



 CENKOS



Cenkos Securities plc  
Annual Report 2013

## Summary information

Cenkos Securities plc (“the Company” or “Cenkos”) together with its subsidiaries (“the Group”) is an independent, specialist institutional securities group, focused on UK small and mid-cap companies and investment funds. The Company’s principal activity is institutional stockbroking.

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

### Highlights

	31 December 2013	31 December 2012
Revenue from continuing operations – up 19%	<b>£51.4m</b>	£43.2m
Operating profit from continuing operations – up 63%	<b>£10.6m</b>	£6.5m
Profit before tax from continuing operations – up 53%	<b>£10.7m</b>	£7.0m
Basic and diluted earnings per share from continuing operations – up 92%	<b>14.2p</b>	7.4p
Basic and diluted earnings per share from continuing and discontinued operations – up 17%	<b>14.2p</b>	12.1p
Final dividend per share proposed – up 113% – Interim dividend paid 3.5p (2012: 3.5p)	<b>8.5p</b>	4.0p
Cash – up 36%	<b>£30.3m</b>	£22.3m
Capital resources in excess of Pillar 1 and 2 regulatory capital requirements – up 8%	<b>£6.2m</b>	£5.8m
Nominated adviser, corporate broker or financial adviser to	<b>125 companies</b>	119 companies

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## Information for shareholders

### Directors

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

### Company Secretary

Stephen Doherty

### Company Registration Number and Country of Incorporation

05210733, England & Wales

### Registered Office

6.7.8 Tokenhouse Yard  
London  
EC2R 7AS

### Bankers

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

### Financial Calendar 2014

March	Year end results announced
May	Annual General Meeting and final dividend paid
September	Half year results announced
November	Interim dividend paid

### Nominated Adviser & Broker

HSBC  
8 Canada Square  
London  
E14 5HQ

### Solicitors

Travers Smith LLP  
10 Snow Hill  
London  
EC1A 2AL

Ashurst LLP  
Broadwalk House  
5 Appold Street  
London  
EC2A 2HA

### Auditors

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

### Registrars

Capita Asset Services  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

### Website

[www.cenkos.com](http://www.cenkos.com)

## The board of directors of Cenkos Securities plc

### Non-executive Directors

#### Gerry Aherne (68)

Non-executive Chairman

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

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

#### Jeff Hewitt (66)

Non-executive Director

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

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

#### Dr. Anthony Hotson (60)

Non-executive Director

Anthony was appointed a Non-executive Director of the Company in May 2012. Anthony joined the Bank of England in 1978 and worked in the Economics Division, Governors' Office and Money Markets Division. He subsequently worked for McKinsey & Company and then the corporate finance division of S.G. Warburg & Co. Ltd. He was a Director of S.G. Warburg & Co. Ltd. from 1992 to 1995 and subsequently Managing Director and Head of the Financial Institutions Group, SBC / UBS Warburg until 1998. He was a Non-executive Director of Henderson Group plc from 2002 to 2009 and Chairman of its subsidiary companies, London Life and Towry Law, before their sale.

Anthony has an MPhil in Economics from Nuffield College, Oxford, and a PhD from the Courtauld Institute of Art. He is a member of Wolfson College, Oxford and a Research Associate at the Centre for Financial History, Cambridge.

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

### Executive Directors

#### Mike Chilton (49)

Finance Director

Mike was appointed to the Board in June 2012. Mike has over 25 years of financial services experience and joined the Company in April 2011 from NS&I (National Savings and Investments) where he was Finance and Risk Director. Prior to this, Mike worked for 10 years at Standard Chartered plc in a variety of senior finance and risk roles, including Group Head of Operational Risk and Chief Financial Officer for their Africa Region.

After qualifying as a Chartered Accountant with PWC, Mike spent several years with them as a management consultant in their financial services practice. Mike is also a Trustee and the Honorary Treasurer of Sightsavers (the Royal Commonwealth Society for the Blind).

## The board of directors of Cenkos Securities plc continued

### **Jim Durkin (54)**

Chief Executive Officer

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

### **Paul Hodges (54)**

Executive Director

Paul was appointed to the Board in June 2012. Paul has over 30 years' experience in the UK securities industry having first joined Laurie Milbank as an insurance analyst in 1981. He subsequently worked for a number of financial institutions and was a top ranked composite insurance analyst in the City for several years, specialising in the assessment of insurers' exposure to long-tail liability claims relating to tobacco and lead. Paul was one of the founder shareholders of Cenkos in 2004.

### **Joe Nally (62)**

Executive Director

Joe was appointed to the Board in June 2012. Joe has over 35 years' experience in the UK securities industry having first joined Williams de Broe in 1976 as an investment analyst. He went on to become a stockbroker covering a wide range of institutions in the UK and Europe. In 1992 he was a founder of the institutional corporate finance department at Williams de Broe where he gained extensive experience across a broad range of sectors in IPO's, secondary fund raising and takeovers and mergers, particularly in natural resources. Joe was one of the founder shareholders of Cenkos in 2004 and has significant expertise in the mining and oil and gas sectors. He is the Head of the Natural Resources team.

### **Jeremy Warner Allen (59)**

Executive Director

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

## Strategic report

### Introduction

The Directors are pleased to present Cenkos' first Strategic Report. This includes an overview of our strategy, business model and how the business has performed, our financial position as at the year end and the principal risks to which the Company is exposed, as well as comments on future prospects for the business.

We are pleased to report that revenues and profits were well ahead of last financial year as the economy showed signs of recovery in the second half of 2013. Cenkos is rated as one of the leading brokers in London for growth companies. Adviser Rankings' guide for January 2014 ranks the Company as the number one Nominated Adviser ("Nomad") and the number two stockbroker by number of AIM clients.

The strong results have been achieved against a backdrop of recovering equity markets. Our business model ensures a relatively low fixed cost base and a remuneration structure highly geared to performance. We maintain a positive operating cash cycle and a limited exposure to credit and market risk. This, combined with the high quality, dedication and experience of our employees, has enabled Cenkos to produce this excellent performance.

### Our strategy

The Company was founded in 2005 and over the past nine years has established a successful platform that has been profitable in every year of its existence and delivered strong returns to shareholders. Our prime strategy is to build from these solid foundations to become the principal UK institutional broker to growth companies and investment funds admitted to trading or listed on a UK market. We aim to achieve this through:

- understanding the needs of our clients, enabling us to provide successful fund raising and advice through an innovative and entrepreneurial approach;
- delivering sustainable, diversified and growing income streams;
- adding high quality individuals to the teams; and
- managing costs and risks carefully.

thereby providing value through earnings growth and attractive cash returns to shareholders.

### Our business model

We provide a corporate broking and securities service to small and mid-cap growth companies across a wide range of industry sectors including investment funds. We focus on companies that seek admission of their shares to trading on AIM or the LSE's main market, or companies that are already listed on those markets. For growing companies that require access to capital and international exposure, AIM's flexibility, with its Nomad arrangements, provides a firm foundation for financing and corporate development. We offer our clients advice and access to equity finance at all stages of their development.

#### *Revenue streams*

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

## Strategic report continued

As corporate broker, our clients' Boards engage us to:

- create and maintain supportive shareholder registers;
- provide an informed and effective interface with shareholders and potential investors;
- provide appropriate dealing liquidity in our clients' shares; and
- advise on all pertinent market and regulatory issues.

### *Management systems and controls*

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

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

### *Culture and people*

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

## **Our key objectives and key performance indicators ("KPIs")**

Our key objectives are to:

- grow the business through maintaining and increasing the number of corporate clients we advise, helping them achieve their strategies, e.g. through the provision of advice and fund raising capabilities, ensuring we have the right calibre and quantity of staff deployed to support this; and
- reward our shareholders through ensuring that we are a profitable and generate a high return on equity business (within acceptable risk limits), leading to an attractive dividend yield and strong share price growth.

Our KPIs include, but are not limited to, measures such as:

- profit before tax, earnings per share;
- the size and quality of our corporate client base (Nomad/broker appointments); and
- various key risk indicators, including capital resources and cash.

Our main KPIs are noted in the Summary Information section of this Annual Report on page 1, and they are also commented on pages 7 and 8.



## Review of the year

### Financial results

#### *Overall performance*

We are pleased to report that in 2013 we have materially increased our profitability and continued to grow our client base. As at 31 December 2013, we were Nomad, broker or financial adviser to 125 companies or trusts (2012: 119). Largely due to an improved period of trading – notably equity fundraising for our clients – full year revenues rose by 19% to £51.4 million when compared to 2012. We experienced a strong second half of 2013 when compared to the first half of 2013. Revenues and profit before tax for the second half of 2013 were £31.4 million and £7.6 million respectively as compared to H1 2013 revenues of £20.0 million and profit before tax of £3.1 million.

Profit before tax on continuing operations was £10.7 million (2012: £7.0 million). As noted below, this 53% increase reflected a strong rise in revenues partially offset by a rise in performance-related pay. This growth rate demonstrates the operational leverage of our business.

We continue to maintain a firm control over risk, enjoy healthy cash levels and remain well capitalised above the minimum regulatory requirements.

#### *Revenues*

Total revenue from continuing operations for the year increased by 19% to £51.4 million (2012: £43.2 million) due largely to a higher level of corporate activity – including fundraising – by our expanding list of corporate clients. As 31 December 2013, we were Nomad, broker or financial adviser to 125 companies or trusts (2012: 119).

This is a satisfactory result given the recovery that UK equity markets are now beginning to experience. During the year we completed 47 transactions, including 6 primary issuances.

We are ranked as one of the leading brokers in London for growth companies, as noted in Adviser Rankings' January 2014 'AIM Adviser Rankings Guide', where we were ranked top Nomad for Oil and Gas companies and the number two Nomad for both Financials and Industrial companies by number of AIM clients.

We make markets in the securities of all the companies where we have a broking relationship to support the other services we provide to our clients. We actively provide liquidity to the market and facilitate institutional business in both small and large cap equities. Our trading desks make markets in the shares of 341 (2012: 342) companies and investment trusts. We continue to actively restrict the amount of capital committed to this activity to limit market risk exposure without adversely affecting the revenue generated.

The pressure on secondary commissions shows no sign of relenting, but we are confident that we can prosper in this environment because of our flexible cost model in which remuneration is linked to net income. Our execution business is primarily focused on client facilitation. We believe that this offering continues to enhance Cenkos' overall service offering to our expanding client base.

#### *Costs, profit and earnings per share*

Costs of continuing operations rose by £4.2 million (11%) in the year, primarily driven by higher levels of staff costs including performance-related pay. Operating profit from continuing operations rose 63% to £10.6 million (2012: £6.5 million) and profit before tax from continuing operations was up 53% to £10.7 million (2012: £7.0 million), reflecting that higher revenues were only partially offset by higher performance-related pay. Additionally, as noted in note 10 of these financial statements, payments to staff under the Compensatory Award Plan 2009 ("CAP") are triggered by the payment of a dividend to ordinary shareholders. Consequently, costs of £1.7 million have been recognised within administrative expenses in 2013 for this (2012: £1.1 million). The tax charge for the year from continuing operations was £2.1 million (2012: £1.9 million), which equates to an effective rate of tax of 20% (2012: 26%). This lower tax charge reflects both the fall in corporation tax rates in the year and a £0.5 million deferred tax credit arising on staff share options due to the rise in the Company's share price by year end. Basic and diluted earnings per share from continuing operations rose by 92% to 14.2p (2012: 7.4p).



## Strategic report continued

### *Discontinued operations*

We sold our controlling interest in our offshore fund and wealth management business, Cenkos Channel Islands Limited ("CCIL" – now renamed "Ravenscroft"), in April 2012, reducing our stake from 50% to 10%. This 10% residual stake was then sold in October 2012. As noted in our 2012 Annual Report, we generated £3.3 million profit after tax on discontinued operations in 2012.

As described in note 3 of these financial statements, subsequent to these disposals, we changed the way our business is assessed and how performance is reviewed and consequently we have consolidated our reportable segments into one. This reflects the fact that we are managed as an integrated UK-based institutional stockbroking business.

### *Financial position and cash flow*

As at 31 December 2013, our net trading investments were £9.4 million (2012: £6.9 million). Cash held at 31 December 2013 was £30.3 million (2012: £22.3 million). The year to 31 December 2013 saw an inflow of cash and cash equivalents of £8.1 million (2012 inflow: £8.3 million). The inflow in 2013 reflects a number of factors including our profitable trading in 2013 and the receipt of share premium due on partly-paid Cenkos B shares, offset partly by dividends paid to our shareholders.

### **Dividend and capital levels**

We intend to retain sufficient capital and reserves to meet our regulatory capital and cash requirements, after taking into account likely future working capital needs and potential growth requirements. As at 31 December 2013, we had a capital resources surplus of £6.2 million (2012: £5.8 million) in excess of our Pillar 1 and 2 regulatory capital requirements. Surplus capital rose by £0.4 million when compared to 2012 due to profitable trading in 2013 and the receipt of £2.7 million of premiums to fully pay up 2.7 million Cenkos B shares, offset by dividends paid. See note 20 to the financial statements for further details of capital movements.

Since our flotation onto AIM in October 2006, we have paid out 76p in dividends prior to the 8.5p proposed final dividend for 2013 and bought back 9.3 million shares at a cost of £6.5 million for cancellation, thereby increasing the Company's prospective earnings per share. During the year, we bought back and cancelled 0.4 million shares at a cost of £0.3 million (2012: 8.9 million shares at a cost of £6.3 million). 0.3 million shares were purchased in the year by the Cenkos Securities Employee Benefit Trust ("EBT") at a cost of £0.3 million (2012: 1.3 million shares for £0.8 million). Additionally, the unpaid premium of £2.7 million due on the remaining 2.7 million B shares was received in the year. Whilst the B shares were not admitted to trading on AIM, upon payment of the required premium the B shares were converted into Ordinary shares and admitted to trading on AIM. The outstanding amounts due in respect of the B shares that had previously been issued have now been fully paid.

The Board proposes a final dividend of 8.5p per share (2012: 4.0p per share). This makes a total dividend of 12p for the year (2012: 7.5p). The payment of this final dividend will trigger payments to staff under the CAP of £2.0 million in the first half of 2014 (2012 final dividend of 4p increased staff costs by £1.0 million in the first half of 2013). In setting the level of the final dividend, the Board considered, inter alia, the £0.5 million non-cash deferred tax credit recognised in 2013 and the increase in payments due to staff in 2014 under the CAP scheme as compared to 2013, as well as regulatory capital and cash requirements, working capital needs and potential growth requirements.

Subject to approval at the Annual General Meeting to be held on 16 May 2014, the final dividend will be paid on 28 May 2014 to all shareholders on the register at 2 May 2014. In line with existing shareholder authorisation, the Board will continue to assess opportunities for share buy-backs and the funding of share purchases by the EBT where this is beneficial to shareholders.

### **People**

The continued professionalism of our employees has enabled us to achieve a robust performance for the year. We continue to look to recruit staff who are attracted by our culture and business model. We endeavour to remunerate our staff to a level and in a manner which not only retains but also motivates them to perform in line with the longer-term growth objectives of the Company. Their skill, commitment and determination will continue to provide us with a solid platform on which to continue to build our franchise.

## Principal risks

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

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

### *Reputational risk*

We believe that one of the greatest risks we face comes from the potential damage to our reputation. All new business proposals are subject to a rigorous appraisal process and due consideration by the New Business Committee to ensure that new business proposals meet our strict criteria.

### *Operational risk*

Operational risk is the risk that we will suffer a loss directly or indirectly from inadequate or failed internal processes, people, systems or external events. Our control functions and senior management continually review our risk framework to ensure that it properly reflects the risks to which we are exposed and that any significant operational risks and their associated controls are reviewed, tested, assessed and, where applicable, corrective action plans put in place. There is also an ongoing process for identifying, evaluating and managing the significant risks we face, including fraud. Our low cost and responsive business model relies on consistent delivery from our key suppliers for our trading and settlement systems. We maintain regular dialogue and meetings with these suppliers and ensure there is appropriate oversight of the risks associated with outsourcing. We continuously review our business continuity plans and have disaster recovery facilities in place in order to mitigate any substantial disruption to our operations. In February 2014 our business continuity plan was tested. No issues of concern were raised in respect of this test.

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

### *Regulatory risk*

We have established a strong culture of regulatory and legal compliance to ensure adherence to applicable regulation, focusing particularly on our ongoing obligations and responsibilities as an AIM Nomad and a UK Listing Authority ("UKLA") Sponsor. We continue to ensure that the appropriate systems and controls, reporting, capital and liquidity requirements are in place to meet the ongoing obligations of an FCA regulated (BIPRU Investment) firm. As at 31 December 2013 our capital resources were £6.2 million (2012: £5.8 million) in excess of Pillar 1 and 2 regulatory requirements. In light of the increasing regulatory burden being placed on regulated entities such as ourselves, we continue to enhance our systems, processes and controls, including the implementation of new regulatory processes associated with Basel III / Capital Requirements Directive IV.

## Strategic report continued

### *People risk*

Our employees are our greatest asset and the future success of the Company depends on our ability to attract and retain high quality employees. We seek to minimise this risk by creating the right culture and working environment and by rewarding employees through an overall remuneration package that is geared towards performance and aims to align the interests of both employees and shareholders. We therefore continue to pursue a policy of maintaining a low fixed cost base including low basic salaries and rewarding net income generation, after consideration of relevant risk factors. Due to our size, we do not need to apply the regulatory changes that apply in 2014 to 'bankers' bonus' arrangements. Any future changes to this regulation may mean that we have to change the remuneration arrangements of certain members of staff. People risk is also mitigated via a senior management succession planning process overseen by the Remuneration Committee.

### *Litigation risk*

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

### *Credit risk*

Although our transaction fees are generally paid out of the proceeds of any funds raised, we face some credit risk in respect of collecting fees due for other advice provided, such as Nomad fees. We are exposed to limited credit risks in the normal course of business as our market making activities are carried out on a delivery versus payment basis. Hence any counterparty exposure here will manifest itself as either an operational risk (in the form of settlement risk) or a market risk in terms of an underlying exposure to equities. Overdue fees are reviewed regularly and appropriate action taken to ensure recoverability. The banks with which we deposit money are reviewed on an annual basis by the Board and are required to have at least an investment grade credit rating. A number of banks are used in order to limit the concentration risk in relation to cash deposits. Our credit risk materially reduced in the year as we received full payment for the share premium due on Cenkos' B shares – see note 20 to these financial statements for more details.

### *Market risk*

We are exposed to market risk arising from our positions in predominantly market making stocks in AIM listed companies. To mitigate this risk we manage our market risk by establishing individual stock position limits and overall trading book limits. There are daily procedures in place to monitor any position limit excesses. These limits are reviewed on an ongoing basis by the Chief Executive Officer and also by the Risk and Compliance Committee. We do, from time to time, take shares in lieu of fees subject to appropriate internal signoffs. Some stocks traded on AIM are subject to low levels of underlying liquidity.

### *Liquidity risk*

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

Financial risks are also discussed in more detail in note 24 to the financial statements and include capital, equity price risk, credit risk and liquidity risk. Our internal control and risk management processes are discussed in more detail in the Corporate Governance report in this Annual Report. It is not anticipated that our risk profile will change materially in 2014.

## **Outlook**

I am pleased to report a healthy performance for 2013. We have materially increased our profitability and earnings per share on continuing operations. We strengthened our position as one of the leading brokers and Nominated Advisers in London for growth companies. I would like to thank all of our clients and staff for their continued support.

We have made a very encouraging start to the new year with 2014 revenues to date being materially ahead of the same period in 2013 and the current pipeline is strong.

## **Jim Durkin**

Chief Executive Officer

25 March 2014

## **Forward-looking statements**

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

## Directors' report

The Directors present their report and the audited financial statements for the year ended 31 December 2013.

### Principal activities

Cenkos is an independent, specialist institutional securities business, focused on UK small and mid-cap companies and investment funds. The Company's principal activities comprise corporate finance, broking and advisory services.

### Business review and future developments

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

### Results and dividends

The consolidated results for the year are set out in the Consolidated income statement on page 29.

An interim dividend of 3.5p per share was paid to shareholders on 7 November 2013 (2012: interim dividend of 3.5p per share). The Directors recommend the payment of a final dividend of 8.5p per share in respect of the year ended 31 December 2013 (2012: final dividend of 4p per share). The total interim and final dividend in respect of the year ended 31 December 2013 is 12p (2012: 7.5p). Subject to approval at the Annual General Meeting to be held on 16 May 2014, the dividend will be paid on 28 May 2014.

### Directors

The names of the Directors of the Company appear on page 2. The Directors have served throughout the year and at the forthcoming Annual General Meeting all the Directors will offer themselves for re-election.

### 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 2013 the issued share capital of the Company was £634,821 (2012: £638,379). This comprised of 63,482,122 ordinary shares of 1p each, which are admitted to trading on AIM (2012: 61,153,717 ordinary shares of 1p each and 2,684,243 B shares of 1p each, which were not admitted to trading on AIM). All shares had equal voting rights.

The B shares were issued on a partly-paid basis to certain employees prior to the Company's admission to AIM in October 2006. Holders of the B shares were 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 converted automatically into ordinary shares and were admitted to trading on AIM. During the year, following the payment of the required premium, the remaining 2,684,243 B shares, with a nominal value of 1p each, were converted into 2,684,243 ordinary shares with a nominal value of 1p each.

During the year a total of 355,837 (2012: 8,933,211) ordinary shares in the Company were purchased by the Company at prices ranging from 75p to 90p per share for cancellation.

Authorisation to purchase up to 9.9% of the Company's ordinary issued share capital was given by shareholders at the Annual General Meeting of the Company held on 10 May 2013. The Board considers that it would be appropriate to renew this authority and intends to seek shareholder approval to purchase up to 9.9% of the Company's ordinary issued share capital at the forthcoming Annual General Meeting.

No options over ordinary shares in the Company were exercised during the year (2012: nil).

### Directors' interests in ordinary shares

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

Name of Director	31 December 2013	31 December 2012	Percentage interest as at
			31 December 2013 and 25 March 2014
Paul Hodges	5,860,750	5,860,750	9.23%
Jim Durkin	5,722,500	5,722,500	9.01%
Jeremy Warner Allen	1,558,700	1,558,700	2.46%
Joe Nally	1,250,000	1,250,000	1.97%
Jeff Hewitt	36,480	36,480	0.06%
Gerry Aherne	28,500	28,500	0.04%
Dr. Anthony Hotson	20,864	–	0.03%
Mike Chilton	9,500	9,500	0.01%

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

### Directors' interest in options

Joe Nally and Jeremy Warner Allen both have an interest in options over ordinary shares in the Company as at 31 December 2013. Details of their options held are shown on page 26 within the Directors' Remuneration Report.

### Directors' and Officers' liability insurance

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

### Substantial shareholders

In addition to the current Directors' interests shown above, the Directors have been notified by the following who have an interest in 3% or more of the Company's share capital at 31 December 2013 and at 25 March, 2014:

Holder	Number of shares	Percentage interest as at	Number of shares	Percentage interest as at
		31 December 2013		25 March 2014
Invesco Limited	11,113,869	17.51%	11,113,869	17.51%
Hargreave Hale Limited	5,555,534	8.75%	6,430,935	10.13%
J.P.Morgan Asset Management Limited	4,668,326	7.34%	4,668,326	7.34%
Cenkos Securities EBT ("EBT")	3,158,477	4.98%	3,158,477	4.98%
Nicholas Wells	2,550,000	4.02%	2,550,000	4.02%

### Employee benefit trust

The Company has an EBT to service the Company's share schemes. This is funded by the Company and it has the power to acquire shares from the Company or in the open market to meet the Company's future obligations under its share schemes. At 31 December 2013, the EBT held 3,158,477 ordinary shares representing 4.98% (2012: 2,843,724 ordinary shares representing 4.45%) of the Company's issued share capital for an aggregate consideration of £3,227,514 (2012: £2,945,158).

## **Directors' report** continued

### **Employment policies, including diversity**

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

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

### **Going concern**

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

### **Directors' statement as to disclosure of information to the auditors**

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

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

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

### **Auditors**

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

### **Annual General Meeting**

The Annual General Meeting of the Company will be held at 6.7.8 Tokenhouse Yard, London EC2R 7AS on 16 May 2014 at 9.30 am. A copy of the Notice of Annual General Meeting together with an explanation of the resolutions to be proposed is set out on pages 68 to 72.

This report was approved by the Board of Directors on 25 March 2014 and signed on its behalf by:

### **Stephen Doherty**

Company Secretary

25 March 2014



## Statement of directors' responsibilities

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

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

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is 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 for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also 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 Strategic Report on pages 5 to 11 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 that they face.

This statement was approved by the Board of Directors on 25 March 2014 and signed on its behalf by:

**Jim Durkin**

Chief Executive Officer

25 March 2014

## Corporate governance report

### Introduction

The Company, whose shares are admitted to trading on AIM, is not required to comply with the UK Corporate Governance Code. The Directors fully support high standards of corporate governance and have chosen to make the following disclosures which are deemed to be the most relevant, given the nature, size and scope of the Company's activities.

The information in this Corporate Governance Report is not subject to audit.

### The role of the Board

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

### The composition of the Board and division of responsibilities

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

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

#### *Roles of Chairman and Chief Executive Officer*

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

#### *Chairman*

Gerry Aherne served as the Chairman throughout the year. The Chairman is responsible for the leadership of the Board and ensuring the effective running and management of the Board. He is also responsible for the Board's oversight of the Company's affairs, which includes ensuring that the Directors receive accurate, timely and clear information, ensuring the effective contribution of the Non-executive Directors and implementing effective communication with shareholders.

#### *Chief Executive Officer*

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

#### *Non-executive Directors and independence*

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

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

*Executive Directors*

Four executive Directors from within the senior management of the Company served on the Board throughout the year. The executive representation on the Board enhances the Board's effective oversight of the running of the business and allows it to have a greater insight into the operational and strategic issues that the business faces.

*Senior independent Director*

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

*Annual re-election of Directors*

In accordance with the Company's Articles of Association all serving Directors are subject to annual re-election.

**Board meetings and information to the Board**

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

The Board has regular scheduled meetings. During the year there were eight scheduled Board meetings and one additional meeting was called to deal with specific time-critical business matters.

**Attendance at meetings**

The attendance in the year of the Directors at Board and the principal committee meetings that took place are shown below:

	<b>Board Meeting</b>	<b>Audit Committee</b>	<b>Remuneration Committee</b>	<b>Nomination Committee</b>
<i>Number of Meetings Held</i>	9	4	4	1
<i>Chairman:</i>				
Gerry Aherne	9	4	4	1
<i>Chief Executive Officer:</i>				
Jim Durkin	9	n/a	n/a	n/a
<i>Non-executive Directors:</i>				
Jeff Hewitt	9	4	4	1
Dr. Anthony Hotson	9	4	4	1
<i>Executive Directors:</i>				
Mike Chilton	9	n/a	n/a	n/a
Paul Hodges	8	n/a	n/a	n/a
Jeremy Warner Allen	8	n/a	n/a	n/a
Joe Nally	9	n/a	n/a	n/a

## Corporate governance report continued

### Board effectiveness

The Chairman conducts an annual assessment of the effectiveness of the Board and its Committees through an internal questionnaire completed by each Director followed up by one-to-one discussions with each Director. The questionnaire covers a number of areas including Board composition, meeting structure, strategic oversight, risk management, succession planning, information content and format and finally, performance of the Board Committees. The outcomes and principal findings are reported to the Board for consideration. Issue raised by the evaluation exercise have been used to introduce improvements to Board processes.

The performance of the Chief Executive Officer is appraised annually by the Chairman. The performance of the remaining executive Directors is appraised annually by the Chief Executive Officer.

### Professional development

During the year specific training sessions were held covering compliance, regulation and corporate governance issues. Board members are encouraged to attend relevant training programmes as part of their continuing professional development.

### Board committees

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](http://www.cenkos.com)

#### *Audit Committee*

Full details of the composition and work of the Audit Committee is provided in the Audit Committee Report on pages 20 to 23 which provide details of the role, composition, responsibilities of the Committee and its relationship with internal and external auditors. The Board, through the Audit Committee, reviewed the effectiveness of the system of internal control in March 2014. The Audit Committee considered the progress that had been made during the year ended 31 December 2013 and assessed the status of the Company's risk management framework and associated internal controls. It also considered how risks are identified, monitored, mitigated and reported throughout the Company. Following this review, the Audit Committee agreed that the internal control framework continued to provide reasonable assurance that appropriate internal controls are in place. Accordingly the Board confirms that throughout the year ended 31 December 2013, and up to the approval date of this Annual Report, there had been an ongoing process of identifying, evaluating and managing the significant risks faced by the Company.

#### *Remuneration Committee*

Full details of the composition and work of the Remuneration Committee is provided in the Directors' Remuneration Report on pages 24 to 26.

#### *Nomination Committee*

The Nomination Committee, which comprises the Non-executive Directors, is chaired by Gerry Aherne. The Nomination Committee's principal responsibility is to evaluate the Board's requirements and ensure that appropriate procedures are in place for nomination, selection and succession of Directors and senior executives. During the year the Board undertook a number of duties that would have normally been undertaken by the Nomination Committee.

### Management committees

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

*Management Committee*

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

*New Business Committee*

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

*Risk and Compliance Committee*

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

**Investor relations**

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

This report was approved by the Board of Directors on 25 March 2014 and signed on its behalf by:

**Stephen Doherty**

Company Secretary

25 March 2014

## Audit committee report

### Introduction

The Audit Committee ("the Committee") has delegated responsibility from the Board for the oversight of financial reporting, internal audit and risk management. Much of the Committee's time was spent on regular activities as set out in this report. As a result of its work during the year, the Committee has concluded that it has acted in accordance with its terms of reference and has ensured the independence and objectivity of the external auditors.

### Members

The Committee comprises all Non-executive Directors and is chaired by Jeff Hewitt. As shown by his biography on page 3, as well as being a qualified accountant, he is also an experienced Audit Committee chair and has recent and relevant financial experience. The other members of the Committee have extensive experience of corporate financial matters in the financial services industry.

### Meetings

The Committee met four times during the year. The Chief Executive Officer, Finance Director, other executive Directors, senior management, the internal auditor and the external auditors are invited to attend these meetings, as appropriate.

### Roles and responsibilities

The Committee has terms of reference approved by the Board which are reviewed annually. A summary of the terms of reference are available on the corporate website. In summary, this Committee is responsible for:

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

The Committee reported to the Board on how it discharged its responsibilities during the year, including reporting on any matters in respect of which it considered that action or improvement was needed and made recommendations as to the steps to be taken.

### Significant issues and material judgements

In discharging its duties during the year, the Committee considered the following significant issues particular to the financial statements of the year:

- ensuring correct revenue recognition for any corporate transactions that straddled reporting periods to ensure compliance with the Company's accounting policies, as noted on page 42 of the financial statements; and
- the valuation of warrants and options over AIM stocks and unquoted investments held by the Company, classified as Level 3 in the fair value hierarchy. Valuation factors considered included an externally validated option pricing model and associated inputs – see note 24 of the financial statements.

## **Risk management, compliance and internal controls**

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

The risk management and internal control framework in place during the year was as follows:

- Significant risks were identified and evaluated by senior management in the areas of business for which they held responsibility and these formed the basis for the risk dashboard compiled centrally and regularly reviewed by the Board. The Board inputted a top down view of risks into this review. Actions to mitigate risks were a major concern of the Board with delegated accountabilities to relevant management.
- The risk register and compliance reviews of regulatory and internal control requirements formed the basis for compliance testing and internal audit planning. Oversight and challenge was provided through the regular reviews by the Risk and Compliance Committee and active reviews by the Audit Committee and Board at each of their meetings with the Head of Internal Audit and the Head of Compliance in attendance.
- Given their importance new client or new business risks are specifically addressed by the New Business Committee, with particular oversight of agreed processes by the relevant executive Director, Chief Executive and Board.

During the year the Risk and Compliance teams carried out a programme of work agreed by the Committee which included a detailed review of each of the significant risk areas and the relevant controls. The identification and evaluation of the risks also fed directly into the Internal Capital Adequacy Assessment Process and the Individual Liquidity Adequacy Assessment and the relevant documents were updated during the year for approval by the Committee and Board. Transaction reporting and administration was a continuing specific focus for Compliance, given the regulatory requirements. Given the importance of developing and managing people appropriately, the internal management appraisal process was given increased emphasis. Cyber security was viewed as an emerging risk and led to specific reviews of our outsourced suppliers arrangements. Litigation or potential litigation and the insurance of risks were also considered within the overall risk framework. The principal risks presented in the Strategic Report on pages 9 and 10 of this Annual Report appropriately reflect the outcome of the Committee's consideration of risks.

The Board has considered whether a separate Board level Risk Committee is necessary and decided that one is not required given the existing structure and the size and limited complexity of the business.

## **Internal audit**

The internal audit function provided independent assurances over the adequacy and effectiveness of the systems of internal control throughout the business and assurance on the extent to which the Company's approach to continuous improvement is maintained. The Committee oversees the internal audit function, approving its plans and scope, its resources and examines the reports produced.

Previously, outsourced internal audit services were provided by KPMG, but with the maturing of the control framework, the Company appointed a Head of Internal Audit in October 2013 to take these services in-house. A rolling three-year audit programme is approved annually by the Committee using a risk based approach. Reviews were undertaken during the year on equity research, payroll and the Company's compliance function. Management actions to remediate identified risks are tracked and followed up to provide validation of completion. As part of the internal audit process, the Head of Internal Audit reports directly to the Chairman of the Audit Committee and they also liaise directly with the Chief Executive Officer and Finance Director. Internal audit also attends and reports on progress and issues at each Committee meeting.



## **Audit committee report** continued

### **External auditor independence**

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

The annual appointment of the auditors by shareholders in General Meeting is a fundamental safeguard to auditor independence, but beyond this, the Committee considers critically what additional work is provided by the auditors including assessment of commercial and practical reasons, including confidentiality. Examples of work that would fall into this category include regulatory advice, taxation services and financial due diligence work. There are areas that the Committee has prohibited work by the auditor, including where the auditor:

- may be required to audit its own work;
- would participate in activities that would normally be undertaken by management;
- is remunerated through a "success fee" structure; or
- acts in an advocacy role for the Company.

The Committee has stipulated that the fees paid to the auditor for any individual item of non-audit work should not exceed £20,000 without prior Committee approval. As shown in note 7 of these financial statements, £10,400 was paid in 2013 to the auditor for advisory work in addition to the fee paid for their interim review. The Committee also gives due consideration to appointing other firms where it is felt that the impact of an assignment may compromise the independence of the auditors. The European Commission proposals relating to non-audit work are likely to restrict further the work permitted to be done by the auditor.

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

### **External auditor performance and re-appointment**

The Committee evaluates the performance of the auditor annually taking into account the views of management, cost effectiveness, objectivity and a review of the principal findings arising from the inspection of the auditors' carried out by the Audit Quality Review team of the Financial Reporting Council. In the current year the Committee evaluated the performance as good and the relationship with management to be sound. The lead partner and senior team are well qualified and have expertise in the Company's business areas and associated regulatory framework.

The Committee discussed and approved the planning of the external audit, including the risk evaluation, the scope and the materiality applied. The execution of the audit did not change from the plan and the audit gave rise to no material financial adjustments, but did give rise to some areas where management should consider improvements in processes. The Committee regarded the quality of reporting by the auditor to be good. Importantly, the auditor considered the prudence applied to areas of judgment and considered the balance to be appropriate and consistent with previous years where the issues were continuing. The Committee had several private discussions with the auditor during the year on the conduct of the audit and the relationship with management.

The Company put its external audit out to tender in May 2011. After a rigorous selection process, the Committee recommended, and the Board appointed, Ernst & Young LLP as its auditor. Based on the performance since appointment, the Committee has recommended to the Board that Ernst & Young LLP be re-appointed as auditor for the coming year. The Board has agreed and the re-appointment will be proposed to shareholders at the AGM. The Committee is aware of the proposals relating to the tendering of the external audit and rotation of the auditor firm arising from the Financial Reporting Council, the Competition Commission and the European Commission. The Committee sees no immediate need to conduct a tender, but will monitor developments closely.

### **Audit Committee evaluation**

The Committee's activities formed part of the review of Board effectiveness performed in the year, as noted in the Corporate Governance Report in this Annual Report.

This report was approved by the Board of Directors on 25 March 2014 and signed on its behalf by:

### **Jeff Hewitt**

Chairman of the Audit Committee

25 March 2014

## Directors' remuneration report

### Introduction

The Remuneration Committee has delegated responsibility from the Board for developing the remuneration policy of the Company and for setting the remuneration of its executive Directors and senior managers.

Membership of the Remuneration Committee is limited to Non-executive Directors and currently comprises Dr. Anthony Hotson (Chairman), Jeff Hewitt, and Gerry Aherne. Where appropriate the Remuneration Committee consults external advisers on remuneration and regulatory issues.

### Remuneration policy

The success of the Company depends on its employees. Its remuneration policy is therefore designed to attract and retain individuals of the highest calibre and probity and reward them so that they are motivated to grow the long-term value of the business and maximise shareholder return. Remuneration consists of two components, namely a moderate fixed basic salary and variable performance-related award. The performance-related aspect reflects the success or failure of the Company in meeting its targets and objectives, and is therefore substantially reflective of the Company's overall financial performance. Variable remuneration, which can form a substantial part of the overall remuneration, is only paid when it is demonstrated that a team or an individual's performance has increased the profitability of the business and return to shareholders after considering general business risk factors. The Company's profit sharing model is based on a percentage of revenues made by business teams, after relevant direct and associated costs have been deducted and general business risk factors have been taken into account. The distribution to individuals of each business team's profit share is based on performance. The profit sharing arrangement compensates for relatively low base salaries.

Employees who are not in revenue-generating teams or directly involved in revenue generation will be considered for a discretionary variable performance award if the Company has made a profit at the end of the financial year. Their award will be based on their performance and the Company's overall financial results, once general business risk factors have been taken into account.

### Remuneration for the year

#### Fixed remuneration

Fixed remuneration comprises basic salaries, which are set at a relatively moderate level, and benefits including healthcare and life assurance cover. These are provided on the same basis for all employees. The Company does not currently operate or contribute to any pension scheme on behalf of its employees.

#### Variable remuneration

The annual performance award is a significant variable component of the overall remuneration and is at the discretion of the Remuneration Committee. In determining the level of award to the Chief Executive Officer and Finance Director, consideration will be given not only to the financial performance of the Company (including returns to shareholders and the Company's profitability) but also to their individual performance based on a number of personal objectives that have been set by the Remuneration Committee, as well as general business risk factors. In respect of the Chief Executive Officer, these include the strategic development of the Company, leadership and culture, operational performance, risk management and regulatory compliance.

Paul Hodges, Joe Nally and Jeremy Warner Allen received discretionary performance-related awards, based on profit sharing arrangements for the teams they manage. The profit sharing model is based on a percentage of revenues received by the team, after relevant direct and associated costs have been deducted and general business risk factors have been taken into account. This variable component of the Directors' remuneration directly reflects the financial success of their respective teams and rewards them so that they can develop the value of the business, and thereby maximise shareholder returns.

## Table of Directors' remuneration

A summary of the total remuneration paid to Directors is set out below:

	Salary/ fees £ 000's	Annual performance award £ 000's	Taxable benefit in kind £ 000's	Cash bonus in respect of options held* £ 000's	Total 2013 £ 000's	Total 2012 £ 000's
<i>Non-executive Directors</i>						
Gerry Aherne <sup>(1)</sup>	100	–	–	–	100	56
Jeff Hewitt	54	–	–	–	54	50
Dr. Anthony Hotson <sup>(2)</sup>	56	–	–	–	56	33
<i>Executive Directors</i>						
Jim Durkin	152	750	4	–	906	677
Mike Chilton <sup>(3)</sup>	127	310	3	–	440	224
Paul Hodges <sup>(3)**</sup>	90	1,746	4	–	1,840	427
Joe Nally <sup>(3)**</sup>	25	757	7	75	864	361
Jeremy Warner Allen <sup>(3)**</sup>	75	934	9***	18	1,036	516
<i>Former Directors</i>						
Peter Sullivan <sup>(4)</sup>	–	–	–	–	–	29
David Henderson <sup>(4)</sup>	–	–	–	–	–	18
	<b>679</b>	<b>4,497</b>	<b>27</b>	<b>93</b>	<b>5,296</b>	<b>2,391</b>

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

\*\* Within the salary / fees figure for Paul Hodges, Joe Nally and Jeremy Warner Allen, they each received £25,000 as a Director's fee for the Board duties that they undertook during the year.

\*\*\* In accordance with the terms and conditions of the issue of the B shares which were allotted to a number of senior employees in 2006, only the nominal value was paid on the allotment of these shares. The outstanding premium on the shares was to be paid by 1 July 2013. The Company made a loan to Jeremy Warner Allen of an amount equal to the outstanding premium to be paid (the "Notional Loan"). As the Notional Loan that had been made was free of interest, it was considered to be a taxable benefit in kind. This therefore equated to a benefit in kind of £4,668 during the year. The outstanding Notional Loan was fully repaid on 29 May, 2013.

1. Gerry Aherne was appointed to the Board on 4 April 2012 and appointed as Chairman on 10 May 2012.
2. Dr. Anthony Hotson was appointed to the Board on 15 May 2012.
3. Mike Chilton, Paul Hodges, Joe Nally and Jeremy Warner Allen were all appointed to the Board on 8 June 2012.
4. Peter Sullivan and David Henderson served as members of the Board until 10 May 2012.

## Executive Directors' service contracts

The executive Directors are employed on a rolling service contract which is subject to six months' notice. Copies of Directors' service contracts will be available for review at the Annual General Meeting on 16 May, 2014.

## Long term incentives

The Company has a Long Term Incentive Plan, a Company Share Option Plan, and a Compensatory Award Plan 2009 ("the Schemes"). During the year no options were granted under the Schemes (2012: 6,425,000). The Board has delegated to the Remuneration Committee the responsibility to supervise the Schemes and grant options under the terms of the Schemes. The Company's policy is to use the Schemes to attract and retain key senior employees (including executive Directors). Any grant of options is at the discretion of the Remuneration Committee and takes into account individual performance and responsibilities. Where appropriate, a grant of options will incorporate a performance condition.

## Directors' remuneration report continued

### Directors' interests in share options

Two Directors have interests in options over ordinary shares in the Company as at 31 December 2013:

Name of Director	Held at 1 January 2013	Held at 31 December 2013	Exercise price	Grant date	Earliest exercise date	Last exercise date
<i>Long Term Incentive Plan</i>						
Joe Nally	1,000,000	1,000,000	£1.00	16.03.2012	16.03.2015	16.09.2015
<i>2009 Compensatory Award Plan</i>						
Jeremy Warner Allen	178,710	178,710	£1.69	01.10.2009	01.10.2009	30.09.2019

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

At 31 December 2013 the mid-market price of the Company's ordinary shares was 137.5p. The highest daily closing price during the year was 142.5p and the lowest was 71.5p.

### Non-executive Directors

Non-executive Directors are engaged under letters of appointment. Non-executive Directors are subject to annual re-election and do not serve for a fixed term. The Non-executive Chairman is subject to three months' notice.

Non-executive Directors do not participate in decisions concerning their own fees. These are set by the Board on the recommendation of the executive Directors, taking into account comparisons with peer group companies, their overall experience and knowledge and the time commitment required for them to undertake their duties. During the year it was agreed to increase the base fee for Non-executive Directors to £52,000 and to raise the additional fee for each Non-executive Director who acts as the Chairman of the Audit and Remuneration Committees to £6,000 respectively. It was also agreed to increase the Non-executive Chairman's fee to £120,000. Non-executive Directors are reimbursed all reasonable expenses incurred solely in relation to their duties as Non-executive Directors.

### FCA Remuneration Code

The Company's remuneration policy is designed to be consistent with the prudent management of risk and the sustained, long-term performance of the Company. The Remuneration Committee reviews its remuneration policy to ensure compliance with the principles of the FCA Remuneration Code which are applicable to the Company

This report was approved by the Board of Directors on 25 March 2014 and signed on its behalf by:

### Dr. Anthony Hotson

Chairman of the Remuneration Committee

25 March 2014

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

We have audited the financial statements of Cenkos Securities plc for the year ended 31 December 2013 which comprise the Group Income Statement, the Group and Parent Company Statements of Financial Position, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Changes in Equity and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

### Respective responsibilities of Directors and auditor

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

### Scope of the audit of the financial statements

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

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

### **Opinion on other matter prescribed by the Companies Act 2006**

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

### **Matters on which we are required to report by exception**

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

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

### **Paul Sater (Senior statutory auditor)**

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

25 March 2014



**Consolidated income statement** for the year ended 31 December 2013

	<b>Notes</b>	<b>2013 £ 000's</b>	<b>2012 £ 000's</b>
<b>Continuing operations</b>			
Revenue	3	51,433	43,155
Administrative expenses		(40,856)	(36,670)
<b>Operating profit</b>		10,577	6,485
Investment income – interest receivable	4	135	357
Gain on disposal of available-for-sale financial asset	13	–	170
Interest expense	5	(1)	(6)
<b>Profit before tax from continuing operations for the year</b>	7	10,711	7,006
Tax	8	(2,122)	(1,855)
<b>Profit after tax from continuing operations for the year</b>		8,589	5,151
<b>Discontinued operations</b>			
Profit after tax from discontinued operations for the year	9	–	3,329
<b>Profit for the year</b>		8,589	8,480
Attributable to:			
Equity holders of the parent		8,589	8,392
Non-controlling interests		–	88
		8,589	8,480
<b>Earnings per share</b>			
<b>From continuing operations</b>			
Basic and diluted	11	14.2p	7.4p
<b>From continuing and discontinued operations</b>			
Basic and diluted	11	14.2p	12.1p

The notes on pages 37 to 67 form an integral part of these financial statements.

The profit attributable to the Company in the year ended 31 December 2013 was £9,542,922 (31 December 2012: £8,758,102).

**Consolidated statement of comprehensive income** for the year ended 31 December 2013

	<b>2013</b> <b>£ 000's</b>	<b>2012</b> <b>£ 000's</b>
<b>Profit for the year</b>	8,589	8,480
<b>Available-for-sale financial assets:</b>		
Mark-to-market gain on valuation of available-for-sale financial assets	–	170
Gain on disposal of available-for-sale financial assets transferred to income statement	–	(170)
<b>Other comprehensive income for the year</b>	–	–
<b>Total comprehensive income for the year</b>	8,589	8,480
Attributable to:		
Equity holders of the parent	8,589	8,392
Non-controlling interests	–	88
	8,589	8,480

The notes on pages 37 to 67 form an integral part of these financial statements.

**Consolidated statement of financial position** as at 31 December 2013

	Notes	2013 £ 000's	Restated 2012 £ 000's
<b>Non-current assets</b>			
Property, plant and equipment	12	387	550
Deferred tax asset	19	1,024	272
		<u>1,411</u>	<u>822</u>
<b>Current assets</b>			
Trade and other receivables	16	19,349	15,534
Available-for-sale financial assets	13	1,080	1,000
Other current financial assets	15	13,706	9,786
Cash and cash equivalents	17	30,343	22,271
		<u>64,478</u>	<u>48,591</u>
<b>Total assets</b>		<u>65,889</u>	<u>49,413</u>
<b>Current liabilities</b>			
Trade and other payables	18	(35,508)	(24,336)
Other current financial liabilities	15	(4,289)	(2,848)
		<u>(39,797)</u>	<u>(27,184)</u>
<b>Net current assets</b>		<u>24,681</u>	<u>21,407</u>
<b>Total liabilities</b>		<u>(39,797)</u>	<u>(27,184)</u>
<b>Net assets</b>		<u>26,092</u>	<u>22,229</u>
<b>Equity</b>			
Share capital	20	635	638
Capital redemption reserve	20	93	90
Own shares	21	(3,228)	(2,945)
Retained earnings		<u>28,592</u>	<u>24,446</u>
<b>Total equity</b>		<u>26,092</u>	<u>22,229</u>

The notes on pages 37 to 67 form an integral part of these financial statements.

The 2012 figures have been restated to reflect the transfer of the nominal value of the shares purchased and cancelled by the Company to the capital redemption reserve.

The financial statements were approved by the Board of Directors and authorised for issue on 25 March 2014. They were signed on its behalf by:

**Gerry Aherne**

Chairman

25 March 2014

Registered Number: 05210733

**Jim Durkin**

Chief Executive Officer

25 March 2014

**Company statement of financial position** as at 31 December 2013

	Notes	2013 £ 000's	Restated 2012 £ 000's
<b>Non-current assets</b>			
Property, plant and equipment	12	387	550
Deferred tax asset	19	1,024	272
Investments in subsidiary undertakings	14	1	1
		<u>1,412</u>	<u>823</u>
<b>Current assets</b>			
Trade and other receivables	16	22,696	17,525
Available-for-sale financial assets	13	1,080	1,000
Other current financial assets	15	13,706	9,786
Cash and cash equivalents	17	30,224	22,271
		<u>67,706</u>	<u>50,582</u>
<b>Total assets</b>		<u>69,118</u>	<u>51,405</u>
<b>Current liabilities</b>			
Trade and other payables	18	(35,508)	(24,336)
Other current financial liabilities	15	(4,289)	(2,848)
		<u>(39,797)</u>	<u>(27,184)</u>
<b>Net current assets</b>		<u>27,909</u>	<u>23,398</u>
<b>Total liabilities</b>		<u>(39,797)</u>	<u>(27,184)</u>
<b>Net assets</b>		<u>29,321</u>	<u>24,221</u>
<b>Equity</b>			
Share capital	20	635	638
Capital redemption reserve	20	93	90
Retained earnings		28,593	23,493
<b>Total equity</b>		<u>29,321</u>	<u>24,221</u>

The notes on pages 37 to 67 form an integral part of these financial statements.

The 2012 figures have been restated to reflect the transfer of the nominal value of the shares purchased and cancelled by the Company to the capital redemption reserve.

The financial statements were approved by the Board of Directors and authorised for issue on 25 March 2014. They were signed on its behalf by:

**Gerry Aherne**

Chairman

25 March 2014

Registered Number: 05210733

**Jim Durkin**

Chief Executive Officer

25 March 2014

## Consolidated cash flow statement for the year ended 31 December 2013

	Notes	2013 £ 000's	2012 £ 000's
<b>Profit for the year</b>		8,589	8,480
Adjustments for:			
Net finance income		(134)	(351)
Tax expense	8	2,122	1,855
Depreciation of property, plant and equipment	12	311	331
Gain on disposal of available-for-sale financial asset	13	–	(170)
Gain on disposal of discontinued operation and change in fair value of interest retained before deduction of non-controlling interest		–	(1,586)
Non-controlling interest in net assets sold		–	(1,567)
Shares in lieu of fees and options received in kind		(1,335)	(2,898)
Share-based payment expense		138	335
<b>Operating cash flows before movements in working capital</b>		9,691	4,429
Adjustment for deconsolidation of subsidiaries		–	184
(Increase)/decrease in net trading investments		(1,212)	2,685
(Increase)/decrease in trade and other receivables		(3,742)	10,152
Increase in trade and other payables		10,406	297
<b>Net cash flow from operating activities</b>		15,143	17,747
Interest paid		(1)	(6)
Tax paid		(1,871)	(1,509)
<b>Net cash flow from operating activities</b>		13,271	16,232
<b>Investing activities</b>			
Interest received		62	309
Purchase of property, plant and equipment	12	(148)	(92)
Net proceeds from sale of available-for-sale financial assets	13	–	1,170
Net proceeds from the sale of discontinued operations	9	–	848
<b>Net cash (outflow)/inflow from investing activities</b>		(86)	2,235
<b>Financing activities</b>			
Dividends paid	10	(4,541)	(3,165)
Acquisition of own shares by the EBT	21	(283)	(755)
Acquisition of own shares for cancellation	20	(289)	(6,286)
<b>Net cash used in financing activities</b>		(5,113)	(10,206)
<b>Net increase in cash and cash equivalents</b>		8,072	8,261
<b>Cash and cash equivalents at beginning of year</b>		22,271	14,010
<b>Cash and cash equivalents at end of year</b>		30,343	22,271

The notes on pages 37 to 67 form an integral part of these financial statements.

**Company cash flow statement** for the year ended 31 December 2013

	<b>Notes</b>	<b>2013 £ 000's</b>	<b>2012 £ 000's</b>
<b>Profit for the year</b>		9,543	8,758
Adjustments for:			
Net finance income		(176)	(400)
Gain on disposal of discontinued operation		–	(4,470)
Tax expense	8	2,122	1,855
Depreciation of property, plant and equipment	12	311	310
Gain on disposal of available-for-sale financial asset	13	–	(170)
Shares in lieu of fees and options received in kind		(1,335)	(2,898)
Share-based payment expense		138	335
<b>Operating cash flows before movements in working capital</b>		10,603	3,320
(Increase)/decrease in net trading investments		(1,212)	2,632
(Increase)/decrease in trade and other receivables		(5,056)	5,465
Increase in trade and other payables		10,406	5,458
<b>Net cash flow from operating activities</b>		14,741	16,875
Interest paid		(1)	(26)
Tax paid		(1,871)	(1,506)
<b>Net cash flow from operating activities</b>		12,869	15,343
<b>Investing activities</b>			
Interest received		62	377
Purchase of property, plant and equipment	12	(148)	(84)
Net proceeds from the sale of available-for-sale investments	13	–	1,170
Net proceeds from the sale of discontinued operations	9	–	3,828
<b>Net cash (outflow)/inflow from investing activities</b>		(86)	5,291
<b>Financing activities</b>			
Dividends paid	10	(4,541)	(3,165)
Acquisition of own shares for cancellation	20	(289)	(6,286)
<b>Net cash used in financing activities</b>		(4,830)	(9,451)
<b>Net increase in cash and cash equivalents</b>		7,953	11,183
<b>Cash and cash equivalents at beginning of year</b>		22,271	11,088
<b>Cash and cash equivalents at end of year</b>		30,224	22,271

The notes on pages 37 to 67 form an integral part of these financial statements.

## Consolidated statement of changes in equity for the year ended 31 December 2013

	Equity attributable to equity holders of the parent							Total £ 000's
	Share capital £ 000's	Capital redemption reserve £ 000's	Own shares £ 000's	Available- for-sale reserve £ 000's	Retained earnings £ 000's	Total £ 000's	Non- controlling interests £ 000's	
<b>At 1 January 2012</b>	728	–	(2,190)	–	25,142	23,680	1,405	25,085
Profit for the year	–	–	–	–	8,392	8,392	88	8,480
Mark-to-market gain on valuation of available-for-sale financial assets	–	–	–	170	–	170	–	170
Gain on disposal of available-for-sale financial assets transferred to income statement	–	–	–	(170)	–	(170)	–	(170)
<b>Total comprehensive income for the year</b>	–	–	–	–	8,392	8,392	88	8,480
Own shares acquired in the year	–	–	(755)	–	–	(755)	–	(755)
Own shares acquired in the year for cancellation	(90)	90	–	–	(6,286)	(6,286)	–	(6,286)
Share of profit/(loss) from discontinued operations attributable to non-controlling interests	–	–	–	–	–	–	(1,567)	(1,567)
Adjustment for capital contribution previously made from sale of discontinued operation	–	–	–	–	102	102	–	102
Credit to equity for equity-settled share-based payments	–	–	–	–	233	233	102	335
Other reserve movements	–	–	–	–	28	28	(28)	–
Dividends paid	–	–	–	–	(3,165)	(3,165)	–	(3,165)
<b>At 31 December 2012 (restated)</b>	638	90	(2,945)	–	24,446	22,229	–	22,229
Profit for the year	–	–	–	–	8,589	8,589	–	8,589
<b>Total comprehensive income for the year</b>	–	–	–	–	8,589	8,589	–	8,589
Own shares acquired in the year	–	–	(283)	–	–	(283)	–	(283)
Own shares acquired in the year for cancellation	(3)	3	–	–	(289)	(289)	–	(289)
Credit to equity for equity-settled share-based payments	–	–	–	–	138	138	–	138
Credit to equity for day 1 valuation of acquired share options	–	–	–	–	12	12	–	12
Deferred tax on share-based payments	–	–	–	–	237	237	–	237
Dividends paid	–	–	–	–	(4,541)	(4,541)	–	(4,541)
<b>At 31 December 2013</b>	635	93	(3,228)	–	28,592	26,092	–	26,092

The notes on pages 37 to 67 form an integral part of these financial statements.

The 2012 figures have been restated to reflect the transfer of the nominal value of the shares purchased and cancelled by the Company to the capital redemption reserve.



**Company statement of changes in equity** for the year ended 31 December 2013

	Share capital £ 000's	Capital redemption reserve £ 000's	Available- for-sale reserve £ 000's	Retained earnings £ 000's	Total £ 000's
<b>At 1 January 2012</b>	728	–	–	23,749	24,477
Profit for the year	–	–	–	8,758	8,758
Mark-to-market gain on valuation of available-for-sale financial assets	–	–	170	–	170
Gain on disposal of available-for-sale financial assets transferred to income statement	–	–	(170)	–	(170)
<b>Total comprehensive income for the year</b>	–	–	–	8,758	8,758
Own shares acquired in the year for cancellation	(90)	90	–	(6,286)	(6,286)
Credit to equity for equity-settled share-based payments	–	–	–	335	335
Adjustment for capital contribution previously made from sale of discontinued operation	–	–	–	102	102
Dividends paid	–	–	–	(3,165)	(3,165)
<b>At 31 December 2012 (restated)</b>	638	90	–	23,493	24,221
Profit for the year	–	–	–	9,543	9,543
<b>Total comprehensive income for the year</b>	–	–	–	9,543	9,543
Own shares acquired in the year for cancellation	(3)	3	–	(289)	(289)
Credit to equity for equity-settled share-based payments	–	–	–	138	138
Credit to equity for day 1 valuation of acquired share options	–	–	–	12	12
Deferred tax on share-based payments	–	–	–	237	237
Dividends paid	–	–	–	(4,541)	(4,541)
<b>At 31 December 2013</b>	635	93	–	28,593	29,321

The notes on pages 37 to 67 form an integral part of these financial statements.

The 2012 figures have been restated to reflect the transfer of the nominal value of the shares purchased and cancelled by the Company to the capital redemption reserve.

## Notes to the financial statements for the year ended 31 December 2013

### 1. Accounting policies

#### General information

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

Prior year comparatives have been amended to reflect:

- the transfer of the nominal value of the shares purchased and cancelled by the Company from retained earnings to the capital redemption reserve. The impact of this is solely within total equity and is discussed further in note 20; and
- to conform to the presentation in the current year of the disposal in 2012 by Cenkos of its entire holding in CFM and CCIL and the subsequent change in the way the business is assessed and performance reviewed. This is discussed further in note 3.

#### Basis of accounting

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

#### Adoption of new and revised standards

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

#### Basis of consolidation

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

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

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

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

#### Going concern

The Company's business activities, together with the factors likely to affect its future development and performance, the financial position of the Company, its cash flows and liquidity position are set out in the Strategic Report on pages 5 to 11. In addition, note 24 includes the Company'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.

## Notes to the financial statements continued

### 1. Accounting policies (continued)

The financial statements of the Company have been prepared on a going concern basis as the Directors have satisfied themselves that, at the time of approving the financial statements and having taken into consideration the strength of the Company's statement of financial position and cash balances, the Company has adequate resources to continue in operational existence for at least the next 12 months.

#### Financial instruments

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

##### *Financial assets*

Financial assets are recognised and derecognised on trade date when the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the time frame established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as "at fair value through profit and loss". Financial assets are classified into the following specified categories: financial assets as "at fair value through profit or loss" (FVTPL), "held-to-maturity", "available-for-sale" and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. However, reclassification is possible when the criteria in IAS 39.50 are met. There were no reclassifications during the year.

##### *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 to be held at FVTPL.

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

##### *Trading investment*

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

##### *Derivative financial assets*

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

##### *Held-to-maturity investments*

Debentures with fixed or determinable payments and fixed maturity dates that the Company 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 and unlisted shares held by the Company 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 other comprehensive income, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

*Trade and other receivables*

Market debtors are measured at fair value. Unpaid share premium and loans due from staff are initially measured at fair value and amortised back to par using the EIR ("Effective Interest Rate") method. All other debtors are measured at amortised cost using the effective interest method, less any impairment. Appropriate allowance for estimated irrecoverable amounts is recognised in the profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's 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 Company 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 Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company 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 Company 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.

## Notes to the financial statements continued

### 1. Accounting policies (continued)

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 Company 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 Company's documented risk management or investment strategy, and information about the Company is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

#### *Trade and other payables*

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

#### *Other financial liabilities*

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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

#### *Derecognition of financial liabilities*

The Company derecognises financial liabilities when, and only when, the Company'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 Company are recognised as the proceeds received, net of direct issue costs.

#### *Derivative financial instruments*

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

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

## Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company 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.

## Non-current assets held for sale and discontinued operations

Non-current assets and disposal subsidiaries classified as held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal subsidiaries are classified as held-for-sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal Company is available-for-immediate-sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. In the statement of comprehensive income, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Company retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the statement of comprehensive income. Property, plant and equipment and intangible assets once classified as held-for-sale are not depreciated or amortised.

## Foreign currencies

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

## Investments in subsidiary undertakings

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

## Operating leases

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

## Property, plant and equipment

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

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

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

## Notes to the financial statements continued

### 1. Accounting policies (continued)

#### Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, 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.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company 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 sales related taxes.

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

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

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

Revenue includes the fair value of 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. Following the disposal in its entire holding in CFM and CCIL, as disclosed in the Company's 2012 Annual Report, the Company has changed the way the business is assessed and performance reviewed; consequently, Cenkos has consolidated its reportable segments into one.

This reflects the fact that Cenkos is managed as an integrated UK institutional stockbroking business and although it has different revenue streams, its activities are considered to be subject to similar economic characteristics. The internal reports used by the Chief Executive Officer for the purpose of monitoring performance and allocating resources reflect that Cenkos is managed as a single business unit.

### Share-based payments

The Company has applied the requirements of IFRS 2 Share-based payment. The Company 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 Company's estimate of shares that will eventually vest. At each balance sheet date, the Company 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.

### Related party disclosures

The compensation of the key management personnel of the Company and their interests in the shares and options over the shares of Cenkos Securities plc are set out in note 25. Key management personnel comprise Directors of the Company as they are able to exert significant influence over the financial and operating policies of the Company.

### Standards issued but not yet effective

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

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

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

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

*IFRS 9 Financial Instruments*

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

*Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)*

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.



## Notes to the financial statements continued

### 1. Accounting policies (continued)

#### *IFRIC Interpretation 21 Levies (IFRIC 21)*

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Company does not expect that IFRIC 21 will have material financial impact in future financial statements.

#### *IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39*

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Company has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

### 2. Critical accounting judgement and key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately 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 23.

#### **b) Valuation of derivative financial assets**

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

#### **c) Bad debt policy**

The Company regularly reviews all outstanding balances and provides for amounts where there is significant doubt over the recoverability of the balance.

#### **d) Provisions and contingent liabilities**

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

### 3. Business and geographical segments

Following the disposal of its entire holding in CFM and CCIL, as disclosed in the Company's 2012 Annual Report, the Company has changed the way the business is assessed and performance reviewed; consequently, Cenkos has consolidated its reportable segments into one.

This reflects the fact that Cenkos is managed as an integrated UK institutional stockbroking business and although it has different revenue streams, its activities are considered to be subject to similar economic characteristics. The internal reports used by the Chief Executive Officer for the purpose of monitoring performance and allocating resources reflect that Cenkos is managed as a single business unit.

An analysis of the Company's revenue and results by geographical location is as follows:

### Geographical information

	2013			2012		
	United Kingdom £ 000's	Channel Islands £ 000's	Group Total £ 000's	United Kingdom £ 000's	Channel Islands £ 000's	Group Total £ 000's
Revenue from continuing operations	51,433	–	51,433	43,155	–	43,155
Revenue from discontinued operations	–	–	–	67	1,453	1,520
Revenue from continuing and discontinued operations <sup>(a)</sup>	51,433	–	51,433	43,222	1,453	44,675
Non-current assets	1,411	–	1,411	822	–	822

(a) In 2013, revenues were generated entirely within the UK. In the prior year, they were attributed on the basis of the entity's location. Discontinued operations were located in both the United Kingdom and the Channel Islands.

### Major clients

In the year to 31 December 2013, one of Cenkos' clients contributed more than 10% of Cenkos' total revenue. The amount was £6.43 million (2012: no one particular client's revenues accounted for more than 10% of the Company's total revenue).

## 4. Investment income – interest receivable

	2013 £ 000's	2012 £ 000's
Interest income generated from:		
Cash and cash equivalents	64	113
Held to maturity investments	–	19
Trade and other receivables	71	225
	<u>135</u>	<u>357</u>

Interest income generated from trade and other receivables includes the recognition of the unwinding of the discount factor applied to loans due from staff related to the issue of the partly paid B shares, which amounted to £71,221 (2012: £224,597). These loans were fair valued when granted and the discount factor unwound over the period until settlement. By 30 June 2013 all outstanding amounts in respect of the B shares had been received.

## 5. Interest expense

	2013 £ 000's	2012 £ 000's
Interest on bank overdrafts and loans	<u>1</u>	<u>6</u>

## Notes to the financial statements continued

### 6. Staff costs

	Continuing operations		Discontinued operations		Total	
	2013 £ 000's	2012 £ 000's	2013 £ 000's	2012 £ 000's	2013 £ 000's	2012 £ 000's
Staff costs comprise:						
Wages and salaries	29,231	24,208	–	586	29,231	24,794
Social security costs	3,949	3,210	–	36	3,949	3,246
IFRS 2 share based payments	138	335	–	–	138	335
	33,318	27,753	–	622	33,318	28,375

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

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

	Continuing operations		Discontinued operations		Total	
	2013 £ 000's	2012 £ 000's	2013 £ 000's	2012 £ 000's	2013 £ 000's	2012 £ 000's
Corporate finance	20	18	–	–	20	18
Corporate broking	56	53	–	5	56	58
Administration	31	27	–	5	31	32
	107	98	–	10	107	108

	2013 £ 000's	2012 £ 000's
The total emoluments of the highest paid Director serving during the year were:	1,840	677

Details of the remuneration of related parties are set out in note 25. Details of the Directors' remuneration is set out in the Directors' Remuneration Report on page 25.

### 7. Profit for the year

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

	Continuing operations		Discontinued operations		Total	
	2013 £ 000's	2012 £ 000's	2013 £ 000's	2012 £ 000's	2013 £ 000's	2012 £ 000's
Operating lease rentals	532	523	–	47	532	570
Auditor's remuneration (refer to analysis below)	160	153	–	23	160	176
Depreciation of property, plant and equipment	310	310	–	21	310	331
Staff costs (see note 6)	33,318	27,753	–	622	33,318	28,375
Change in fair value of financial assets designated as at FVTPL	(401)	(623)	–	–	(401)	(623)

**7. Profit for the year (continued)**

The analysis of auditor's remuneration is as follows:

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

**Total audit fees**

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

– Half year review of the Company's interim statement

– Other advisory services – including taxation

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

**Total non-audit fees**

	<b>2013</b> <b>£ 000's</b>	<b>2012</b> <b>£ 000's</b>
	120	110
<b>Total audit fees</b>	120	110
	30	25
	10	18
	–	23
<b>Total non-audit fees</b>	40	66
	160	176

A description of the work of the Audit Committee is set out on pages 20 to 23 of this Annual Report and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

**8. Tax**

The tax charge comprises:

**Current tax**

United Kingdom corporation tax at 23.25% (2012: 24.5%) based on the profit for the year

**Adjustment in respect of prior period**

United Kingdom corporation tax at 23.25% (2012: 24.5%)

**Total current tax****Deferred Tax**

Credit on account of temporary differences

Deferred tax prior year adjustment

**Total deferred tax** (refer note 19)**Total tax on profit on ordinary activities from continuing operations**

The tax expense in the income statement is disclosed as follows:

Income tax expense on continuing operations

Income tax expense on discontinued operations

	<b>2013</b> <b>£ 000's</b>	<b>2012</b> <b>£ 000's</b>
	2,612	1,943
	25	87
<b>Total current tax</b>	2,637	2,030
	(495)	(175)
	(20)	–
<b>Total deferred tax</b> (refer note 19)	(515)	(175)
<b>Total tax on profit on ordinary activities from continuing operations</b>	2,122	1,855
	2,122	1,855
	–	5
	2,122	1,860

## Notes to the financial statements continued

### 8. Tax (continued)

The tax charge for the year differs from that resulting from applying the standard rate of UK corporation tax of 23.25% (2012: 24.5%) to the profit before tax for the reasons set out in the following reconciliation.

	2013 £ 000's	2012 £ 000's
Profit before tax from continuing operations	10,711	7,006
Profit before tax from discontinued operations	–	3,334
	<hr/> 10,711	<hr/> 10,340
Tax on profit on ordinary activities at the UK corporation tax rate of 23.25% (2012: 24.5%)	2,491	2,533
Tax effect of:		
Permanent differences	104	211
Non-taxable gain on disposal of discontinued operations	–	(853)
Income not subject to corporation tax	(15)	(55)
Recognition of deferred tax on share-based payments previously unrecognised	(621)	–
Deferred tax rate change adjustment	148	–
Adjustment for loss relief not claimed	10	12
Adjustment in respect of prior period deferred tax	(20)	–
Adjustment in respect of prior period current tax	25	12
Tax expense for the year	<hr/> 2,122	<hr/> 1,860

In addition to the amount credited to the income statement, deferred tax relating to share-based payments amounting to £236,520 has been charged directly to equity (2012: £nil).

	2013 £ 000's	2012 £ 000's
<b>Deferred tax recognised directly in equity</b>		
Arising on share-based payments	(237)	–
Total income tax recognised directly in equity	<hr/> (237)	<hr/> –

### 9. Discontinued operations

As disclosed and accounted for in the Company's 2012 Annual Report, on 1 February 2012 Cenkos disposed of its entire holding in CFM, which carried out all of the Cenkos' onshore fund management activity. Following a strategic review, Cenkos decided that CCIL was not core to Cenkos' business strategy and operations. On 2 April 2012 the Company completed the disposal of 80% of its 50% holding in CCIL, which carried out all of Cenkos' offshore wealth management and offshore stock broking activity, for a consideration of £4 million. This operation is based in the Channel Islands. The remaining 10% interest in the shares of CCIL was classified in the balance sheet as an available-for-sale financial asset. Thereafter, it was marked to market as the shares are quoted on the Channel Islands Stock Exchange. On 31 October 2012, Cenkos sold this remaining 10% interest in the shares of CCIL for £1.17 million.

The results of the discontinued operations for the year ended 31 December 2012 were: revenue £1.52 million, administrative expenses £1.34 million, profit before tax £0.18 million, attributable tax expense £0.01 million and profit after tax including the gain on disposal of discontinued operations £3.33 million.

For details of the results of the discontinued operations see note 9 of the Company's 2012 Annual Report.

## 10. Dividends

Amounts recognised as distributions to equity holders in the period:

	2013 £ 000's	2012 £ 000's
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2012 of 4p (December 2011: 1p) per share	2,430	709
Interim dividend for the period to 30 June 2013 of 3.5p (June 2012: 3.5p) per share	2,111	2,456
	<u>4,541</u>	<u>3,165</u>

A final dividend of 8.5 pence per share has been proposed for the year ended 31 December 2013 (2012: 4p). Under the CAP, the payment of a dividend to ordinary shareholders will trigger a cash payment to holders of options under the CAP. The payment of this final dividend will increase staff costs by £2.04 million in the first half of 2014 (4p final dividend re 2012 increased staff costs by £0.96 million in the first half of 2013). See note 23 for details of the CAP scheme.

## 11. Earnings per share

	2013 £ 000's	2012 £ 000's
<b>Basic and diluted</b>		
From continuing operations	14.2p	7.4p
From discontinued operations	–	4.7p
From continuing and discontinuing operations	<u>14.2p</u>	<u>12.1p</u>

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

### Earnings

Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent

	2013 £ 000's	2012 £ 000's
	8,589	8,392

### Number of shares

Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share

	No.	No.
	60,525,904	69,341,308

The fall in the weighted average number of ordinary shares in 2013 is primarily due to the share buy-backs undertaken in November and December 2012. See note 20 for further details.

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

The Board has agreed to continue to fund the Company's EBT so that it can make market purchases in Cenkos Securities plc shares as and when market conditions allow. During the year, 314,753 (2012: 1,259,974) ordinary shares were purchased for an aggregate consideration of £282,356 (2012: £755,150). As at 31 December 2013 the EBT held a total of 3,158,477 (2012: 2,843,724) ordinary shares at an aggregate consideration of £3.23 million (2012: £2.94 million). These shares are held by the trust in treasury and have been excluded from the weighted average number of shares calculation up to this date. The table below shows the number of shares held by the Company's EBT.

## Notes to the financial statements continued

### 11. Earnings per share (continued)

	2013 No.	2012 No.
<b>Number of shares held by the Company's EBT</b>		
At 1 January	2,843,724	1,583,750
Acquired during the year	314,753	1,259,974
	<u>3,158,477</u>	<u>2,843,724</u>
	<b>2013 £ 000's</b>	<b>2012 £ 000's</b>
<b>From continuing operations</b>		
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	8,589	8,392
Adjustment to exclude parent share of discontinued operations:		
Profit after tax from discontinued operations for the year	–	(3,329)
Profit attributable to non-controlling interests up to the point of disposal	–	88
Earnings from continuing operations for the purpose of basic and diluted earnings per share excluding discontinued operations	<u>8,589</u>	<u>5,151</u>

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

### 12. Property, plant and equipment

Group	Leasehold improvements £ 000's	Fixtures and fittings £ 000's	IT equipment £ 000's	Total £ 000's
<b>Cost</b>				
At 31 December 2011	1,599	278	1,020	2,897
Additions	24	5	63	92
Discontinued operations (see note 9)	(299)	(118)	(229)	(646)
At 31 December 2012	<u>1,324</u>	<u>165</u>	<u>854</u>	<u>2,343</u>
Additions	15	6	127	148
At 31 December 2013	<u>1,339</u>	<u>171</u>	<u>981</u>	<u>2,491</u>
<b>Accumulated depreciation</b>				
At 31 December 2011	(782)	(200)	(782)	(1,764)
Charge for the year	(197)	(17)	(117)	(331)
Discontinued operations (see note 9)	57	67	178	302
At 31 December 2012	<u>(922)</u>	<u>(150)</u>	<u>(721)</u>	<u>(1,793)</u>
Charge for the year	(186)	(9)	(116)	(311)
At 31 December 2013	<u>(1,108)</u>	<u>(159)</u>	<u>(837)</u>	<u>(2,104)</u>
<b>Net book value</b>				
At 31 December 2013	<u>231</u>	<u>12</u>	<u>144</u>	<u>387</u>
At 31 December 2012	<u>402</u>	<u>15</u>	<u>133</u>	<u>550</u>

The cost of fully depreciated property plant and equipment still in use amounts to £279,140 (2012: £208,472).

<b>Company</b>	<b>Leasehold improvements £ 000's</b>	<b>Fixtures and fittings £ 000's</b>	<b>IT equipment £ 000's</b>	<b>Total £ 000's</b>
<b>Cost</b>				
At 31 December 2011	1,300	160	798	2,258
Additions	24	5	55	84
At 31 December 2012	1,324	165	853	2,342
Additions	15	6	127	148
At 31 December 2013	1,339	171	980	2,490
<b>Accumulated depreciation</b>				
At 31 December 2011	(732)	(139)	(611)	(1,482)
Charge for the year	(190)	(11)	(109)	(310)
At 31 December 2012	(922)	(150)	(720)	(1,792)
Charge for the year	(186)	(9)	(116)	(311)
At 31 December 2013	(1,108)	(159)	(836)	(2,103)
<b>Net book value</b>				
At 31 December 2013	231	12	144	387
At 31 December 2012	402	15	133	550

### 13. Available-for-sale investments

	<b>Number of shares held</b>	<b>% of share capital of</b>	<b>Group</b>		<b>Company</b>	
	<b>Cenkos Channel Islands Limited</b>		<b>2013 £ 000's</b>	<b>2012 £ 000's</b>	<b>2013 £ 000's</b>	<b>2012 £ 000's</b>
<b>Non-current assets</b>						
Opening balance (at fair value)	–	–	–	–	–	–
Re-classification of retained interest in CCIL	1,000,000	10%	–	314	–	51
Gain on fair value charged to income statement			–	686	–	949
Gain on fair value charged to reserves			–	170	–	170
Disposal of shares	(1,000,000)	(10%)	–	(1,170)	–	(1,170)
Closing balance (at fair value)	–	–	–	–	–	–
<b>Current assets</b>						
Opening balance (at fair value)			1,000	–	1,000	–
Acquired during the year			80	1,000	80	1,000
Closing balance (at fair value)			1,080	1,000	1,080	1,000

For details of the results of the discontinued operations see note 9 in this Annual Report and note 9 of the Company's 2012 Annual Report.

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



## Notes to the financial statements continued

### 14. Investments in subsidiaries

Company	Shares in subsidiary undertakings	
	2013 £ 000's	2012 £ 000's
<b>Cost</b>		
At 1 January	1	256
Part disposal of shares in CCIL	–	(204)
Re-classification of retained interest in CCIL upon disposal of controlling interest	–	(51)
At 31 December	1	1

The Company has investments in the following subsidiary undertakings, consisting solely of ordinary shares, of:

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

All of these subsidiary undertakings operate and are registered in England and Wales.

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 the EBT are included in the Company's statement of financial position.

### 15. Financial assets and liabilities

	Group and Company	
	2013 £ 000's	2012 £ 000's
<b>Financial assets at FVTPL</b>		
Trading investments carried at fair value	12,567	9,060
Derivative financial assets	1,139	726
	13,706	9,786
<b>Financial liabilities at FVTPL</b>		
Contractual obligation to acquire securities	(4,289)	(2,848)

The trading investments carried at fair value included above under financial assets at FVTPL and financial liabilities at FVTPL include long positions and short positions (contractual obligations to acquire securities), respectively, in listed equity securities that present the Company with opportunity for return through dividend income and trading gains. The fair values of these securities are based on quoted market prices. The management of risk resulting from these positions is described in note 24. The Company's trading investments carried at fair value, under financial assets at FVTPL, have been used as security with respect to the undrawn borrowing facility of £5.00 million. For more details see note 17.

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

**16. Trade and other receivables**

	<b>Group</b>		<b>Company</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>£ 000's</b>	<b>£ 000's</b>	<b>£ 000's</b>	<b>£ 000's</b>
<b>Current assets</b>				
Market and client receivables	17,396	10,787	17,396	10,787
Amounts owed by group undertakings	–	–	3,347	1,991
Unpaid share capital and loans due from staff	2	2,617	2	2,617
Prepayments and accrued income	1,244	1,360	1,244	1,360
Other receivables	707	770	707	770
	<b>19,349</b>	<b>15,534</b>	<b>22,696</b>	<b>17,525</b>

The average credit period taken is 27 days (2012: 33 days). A specific provision of £176,093 (2012: £75,467) has been made against the full amount of specific market and client receivables deemed to be doubtful. The amount charged to the profit and loss account for bad or doubtful debts is £130,584 (2012: £85,110).

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. These loans were repaid in full during the year and the B shares were converted into ordinary shares.

**Credit risk**

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

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

The Company has no significant concentration of credit risk, other than those covered in note 24. In addition, the risk associated with these financial assets is further discussed in note 24.

**17. Cash and cash equivalents**

	<b>Group</b>		<b>Company</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>£ 000's</b>	<b>£ 000's</b>	<b>£ 000's</b>	<b>£ 000's</b>
Cash and cash equivalents	30,343	22,271	30,224	22,271

Cash and cash equivalents comprise cash held by the Company and instant access bank deposits. 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 24).

## Notes to the financial statements continued

### 17. Cash and cash equivalents (continued)

#### Undrawn borrowing facilities

At 31 December 2013, the Company had an undrawn borrowing facility of up to £5.00 million (2012: £5.00 million). The facility is secured against the Company's trading investments carried at fair value, under financial assets at FVTPL. The actual amount available is the lower of £5.00 million, the pre-tax profit derived from the last audited accounts or the value of the Company's trading investments carried at fair value, under financial assets at FVTPL (see note 15) after applying various haircuts. This facility is due to be renewed at the end of April 2014.

#### Other guarantees and charges

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

### 18. Trade and other payables

	<b>Group and Company</b>	
	<b>2013</b>	<b>2012</b>
	<b>£ 000's</b>	<b>£ 000's</b>
Trade creditors	14,401	7,183
Corporation tax payable	1,816	1,050
Accruals and deferred income	18,724	15,618
Other creditors	567	485
	<b>35,508</b>	<b>24,336</b>

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

### 19. Deferred tax asset

Deferred tax arises on all taxable and deductible temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In the table below, the Company has recognised deferred tax assets on temporary differences relating to bonus payments, fixed assets and share options.

	<b>Group and Company</b>			
	<b>Temporary differences</b>			
	<b>Bonus payments</b>	<b>Fixed assets</b>	<b>Share options</b>	<b>Total</b>
	<b>£ 000's</b>	<b>£ 000's</b>	<b>£ 000's</b>	<b>£ 000's</b>
At 31 December 2011	97	–	–	97
Credit on account of temporary differences	146	29	–	175
At 31 December 2012	243	29	–	272
(Decrease) / increase on account of temporary differences – current year	(33)	(2)	530	495
Increase on account of temporary differences – prior year	20	–	–	20
Charge to equity	–	–	237	237
At 31 December 2013	<b>230</b>	<b>27</b>	<b>767</b>	<b>1,024</b>

The £766,094 deferred tax asset arising from share options reflects the increase in the Company's share price, resulting in the share price at year end being above the options' exercise price.

The Finance Bill 2013 was substantively enacted on 2 July 2013. The reduction to the standard rate of corporation tax from 23% to 21% will be effective from 1 April 2014 and to 20% from 1 April 2015. Accordingly, the deferred tax balances at 31 December 2013 have been stated at either 21% or 20%, depending on when the individual temporary differences are expected to reverse.

The Company has unutilised capital losses on which a deferred tax asset has not been recognised as future utilisation of the losses is dependent on future chargeable gains. Given uncertainties on when future chargeable gains are likely to arise, no deferred tax asset has been recognised. The unrecognised deferred tax asset in respect of capital losses carried forward is gross £302,261 (net £60,452 at 20%).

## 20. Share capital and capital redemption reserve

	<b>Group and Company</b>	
	<b>2013</b>	<b>2012</b>
	<b>£ 000's</b>	<b>£ 000's</b>
<b>Authorised:</b>		
179,185,700 (2012: 179,185,700) ordinary shares of 1p each	1,792	1,792
20,814,300 (2012: 20,814,300) B shares of 1p each	208	208
	<u>2,000</u>	<u>2,000</u>
<b>Allotted:</b>		
63,482,123 (2012: 61,153,717) ordinary shares of 1p each fully paid	635	611
Nil (2012: 2,684,243) B shares of 1p each, fully paid	–	27
	<u>635</u>	<u>638</u>

### 1 January 2012 to 31 December 2012

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

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

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

On 2 November 2012, the Company purchased in the market 6,800,000 ordinary shares of 1p at 70p each. These shares were cancelled by the Company and an amount equivalent to the nominal value of the shares was transferred to the capital redemption reserve.

On 12 December 2012, the Company purchased in the market 2,133,211 ordinary shares of 1p at 70p each. These shares were cancelled by the Company and an amount equivalent to the nominal value of the shares was transferred to the capital redemption reserve.

### 1 January 2013 to 31 December 2013

On 29 January 2013, 50,000 B shares of 1p each were converted into 50,000 ordinary shares of 1p each.

On 14 May 2013, 20,338 B shares of 1p each were converted into 20,338 ordinary shares of 1p each.

On 21 May 2013, 91,183 B shares of 1p each were converted into 91,183 ordinary shares of 1p each.

On 24 May 2013, 257,357 B shares of 1p each were converted into 257,357 ordinary shares of 1p each.

On 28 May 2013, 525,368 B shares of 1p each were converted into 525,368 ordinary shares of 1p each.

On 17 June 2013, 1,200,000 B shares of 1p each were converted into 1,200,000 ordinary shares of 1p each.

On 19 June 2013, 540,000 B shares of 1p each were converted into 540,000 ordinary shares of 1p each.

## Notes to the financial statements continued

### 20. Share capital and capital redemption reserve (continued)

On 29 January 2013, the Company purchased in the market 215,837 ordinary shares of 1p at 75p each. These shares were cancelled by the Company and an amount equivalent to the nominal value of the shares was transferred to the capital redemption reserve.

On 24 May 2013, the Company purchased in the market 140,000 ordinary shares of 1p at 90p each. These shares were cancelled by the Company and an amount equivalent to the nominal value of the shares was transferred to the capital redemption reserve.

The ordinary shares are admitted to trading on AIM. The B shares were 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 were required to pay 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. The required premium was paid up in full by 30 June 2013 and all B shares were converted into ordinary shares and admitted to trading on AIM.

	<b>Group and Company</b>		<b>Group and Company</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>Number</b>	<b>Number</b>	<b>£ 000's</b>	<b>£ 000's</b>
<b>Capital redemption reserve</b>				
At 1 January	8,933,211	–	90	–
Own shares acquired in the year for cancellation	355,837	8,933,211	3	90
At 31 December	9,289,048	8,933,211	93	90

### 21. Own shares

The EBT established by the Company in 2009. It is funded by the Company and has the authority to acquire Cenkos Securities plc shares. During the year 314,753 (2012: 1,259,974) ordinary shares of 1p each were purchased. As at 31 December 2013, the EBT held 3,158,477 (2012: 2,843,724) ordinary shares of 1p each in the Company with a market value of £3.23 million (2012: £2.94 million).

	<b>2013</b>		<b>2012</b>	
	<b>Number</b>	<b>Cost</b>	<b>Number</b>	<b>Cost</b>
	<b>of shares</b>	<b>£ 000's</b>	<b>of shares</b>	<b>£ 000's</b>
At 1 January	2,843,724	2,945	1,583,750	2,190
Acquired during the year	314,753	283	1,259,974	755
At 31 December	3,158,477	3,228	2,843,724	2,945

## 22. Operating lease arrangement

### The Company as lessee

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

	<b>Group and Company</b>	
	<b>2013</b>	<b>2012</b>
	<b>£ 000's</b>	<b>£ 000's</b>
Within one year	507	521
In the second to fifth years inclusive	157	649
After five years	93	121

Operating lease payments represent rentals payable by the Company for office properties. They are negotiated for an average term of ten years and rentals are fixed for an average of 1.6 years.

## 23. Share-based payments

### Equity-settled share option scheme

The Company has a Share Option Scheme ("CSOP"), a Long-Term Incentive Plan ("LTIP") and a Compensatory Award Plan 2009 ("CAP") for all employees of the Company.

#### CSOP

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

#### LTIP

The Company has established an 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 Company (whether or not vested), the option will lapse.

#### CAP

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 Company before the options vest, the options will lapse on the date of such cessation.

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

	<b>2013</b>		<b>2012</b>	
	<b>Number of shares options</b>	<b>Weighted average exercise price (in £)</b>	<b>Number of shares options</b>	<b>Weighted average exercise price (in £)</b>
Outstanding at beginning of year	18,623,042	1.21	14,052,620	1.21
Granted during the year			6,425,000	0.99
Lapsed during the year	(1,250,000)		(1,854,578)	
Outstanding and exercisable at the end of the year	17,373,042	1.13	18,623,042	1.21

## Notes to the financial statements continued

### 23. Share-based payments (continued)

	Date of grant	Vesting date	Date of Expiry	Remaining contractual life, months	2013 Number of shares options	2012 Number of shares options
Options exercisable at £1.15 per share	Jul-09	Jul-09	Jul-19	67	9,194,292	9,194,292
Options exercisable at £1.69 per share	Oct-09	Oct-09	Oct-19	70	1,428,750	1,428,750
Options exercisable at £1.24 per share	Mar-10	Mar-13	Sep-13	–	–	275,000
Options exercisable at £1.28 per share	Mar-10	Mar-13	Sep-13	–	–	725,000
Options exercisable at £1.44 per share	Mar-10	Mar-13	Sep-13	–	–	250,000
Options exercisable at £1.03 per share	Nov-10	Nov-13	May-14	5	175,000	175,000
Options exercisable at £0.95 per share	Mar-11	Mar-14	Sep-14	9	150,000	150,000
Options exercisable at £1.00 per share	Mar-12	Mar-12	Mar-22	99	1,500,000	1,500,000
Options exercisable at £0.95 per share	Mar-12	Mar-15	Sep-15	21	1,425,000	1,425,000
Options exercisable at £1.00 per share	Mar-12	Mar-15	Sep-15	21	3,500,000	3,500,000
Options exercisable at the end of 31 December					<u>17,373,042</u>	<u>18,623,042</u>

The options outstanding at 31 December 2013 have a weighted average exercise price of £1.13 (2012: £1.14) and a weighted average remaining contractual life of 5 years (2012: 5 years). At the date of grant, they had an aggregate estimated fair value of £4.89 million (2012: £5.06 million).

The inputs into the Monte-Carlo simulation model in relation to the share options granted during 2012 were as follows:

	2012
Expected volatility	40%
Risk free rate of return	6%
Expected share price growth	6%
Discount rate	<u>6%</u>

No share options were granted during 2013.

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

During the year the Company recognised expenses of £138,032 (2012: £335,333) related to equity-settled share-based payment transactions with regard to issue of share options.

### 24. Financial instruments

#### *Capital risk management*

The Company manages capital to ensure that entities in the Group will be able to continue as a going concern while aiming to maximise the return to stakeholders. The capital structure of the Company 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 Company has no gearing and it is the responsibility of the Board to review the Company's gearing levels on an ongoing basis. As at 31 December 2013, Cenkos Securities plc had a solvency ratio of 196% (2012: 198%).

**Externally imposed capital requirement**

The Company has to retain sufficient capital to satisfy the UK FCA's capital requirements. These requirements vary from time to time depending on the business conducted by the Company. The Company always retains a buffer above the FCA minimum requirements and has complied with these requirements during and subsequent to the period under review.

**Significant accounting policies**

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

**Categories of financial instruments**

	<b>Carrying value</b>	
	<b>2013</b>	<b>2012</b>
	<b>£ 000's</b>	<b>£ 000's</b>
<b>Available-for-sale investments</b>	1,080	1,000
<b>Financial assets at fair value through profit and loss (FVTPL)</b>		
Trading investments carried at fair value	12,567	9,060
Derivative financial assets	1,139	726
<b>Financial liabilities at fair value through profit and loss (FVTPL)</b>		
Trading investments carried at fair value	4,289	2,848
<b>Financial liabilities held at amortised cost</b>		
Amortised cost	35,508	24,336

**Financial risk management objectives**

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

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

**Interest rate risk management**

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

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

**Interest rate sensitivity analysis**

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



## Notes to the financial statements continued

### 24. Financial instruments (continued)

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

- profit for the year ended 31 December 2013 would increase / decrease by £0.01 million (2012: increase / decrease by £0.01 million). This is mainly attributable to the Company's exposure to interest rates on its variable rate instruments; and
- other comprehensive income would increase / decrease by £0.01 million (2012: increase / decrease by £0.01million)

#### **Equity price risks**

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

#### **Equity price sensitivity analysis**

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

- net profit for the year ended 31 December 2013 would have been £1.05 million higher / lower (2012: £0.69 million higher / lower) due to change in the value of FVTPL held for trading investments.

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

#### **Foreign currency risk**

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

#### **Credit risk management**

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

The vast majority of the Company's credit risk arises from the settlement of security transactions. However, the settlement model primarily used by the Company does not expose the Company to counterparty risk as a principal to a trade. Rather, the Company's exposure lies solely with Pershing Securities Limited ("Pershing"), a wholly owned subsidiary of the Bank of New York Mellon Corporation, a AA- (2012: AA-) rated bank. In addition, in circumstances in which the Company does act as principal when acting as a market maker, the counterparty will normally be an FCA regulated market counterparty rather than a corporate or individual trader. The Company does not have any significant credit risk exposure to any single counterparty with the exception of Pershing.

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

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

In 2006, the Company issued various tranches of partly paid B shares to a number of employees serving with the Company at that time. The carrying value of the unpaid portion is included in financial assets and was due to be repaid on 1 July 2013. By 30 June 2013 all outstanding amounts in respect of the B shares had been received.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Company'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.

The table below summarises the Company's exposure to credit risk by asset class according to whether the exposure is collateralised.

### Exposure to Credit Risk

		<b>Group</b>		<b>Company</b>	
		<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
		<b>£ 000's</b>	<b>£ 000's</b>	<b>£ 000's</b>	<b>£ 000's</b>
Derivative financial assets	Uncollateralised	1,139	726	1,139	726
Market and client receivables	Uncollateralised	17,396	10,787	17,396	10,787
Amounts owed by group undertakings	Uncollateralised	–	–	3,347	1,991
Unpaid share capital and loans due from staff	Collateralised	–	1,919	–	1,919
Unpaid share capital and loans due from staff	Uncollateralised	2	698	2	698
Prepayments and accrued income	Uncollateralised	1,244	1,360	1,244	1,360
Other receivables	Uncollateralised	707	770	707	770
Cash and cash equivalents	Uncollateralised	30,343	22,271	30,224	22,271
		<b>50,831</b>	<b>38,531</b>	<b>54,059</b>	<b>40,522</b>

## Notes to the financial statements continued

### 24. Financial instruments (continued)

The table below summarises the Company's exposure to credit risk by asset class according to credit rating.

#### Exposure to Credit Risk

		Group		Company	
		2013 £ 000's	2012 £ 000's	2013 £ 000's	2012 £ 000's
Derivative financial assets	Unrated	1,139	726	1,139	726
Market and client receivables	Unrated	11,404	6,097	11,404	6,097
Market and client receivables	AA–	5,102	3,769	5,102	3,769
Market and client receivables	A	556	328	556	328
Market and client receivables	BBB	334	593	334	593
Amounts owed by Group undertakings	Unrated	–	–	3,347	1,991
Unpaid share capital and loans due from staff	Unrated	2	2,617	2	2,617
Prepayments and accrued income	Unrated	1,244	1,360	1,244	1,360
Other receivables	Unrated	707	770	707	770
Cash and cash equivalents	AA–	15,290	15,162	15,171	15,162
Cash and cash equivalents	A	15,053	7,109	15,053	7,109
		50,831	38,531	54,059	40,522

#### Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board. It has, however, delegated day-to-day management to the Chief Executive Officer. The Company has in place an appropriate liquidity risk management framework for the management of its short, medium and long-term funding and liquidity management requirements. The Company 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 Company has at its disposal to further reduce liquidity risk. Given the nature of the Company's business, the Company does not run any material liquidity mismatches, financial liabilities are on the whole short-term and the Company has sufficient liquid assets to cover all of these liabilities.

#### Liquidity and interest risk tables

The following tables detail the Company's remaining contractual maturity for its non-derivative financial assets and liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company is required to pay. The table includes both interest and principal cash flows. The tables also detail the Company'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.

**31 December 2013**

		Weighted average effective interest rate	No Maturity Date £ 000's	Less than 1 month £ 000's	More than 1 month £ 000's	Total £ 000's
Available-for-sale financial assets	Non-interest bearing		1,080	–	–	1,080
Financial assets at FVTPL	Non-interest bearing		12,567	–	1,139	13,706
Trade and other receivables	Non-interest bearing		–	19,349	–	19,349
Investments – short positions	Non-interest bearing		–	(4,289)	–	(4,289)
Trade and other payables	Non-interest bearing		–	(35,508)	–	(35,508)
Cash and cash equivalents	Variable interest rate instruments	1.00%	–	3,284	–	3,284
Cash and cash equivalents	Variable interest rate instruments	0.30%	–	11,768	–	11,768
Cash and cash equivalents	Variable interest rate instruments	0.25%	–	15,290	–	15,290
			12,567	9,894	1,139	23,600

**31 December 2012**

		Weighted average effective interest rate	No Maturity Date £ 000's	Less than 1 month £ 000's	More than 1 month £ 000's	Total £ 000's
Available-for-sale financial assets	Non-interest bearing		1,000	–	–	1,000
Financial assets at FVTPL	Non-interest bearing		9,060	368	358	9,786
Trade and other receivables	Fixed interest rate instruments	5.00%	–	–	2,617	2,617
Trade and other receivables	Non-interest bearing		–	12,917	–	12,917
Financial liabilities at FVTPL	Non-interest bearing		–	(2,848)	–	(2,848)
Trade and other payables	Non-interest bearing		–	(24,336)	–	(24,336)
Cash and cash equivalents	Fixed interest rate instruments	1.00%	–	2,600	–	2,600
Cash and cash equivalents	Fixed interest rate instruments	0.30%	–	4,500	–	4,500
Cash and cash equivalents	Variable interest rate instruments	0.25%	–	15,171	–	15,171
			9,060	8,372	2,975	20,407

## Notes to the financial statements continued

### 24. Financial instruments (continued)

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	
	2013 £ 000's	2012 £ 000's	2013 £ 000's	2012 £ 000's
Non-current assets:				
Other non-current assets	1,411	822	1,411	822
Available-for-sale financial assets	1,080	1,000	1,080	1,000
Financial assets at FVTPL	13,706	9,786	13,706	9,786
Loans and receivables	2	2,617	2	2,643
Trade and other receivables	19,347	12,917	19,347	12,917
Cash and cash equivalents	30,343	22,271	30,343	22,271
	64,478	48,591	64,478	48,617
Financial liabilities at FVTPL	(4,289)	(2,848)	(4,289)	(2,848)
Trade and other payables	(35,508)	(24,336)	(35,508)	(24,336)
	(39,797)	(27,184)	(39,797)	(27,184)

#### Fair value hierarchy

All financial instruments carried at fair value are categorised in three categories, defined as follows:

Level 1 — Quoted market prices

Level 2 — Valuation techniques (market observable)

Level 3 — Valuation techniques (non-market observable)

As at 31 December 2013, the Company held the following financial instruments measured at fair value:

	Level 1 £ 000's	Level 2 £ 000's	Level 3 £ 000's	2013 Total £ 000's
<b>Available-for-sale financial assets</b>	—	—	1,080	1,080
<b>Financial assets at FVTPL:</b>				
Derivative financial assets	—	—	1,139	1,139
Non-derivative financial assets held for trading	12,567	—	—	12,567
	12,567	—	1,139	13,706
<b>Financial liabilities at FVTPL:</b>				
Non-derivative financial liabilities held for trading	4,289	—	—	4,289

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lower level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

#### Reconciliation of recurring fair value measurements categorised within Level 3 of the fair value hierarchy

	Unlisted Securities £ 000's	Share options and warrants £ 000's	Total £ 000's
Opening balance 1 January 2013	1,000	726	1,726
Unlisted securities acquired	80	–	80
Share options and warrants granted	–	540	540
Share options day 1 revaluation gain posted to reserves	–	12	12
Net unrealised loss recognised in income statement	–	(139)	(139)
	1,080	1,139	2,219

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

The unlisted equity shares are carried as available-for-sale financial assets classified as Level 3 within the fair value hierarchy. They are valued based on the prices paid by other participants to the transaction when the shares were acquired. Since then, the unlisted companies' performance is broadly in line with expectations and there have been no other factors brought to the Board's attention which would suggest that there has been any impairment to this valuation in the intervening period.

The derivative financial assets are carried as financial assets at FVTPL classified as Level 3 within the fair value hierarchy and comprise equity options and warrants over listed securities.

#### Impact of reasonably possible alternative assumptions

A sensitivity analysis based on a 10% increase / decrease in the volatility measure used as an input in the valuation of the share options and warrants shows the impact of such a movement would be an increase of £118,929 / decrease of £99,277 respectively in the profit shown in the income statement.

## Notes to the financial statements continued

### 24. Financial instruments (continued)

#### Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

Fair values are determined according to the following hierarchy:

(a) Level 1 – Quoted market price

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

(b) Level 2 – 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) Level 3 – 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 (for example, historical data may 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 the Company anticipates would be used by a third party market participant to establish fair value.

	<b>Fair value at 31/12/13 £ 000's</b>	<b>Valuation Technique</b>	<b>Unobservable input</b>	<b>Range</b>
Share options and warrants	1,139	Monte Carlo simulation	Volatility	19-74%
Unlisted securities	1,080	Latest transaction price	n/a	n/a
	<u>2,219</u>			

### 25. Related party transactions

Transactions with related parties are made at arm's length. Transactions or balances between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and, in accordance with IAS 24, are not disclosed in this note. The Board includes all employees considered to be key management personnel.

	<b>2013 £ 000's</b>	<b>2012 £ 000's</b>
<b>Amounts owed by related parties</b>		
Cenkos Nominees Limited	119	317

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

	2013 £ 000's	2012 £ 000's
Aggregate emoluments	5,296	3,379

There were no Directors who were members of any Company pension scheme as at the period end (2012: none).

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

	2013 No.	2012 No.
Number of shares	14,487,294	14,466,430
Percentage interest	23%	23%

#### Related party interests in share options

	2013		2012	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at beginning of the year	1,178,710	1.11	2,793,828	1.18
Adjustment arising from the reclassification of related parties	–	–	(2,615,118)	1.15
Issued during the year	–	–	1,000,000	1.00
Outstanding at the end of the year	1,178,710	1.11	1,178,710	1.11

Among the Company's transactions with key management personnel was a loan to Jeremy Warner Allen, a Director of Cenkos Securities plc. This loan was repaid in full by 30 June 2013 (balance outstanding at 31 December 2012: £227,780) and related to the premium due on B shares in the Company. The loan was made in accordance with the terms and conditions of the issue of the B shares, which were allotted to a number of senior employees in 2006 and only the nominal value was paid on the allotment of these shares. The Company was treated as having made a loan to Jeremy Warner Allen of an amount equal to the outstanding premium to be paid (the "notional loan"). As the notional loan to Jeremy Warner Allen was free of interest, it was considered to be a taxable benefit in kind. There were no other outstanding balances or bad debt provisions for any related party balances as at 31 December 2013 (2012: nil), and no related party transactions have been written off during the period (2012: nil).

## 26. Events after the reporting period

There have been no events subsequent to the year-end 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 16 May 2014 at 9.30 am (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 14 and 15, which will be proposed as special resolutions:

- 1. That** the Company's Annual Accounts for the year ended 31 December 2013, together with the Directors' Report and the Auditors' Report on those accounts, be received.
- 2. That** the final dividend recommended by the Directors of the Company ("the Directors") of 8.5 pence per each share of 1p each in the capital of the Company ("ordinary share") for the year ended 31 December 2013 be declared payable on 28 May 2014 to shareholders registered at the close of business on 2 May 2014.
- 3. That** Gerry Aherne be re-elected as a Director of the Company.
- 4. That** Mike Chilton be re-elected as a Director of the Company.
- 5. That** Jim Durkin be re-elected as a Director of the Company.
- 6. That** Jeff Hewitt be re-elected as a Director of the Company.
- 7. That** Paul Hodges be re-elected as a Director of the Company.
- 8. That** Dr. Anthony Hotson be re-elected as a Director of the Company.
- 9. That** Joe Nally be re-elected as a Director of the Company.
- 10. That** Jeremy Warner Allen be re-elected as a Director of the Company.
- 11. That** Ernst & Young LLP be reappointed as auditors to the Company until the conclusion of the next Annual General Meeting of the Company.
- 12. That** the Directors be authorised to fix the auditors' remuneration.
- 13. 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):
  - 13.1.** 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 £211,607.00 to such persons and at such times and on such terms as they think proper during the period expiring at the conclusion of the Annual General Meeting of the Company to be held in 2014 (unless previously revoked or varied by the Company in general meeting); and further
  - 13.2.** 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 £211,607.00 during the period expiring at the conclusion of the Annual General Meeting of the Company to be held in 2015 subject only to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with treasury shares, fractional entitlements or legal or practical problems under the laws or requirements of any recognised regulatory body or stock exchange in any territory; and
  - 13.3.** 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.

**14. That**, subject to the passing of Resolution 13 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 and/or where the allotment constitutes an allotment of equity securities by virtue of Section 560 (3) of the Act, 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:

- 14.1. 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 13.2 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
- 14.2. the allotment (otherwise than pursuant to sub-paragraph 14.1 above) of equity securities up to an aggregate nominal value not exceeding £31,741.00,

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 2015, 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.

**15. 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 provided that:

- 15.1. the maximum number of ordinary shares hereby authorised to be purchased is 6,284,730 (representing approximately 9.9% of the Company's issued ordinary shares at the date of this Resolution);
- 15.2. 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;
- 15.3. 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;
- 15.4. 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
- 15.5. 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

25 March 2014

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 of 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 9.30 am on 14 May 2014 (being not less than 48 hours before the Meeting) at the offices of the Company's registrars, Capita Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF. 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 5.30pm on 14 May 2014 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 5.30pm on the day preceding the date fixed for the adjourned Meeting. Changes to the register of members after the relevant times shall be disregarded in determining the rights of any person to attend and vote at the Meeting.
7. In the case of joint holders, the vote of the senior holder who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.
8. As at 25 March 2014 (being the last business day prior to publication of the Notice), the Company's issued share capital consists of 63,482,122 ordinary shares of one penny each, carrying one vote each. Therefore, the total voting rights in the Company as at 25 March 2014 are 63,482,122.

## Explanatory notes to the notice of Annual General Meeting

### **Resolution 1 – Company’s Annual Report and Accounts 2013 (ordinary resolution)**

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

### **Resolution 2 – Final dividend (ordinary resolution)**

The payment of a final dividend of 8.5 pence per share in respect of the year ended 31 December 2013, which is recommended by the Board, requires the approval of the shareholders at the Annual General Meeting.

### **Resolutions 3 to 10 – Re-election of Directors (ordinary resolutions)**

In accordance with recommended best practice and with the Company’s Articles of Association, all serving Directors are submitting themselves for re-election. At the Annual General Meeting, Gerry Aherne, Mike Chilton, Jim Durkin, Jeff Hewitt, Paul Hodges, Dr. Anthony Hotson, Joe Nally and Jeremy Warner Allen will retire and submit themselves for re-election. Resolutions 3 to 10 propose their respective re-elections.

### **Resolutions 11 and 12 – Re-appointment of auditors and determination of their remuneration (ordinary resolutions)**

The Company is required to appoint auditors at each Annual General Meeting at which accounts are presented, to hold office until the conclusion of the next such meeting. The Audit Committee has reviewed the effectiveness, independence and objectivity of the external auditors, Ernst & Young LLP, on behalf of the Board, who now propose their re-appointment as the auditors of the Company. Resolution 12 authorises the Directors, in accordance with standard practice, to negotiate and agree the remuneration of the auditors. In practice, the Audit Committee will consider the audit fees for recommendation to the Board.

### **Resolution 13 – Authority to allot shares (ordinary resolution)**

Resolution 13 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 £423,214.00 being approximately 66% of the nominal value of the issued share capital of the Company as at 25 March 2014 (being the latest practical date prior to the publication of the Annual Report and Accounts), £211,607.00 of this authority is reserved for a fully preemptive 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 2015. The Directors have no present intention of exercising such authority. The Resolution replaces a similar resolution passed the Annual General Meeting held in 2013.

### **Resolution 14 – Disapplication of pre-emption rights (special resolution)**

If the Directors wish to allot new shares or other equity securities for cash or sell any shares which the Company holds in treasury following a purchase of its own shares pursuant to the authority in Resolution 15 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 14 asks shareholders to grant the Directors authority to allot equity securities for cash up to an aggregate nominal value of £31,741.00 (being approximately 5% of the Company’s issued share capital as at 25 March 2014) without first offering the securities to existing shareholders. The Resolution also disapplies the statutory pre-emption provisions in connection with a rights issue, but only in relation to the amount permitted under Resolutions 14.1 and/or 14.2, and allows the Directors, in the case of a rights issue, to make appropriate arrangements in relation to fractional entitlements or other legal or practical problems which might arise. The authority will expire at end of the Annual General Meeting of the Company in 2015. The Resolution replaces a similar resolution passed at the Annual General Meeting of the Company held in 2013.

## **Explanatory notes to the notice of Annual General Meeting** continued

### **Resolution 15 – Authority to purchase the Company's own ordinary shares (special resolution)**

Resolution 15 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 in issue as at 25 March 2014. 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 the 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 2013. The Company is allowed to hold in treasury any shares purchased by it using its distributable profits. Such shares will remain in issue and capable of being re-sold by the Company or used in connection with certain of its share schemes. The Company would consider, at the relevant time, whether it was appropriate to take advantage of this ability to hold the purchased shares in treasury.

Options to subscribe for up to 17,373,042 ordinary shares have been granted and are outstanding as at 25 March 2014 (being the latest practicable date prior to publication of this document) representing 27.37% 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 15, the options outstanding as at 25 March 2014 would represent 30.37% of the ordinary share capital in issue following such exercise.

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