 Number of shares options
Options exercisable at £0.01 per share	Oct-06	Mar-08	Nov-11	11	–	35,250
Options exercisable at £0.71 per share	Oct-06	Mar-08	Oct-11	10	600,000	600,000
Options exercisable at £1.41 per share	Oct-06	Mar-08	Oct-11	10	462,634	462,734
Options exercisable at £1.92 per share	Mar-08	Mar-11	Sep-11	9	516,042	516,042
Options exercisable at £1.09 per share	Sep-08	Sep-11	Mar-12	15	375,000	375,000
Options exercisable at £1.10 per share	Sep-08	Sep-11	Mar-12	15	165,000	165,000
Options exercisable at £1.18 per share	Sep-08	Sep-11	Mar-12	15	–	25,000
Options exercisable at £0.71 per share	Mar-09	Mar-12	Sep-12	21	500,000	500,000
Options exercisable at £1.00 per share	Mar-09	Mar-12	Sep-12	21	275,000	625,000
Options exercisable at £1.01 per share	Mar-09	Mar-12	Sep-12	21	250,000	250,000
Options exercisable at £1.02 per share	Mar-09	Mar-12	Sep-12	21	–	500,000
Options exercisable at £1.15 per share	Jul-09	Jul-09	Jul-19	103	9,378,870	9,378,870
Options exercisable at £1.38 per share	Oct-09	Oct-12	Jan-13	25	250,000	250,000
Options exercisable at £1.43 per share	Oct-09	Oct-12	Jan-13	25	170,000	170,000
Options exercisable at £1.69 per share	Oct-09	Oct-09	Oct-19	106	1,428,750	1,428,750
Options exercisable at £1.70 per share	Oct-09	Oct-12	Jan-13	25	1,125,000	1,125,000
Options exercisable at £1.12 per share	Mar-10	Mar-13	Sep-13	33	333,333	–
Options exercisable at £1.24 per share	Mar-10	Mar-13	Sep-13	33	275,000	–
Options exercisable at £1.28 per share	Mar-10	Mar-13	Sep-13	33	825,000	–
Options exercisable at £1.44 per share	Mar-10	Mar-13	Sep-13	33	250,000	–
Options exercisable at £1.03 per share	Nov-10	Nov-13	May-14	41	175,000	–
Options exercisable at the end of 31 December					17,354,629	16,406,646

The options outstanding at 31 December 2010 have a weighted average exercise price of £1.24 (2009: £1.23) and a weighted average remaining contractual life of 6 years (2009: 9 years). At the date of grant, they had an estimated fair value of £6,269,505.

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

	2010	2009
Expected volatility	30%	30%
Expected share price growth	5%	5%
Discount rate	25%	25%

Expected volatility was based on the 20-day moving average of the Cenkos 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. A 20% discount to the quoted market price was applied to the share price used in the valuation model to reflect the size of the tranches of share options and the liquidity in the shares.

During the period, the Group recognised expenses of £375,264 (2009: £4,678,674) related to equity-settled share-based payment transactions with regard to issue of share options and other share-based payment expenses of £194,454 (2009: £1,105,904) with regard to the interest component on loans given to employees for subscribing to the Group's issue of B class shares during the period.

26. Financial Instruments

Capital risk management

The Group manages capital to ensure that Group entities will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. 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 ongoing basis. As at 31 December 2010, Cenkos Securities plc had a solvency ratio of 212% (2009: 204%). This is based upon audited profits excluding those generated during 2010.

Externally imposed capital requirement

The Group has to retain sufficient capital to satisfy the UK's Financial Services Authority's 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's minimum requirements and has complied with these requirements during 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
	2010 £ 000's	2009 £ 000's
Financial assets at fair value through profit and loss (FVTPL)		
Trading investments carried at fair value	10,348	7,418
Derivative financial assets	443	565
Held to maturity investments carried at amortised cost	171	170
Loans and receivables (including cash and cash equivalents)	56,835	52,945
Available-for-sale financial assets	–	511
Financial liabilities at fair value through profit and loss (FVTPL)		
Trading investments carried at fair value	3,481	2,058
Amortised cost	32,827	32,505

Notes to the financial statements continued

26. Financial Instruments (continued)

Financial risk management objectives

The Group's 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 executive Directors 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 balance sheet 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 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 derivatives and non-derivative instruments at the balance sheet date. For floating rate assets, the analysis is prepared based on the average balance due on the asset through the year. A 10 basis points increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change 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 2010 would increase/decrease by £0.02 million (2009: 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 £0.02 million (2009: increase/decrease by £0.01million)

Other price risks

The Group is exposed to equity price risks arising from equity investments. The shares included above represent investments in listed equity securities that present the Group with opportunity for return through dividend income and trading gains. Equity investments designated as available for sale are held for strategic rather than trading purposes. The Group does not actively trade these investments.

Equity price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If equity prices had been 10% higher/lower:

- net profit for the year ended 31 December 2010 would have been £0.75 million higher/lower (2009: £0.61 million higher or lower) due to change in the value of FVTPL held-for-trading investments; and
- other equity reserves would increase/decrease by £nil (2009: increase/decrease by £0.05 million) for the Group as a result of the changes in fair value of available-for-sale shares.

The Group's sensitivity to equity prices has not changed significantly from prior year.

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 on a daily basis. 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. 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 bankruptcy, lack of liquidity, operational failure and other reasons. 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 the Group to a risk as a principle to a trade; rather the Group's exposure lies only with Pershing – a wholly owned subsidiary of the Bank of New York, a AA (2009: 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 a FSA regulated market counterparty, rather than a corporate or individual trader.

Cash resources also give rise to credit risk and these are presently deposited with HSBC Bank plc. The banks with which we deposit money are reviewed on an annual basis by the Board.

Trade receivables not related to the settlement of market transactions consist of outstanding corporate finance retainers and fees and are spread across a range of industries. As they relate to clients of ours they are subject to a review by the Group Risk and Compliance Committee on a monthly basis. In addition the New Business Committee considers, amongst other issues, the financial soundness of any client taken on.

In 2006 we issued various tranches of partly paid B shares to a number of our employees. 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 the reporting date these had a carrying value of between 77p and 93p per share, whilst the Company's share price was 111p. 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. At the reporting date, there were no shares with a negative intrinsic value (2009: nil).

The Group does not have any significant credit risk exposure to any single counterparty with the exception of Pershing and HSBC.

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.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board. It has, however, delegated this 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 liquidity mismatches, financial liabilities are on the whole short-term and the Group has sufficient cash retained to cover all of these liabilities.

Notes to the financial statements continued

26. Financial Instruments (continued)

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 includes both interest and principle 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 except where the Group anticipates that the cash flow will occur in a different period.

31 December 2010		Weighted average effective interest rates	Less than 1 year £ 000's	1-5 years £ 000's	Total £ 000's
Available-for-sale investments	Non-interest bearing		–	–	–
Investments – long positions	Fixed interest rate instruments	12%	–	171	171
Investments – long positions	Non-interest bearing		10,348	443	10,791
Trade and other receivables	Non-interest bearing		27,142	–	27,142
Investments – short positions	Non-interest bearing		(3,481)	–	(3,481)
Trade and other payables	Non-interest bearing		(41,338)	–	(41,338)
Trade and other receivables	Fixed interest rate instruments	5%	–	4,448	4,448
Cash and cash equivalents	Variable interest rate instruments	0.25%	28,468	–	28,468
			21,139	5,062	26,201

31 December 2009		Weighted average effective interest rates	Less than 1 year £ 000's	1-5 years £ 000's	Total £ 000's
Available-for-sale investments	Non-interest bearing		–	511	511
Investments – long positions	Fixed interest rate instruments	12%	–	170	170
Investments – long positions	Non-interest bearing		7,418	565	7,983
Trade and other receivables	Non-interest bearing		31,429	–	31,429
Investments – short positions	Non-interest bearing		(2,058)	–	(2,058)
Trade and other payables	Non-interest bearing		(35,251)	–	(35,251)
Trade and other receivables	Fixed interest rate instruments	5%	–	4,928	4,928
Cash and cash equivalents	Variable interest rate instruments	0.25%	19,994	–	19,994
			21,532	6,174	27,706

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	
	2010 £ 000's	2009 £ 000's	2010 £ 000's	2009 £ 000's
Financial assets				
Loans and receivables	4,448	4,928	4,653	5,287

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).

				2010
	Level 1 £ 000's	**Level 2 £ 000's**	**Level 3 £ 000's**	**Total £ 000's**
Financial assets at FVTPL				
Derivative financial assets	–	443	–	443
Non-derivative financial assets held for trading	10,519	–	–	10,519
Total	10,519	443	–	10,962
Financial liabilities at FVTPL				
Non-derivative financial liabilities held for trading	3,481	–	–	3,481

				2009
	Level 1 £ 000's	**Level 2 £ 000's**	**Level 3 £ 000's**	**Total £ 000's**
Financial assets at FVTPL				
Derivative financial assets	–	565	–	565
Non-derivative financial assets held for trading	7,588	–	–	7,588
Available-for-sale financial assets	–	511	–	511
Total	7,588	1,076	–	8,664
Financial liabilities at FVTPL				
Non-derivative financial liabilities held for trading	2,058	–	–	2,058

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

Liquidity and interest risk tables

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 ongoing basis include trading assets and liabilities and financial investments classified as available-for-sale.

Notes to the financial statements continued

26. Financial Instruments (continued)

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. Where Cenkos believes that there are additional considerations not included within the valuation model, appropriate adjustments may be made. Examples of such adjustments are:

- Market data/model uncertainty: an adjustment to reflect uncertainties in fair values based on unobservable market data inputs (for example, as a result of illiquidity) or in areas where the choice of valuation model is particularly subjective.

27. Related party transactions

Transactions between the company and its subsidiaries, which are related parties have been eliminated on consolidation and are not disclosed in this note.

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*.

	1 January 2010 to 31 December 2010 £ 000's	1 January 2009 to 31 December 2009 £ 000's
Emoluments	1,273	2,224

There were no Directors who were members of a defined benefit pension scheme as at the year end (2009: nil).

Remuneration of the highest paid Director

	£ 000's	£ 000's
Emoluments	1,002	969

Directors' Interests in Ordinary Shares of Cenkos Securities plc

The Directors in office at the year end had interests in the ordinary share capital of the Company as shown below:

Name of director	31 December 2010	31 December 2009	Percentage interest as at 31 December 2010
Simon Melling	50,000	–	0.069%
Oliver Ellingham	30,000	–	0.041%
Jeff Hewitt	17,480	2,830	0.024%

Directors' Interests in Share Options

	2010		2009	
	Number of share options	Weighted average exercise price (in £)	Number of share options	Weighted average exercise price (in £)
Outstanding at beginning of period	2,027,046	£1.34	1,027,046	£1.00
Granted during the period	–	–	1,000,000	£1.69
Exercised during the period	–	–	–	–
Lapsed during the year	–	–	–	–
Former Directors interest*	(600,000)	£0.71		
Outstanding and exercisable at the end of the period	1,427,046	£1.49	2,027,046	£1.34

No options were granted to Directors during the year. (2009: 1,000,000 on 9 October 2009). None of the Directors exercised options over the shares during the period (2009: nil) and none lapsed (2009: nil).

* John Hodson resigned as a Director of the Company on 29 March 2010. He holds 600,000 options which were granted on 23 October 2006, prior to the Company's admission to AIM. On 23rd February 2010, the Board agreed John Hodson could retain the options until their expiry date of 23 October 2011.

28. Subsequent events

Subsequent to the year end, there have been no events which have had a material impact on the estimates and provisions made within 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 14 April 2011 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 10 and 11, which will be proposed as special resolutions:

1. **That** the Company's Annual Accounts for the year ended 31 December 2010, together with the Directors' Report and the Auditor's Report on those accounts, be received.

2. **That** the Company's Directors' Remuneration Report for the year ended 31 December 2010 be received.

3. **That** a final dividend of 4 pence per share for the year ended 31 December 2010 as recommended by the Directors be declared payable on 28 April 2011 to shareholders on the register at the close of business on 25 March 2011.

4. **That** Simon Melling be re-elected as a Director of the Company.

5. **That** David Henderson, who has been appointed as a director of the Company since the last Annual General Meeting, be elected as a Director of the Company.

6. **That** Oliver Ellingham, who has been appointed as a director of the Company since the last Annual General Meeting, be elected as a Director of the Company.

7. **That** Deloitte LLP be re-appointed as auditor to the Company until the conclusion of the next Annual General Meeting of the Company.

8. **That** the Directors be authorised to fix the auditor's remuneration.

9. **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):

9.1. 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 £242,546.31 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 2012 (unless previously revoked or varied by the Company in general meeting); and further

9.2. 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 £242,546.31 during the period expiring at the conclusion of the Annual General Meeting of the Company to be held in 2012 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

9.3. 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.

10. **That**, subject to the passing of Resolution 9 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:

10.1. 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 9.2 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

10.2. the allotment (otherwise than pursuant to sub-paragraph 10.1 above) of equity securities up to an aggregate nominal value not exceeding £36,385.59,

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 2012, 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.

11. **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:

11.1. the maximum number of ordinary shares hereby authorised to be purchased is 6,762,811 (representing approximately 9.9% of the Company's issued ordinary shares at the date of this Resolution);

11.2. 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;

11.3. 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;

11.4. 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

11.5. 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.

By order of the Board

Stephen Doherty
Company Secretary

11 March 2011

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 12 April 2011 (being not less than 48 hours before the Meeting) at the offices of the Company's registrars, Capita Registrars, The Registry, 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 12 April 2011 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.

Explanatory notes to the notice of Annual General Meeting

Resolution 1 – Company's annual report and accounts 2010 (ordinary resolution)

Company law requires the Directors to present to the Annual General Meeting the Annual Accounts, the Directors' Report and the Auditor's 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 2010 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 2010, which is recommended by the Board, requires the approval of the shareholders at the Annual General Meeting.

Resolution 4 – Re-election of a director (ordinary resolution)

The articles of association of the Company (the 'Articles') require certain of the Directors to retire by rotation at each Annual General Meeting. At the Annual General Meeting, Simon Melling will retire and offer himself for re-election. Resolution 4 proposes his re-election.

Resolutions 5 and 6 – Election of directors (ordinary resolutions)

The Articles require that each of David Henderson and Oliver Ellingham retire at the conclusion of the Annual General Meeting because each of them has 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 5 and 6 propose their respective elections as Directors.

Resolutions 7 and 8 – Re-appointment of the auditor 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 auditor, Deloitte LLP, on behalf of the Board, who now propose their re-appointment as the auditor of the Company. Resolution 8 authorises the Directors, in accordance with standard practice, to negotiate and agree the remuneration of the auditor. In practice, the Audit Committee will consider the audit fees for recommendation to the Board.

Resolution 9 – Authority to allot shares (ordinary resolution)

Resolution 9 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 £485,092.62, being approximately 66% of the nominal value of the issued share capital of the Company as at 11 March 2011 (being the latest practical date prior to the publication of the Annual Report and Accounts), including the 4,459,946 B shares of 1 penny each in the capital of the Company (the 'B Shares') which were then in issue. £242,546.31 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 2012. The Directors have no present intention of exercising such authority. The Resolution replaces a similar resolution passed the Annual General Meeting held in 2010.

Explanatory notes to the notice of Annual General Meeting continued

Resolution 10 – Disapplication of pre-emption rights (special resolution)

If the Directors wish to allot unissued 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 11 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 10 asks shareholders to grant the Directors authority to allot equity securities for cash up to an aggregate nominal value of £36,385.59 (being 5% of the Company's issued share capital as at 11 March 2011) 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 9.1 and/or 9.2, 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 the end of the Annual General Meeting of the Company in 2012. The Resolution replaces a similar resolution passed at the Annual General Meeting of the Company held in 2010.

Resolution 11 – Authority to purchase the Company's own ordinary shares (special resolution)

Resolution 11 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 11 March 2011. 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 Annual General Meeting held in 2010. 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 16,291,995 ordinary shares (this includes 10,807,620 options awarded under the 2009 Compensatory Award Plan) ordinary shares have been granted and are outstanding as at 11 March 2011 (being the latest practicable date prior to publication of this document) representing 23.85% 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 11, the options outstanding as at 11 March 2011 would represent 26.48% of the ordinary share capital in issue following such exercise.

Printed by **Rubicon** Corporate Print
R1816

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