Registered number
4788155

CAIRN CAPITAL GROUP LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2012

CAIRN CAPITAL GROUP LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012
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CAIRN CAPITAL GROUP LIMITED
Company Information

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Tim Frost
David Henriques
David Littlewood
Anthony Mallin
Robert Pierce Jones

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James Starky

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Registered number
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CAIRN CAPITAL GROUP LIMITED
Dırectors' Report

The Dırectors present theır report together wıth the audıted consolıdated fınancıal statements of Caırn Capıtal Group Lımıted (the "Company") and ıts subsıdıarıes (collectıvely the "Group") for the year ended 31 December 2012

Prıncıpal Actıvıty
The Group ıs a specıalıst asset manager and ınvestment advısor wıthın the credıt markets and provıdes ınvestment management servıces and ınvestment advısory servıces to a broad range of clıents

Busıness Revıew
Durıng the year turnover ıncreased from £26,109,466 to £30,748,937 One of the key drıvers of revenue growth was the revenue generated from the Group's credıt funds and managed accounts busıness lıne whıch showed an ıncrease of 58 5% on comparable revenue ın 2011 Revenue growth ıs attrıbutable to strong fund performance across a range of asset classes coupled wıth the contınuıng growth ın assets under management and the launch ın the year of a new fund, the Caırn Credıt Focus Fund

Owıng to revenue recognıtıon accountıng rules certaın performance fees on a number of funds and managed accounts have not been recognısed as ıncome ın the accounts at 31 December 2012 Such fees do not crystallıse untıl 2013 and ın accordance wıth the stated accountıng polıcy cannot be recognısed untıl such tıme that they are fully earned Any adverse performance ın 2013 and, where applıcable, subsequent perıods mıght erode the value of the performance fees The value of such fees at 31 December 2012 amounts to £11,208,466

Assets under management ın the Group's Funds and Managed Accounts busıness ıncreased durıng 2012 by 43 8% to $1 532bn

The followıng funds managed by the Group reported the followıng performance returns ın 2012

Caırn Credıt Fund	+11 9%
Caırn Subordınated Fınancıals Fund	+43 4%
Caırn Specıal Opportunıtıes Fund	+20 0%
Caırn Credıt Focus Fund	+6 4%*
Oyster Fund	+9 1%

* Fund launched ın August 2012

Durıng the year the Group sought to expand ıts actıvıtıes wıthın the loans sector and consıderable efforts were made to launch a new Collateralısed Loan Oblıgatıon Although the CLO was not launched durıng 2012, ıts closure subsequent to the year-end represents the fırst new European CLO ıssuance sınce the fınancıal crısıs emerged Thıs ıs a genuıne achıevement and a key mılestone ın the hıstory of the Group The Group ıs now actıvely engaged ın launchıng a new CLO and ıs currently marketıng a dırect lendıng fund to orıgınate loans to the UK SME communıty It ıs hoped that both the new CLO and the fund wıll be brought to the market ın the second half of 2013

The Group has long been determıned to develop ıts asset management capabılıtıes ın the real estate sector and durıng the latter half of 2012 the Group began to engage ın dıscussıons and structurıng of a real estate debt fund Thıs has contınued ınto 2013 wıth the Group hopıng to launch a real estate debt fund ın the second half of the year

The Group's restructurıng dıvısıon enjoyed consıderable successes ın 2012 wıth fee ıncome ıncreasıng by 78% to £9,606,962 The ıncome ıncrease was attrıbutable to a number of new appoıntments to advıse on RMBS and CMBS restructurıng opportunıtıes Durıng the year the Group advısed on two successful

Business Review *(continued)*
restructurings and at the year-end continued to advise on two other transactions, one of which has subsequently been successfully restructured In addition the restructuring team has been engaged in advising a number of other clients

2012 marked the growth and expansion of the Group's activities in North America Although turnover in North America only accounted for 3% of the turnover of the Group as a whole, the year saw the appointment of Cairn Capital North America Inc as replacement collateral manager to a number of Collateralised Debt Obligations The appointment provides a foundation for the further growth of the operations and activities in North America as well as providing an opportunity to engage in restructuring opportunities for the collective benefit of the note-holders

Looking ahead to the future, the Directors view 2012 to have been a year of considerable achievement and believe the growth of assets under management, sustained fund performance and new product launches provide a platform for the continued growth and future success of the Group

Key Performance Indicators
The Group uses a number of financial performance measures to monitor the performance of the business against budget throughout the year The key performance indicators are measured and reported to management on a monthly basis and are shown below

	2012 £'000	2011 £'000
Turnover	30,749	26,109
Profit before tax	6,538	4,793
Operating margin (%)	21 3%	18 3%

In addition a number of non-financial performance measures are used by the Board to monitor the activities of the Group These include

- fund management performance,
- investment risk, and
- compliance and regulatory issues

Key Risks
The Group is exposed to a range of risks arising from its operations, the wider business environment and the regulatory framework

The Group's overall business risk strategy and appetite and the control environment are determined by the Executive Management Committee ("EMC")

Risk appetite can be defined as the amount of risk that an organisation is prepared to accept in order to achieve its business plan In this context the Group has a relatively low risk appetite, seeking wherever possible to reduce its risk while remaining well placed to achieve its objectives Risk appetite is set by the EMC and forms the basis for the firm's strategic direction and investing decisions Risk appetite is communicated by the EMC to the relevant business heads The Group's risk appetite can and does vary levels of risk acceptable to the funds it manages would not be acceptable to the management of the Group itself, activities likely to adversely affect the Group's reputation are not tolerated, and the extent of risks to be tolerated are largely determined by an assessment of the potential rewards

Key Risks *(continued)*
The Group has a dedicated risk department headed by the Chief Risk Officer who has responsibility for the oversight of risk processes associated with investment management Other business groups contribute to the operational effectiveness of the Group and the maintenance of an effective control environment designed to mitigate exposure to identified risks

The principal risks identified by the Directors are disclosed below

Investment performance risk
A key risk faced by the Group is that of poor investment performance Poor performance in the short term can erode the Group's revenue generating capabilities and might trigger redemptions from its funds Sustained negative performance might result in the business ceasing to be viable

Investment decisions are made by investment committees supported by the Group's dedicated credit research analysts Investment decisions are subject to internal trade approval policies and are subject to on-going monitoring by the Group's risk department Risk management ensures that the investment positions remain within agreed tolerance levels and the overall risk appetite of the Group Weekly risk meetings are held for each business line at which the product strategy, investment position and risk tolerance are reviewed Detailed risk reports for each product to monitor investment performance are prepared weekly and are distributed to the EMC

Employee risk
The Group recognises that its employees are essential to the growth and success of its business Its ability to generate revenue and achieve its strategic objectives is based on the skill, knowledge and expertise of its staff Management is committed to recruiting, developing and retaining only the most able staff Its recruitment processes and competitive compensation structures are designed to achieve this

Key man risk
Key man risk is the risk that the Group is overly reliant on one or more individuals and, should one or more of those individuals cease to be employed, the Group could suffer losses or be no longer able to achieve its objectives Management regularly reviews and monitors its key man exposure and looks to ensure that adequate and appropriate skilled cover is in place for each role Any identified exposures will be remedied by additional training or by recruitment

Management recognises that certain functions are more inherently exposed to key man risks than others and that this risk cannot always be mitigated In the case of portfolio managers, management seeks to reduce its exposure by ensuring that trading strategies and decisions are developed by committee and that other portfolio managers are able to cover in periods of absence

Operational risk
Operational risk is the risk that the Group might suffer a loss as a result of the inadequacy or failure of internal processes or systems

The Group has designed, developed, and implemented strong and robust internal control processes coupled with the development of a bespoke front-to-back electronic trading platform The trade process is now effectively systemised which minimises the overall exposure to operational failures and lessens the likelihood that key processes can be overridden Overall, the control processes and segregation of duties in place do, in the view of management, reduce the exposure to operational risk to an acceptably low level

Key Risks *(continued)*

Business risk
Business risk is the risk of loss inherent in a firm's operating, business and industry environment This risk can arise from external factors such as changes to the economic environment or one-off economic shocks or, and as considered specifically above, internal factors such as poor investment performance

The effect of business risk will be the reduction in management and performance fee income due to a reduction in assets under management As mitigation, Cairn is managed to ensure that it has sufficient capital to withstand and absorb adverse changes in the business environment Regular capital projections are prepared and the Group's business plans are subjected to stressed scenario analyses

Business continuity risk
Business continuity is the risk that the Group will be unable to carry out its day-to-day activities as a result of a major catastrophe, disaster or some other external event A failure to fulfil its obligations to its clients might result in financial losses for the Group as well as damaging its reputation A period of prolonged business interruption might adversely affect the Group's business viability

To mitigate the effects of business continuity risk the Group has in place a detailed business continuity plan which sets out the response to any business interruption and provides off-site facilities where the Group can continue its operations without interruption The plan is reviewed periodically and is tested on an annual basis Additionally the Group maintains business interruption insurance to cover additional costs of working in the event of a business interruption The level of cover is reviewed annually as part of a broader review of the insurance policy

Counterparty credit risk
The Group is exposed to the risk of financial loss should a counterparty fail to meet its contractual obligations Credit risk arises from the following sources fees due from clients, investments in transactions and funds managed by the Group, and cash held in financial institutions

Debtor balances arising from the Group's asset management business are typically paid within 30 days and are not subject to significant credit risk Fees are distributed by the fund administrator or custodian once the NAV has been struck The funds are managed to ensure that sufficient liquidity is maintained to enable it to meet its liabilities as they fall due As such there is no significant credit risk arising from the Group's fees from its fund management activities

Fees from the Group's advisory mandates are paid according to the Group's normal terms of business and are regularly monitored and reviewed for ageing Any potential doubtful debts are identified as part of the review Provisions are made against any debtor balances deemed to be doubtful Periodic payments may be required in advance to mitigate credit risk and withdrawal of services in the event of non-payment is considered a last resort

Cash is deposited at major UK financial institutions only Cash is not held in money market deposits as this does not match the Group's risk profile In light of the government response to the recent credit crisis, the Group considers its credit risk arising from major UK financial institutions to be acceptably low

The Group's credit risk arising from its investment in its funds and CLO transactions is regularly monitored by management Impairment reviews are carried out annually or more frequently when indications suggest that the asset might be impaired This ensures that the carrying value of an investment is not stated at an amount in excess of its recoverable amount

CAIRN CAPITAL GROUP LIMITED
Directors' Report

Key Risks *(continued)*

Regulatory risk
The Group is exposed to a failure to comply with the requirements of its regulatory framework The consequence of a failure to comply would be the imposition of a fine or, depending on the severity of the instance or instances of non-compliance, a withdrawal of the Group's regulatory permissions

Management has a zero risk tolerance for instances of non-compliance with its regulatory framework Management has designed its policies and procedures to ensure compliance with its regulatory requirements An up-to-date staff handbook is maintained and is regularly reviewed to ensure it encompasses changes to the regulatory framework A copy of the staff handbook is distributed to all new joiners The Compliance Officer and the Chief Legal Officer remain abreast of regulatory developments and changes to the regulatory framework are, where appropriate, communicated to relevant staff If required, the Group's processes will be reviewed and updated to take account of regulatory changes

Foreign currency risk
The Group receives income and maintains cash balances in currencies other than sterling and, as such, has exposure to foreign currency risk The Group mitigates its exposure to foreign currency risk by entering into foreign currency forward contracts to sell substantially all of its identified net foreign currency exposures

Technology risk
The Group has a dedicated software development team committed to designing and developing system architecture integral to the Group's provision of asset management services As such the Group is exposed to the risk that the technology developed may contain errors and result in inaccurate information being provided to the portfolio team and risk management teams This risk is mitigated by the design and implementation of robust change management processes, including regression testing, before system changes are authorised for release

As the Group maintains bespoke electronic front-to-back trade capture systems, maintaining the integrity of the data contained within it is of utmost importance The Group maintains data access groups to ensure appropriate access restrictions to software are in place as well as ensuring that access roles are regularly monitored and reviewed

Fraud risk
There is a risk that negligent or fraudulent actions might result in legal claims against the Group as well as giving rise to real losses to the Group The Group has a strong and rigorous system of internal control designed to prevent and detect instances of fraud and error The Group has dedicated middle-office and risk functions that act independently from the portfolio management group, this group is responsible for alleging and settling all trades Additionally, Cairn has dedicated fund accounting and treasury functions that review portfolio pricing in accordance with the Group's agreed pricing policy and reconcile positions and cash balances on a timely basis

Results and Dividends
The Group profit for the year, after taxation, amounted to £5,430,867 (2011 profit of £3,644,453)

The Directors recommend the payment of an ordinary dividend of £4,499,586 (2011 £3,058,110)

Charitable Donations
During the year the Group made charitable donations totalling £15,593 (2011 £24,620)

Future Developments
As noted in the Business Review, the Directors intend to continue to grow the business in 2013 and to build on the performance returns and assets under management growth of 2012

Specific focus is placed on the funds and loans businesses where considerable steps have already been made since the start of the year It is expected that restructuring activity will continue into 2013 with revenues to be derived from existing as well as new appointments

The business of Cairn Capital North America Inc is expected to further grow and become profitable in 2013, building on the solid foundations established in 2012

Directors
The Directors who served during the year were as follows

Paul Campbell
Alan Devine
Tim Frost
David Henriques
David Littlewood
Anthony Mallin
Robert Pierce Jones

CAIRN CAPITAL GROUP LIMITED
Directors' Report

Statement of Directors' responsibilities in respect of the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Directors' 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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 Group and Company and of the profit or loss of the Group for that period In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and Company and to prevent and detect fraud and other irregularities

Auditor
The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Group and Company's auditor is unaware, and each Director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Group and Company's auditor is aware of that information

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office

Paul Campbell

Paul Campbell
Director

BY ORDER OF THE BOARD
For and behalf of
CAIRN CAPITAL GROUP LIMITED
27 Knightsbridge, London, SW1X 7LY

This report was approved by the Board on 4 June 2013

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CAIRN CAPITAL GROUP LIMITED

We have audited the financial statements of Cairn Capital Group Limited for the year ended 31 December 2012 set out on pages 10 to 30 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

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 8, 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

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www frc org uk/auditscopeukprivate

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 2012 and of the group's profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

N Palmer

Neil Palmer (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL

5th July 2013.

CAIRN CAPITAL GROUP LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £	2011 £
Turnover	3	30,748,937	26,109,466
Administrative expenses		(24,778,594)	(21,702,156)
Operating profit	5	5,970,343	4,407,310
Income from fixed asset investment		648,512	489,459
Interest receivable and similar income		19,836	19,633
Interest payable and similar charges	9	(100,290)	(123,286)
Profit on ordinary activities for the financial year before taxation		6,538,401	4,793,116
Tax on profit on ordinary activities	10	(1,107,534)	(1,148,663)
Profit on ordinary activities for the financial year after taxation		5,430,867	3,644,453

All of the Group's recognised gains and losses for the year are included in the above profit and loss account Accordingly a separate statement of total recognised gains and losses has not been prepared

All activities are classed as continuing

The notes on pages 14 to 30 form an integral part of these financial statements

CAIRN CAPITAL GROUP LIMITED
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2012

	Notes		2012 £		2011 £
FIXED ASSETS					
Tangible Assets	11		570,279		685,995
Intangible Assets	12		278,886		297,772
Investments	13		4,163,400		4,194,239
			5,012,565		5,178,006
CURRENT ASSETS					
Debtors	14	11,479,943		7,924,907	
Cash at bank and in hand		6,500,043		6,994,808	
		17,979,986		14,919,715	
CREDITORS amounts falling due within one year	15	(11,891,184)		(9,725,950)	
NET CURRENT ASSETS			6,088,802		5,193,765
Total assets less current liabilities			11,101,367		10,371,771
CREDITORS· amounts falling due after more than one year	16		(1,045,399)		(1,205,118)
			10,055,968		9,166,653
CAPITAL AND RESERVES					
Called up share capital	19		503		503
Share premium	20		4,999,900		4,999,900
Profit and loss account	21		6,486,655		4,903,376
Investment in own shares	23		(1,431,090)		(737,126)
Total shareholders' funds	22		10,055,968		9,166,653

The notes on pages 14 to 30 form an integral part of these financial statements

The financial statements on pages 10 to 30 were approved by the Board of Directors on 4 June 2013

Paul Campbell

Paul Campbell
Director

CAIRN CAPITAL GROUP LIMITED
COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2012

	Notes		2012 £		2011 £
FIXED ASSETS					
Tangible Assets	11		462,380		567,983
Intangible Assets	12		278,886		297,772
Investments	13		6,388,116		5,917,474
			7,129,382		6,783,229
CURRENT ASSETS					
Debtors	14	6,059,316		4,782,674	
Cash at bank and in hand		862,447		1,327,403	
		6,921,763		6,110,077	
CREDITORS. amounts falling due within one year	15	(10,162,036)		(8,920,888)	
NET CURRENT (LIABILITIES)			(3,240,273)		(2,810,811)
Total assets less current liabilities			3,889,109		3,972,418
CREDITORS: amounts falling due after more than one year	16		(1,045,399)		(1,205,118)
Provision for liabilities and charges	17		-		(13,101)
			2,843,710		2,754,199
CAPITAL AND RESERVES					
Called up share capital	19		503		503
Share premium	20		4,999,900		4,999,900
Profit and loss account	21		(725,603)		(1,509,078)
Investment in own shares	23		(1,431,090)		(737,126)
Total shareholders' funds	22		2,843,710		2,754,199

The notes on pages 14 to 30 form an integral part of these financial statements

The financial statements on pages 10 to 30 were approved by the Board of Directors on 4 June 2013

Paul Campbell

Paul Campbell
Director

CAIRN CAPITAL GROUP LIMITED
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

CASHFLOW STATEMENT	Notes	2012 £	2011 £
Net cash inflow from operating activities	24	5,167,206	1,738,497
Returns on investments and servicing of finance			
Interest received		19,836	26,446
Income from fixed asset investment		600,287	479,610
Interest paid		(109,807)	(126,512)
Preference dividend paid		(1,000,000)	(1,000,000)
Taxation		(836,560)	(2,120,954)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(305,953)	(391,319)
Payments to acquire intangible fixed assets		(113,750)	(324,350)
Payments to acquire fixed asset investments		-	(27,996)
Equity dividends paid		(3,058,110)	(3,705,379)
Net cash inflow/(outflow) before financing		363,149	(5,451,957)
Financing			
Repayment on financing arrangement to acquire fixed asset investment		(163,950)	(161,218)
Payments to acquire own shares		(693,964)	(624,626)
Decrease in cash	25	(494,765)	(6,237,801)

1 ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements

Basis of preparation
The consolidated financial statements have been prepared on the going concern basis and under the historical cost convention The consolidated statements have also been prepared in accordance with applicable accounting standards and in accordance with the requirements of the Companies Act 2006 (the "Act") The Directors have reviewed the basis of preparation and consider the going concern assumption to be appropriate in light of the financial position and performance of the Company and Group

The balance sheet of the Company complies with Section 396 of, and Schedule 4 to, the Act The Company has taken advantage of the exemption in Section 408 of the Act not to present its own profit and loss account

Basis of consolidation
The consolidated financial statements include the results of the Company and of its subsidiaries for the year ended 31 December 2012

The Company's profit for the year, after taxation, was £4,611,403 (2011 profit of £4,958,007) after allocation of expenditure and receipt of dividend from Cairn Capital Limited The majority of the costs incurred by the Group are initially incurred by Cairn Capital Group Limited Costs identified as being wholly attributable to the Group's trading activities are reallocated in full to Cairn Capital Limited General overhead expenditure is allocated to Cairn Capital Limited on a proportionate basis

Turnover
Turnover arising from one-off advisory mandates is recognised on a work performed basis Fee income is measured on a percentage complete basis and is recognised as the work is performed Recognition of incentive fees is dependent on the specific terms and is determined on a deal-by-deal basis Incentive fees are recognised only to the extent that they are earned and cannot be reduced by the effect of future performance

Revenue from longer-term asset management mandates is recognised on an accruals basis Performance fees are recognised only when earned

Fixed Assets
Tangible fixed assets are stated at cost less accumulated depreciation Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as below

	Policy
Leasehold improvements	over 5 years
Fixtures, Fittings & Equipment	over 5 years
Office Equipment	over 3 years
Purchased Software	over 5 years

Purchased software is capitalised as a tangible fixed asset and is depreciated over its useful economic life Purchased software represents trading software with an estimated useful life of 5 years Other office software with a shorter useful life is included in Office Equipment and is depreciated over 3 years

1 ACCOUNTING POLICIES *(continued)*

Fixed Assets (continued)
Internally developed software is accounted under the accounting rules set out in 'Statement of Standard Accounting Practice 13' ("SSAP 13") Development costs for which recognition of expenditure is deferred is included on the balance sheet as an intangible fixed asset Intangible fixed assets are stated at cost less amortisation

Investments
Investments not held for resale are stated at cost Investments denominated in currencies other than sterling and financed by foreign currency loans are retranslated as the loan is paid off As the loans are repaid the exchange rate is fixed at the date of repayment Impairment reviews are carried out when there is evidence that the investments might be impaired Impairment losses are recognised in the profit and loss account and are included in operating profit

Development costs
Development costs that satisfy the criteria for deferred recognition as set out in SSAP 13 are deferred and included as intangible fixed assets Development costs that do not satisfy the criteria are expensed as incurred Deferred expenditure is recognised in the profit and loss account on a straight line basis over the period during which the Group expects to receive benefit from the development work carried out Deferred development costs are reviewed at least annually to ensure that the Group is expected to continue to receive future benefit and that the estimated value of the future benefit remains in excess of the carrying value of the deferred expense amount

Impairment losses
Where indicators of impairment have been identified the Group carries out periodic impairment reviews to compare the carrying value recorded in the balance sheet of potentially impaired assets to the recoverable amounts of those assets Losses arising from impairment reviews are recognised in the profit and loss account and are included in operating profit

Impairment losses are reversed only if subsequent external events reverse the effect of the original event which caused the recognition of the initial impairment Where the recoverable amount increases as a result of a change in economic conditions or in the expected use of the asset then the resultant impairment loss reversal should be recognised in the current period An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised

Deferred taxation
Deferred tax is provided in respect of all timing differences between the accounting and tax treatment of income and expenses, the anticipated reversal of which will result in a change in future liability to tax The provision is calculated using the rates expected to be applicable when the liability crystallises and is measured on a non discounted basis

Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date All exchange differences on monetary assets and liabilities are taken to the profit and loss account

Non-monetary assets, except for investments denominated in foreign currencies that have been financed by foreign currency loans, are not retranslated but are maintained at the rate of exchange used to initially record the transaction

1 ACCOUNTING POLICIES *(continued)*

Employee benefit trusts
The Company has established an employee benefit trust to provide compensation to employees The assets and liabilities of the trust are recorded as the Company's own assets and liabilities and are included in the Company balance sheet Contributions to the trust are recognised in the profit and loss account when an award is made to employees

Share based payments
The Group through its employee benefit trust remunerates certain employees by granting options over shares in the Company To the extent that it is considered to be material, the fair value of share options granted is recognised as an expense in the profit and loss accounts with a corresponding increase in equity The expense recognition is spread over the period during which the employees become unconditionally entitled to the instruments based on the Group's estimate of the number of instruments ultimately expected to vest The Group and Company makes no other share based payments

Pensions
Company contributions to a defined contribution money purchase pension scheme are charged to the profit and loss account as incurred

Leases
Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease

2 GOING CONCERN

The Directors have reviewed the financial position of the Company and of the Group Based on consolidated capital and reserves of £10,055,968 a healthy cash position and an assessment of the Group's business risks the Directors consider the Group will be able to meet its liabilities as they fall due for a period of no less than 12 months As such the going concern assumption remains appropriate and the financial statements have been prepared on that basis

3 TURNOVER

Turnover represents fee income from investment management services, including structuring and advisory services, provided to a number of clients The Directors consider this to be the only business segment

4 SEGMENTAL REPORTING

As noted in note 3, the Directors consider income from investment management services to be the only business segment The Group operates in two geographical areas, the United Kingdom and the United States of America Turnover, operating profit and net assets originating in each geographical area are summarised below

	UK	USA £	Total £
Turnover	29,855,906	893,031	30,748,937
Operating profit/(loss)	6,709,988	(739,645)	5,970,343
Net assets	9,662,098	393,870	10,055,968

The Directors consider the group to operate in a single worldwide market and as such it is not possible to separately disclose turnover by geographical market

5 PROFIT ON ORDINARY ACTIVITIES

	Notes	2012	2011
Operating profit is stated after charging		£	£
Depreciation of owned tangible fixed assets		380,049	315,163
Amortisation of intangible fixed assets		132,636	26,578
Operating lease rentals	28	739,000	739,000
Foreign exchange losses/(gains)		(157,298)	83,849
Auditor's remuneration Audit services		74,102	77,156
Auditor's remuneration Other services relating to controls reports		85,000	-
Auditor's remuneration Process review		59,000	-
Auditor's remuneration Other services relating to taxation		15,887	20,500

Staff costs are shown in Note 7

6 DIRECTORS' EMOLUMENTS

	2012	2011
	£	£
Aggregate emoluments	2,449,468	1,830,523
Aggregate contributions to a money purchase pension scheme	23,400	22,125

Retirement benefits are accruing to four (2011 four) directors under a defined contribution money purchase pension scheme

	2012	2011
Highest paid director		
Emoluments	555,439	399,948
Contributions to a money purchase pension scheme	6,050	5,625

7 STAFF COSTS

	2012	2011
	£	£
Wages and salaries	14,877,418	12,459,386
Share based payments	232,473	242,580
Social security costs	1,886,703	1,625,411
Pension costs	205,478	186,991
	17,202,072	14,514,368

Average number of employees during the year	**Number**	**Number**
Marketing and Structuring	16	13
Portfolio Management	18	19
Research	9	11
Middle-Office, Support and Administration	22	19
Legal	2	2
	67	64

8 SHARE OPTIONS

The Company has set up an employee benefit trust to remunerate its employees by granting options over shares in the Company At 31 December 2012 there were options outstanding over 2,057 A ordinary shares (2011 options over 2,057 A ordinary shares) No share options were granted during the year and no options lapsed

All outstanding options have the same terms which are outlined below

The option period in respect of options granted commences when the Company achieves a corporate valuation of £150 million The option period has a maximum duration of two years Options may be exercised upon the occurrence of a Trigger Event within two years of the commencement of the option period A Trigger Event means the listing of the shares of the Company on AIM or any other market or stock exchange agreed between the A Shareholders and B Shareholders with a market value of at least £200 million or, if such sale is agreed by the shareholders as an alternative to a listing of the shares of the Company, the sale of shares of the Company to an independent arms' length third party or third parties for a consideration equating to a market value for the Company of at least £200 million If a Trigger Event does not occur within two years of the commencement of the option period the options will lapse

The Company has used an internally generated model to value the options granted during 2010 The options were valued at the date they were granted at £177,270 per 1% of ordinary shares over which options have been granted During 2010 options were granted over 3 25% of the issued share capital and as such the total value of the options granted is £576,128 The valuation model assumes a period of 2 37 years will elapse between the date on which the options were granted in August 2010 and the date on which the options will be exercised The Company assumes that all outstanding options will be exercised An expense of £232,473 has been recognised in the profit and loss account during the year ended 31 December 2011 calculated as the pro-rata accrual of the total value of the options granted over the period until the options will be exercised, based on the assumptions at the date of grant

The following assumptions were made when valuing the options granted in 2010 and form the basis of the charge in 2012 as the charge is spread over the expected option life at the date of grant

Expected volatility (%)	100%
Risk-free interest rate (%)	0 932
Expected option life (years)	2 37
Weighted average exercise price (£)	£5,464 48

Volatility has been calculated based on the growth trends of the Company A risk-free interest rate has been determined as the option pricing model used reflects the risk that the options may not become exercisable

9 INTEREST PAYABLE AND SIMILAR CHARGES

	2012 £	2011 £
Interest payable on bank loans	100,290	123,286

10 TAXATION

	Notes	2012 £	2011 £
Analysis of charge in period			
Current tax			
UK corporation tax on profits of the period		1,949,780	1,427,034
Prior year adjustment		(500,771)	(224,483)
		1,449,009	1,202,551
Deferred tax		(341,475)	(53,888)
Tax on profit on ordinary activities		1,107,534	1,148,663

Factors affecting tax charge for period	2012 £	2011 £
Profit on ordinary activities before tax	6,538,401	4,793,116
Standard rate of corporation tax in the UK	24 5%	26 5%
Profit on ordinary activities multiplied by the standard rate of corporation tax	1,601,908	1,270,176
Tax effects of		
Income not taxable		-
Expenses disallowable for tax purposes	69,896	123,866
Fixed asset timing differences	39,716	4,601
Investments mark-to-market tax differences	57,154	(34,429)
Tax losses carried forward	181,106	62,820
Prior year R&D tax claim	(472,887)	-
Prior year adjustment	(27,884)	(224,483)
Current tax charge for period	1,449,009	1,202,551

A deferred tax asset of £408,119 (2011 asset of £69,869) has been recognised in the Group's financial statements at 31 December 2012 This principally arises from the unrelieved tax losses incurred by Cairn Capital North America Inc (2012 £334,079, 2011 £82,970) as well depreciation charged in excess of capital allowances received (2012 £49,296, 2011 £19,444) and tax arising on mark-to-market tax adjustments on the Group's fund investments which are stated at historic cost in the accounts (2012 £24,744, 2011 liability of £32,545)

11 TANGIBLE FIXED ASSETS – GROUP

	Leasehold Improvements	Fixtures, Fittings and Equipment	Office Equipment	Software	Total
	£	£	£	£	£
Cost					
At 1 January 2012	922,658	255,931	1,022,510	323,056	2,524,155
FX on b/fwd balance	(2,035)	(1,282)	(2,286)	-	(5,603)
Disposal	-	-	-	(295,101)	(295,101)
Additions	154,070	13,736	94,677	6,965	269,448
At 31 December 2012	1,074,693	268,385	1,114,901	34,920	2,492,899
Depreciation					
At 1 January 2012	753,763	192,627	593,926	297,844	1,838,160
FX on b/fwd balance	(254)	(28)	(206)	-	(488)
Disposal	-	-	-	(295,101)	(295,101)
Charge for the year	137,136	22,927	210,017	9,969	380,049
At 31 December 2012	890,645	215,526	803,737	12,712	1,922,620
Net book value					
At 31 December 2012	184,048	52,859	311,164	22,208	570,279
At 31 December 2011	168,895	63,304	428,584	25,212	685,995

TANGIBLE FIXED ASSETS – COMPANY

	Leasehold Improvements	Fixtures, Fittings and Equipment	Office Equipment	Software	Total
	£	£	£	£	£
Cost					
At 1 January 2012	875,692	226,346	969,762	323,056	2,394,856
Disposal	-	-	-	(295,101)	(295,101)
Additions	139,371	6,874	84,675	6,965	237,885
At 31 December 2012	1,015,063	233,220	1,054,437	34,920	2,337,640
Depreciation					
At 1 January 2012	747,892	191,990	589,147	297,844	1,826,873
Disposal	-	-	-	(295,101)	(295,101)
Charge for the year	123,079	15,975	194,465	9,969	343,488
At 31 December 2012	870,971	207,965	783,612	12,712	1,875,260
Net book value					
At 31 December 2012	144,092	25,255	270,825	22,208	462,380
At 31 December 2011	127,800	34,356	380,615	25,212	567,983

12 INTANGIBLE FIXED ASSETS – COMPANY AND GROUP

	Software Development	Total
	£	£
Cost		
At 1 January 2012	324,350	324,350
Additions	113,750	113,750
At 31 December 2012	438,100	438,100
Amortisation		
At 1 January 2012	26,578	26,578
Charge for the year	132,636	132,636
At 31 December 2012	159,214	159,214
Net book value		
At 31 December 2012	278,886	278,886
At 31 December 2011	297,772	297,772

13 INVESTMENTS – COMPANY

	Other investments	Investments in subsidiary undertakings	Total
	£	£	£
At 1 January 2012	4,194,240	1,723,234	5,917,474
Additions	-	501,482	501,482
Provision for impairment	-	-	-
Foreign exchange differences	(30,840)	-	(30,840)
At 31 December 2012	4,163,400	2,224,716	6,388,116

The subsidiaries of the parent company, Cairn Capital Group Limited, which are included in the consolidation, are as follows

Company	Nature of Business	Country of Incorporation	Holding
Cairn Capital Limited	Asset Management	United Kingdom	100%
Cairn Financial Guarantee Limited	Dormant	United Kingdom	100%
Cairn Capital Investments Limited	Dormant	United Kingdom	100%
Cairn Investment Managers Limited	Dormant	United Kingdom	100%
Cairn Capital North America Inc	Investment advisor	USA	100%

INVESTMENTS – COMPANY (continued)

OTHER INVESTMENTS – COMPANY AND GROUP

	Cairn Capital Investments (1) Ltd	Cairn CLO I B V	Cairn CLO II B V	Cairn Capital Special Opportunities Fund	Cairn Global Funds plc	Total
	£	£	£	£	£	£
Cost						
At 1 Jan 2012	27,996	1,689,135	2,030,235	308,586	773,454	4,829,406
Additions in the year	-	-	-	-	-	-
Disposals in the year	-	-	-	-	-	-
Other changes	-	(30,840)	-	-	-	(30,840)
At 31 Dec 2012	27,996	1,658,295	2,030,235	308,586	773,454	4,798,566
Impairment provisions						
At 1 Jan 2012	-	-	635,166	-	-	635,166
Reversal of provision	-	-	-	-	-	-
Other changes	-	-	-	-	-	-
At 31 Dec 2012	-	-	635,166	-	-	635,166
Net book value						
At 31 Dec 2012	27,996	1,658,295	1,395,069	308,586	773,454	4,163,400
At 31 Dec 2011	27,996	1,689,135	1,395,069	308,586	773,454	4,194,240

As at 31 December 2012 the Company has carried out detailed impairment reviews of its investments to determine the estimated recoverable amount of its investments

Cairn CLO I B.V.

A discounted cash flow model has been prepared to compare the recoverable amount of the investment to its carrying value The recoverable amount of the investment has been deemed to be EUR 2,058,073 (GBP 1,684,184) (2011 EUR 2,063,709 (GBP 1,729,413)) As the recoverable amount is in excess of the par value of the investment the Directors are satisfied that the investment is not impaired and no impairment charge has been recognised

The recoverable amount has been determined by reference to the value-in-use of the investment and, in determining the value-in-use, the cash flows have been adjusted for risk and a risk-free discount rate has been used to arrive at the present value of the cash flows In adjusting the cash flows for risk the following assumptions around the underlying portfolio have been made

- Default rate 1%-2% in 2013 and 2% per annum thereafter
- Recovery rate 65% per annum
- CCC bucket Expected to reduce over time by the effect of defaulted assets and rating upgrades No new CCC assets anticipated
- Reinvestment Weighted average purchase price of 99 5% with a weighted average spread of 4 3%

In assessing the recoverable amount of the investment in Cairn CLO I B V special consideration has been given to the specific terms of the limited recourse loan used to finance the investment The projected financial

OTHER INVESTMENTS – COMPANY AND GROUP (*continued*)

performance of Cairn CLO I B V is expected to be sufficient to meet the obligations under the loan agreement without a Conversion Event occurring Accordingly the recoverable amount has been determined by reference to the present value of equity cash flows only

Cairn CLO II B V
A discounted cash flow model has been prepared to compare the recoverable amount of the investment to its carrying value The recoverable amount of the investment has been deemed to be EUR 2,388,288 (GBP 1,954,409) (2011 EUR 2,051,517 (GBP 1,719,197)) As the present value of the recoverable amount is greater than the current carrying value no additional impairment loss has been recognised in the year As the investment remains impaired previously recognised impairment losses have not been reversed

The recoverable amount has been determined by reference to the value-in-use of the investment and, in determining the value-in-use, the cash flows have been adjusted for risk and a risk-free discount rate has been used to arrive at the present value of the cash flows In adjusting the cash flows for risk the following assumptions around the underlying portfolio have been made

- Default rate 0 5% per annum in 2013 and 2% from 2014
- Recovery rate 13% per annum in 2013 increasing to 65% per annum thereafter
- CCC bucket Expected to reduce over time by the effect of defaulted assets and rating upgrades No new CCC assets anticipated
- Reinvestment Weighted average purchase price of 99 5% with a weighted average spread of 4 30%

Cairn Capital Special Opportunities Fund
There is no evidence to suggest that the Company's investment has been impaired and as such a detailed impairment review has not been carried out The market value of the Company's investment at 31 December 2012 was EUR 395,977 (2011 EUR 326,575) Initial subscription was EUR 340,000

Cairn Global Funds PLC
On 7 July 2010 the Company acquired 3,872 27 shares in Cairn Global Funds PLC ("CGF") in respect of the Cairn Credit Fund sub-fund ("CCF") at a cost of GBP 500,000 CGF is an open-ended umbrella investment company with variable capital and with segregated liability between sub-funds incorporated with limited liability in Ireland At 31 December 2012 the Company's investment in CGF was valued at £459,396 (2011 £403,189) The Directors do not consider this investment to have become impaired The investment is recorded at its historic cost in accordance with the Company's stated accounting policy

On 1 November 2011 the Company acquired 2,734 54 shares in CGF in respect of the Cairn Subordinated Financials Fund sub-fund ("CSFF") at a cost of £273,454 The investment is recorded at its historic cost and, in accordance with the Company's accounting policies, is not revalued At 31 December 2012 the Company's investment was valued at £401,705 (2011 £274,996) As the market value is in excess of the carrying value and there are no other indicators of impairment, the directors do not believe that the investment is impaired and no impairment review has been carried out

14 DEBTORS – COMPANY

	2012 £	2011 £
Trade debtors	-	12,741
Amounts owed by group undertakings	3,650,885	2,424,334
Other debtors	1,384,546	1,296,328
Prepayments and accrued income	1,023,885	1,049,271
	6,059,316	4,782,674
Includes amounts due after more than one year as follows		
Amounts owed by group undertakings (note 18)	1,000,000	1,000,000
Other debtors	886,800	868,325
	1,886,800	1,868,325

DEBTORS – GROUP

	2012 £	2011 £
Trade debtors	2,012,644	2,253,091
Other debtors	1,810,067	1,468,450
Prepayments and accrued income	7,657,232	4,203,366
	11,479,943	7,924,907

15 CREDITORS: DUE WITHIN ONE YEAR – COMPANY

	2012 £	2011 £
Trade creditors	125,836	426,363
Amounts owed to group undertakings	3	3
Corporation tax	52,376	-
Other taxes and social security costs	426,623	471,251
Other creditors	849,324	856,671
Accruals and deferred income	8,573,816	6,997,474
Financing arrangements to acquire fixed asset investments	134,058	169,126
	10,162,036	8,920,888

CREDITORS DUE WITHIN ONE YEAR – GROUP (continued)

	2012 £	2011 £
Trade creditors	253,158	590,148
Corporation tax	620,747	12,122
Other taxes and social security costs	518,521	684,830
Other creditors	1,031,883	894,889
Accruals and deferred income	9,332,817	7,374,835
Financing arrangements to acquire fixed asset investments	134,058	169,126
	11,891,184	9,725,950

16 CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR – COMPANY AND GROUP

	2012 £	2011 £
Financing arrangement to acquire fixed asset investments (see below)	932,899	1,092,618
Shareholder loans	112,500	112,500
Financing arrangement to acquire fixed asset investments (see below)	1,045,399	1,205,118

Shareholder loans arise on inclusion of the assets and liabilities of the Cairn Employee Benefit Trust ("EBT") in the books of the Company and relate to loans taken out by employees to finance acquisition of shares in the Company that have subsequently been transferred to the EBT The loans are non-interest bearing and are repayable on the earlier of (i) the date immediately following a Trigger Event and (ii) 9 March 2015 In the event of a default the lender has recourse only to the shares and to no other assets of the EBT or the Group

The maturity of the financing arrangement to acquire fixed asset investments is as follows

	2012 £	2011 £
Amounts falling due		
- in less than one year (note 13)	134,058	169,126
- in more than one year but less than two	201,161	137,282
- In more than two years but less than five	389,080	535,872
- In more than five years	342,658	419,464
	1,066,957	1,261,744

The Company's investments in entities outside the Group (note 13) are from time to time funded by limited recourse loans Such loans create a charge over the specific investment and in an event of default the lender only has recourse to the investment and no other assets of the Company

Financing arrangements relate solely to a loan to finance the Company's investment in Cairn CLO I B V The principal balance outstanding at 31 December 2012 is EUR 1,303,821 (2011 EUR 1,505,640) The loan is secured on the investment in Cairn CLO I B V and 7 5% of the collateral management fee income from Cairn CLO I B V Interest is payable on the outstanding principal balance at a rate of EURIBOR plus 7 5% per annum

17 PROVISIONS FOR LIABILITIES AND CHARGES – COMPANY

	2012 £	2011 £
Movement in deferred tax liability		
At 1 January	13,101	-
(Reversal)/Origination of timing differences	(13,101)	13,101
At 31 December	-	13,101

As disclosed in detail in note 10, a deferred tax asset of £246,469 has been recognised in the Group accounts

18 SUBORDINATED LOANS – COMPANY

Loans not repayable within five years	Dated	Interest Rate	2012 £	2011 £
Cairn Capital Limited	28/07/04	50%	1,000,000	1,000,000

The subordinated loan is a fixed rate loan, not repayable within five years Interest accrues daily from 28 July 2004 and is payable annually on 1 March in each year

19 SHARE CAPITAL

	2012 £	2011 £
Authorised:		
Ordinary A Shares of £0 01 each	140	140
Ordinary B Shares of £0 01 each	490	490
Ordinary C Shares of £0 01 each	84	84
Preference shares of £0 01 each	56	56
Equity share capital	770	770

	2012 No	2011 No	2012 £	2011 £
Allotted and fully paid				
Ordinary A Shares of £0 01 each *	14,000	14,000	140	140
Ordinary B Shares of £0 01 each *	26,285	26,285	263	263
Ordinary C Shares of £0 01 each *	6,000	6,000	60	60
Preference shares of £0 01 each **	4,000	4,000	40	40
Equity share capital			503	503

SHARE CAPITAL (continued)

* The ordinary A Shares (other than A shares held by employees of the Company) shall be entitled to 51% of the voting rights which are exercisable in respect of any resolution of the Shareholders The ordinary B Shares shall be entitled to 49% of the voting rights which are exercisable in respect of any resolution of the Shareholders
An ordinary C shareholder is entitled to attend but not to vote at general meetings of the Company and is not entitled to any rights of participation in the profits of the Company

** Fixed preference shares entitling the holders to a dividend in priority to holders of A or B shares at the rate of 50% per annum on the paid up amount including share premium A preference share does not entitle the holder to any further rights of participation in the profits of the Company

20 SHARE PREMIUM

	2012 £	2011 £
Premium on ordinary shares	2,999,940	2,999,940
Premium on preference shares	1,999,960	1,999,960
	4,999,900	4,999,900

21 PROFIT AND LOSS – COMPANY

	2012 £	2011 £
At 1 January	(1,509,078)	(2,006,577)
Profit for the year	4,611,403	4,958,007
Share based payment credit to equity	232,473	242,580
	3,334,798	3,194,010
Preference share dividend	(1,002,291)	(997,709)
Dividend paid on ordinary shares	(3,058,110)	(3,705,379)
At 31 December	(725,603)	(1,509,078)

PROFIT AND LOSS – GROUP

	2012 £	2011 £
At 1 January	4,903,376	5,691,755
Profit for the year	5,430,867	3,644,453
Foreign exchange difference on consolidation	(19,660)	27,676
Share based payment credit to equity	232,473	242,580
	10,547,056	9,606,464
Preference share dividend	(1,002,291)	(997,709)
Dividend paid on ordinary shares	(3,058,110)	(3,705,379)
At 31 December	6,486,655	4,903,376

22 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS – COMPANY

	2012 £	2011 £
At 1 January	2,754,199	2,881,326
Profit for the financial year	4,611,403	4,958,007
Share based payment credit to equity	232,473	242,580
Preference share dividend	(1,002,291)	(997,709)
Dividend paid on ordinary shares	(3,058,110)	(3,705,379)
Investment in own shares (note 23)	(693,964)	(624,626)
At 31 December	2,843,710	2,754,199

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS – GROUP

	2012 £	2011 £
At 1 January	9,166,653	10,579,658
Profit for the financial year	5,430,867	3,644,453
Share based payment credit to equity	232,473	242,580
Preference share dividend	(1,002,291)	(997,709)
Dividend paid on ordinary shares	(3,058,110)	(3,705,379)
Investment in own shares (note 23)	(693,964)	(624,626)
Foreign exchange difference	(19,660)	27,676
At 31 December	10,055,968	9,166,653

23 INVESTMENT IN OWN SHARES

During the year the EBT acquired, in total, 254 A ordinary shares from two employees on termination of the employees' contracts of employment The shares were acquired at an agreed market value In accordance with the requirements of UITF Abstract 38 Accounting for ESOP Trusts, the price paid by the EBT to acquire the shares is shown as a deduction from shareholders' funds in the balance sheet of the Company

In addition to the 254 A ordinary shares referred to above, The EBT also holds 207 A ordinary shares and 314 B ordinary shares previously belonging to former employees The shares were transferred to the EBT in prior periods on termination of employees' contracts of employment The cost of the shares is shown as a deduction from shareholders' funds

24 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2012 £	2011 £
Operating profit	5,970,343	4,407,310
Depreciation charges	380,049	315,163
Amortisation charges	132,636	26,578
Share based payment credit to equity	232,473	242,580
Increase in debtors	(3,168,558)	(310,705)
Increase/(decrease) in creditors	1,634,808	(2,944,280)
Exchange differences	(14,545)	1,851
Net cash inflow from operating activities	5,167,206	1,738,497

25 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2012 £	2011 £
Decrease in cash in the period	(494,765)	(6,237,801)
Repayment of financing arrangements	163,950	161,218
Change in net funds arising from cash flows	(330,815)	(6,076,583)
Exchange differences on loans to fund fixed asset investments	30,839	25,825
Net funds at 1 January	5,733,064	11,783,822
Net funds at 31 December	5,433,088	5,733,064

26 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 Jan 2012 £	Cash Flows £	Other Movements £	At 31 Dec 2012 £
Cash at bank and in hand	6,994,808	(494,765)	-	6,500,043
Loans to fund fixed asset investments	(1,261,744)	163,950	30,839	(1,066,955)
Total	5,733,064	(330,815)	30,839	5,433,088

27 CAPITAL COMMITMENTS – GROUP & COMPANY

At 31 December 2012 the Group and Company had no unrecorded capital commitments

28 OTHER FINANCIAL COMMITMENTS – GROUP AND COMPANY

At the year end the Group and Company had annual commitments under non-cancellable operating leases as set out below

	Land and Buildings 2012 £	Land and buildings 2011 £
Operating leases which expire		
within one year	-	-
within two to five years	-	-
in over five years	739,000	739,000
	739,000	739,000

29 RELATED PARTIES

R B S Special Investments Limited owed £419,178, Star Capital Investments Limited is owed £251,507 and Royal Bank of Scotland PLC is owed £167,671 in respect of unpaid preference share dividends at 31 December 2012 (2011 Star Capital Partners Limited and R B S Special Investments Limited £418,033 each) A preference share dividend of £501,145 and interest of £nil (2011 dividend of £500,000 and interest of £nil) payable to R B S Special Investments Limited, £300,687 and interest of £nil payable to Star Capital Investments Limited (2011 dividend of £300,000 and interest of £nil) and £200,458 and interest of £nil payable to Royal Bank of Scotland PLC (2011 dividend of £200,000 and interest of £nil) have been charged during the year