CENKOS

Cenkos Channel Islands Limited
Interim Report 2010

Contents

Financial highlights

- Turnover up 34.2% to £2.349m (2009: £1.751m)
- Profits before tax up 40.5% to £305k (2009: £217k)
- Basic EPS up 33.2% to 3.01p (2009: 2.26p)
- Diluted EPS up 32.3% to 2.99p (2009: 2.26p)
- Funds under management year-on-year up by 49.3% to £982.15m (2009: £657.68m)
- Interim dividend of 5p per share (2009: 1.5p)

Business highlights

- Funds under management have now surpassed £1bn subsequent to the period end, including an increase in net assets of the Cenkos Channel Islands Investment Fund range of 216% year-on-year
- Improvement in operating profits as a result of continued growth in all areas of the business
- Recruitment of a new Head of Market Making who will relocate from Cenkos Securities plc London office to manage relationships with CISX listed clients

Commenting on the results, Jon Ravenscroft, Chief Executive Officer, said:

"Cenkos has made a positive start to 2010 and although short term market volatility continues to influence trading revenues, I am confident that the fundamentals of the business will provide the Group with a strong platform for future medium to long term growth."

Jon Ravenscroft
Chief Executive Officer

17 September 2010

Chairman's statement

Once again I am pleased to announce a set of strong results for the Company for the first half of the year. Turnover has risen 34%, while profits have increased 41%. Funds under management continue to grow, increasing by 49% year-on-year to 30 June, and are now above £1bn at time of writing.

All areas of the business continue to grow, and the Group is now well positioned within its principle markets to continue this growth. In addition there are a number of on-going projects that will hopefully come to fruition in the second half of the year and, with the continuing commitment and professionalism of our staff, I am confident the business will remain strong in what are still uncertain times.

It is satisfying to continue with our policy of increasing returns to shareholders by declaring an interim dividend of 5p per ordinary share, and a rise of 233% from the previous year. We intend paying this dividend on 22 October 2010 to all shareholders on the register on 7 October 2010. In the view of your Board, after this distribution the Group still has sufficient funds to pursue its growth strategy and meet its regulatory capital obligations.

Andy Stewart
Chairman

17 September 2010

Condensed consolidated statement of comprehensive income

for the six month period ended 30 June 2010

	Notes	Unaudited 1 January 2010 to 30 June 2010 £	Unaudited 1 January 2009 to 30 June 2009 £
Revenue		2,348,973	1,750,607
Administrative expenses		(2,045,763)	(1,523,341)
		303,210	227,266
Employee share option expense to be satisfied by parent	10	–	(9,652)
Operating profit		303,210	217,614
Finance income		1,924	3,399
Finance costs		(229)	(4,014)
Profit before taxation		304,905	216,999
Taxation	3	–	8,816
Profit for the financial period		304,905	225,815
Attributable to:			
Equity holders of the parent		300,703	226,321
Minority interests		4,202	(506)
		304,905	225,815
Earnings per share			
Basic	5	3.01p	2.26p
Diluted	5	2.99p	2.26p

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

Condensed consolidated statement of financial position as at 30 June 2010

	Notes	Unaudited 30 June 2010 £	Audited 31 December 2009 £
Non-current assets			
Property, plant and equipment	7	74,751	69,870
		74,751	69,870
Current assets			
Trade and other receivables	8	36,846,259	9,296,856
Cash and cash equivalents		1,636,812	1,447,836
		38,483,071	10,744,692
Total assets		38,557,822	10,814,562
Current liabilities			
Trade and other payables	9	36,547,373	8,850,021
		36,547,373	8,850,021
Net current assets		1,935,698	1,894,671
Total assets less current liabilities		2,010,449	1,964,541
Net assets		2,010,449	1,964,541
Equity			
Called up share capital		100,000	100,000
Retained earnings		1,934,002	1,892,296
Equity attributable to equity holders of the parent		2,034,002	1,992,296
Minority interests		(23,553)	(27,755)
Total equity		2,010,449	1,964,541

The Directors confirm to the best of their knowledge that this condensed set of financial statements has been prepared in accordance with IAS34 - 'Interim Financial Reporting'.

The interim financial information was approved by the board of directors on 17 September 2010.

Condensed consolidated statement of cash flows for the six month period ended 30 June 2010

	Unaudited 1 January 2010 to 30 June 2010 £	Unaudited 1 January 2009 to 30 June 2009 £
Cash flows from operations		
Operating profit from continuing operations	303,210	217,614
Adjustments for:		
Depreciation of property, plant and equipment	26,830	25,328
Share option expense to be satisfied by parent	–	9,652
Share based payment expense	41,003	–
Operating cash flows before movements in working capital	371,043	252,594
(Increase)/decrease in receivables	(27,549,403)	6,021,609
Increase/(decrease) in payables	27,697,352	(5,221,856)
Cash generated by operations	518,992	1,052,347
Interest paid	(229)	(4,014)
Taxation paid	–	(34,933)
Net cash generated by operating activities	518,763	1,013,400
Cash flows from investing activities		
Interest received	1,924	3,399
Purchase of fixed assets	(31,711)	(10,292)
Net cash used in investing activities	(29,787)	(6,893)
Cash flows from financing activities		
Issue of capital by subsidiary to minority interests	–	6,000
Increase in borrowings	–	175,000
Dividends paid	(300,000)	(100,000)
Net cash flows from financing activities	(300,000)	81,000
Net increase in cash and cash equivalents	188,976	1,087,507
Cash and cash equivalents at the beginning of the period	1,447,836	(90,597)
Cash and cash equivalents at the end of the period	1,636,812	996,910

Condensed consolidated statement of changes in equity

for the six month period ended 30 June 2010

	Share capital £	Retained earnings £	Minority interests £	Total £
At 1 January 2009	100,000	1,148,292	(25,195)	1,223,097
Profit for the period	–	226,321	–	226,321
Loss allocated to minority interests	–	–	(506)	(506)
Sale of shares to minority interests	–	–	6,000	6,000
Profit on sale of shares to minority interest	–	9,104	(9,104)	–
Capital contribution relating to share option	–	9,652	–	9,652
Dividends paid	–	(100,000)	–	(100,000)
At 30 June 2009	100,000	1,293,369	(28,805)	1,364,564
Profit for the period	–	748,927	–	748,927
Profit allocated to minority interests	–	–	1,050	1,050
Dividends paid	–	(150,000)	–	(150,000)
At 31 December 2009	100,000	1,892,296	(27,755)	1,964,541
Retained profit for the period	–	300,703	–	300,703
Profit allocated to minority interests	–	–	4,202	4,202
Credit to equity for equity-settled share-based payments	–	41,003	–	41,003
Dividends paid	–	(300,000)	–	(300,000)
At 30 June 2010	100,000	1,934,002	(23,553)	2,010,449

Notes to the condensed consolidated financial statements

1. Accounting policies

General information

Cenkos Channel Islands Limited is a company incorporated with limited liability in Guernsey. The Company's principal activity is the provision of investment services. These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company and its subsidiaries ("the Group") operates.

Basis of accounting

The interim financial information has been prepared in accordance with International Accounting Standard 34 – 'Interim Financial Reporting'.

The accounting policies used in arriving at these condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009 which are prepared in accordance with International Financial Reporting Standards (IFRS).

These financial statements have been prepared on the historical cost basis, modified by the revaluation of certain financial instruments.

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

Going concern

The Board has prepared forecasts taking account of the current uncertain market conditions which demonstrate that the Group will continue to operate within its own resources for at least 12 months after the reporting date.

The information prepared has also been subjected to sensitivity analysis designed to stress test the forecasts. As a result, the board considers that the Group has adequate resources to meet its business needs and it is therefore appropriate to adopt the going concern basis in preparing these financial statements.

The principal risks faced by the Group are not materially different, in the opinion of the Directors, to those disclosed in the latest annual report.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to co-terminus period ends. Control is achieved where the Company has power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the effective point of acquisition or up to the effective date of disposal, as appropriate. All inter group transactions, balances, income and expenses are eliminated on consolidation.

2. Segment information

Management currently identifies the Group's reportable segments as follows:

- The Broking segment provides private client and institutional broking services

- The Asset Management segment provides private client investment management and institutional fund management services.

Notes to the condensed consolidated financial statements continued

2. Segment information (continued)

The Broking segment combines the Guernsey and Jersey broking businesses, while the Asset Management segment combines investment management and fund management services.

Management monitors the operating results of business segments separately for the purpose of making decisions about resources to be allocated and of assessing performance. Segment performance is evaluated based on operating profit or loss. Finance income, finance costs and income taxes are managed on a group basis.

Revenues, assets and liabilities which are not directly attributable to the business activities of any operating segment are not allocated to a segment. In the financial period under review, this applies to the Group's nominee company, Cenkos Channel Islands Nominees Limited, and services company, Cenkos Channel Islands Services Limited.

	Broking £	Asset Management £	Consolidated £
Operating segment for the period ended 30 June 2010:			
Total revenues	1,977,097	371,876	2,348,973
Operating profit	239,622	63,588	303,210
Finance income			1,924
Finance costs			(229)
Profit before tax			304,905
Tax			–
Profit for the period			304,905
Segment assets	38,396,428	161,394	38,557,822
Segment liabilities	36,479,810	67,563	36,547,373

	Broking £	Asset Management £	Consolidated £
Operating segment for the period ended 30 June 2009:			
Total revenues	1,561,034	189,573	1,750,607
Operating profit	217,614	–	217,614
Finance income			3,399
Finance costs			(4,014)
Profit before tax			216,999
Tax			8,816
Profit for the period			225,815
Segment assets	8,649,960	137,477	8,787,437
Segment liabilities	7,295,396	127,477	7,422,873

The Group does not currently analyse revenues from external customers by geographical location and the chief operating decision maker is of the opinion that the costs involved in developing systems to produce this information would be excessive.

3. Taxation

Income Tax expense is recognised based on management's best estimate of the weighted average annual Income Tax rate expected for the full financial year.

The standard rate of income tax for Guernsey companies is 0%. Therefore the charge included in the financial statements is based on this rate.

Cenkos Channel Islands Limited will be required to deduct or account for tax at the difference between the tax suffered by the company and the shareholders' individual rate of 20% in respect of dividends and deemed distributions and pay that tax over to the Director of Income Tax in respect of Guernsey resident individual shareholders. £29,058 (30 June 2009: £6,087) of tax paid by the Company in respect of deemed distributions is accounted for as a debit balance on the shareholders' loan accounts and is included in prepayments and accrued income.

Deemed distributions include investment income as it arises and any undistributed trading income of a company if a trigger event, such as death, sale of share, migration of company/Guernsey resident shareholder etc should occur. No deductions need to be made in respect of distributions made wholly from income that arose before 1 January 2008.

With effect from the 2009 year of assessment the standard rate of income tax for Jersey companies has changed. From 1 January 2009 Jersey companies will be taxable at the rate applicable to financial service companies of 10%.

4. Dividends

	30 June 2010 £	30 June 2009 £
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2009 of 3p (31 December 2008: 1p) per share	300,000	100,000

The proposed interim dividend for 2010 of 5p (2009: 1.5p) per share was approved by the board on 15 September 2010 and has not been included as a liability as at 30 June 2010. The dividend will be payable on 22 October 2010 to all shareholders on the register as at 7 October 2010.

5. Earnings per share

	30 June 2010 £	30 June 2009 £
Earnings		
Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the Parent	300,703	226,321
Effect of dilutive potential ordinary shares	–	–
Earnings for the purpose of diluted earnings per share	300,703	226,321
	No.	**No.**
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	10,000,000	10,000,000
Effect of dilutive potential ordinary shares	70,158	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	10,070,158	10,000,000

Notes to the condensed consolidated financial statements continued

6. Investments in subsidiary undertakings

Principal subsidiary undertakings	Country of registration	Principal activity	Proportion of ordinary shares held
Cenkos Channel Islands Nominee Company Limited	Guernsey	Nominee company	100%
Cenkos Jersey Limited	Jersey	Provision of investment services	92%
Cenkos Channel Islands Investment Management Limited	Guernsey	Provision of investment services	100%
Cenkos Channel Islands Services Limited	Guernsey	Services company	100%

Principal subsidiary undertakings	Country of registration	Principal activity	Proportion of preference shares held
Cenkos Jersey Limited	Jersey	Provision of investment services	100%

All these companies have been consolidated in the Group financial statements.

7. Property, plant & equipment

At 30 June 2010 the Group had property, plant and equipment with a net book value of £74,751 (31 December 2009: £69,870). During the period, the Group spent £31,711 (six month period ended 30 June 2009: £10,292, year ended 31 December 2009: £11,903) on property plant and equipment. This mostly related to the purchase of IT equipment in Guernsey. The depreciation charge for the period was £26,830 (six month period ended 30 June 2009: £25,328; year ended 31 December 2009: £50,349).

8. Trade and other receivables

	30 June 2010 £	31 December 2009 £
Amounts falling due within one year:		
Prepayments and accrued income	746,622	620,467
Market and client debtors	36,099,637	8,658,934
Loan receivable from parent entity	–	17,455
	36,846,259	9,296,856

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

9. Trade and other payables

	30 June 2010 £	31 December 2009 £
Amounts falling due within one year:		
Accrued expenses	561,920	845,856
Deferred income	41,426	62,251
Market and client payables	35,710,125	7,941,914
Loan payable to parent entity	233,902	–
	36,547,373	8,850,021

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.
The loan payable to the parent entity, Cenkos Securities plc, is unsecured, interest free and repayable on demand.

10. Share based payments

In the period ended 31 December 2006, Cenkos Securities plc granted options over 177,500 of its £0.01 ordinary shares to employees of Cenkos Channel Islands Limited including 75,530 and 37,770 to Robin Newbould and Jon Ravenscroft, directors of the Company, respectively. The exercise price is the nominal value of the shares and the date of grant was 31 October 2006. These options, subject to relevant vesting dates, are exercisable for a period of up to five years. 50% of the options vested on the publication of the Cenkos Securities plc 31 December 2007 financial statements, with a fair value of £1.26 per share and 50% vested on the publication of the 31 December 2008 financial statements with a fair value of £1.05 per share. None of the options granted in relation to employees or officers of Cenkos Channel Islands Limited have been forfeited or lapsed to date. The expense to income is calculated using the Monte Carlo simulation model and assumes a volatility of 35% and discount rate of 25%. The expense is reimbursed by the parent as disclosed in the Statement of Changes in Equity.

Cenkos Channel Islands Limited has a share option scheme ("CSOP") and a long term incentive plan ("LTIP") for all employees of the Group.

CSOP

No awards have been granted under the terms of the CSOP.

LTIP

A number of options were granted following the Company's Annual General Meeting on 25 March 2010. These options are exercisable at a price agreed in accordance with the rules of the scheme on the date of grant. The vesting date of the options was 25 March 2010. If the options remain unexercised after 10 years from the date of grant, the options will expire. If the option holder ceases to be an employee or office holder within the Group the options will lapse.

Details of the share options outstanding during the period in respect of all the above plans are as follows:

	30 June 2010		30 June 2009	
	Number of share options	**Weighted average exercise price (£)**	**Number of share options**	**Weighted average exercise price (£)**
Granted during the period	1,000,000	0.90	–	–
Lapsed during the period	–	–	–	–
Outstanding and exercisable at the end of the period	1,000,000	0.90	–	–

	Date of grant	Vesting date	Date of expiry	Remaining contractual life (months)	30 June 2010 Number of share options	30 June 2009 Number of share options
Options exercisable at £0.90 per share	Mar 10	Mar 10	Mar 20	117	1,000,000	–
Options exercisable at the end of the period					1,000,000	–

The options outstanding at 30 June 2010 have a weighted average exercise price of £0.90 (2009: £nil) and a weighted average remaining contractual life of 10 years (2009: nil). At the date of grant, they had an estimated fair value of £41,003 (2009: £nil).

Notes to the condensed consolidated financial statements continued

11. Related Party Transactions

The directors consider the immediate and ultimate controlling party to be Cenkos Securities plc, a company registered in England and Wales.

During the period the Group earned income from Cenkos Securities plc relating to market maker activities of £64,078 (30 June 2009: £119,031). The Group also earned other income from Cenkos Securities plc totalling £52,070 (30 June 2009: £36,000) relating principally to commission on the placing of investments.

The Group also receives realised profits and losses on dealings on a client account held on the name of Cenkos Securities plc and managed for the benefit of the Group. Such income for the period totalled £109,638 (30 June 2009: £61,188). Legal ownership of any investment on the account lies with Cenkos Securities plc, however assets held within this account are included in the statement of financial position of Cenkos Channel Islands Limited as the Group is entitled to any realised profits and losses.

At the period end £233,902 was due to (31 December 2009: £17,455 due from) Cenkos Securities plc. The balance is unsecured, interest free and repayable on demand. Simon Melling, who served as a director during the period, is also a director of Cenkos Securities plc.

During the period the Company paid rent of £31,500 (six month period ended 30 June 2009: £31,500) to New Street Investments Limited. Jon Ravenscroft, who served as a director during the period and his wife, Jackie Ravenscroft, are the sole shareholders of New Street Investments Limited.

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

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 – ‘Related Party Disclosure’

	30 June 2010 £	**30 June 2009 £**
Short-term employment benefits	248,600	190,000
Equity compensation benefits	4,920	9,652

Independent review report of Cenkos Channel Islands Limited

We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the six months ended 30 June 2010 which comprises the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of cash flows, the condensed consolidated statement of changes in equity and related notes 1 to 11. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatement or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim financial report is the responsibility of, and has been approved by, the directors.

As disclosed in note 1, the annual financial statements of the Company are prepared in accordance with IFRSs as issued by the International Accounting Standards Board. The condensed set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34 – 'Interim Financial Reporting'.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 – 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 30 June 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34.

Deloitte LLP
Chartered Accountants
Guernsey, Channel Islands

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