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CQS

CQS Management Limited
Report and Financial Statements
Year Ended
31 December 2008



BDO

BDO Stoy Hayward

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CQS Management Limited

Report and financial statements for the year ended 31 December 2008

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Directors

Martin Pabari
Adam Sorab

Secretary and registered office

Alex Burrows, 5th Floor, 33 Chester Street, London, SW1X 7BL

Company number

3691917

Auditors

BDO Stoy Hayward LLP, 55 Baker Street, London, W1U 7EU

CQS Management Limited

Report of the directors for the year ended 31 December 2008

The directors present their report together with the audited financial statements for the year ended 31 December 2008.

Results and dividends

The consolidated profit and loss account is set out on page 7 and shows the loss for the year.

The directors do not recommend the payment of a dividend for the year (2007 - \$nil).

Principal activities, trading review and future developments

The company is a corporate member of CQS (UK) LLP, and its principal activity is the provision of administration, IT and staffing services to the partnership and other clients. The principal activity of New City Investment Managers Ltd, the subsidiary of the company, is the provision of discretionary investment management and advisory services.

The consolidated loss after tax of the group was \$6.8 million (2007 - \$7.5 million) which, as in the prior year, principally arose on consolidation due to amortisation of the goodwill on acquisition of New City in 2007.

The directors are satisfied with the results for the year. The directors do not expect any change in the business activity of the group in the foreseeable future.

Charitable and political contributions

During the year the group made charitable contributions of \$1,979,350 (2007 - \$2,194,623) and there were no political donations (2007 - nil).

Directors and their interests

The directors of the company during the year and their interests in the ordinary share capital of the company were:

	Ordinary shares of £1 each	
	2008	2007
Martin Pabari	-	-
Adam Sorab	-	-

Principal risks and uncertainties,

The principal risk is that if the company fails to provide adequate infrastructure services to CQS (UK) LLP (and/or other clients) it may lose its sources of income.

CQS Management Limited

Report of the directors for the year ended 31 December 2008 (continued)

Risk management

The board of directors is responsible for determining the level of risk acceptable to the Group and Company. This is subject to a regular review. The Group and Company have monthly board meetings to manage all risks.

Foreign currency risk

The company is exposed to a degree of foreign exchange risk on a monthly basis as the majority of income is earned in USD and many of the monthly expenses are in GBP. The company manages its foreign exchange exposures by hedging of currencies as appropriate based on forward cashflow projections.

Liquidity and interest rate risk

The company finances its operations through its operating activities. Surplus funds are placed on deposit with highly rated banks. The company earns interest on its cash deposits on what is effectively a floating rate basis.

Credit risk

The company will be subject to the risk of the inability of any counterparty to perform with respect to transactions whether due to insolvency, bankruptcy or other causes. However, due to internal control procedures the directors consider this to be an acceptable risk.

Auditors

All of the directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purpose of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

A resolution to re-appoint BDO Stoy Hayward LLP as auditors will be proposed at the next annual general meeting.

By order of the board



26 June 2009

Martin Pabari

Director

Date

CQS Management Limited

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom generally accepted accounting practice.

Company law requires the directors to prepare financial statements for each financial year which 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 year. In preparing those 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 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 company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

CQS Management Limited

Report of the independent auditors for the year ended 31 December 2008

To the shareholders of CQS Management Limited

We have audited the group and parent company financial statements (the "financial statements") of CQS Management Limited for the year ended 31 December 2008 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the directors' report and financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom generally accepted accounting practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with those financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with United Kingdom generally accepted accounting practice, of the state of the group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom generally accepted accounting practice, of the state of the parent company's affairs as at 31 December 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

BDO Stoy Hayward LLP
BDO Stoy Hayward LLP
Chartered Accountants and Registered Auditors
55 Baker Street
London
W1U 7EU

Date *26 June 2009.*

CQS Management Limited**Consolidated profit and loss account for the year ended 31 December 2008**

	Notes	2008 \$	2007 \$
Turnover	2	173,958,405	204,175,109
Administrative expenses		(181,285,117)	(212,190,177)
Operating (loss) / profit	5	(7,326,712)	(8,015,068)
Rental income		331,223	-
Interest receivable	6	253,988	572,486
Interest payable	7	(576,973)	(15,455)
(Loss) on ordinary activities before taxation		(7,318,474)	(7,458,037)
Taxation on ordinary activities	8	537,372	(2,846)
Retained (loss) / profit for the financial year	17	(6,781,102)	(7,460,883)

All recognised gains and losses in the current and prior year are included in the profit and loss account.

All operations are continuing operations.

The notes on pages 11 to 22 form part of these financial statements.

CQS Management Limited**Consolidated balance sheet at 31 December 2008**

	Notes	2008 \$	2008 \$	2007 \$	2007 \$
Fixed assets					
Intangible assets	10	23,179,189		34,473,721	
Tangible assets	11	2,679,884		1,008,234	
Fixed asset investments	12	12,490,010		490,000	
			38,349,083		35,971,955
Current assets					
Debtors	13	7,319,803		12,615,660	
Cash at bank and in hand	22	4,393,139		6,014,612	
		11,712,942		18,630,272	
Creditors: amounts falling due within one year	14	(52,550,091)		(41,772,896)	
Net current liabilities			(40,837,149)		(23,142,624)
Total assets less current liabilities			(2,488,066)		12,829,331
Creditors: amounts falling due after more than one year			-		(8,480,225)
Net (liabilities)/assets			(2,488,066)		4,349,106
Capital and reserves					
Called up share capital	16		305,017		305,017
Share premium account	17		30,164,841		30,164,841
Capital reserve	17		3,741,292		3,741,292
Capital redemption reserve	17		402,500		402,500
Profit and loss account	17		(37,101,716)		(30,264,544)
Shareholders' funds	18		(2,488,066)		4,349,106

The financial statements were approved by the board of directors and authorised for issue on:


Director
M. Pabari

26 JUNE 2009
Date

The notes on pages 11 to 22 form part of these financial statements.

CQS Management Limited**Company balance sheet at 31 December 2008**

	Notes	2008 \$	2008 \$	2007 \$	2007 \$
Fixed assets					
Tangible assets	11		2,679,884		1,008,234
Fixed asset investments	12		49,720,962		42,119,153
			<u>52,400,846</u>		<u>43,127,387</u>
Current assets					
Debtors	13	6,640,896		10,883,388	
Cash at bank and in hand		4,018,480		1,237,781	
		<u>10,659,376</u>		<u>12,121,169</u>	
Creditors: amounts falling due within one year	14	(52,474,000)		(35,967,719)	
Net current liabilities			(41,814,624)		(23,846,550)
Total assets less current liabilities			10,586,222		19,280,837
Creditors: amounts falling due after more than one year			-		(8,480,225)
Net assets/(liabilities)			<u>10,586,221</u>		<u>10,800,612</u>
Capital and reserves					
Called up share capital	16		305,017		305,017
Share premium reserve	17		30,164,841		30,164,841
Capital reserve	17		3,741,292		3,741,292
Capital redemption reserve	17		402,500		402,500
Profit and loss account	17		(24,027,428)		(23,813,038)
Shareholders' funds	18		<u>10,586,222</u>		<u>10,800,612</u>


Director
M. Pabari

Date

26 JUNE 2009

The notes on pages 11 to 22 form part of these financial statements.

CQS Management Limited

Consolidated cash flow statement for the year ended 31 December 2008

	Note	2008 \$	2008 \$	2007 \$	2007 \$
Net cash outflow/(inflow) from operating activities	21		416,139		(2,992,778)
Returns on investments and servicing of finance					
Interest received		253,988		572,486	
Interest paid		-		(15,455)	
Net cash inflow from returns on investments and servicing of finance			253,988		557,031
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		(2,291,600)		(1,062,849)	
Investment in joint venture		-		500,000	
			(2,291,600)		(562,849)
Acquisitions					
Purchase of subsidiary undertaking			-		(27,920,419)
Financing					
Issue of preference shares			-		30,469,536
Decrease in cash	23		(1,621,473)		(449,479)

The notes on pages 11 to 22 form part of these financial statements.

1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable United Kingdom accounting standards which have been applied consistently through the report.

Basis of consolidation

The consolidated financial statements incorporate the results of CQS Management Limited and its subsidiary undertaking New City Investment Managers Limited for the year ended 31st December 2008. Accounting policies are consistent in both companies.

The results of operations with a different functional currency are translated at the average rates of exchange during the year and the balance sheet translated into US dollars at the rate of exchange ruling on the balance sheet date. Exchange differences which arise from translation of the opening net assets and results of these subsidiary undertakings are taken to reserves. All other differences are taken to the profit and loss account.

Going Concern

The group meets its day to day liabilities from income. The combination of future income and the capital base of the group members mean that the group is able to meet its obligations when they fall due. The net liability of the group arises due to amortisation of goodwill arising on consolidation. Individual companies in the group retain net assets.

New City Investment Managers Limited meets its day to day liabilities by receiving its income from management and performance fees (where applicable) from CQS Cayman Limited Partnership, and is accrued on a monthly basis.

The financial statements have been prepared on the assumption that the group is a going concern, meaning it will continue in operation for the foreseeable future and will be able to realise assets and discharge liabilities in the normal course of operations.

The financial statements do not include any adjustments that would result if the group were unable to continue as a going concern.

Functional currency

The group's functional currency for accounting and reporting purposes is US Dollar.

Goodwill

Goodwill arising on the acquisition of the subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. Positive goodwill is capitalised and amortised through the profit and loss account over the directors' estimate of its useful economic life (10 years) (2007: 4 years).

The useful economic life was re-evaluated by the directors following the impairment review undertaken at the end of the first financial year following acquisition, and was increased from 4 years to reflect the strength of the brand demonstrated in the severe economic climate during the year. Impairment tests on the carrying value of goodwill will be undertaken in future periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

CQS Management Limited

Notes forming part of the financial statements for the year ended 31 December 2008 (continued)

Turnover

Turnover represents (stated net of value added tax) profit share income from joint venture interests attributable for the year, fee income for the provision of infrastructure and other services, and management and performance fees in New City Investment Managers Limited, the 100 per cent owned subsidiary.

Investment in CQS (UK) LLP

The investment in CQS (UK) LLP is recorded as a joint venture investment and the company's share of the partnership's realised and unrealised profits & losses are recognised in the company's profit and loss account. The investment is stated at cost less provision for any impairment in value.

Fixed Asset Investment

Fixed asset investments represent investments in subsidiary undertakings and joint ventures. Fixed assets are stated at cost less provision for impairment.

Impairment reviews are conducted when there is an indication of a permanent impairment.

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets over their expected useful economic lives. It is reviewed at the end of each accounting period and revised if expectations are significantly different from previous estimates. It is calculated at the following rates:

	2008
Vehicles	3 years straight line
Fixtures and fittings	3 years straight line
Computer equipment	1 year straight line
Leasehold improvements	Over the term of the lease

Residual value is estimated to be nil for all assets.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the group anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

Foreign currencies

Foreign currency transactions are translated into US dollars at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rate of exchange ruling at the balance sheet date. Rates utilised as at 31 December 2008 are as follows: \$1:€0.7158 and \$1:£0.6853. Average Rates were \$1:€0.6803 and \$1:£0.5427. Any differences are taken to the profit and loss account. Any differences arising on translation are taken to profit and loss, apart from those arising on consolidation of operations in a foreign currency, which are recognised directly in equity.

Deferred consideration

Deferred consideration is provided for at the directors' best estimate of the amount expected to be paid at the settlement date.

Leased assets

Operating lease charges are expensed to the profit and loss account on a straight line basis over the period of the lease.

2 Turnover

Turnover is wholly attributable to the principal activities of the group and arises solely within the United Kingdom.

3 Employees

	Group 2008	Group 2007	Company 2008	Company 2007
	\$	\$	\$	\$
Staff costs consist of:				
Wages and salaries	92,135	54,947	36,854	39,881
Social security costs	7,960	5,689	2,153	4,096
	100,095	60,636	39,007	43,977

The average number of employees (including directors) during the year for the group was 4 (2007 – 3) and for the company was 2 (2007 - 2).

CQS Management LimitedNotes forming part of the financial statements for the year ended 31 December 2008 *(continued)***4 Directors**

	Group 2008 \$	Group 2007 \$	Company 2008 \$	Company 2007 \$
Directors' remuneration consists of:				
Emoluments	100,095	60,636	39,007	43,977

5 Operating profit / (loss)

	2008 \$	2007 \$
This has been arrived at after charging:		
Depreciation	619,950	328,987
Loss on disposal of fixed assets	-	17,119
Amortisation of positive goodwill	6,896,332	2,377,812
Auditors' remuneration - group	90,587	100,368
Auditors' remuneration – company	60,569	41,460
Operating lease rental - land and buildings	3,030,402	2,054,442
Foreign exchange (profit)/loss	2,243,543	(206,316)

6 Interest receivable

	2008 \$	2007 \$
Interest receivable	253,988	572,486

7 Interest payable

	2008 \$	2007 \$
Interest payable	-	15,455
Finance charge on provision for deferred consideration	576,973	-

CQS Management Limited

Notes forming part of the financial statements for the year ended 31 December 2008 (*continued*)

8 Taxation on ordinary activities

	2008 \$	2007 \$
<i>UK Corporation tax</i>		
Current tax (credit)/ charge on profits of the year	-	-
Adjustment in respect of previous periods	(537,372)	2,846
	<u>(537,372)</u>	<u>2,846</u>
Taxation on ordinary activities	<u>(537,372)</u>	<u>2,846</u>

The tax assessed for the current year is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2008 \$	2007 \$
(Loss)/profit on ordinary activities before tax	<u>(7,318,474)</u>	<u>(7,458,037)</u>
(Loss)/profit on ordinary activities at the small companies rate of corporation tax in the UK of 21% (2007 - 20%)	(1,536,880)	(1,491,608)
Effects of:		
Expenses not deductible for tax purposes/ other timing differences	1,914,861	10,024
Depreciation for year in excess of capital allowances	(74,269)	(45,312)
Tax losses (utilised)/released	(303,712)	1,526,896
	<u>-</u>	<u>-</u>
Current tax (credit)/charge for year	<u>-</u>	<u>-</u>

Factors that may affect future tax charges

At 31 December 2008, the company had a deferred tax asset of \$2,051,646 (2007 - \$3,469,263). In accordance with the group's accounting policy, the deferred asset has not been recognised on the balance sheet.

9 Profit for the financial year

The company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The group loss for the year, approved by the board of directors, includes a loss for the company after tax of \$214,390 (2007 - \$1,050,089 loss).

CQS Management Limited

Notes forming part of the financial statements for the year ended 31 December 2008 (continued)

10 Intangible assets

	Goodwill on consolidation
Group	\$
<i>Cost</i>	
At 31 December 2007	36,851,533
Deferred liability released	(4,398,200)
	<hr/>
At 31 December 2008	32,453,333
	<hr/>
<i>Amortisation</i>	
At 31 December 2007	2,377,812
Provided for during the year	6,896,332
	<hr/>
At 31 December 2008	9,274,144
	<hr/>
<i>Net book value</i>	
At 31 December 2008	23,179,189
	<hr/>
At 31 December 2007	34,473,721
	<hr/>

Goodwill is amortised over 10 years (2007: 4 years), on a straight line basis, based on the directors' estimate of its useful economic life. The useful economic life was re-evaluated by the directors following the impairment review undertaken on the anniversary of acquisition, at the end of the first financial year following acquisition, and was increased from 4 years to 10 years in order to reflect the strength of the brand demonstrated in the severe economic climate during the year.

In the opinion of the directors, the initial period over which goodwill was being amortised was biased towards quantitative measures with insufficient regard given to the strength of the brand as well as other qualitative measures, as demonstrated by the favourable discounts to Net Asset Value of the funds, in light of the challenging economic conditions, and industry recognition that the brand received with respect to performance. Additionally, the directors are confident that they will be able to launch new products, utilising the strength of the brand, which will further the financial period over which the group is able to realise economic benefits as a result of the acquisition.

In line with the group's accounting policy, an impairment review was conducted on the carrying value of goodwill on the anniversary of acquisition and the directors determined that there was no impairment of goodwill over the period.

The consideration in relation to the acquisition of New City Investment Managers Limited was structured in a way to incorporate the risk of a downturn in financial markets, and the adjustment to goodwill arising as a result of a reduction in the value of deferred contingent consideration is sufficient to cover any impairment that may arise due to continuing uncertainty in financial markets.

Impairment tests on the carrying value of goodwill will be undertaken in future periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

CQS Management LimitedNotes forming part of the financial statements for the year ended 31 December 2008 *(continued)***11 Tangible fixed assets**

Group & Company	Vehicles	Fixtures and fittings	Leasehold improvements	Total
	\$	\$	\$	\$
<i>Cost</i>				
At 31 December 2007	102,641	1,108,183	2,918,421	4,129,245
Additions	-	594,417	1,697,183	2,291,600
At 31 December 2008	102,641	1,702,600	4,615,604	6,420,845
<i>Depreciation</i>				
At 31 December 2007	57,021	934,316	2,129,674	3,121,011
Provided for the year	34,213	206,716	379,021	619,950
At 31 December 2008	91,234	1,141,032	2,508,695	3,740,961
<i>Net book value</i>				
At 31 December 2008	11,407	561,568	2,106,909	2,679,884
At 31 December 2007	45,620	173,867	788,747	1,088,234

12 Fixed asset investments

Group	2008	2007
	\$	\$
Investment in joint venture	12,490,010	490,000

The company recognised the \$12m increase in reserves of the joint venture in the year relating to reserves retained by the partnership.

There was no return of any partnership capital to the company (2007 - nil). The principal activity of CQS (UK) LLP is the provision of investment advisory services, and is regulated by the Financial Services Authority. At 31 December 2008, the directors judge the investment to be stated at fair value so no impairment provision is provided.

The partnership has a 31 December 2008 accounting period end. The company's share of the partnership results are as follows:

	2008	2007
	\$	\$
Turnover	170,744,436	195,881,855
Profit before and after tax	168,157,774	195,867,638
Current assets	16,308,235	4,308,972
Liabilities due within one year	(3,808,225)	-
Net assets	12,490,010	4,308,972

CQS Management Limited

Notes forming part of the financial statements for the year ended 31 December 2008 (continued)

12 Fixed asset investments (continued)

Investments held as fixed assets are stated at cost less any provision for impairment. As part of the impairment review conducted on the carrying value of goodwill for the purposes of the consolidated accounts, the carrying value of the subsidiary was also assessed.

The consideration in relation to the acquisition of New City Investment Managers Limited was structured in a way to incorporate the risk of a downturn in financial markets, and the adjustment to cost arising as a result of a reduction in the value of deferred contingent consideration is sufficient to cover any impairment that may arise due to continuing uncertainty in financial markets.

Company	Group undertaking \$
<i>Cost</i>	
At 31 December 2007	41,629,152
Adjustment for deferred liabilities	(4,398,200)
	<hr/>
At 31 December 2008	37,230,952
	<hr/>

New City Investment Managers Limited is treated as a subsidiary due to the ability to control by virtue of the voting rights held. The results of New City Investment managers Limited are included in the consolidated accounts. The subsidiary undertaking in which the company's interest at the year end is 20% or more is as follows:

Name	Country of incorporation	Voting rights and ordinary share capital held	Nature of business
New City Investment Managers Limited	England	100%	Investment manager/ adviser

13 Debtors

	Group 2008 \$	Group 2007 \$	Company 2008 \$	Company 2007 \$
Trade debtors	4,646,900	8,774,984	4,474,329	7,181,970
Prepayments and accrued income	1,348,733	802,495	1,338,646	748,772
Other debtors	1,324,170	3,038,181	827,921	2,952,646
	<hr/>	<hr/>	<hr/>	<hr/>
	7,319,803	12,615,660	6,640,896	10,883,388
	<hr/>	<hr/>	<hr/>	<hr/>

All amounts shown under debtors fall due for payment within one year.

CQS Management Limited

Notes forming part of the financial statements for the year ended 31 December 2008 (continued)

14 Creditors: amounts falling due within one year

		Group	Group	Company	Company
		2008	2007	2008	2007
		\$	\$	\$	\$
Trade creditors		45,730,235	38,394,723	45,709,283	32,687,995
Other creditors		-	78,080	-	-
Accruals and deferred income		2,160,858	3,300,093	2,105,719	3,279,724
Deferred consideration	15	4,658,998	-	4,658,998	-
		52,550,091	41,772,896	52,474,000	35,967,719

15 Deferred Consideration

	\$
As at 31 December 2007	8,480,225
Finance charge for the period	576,973
Deferred liability released	(4,398,200)
As at 31 December 2008	4,658,998

Deferred consideration represents further amounts due to the pre-acquisition shareholders of New City Investment Managers Limited, and the amount payable is contingent on the value of assets managed by New City Investment Managers Limited. The consideration that would be payable is in the range of \$nil - \$8,480,225.

Deferred consideration is due on the second anniversary of acquisition and has therefore been included within current liabilities this year.

16 Share Capital

		Authorised	
	2008	2007	
	Number	Number	
<i>Equity share capital</i>			
Ordinary shares of £1 each	1,000,000	1,000,000	1,610,000
<i>Non-equity share capital</i>			
Preference shares of £1 each	250,000	250,000	402,500
	1,250,000	1,250,000	2,012,500

CQS Management Limited

Notes forming part of the financial statements for the year ended 31 December 2008 (*continued*)

16 Share Capital (*continued*)

	Allotted, called up and fully paid			
	2008 Number	2007 Number	2008 \$	2007 \$
<i>Equity share capital</i>				
Ordinary shares of £1 each	200	200	322	322
<i>Non-equity share capital</i>				
Preference shares of £1 each	304,695	304,695	305,017	305,017
	<u>304,895</u>	<u>304,895</u>	<u>305,339</u>	<u>305,339</u>

17 Reserves

Group	Share premium account \$	Capital reserve \$	Capital redemption reserve \$	Profit and loss account \$	Total reserves \$
At 31 December 2007	30,164,841	3,741,292	402,500	(30,264,544)	4,044,089
Loss for the year	-	-	-	(6,781,102)	(6,781,102)
Currency adjustments	-	-	-	(56,070)	(56,070)
	<u>30,164,841</u>	<u>3,741,292</u>	<u>402,500</u>	<u>(37,101,716)</u>	<u>(2,793,083)</u>
At 31 December 2008	<u>30,164,841</u>	<u>3,741,292</u>	<u>402,500</u>	<u>(37,101,716)</u>	<u>(2,793,083)</u>

Company	Share premium \$	Capital reserve \$	Capital redemption reserve \$	Profit and loss account \$	Total reserves \$
At 31 December 2007	30,164,841	3,741,292	402,500	(23,813,038)	10,495,595
Profit for the year	-	-	-	(214,390)	(214,390)
	<u>30,164,841</u>	<u>3,741,292</u>	<u>402,500</u>	<u>(24,027,428)</u>	<u>10,281,205</u>
At 31 December 2008	<u>30,164,841</u>	<u>3,741,292</u>	<u>402,500</u>	<u>(24,027,428)</u>	<u>10,281,205</u>

CQS Management Limited

Notes forming part of the financial statements for the year ended 31 December 2008 (continued)

18 Reconciliation of movement in shareholders' funds

	Group 2008 \$	Group 2007 \$	Company 2008 \$	Company 2007 \$
(Loss)/profit for the year	(6,781,102)	(7,460,883)	(214,391)	(1,050,089)
Preference shares issued	-	30,469,536	-	30,469,536
Currency adjustments	(56,070)	(40,712)	-	-
Opening shareholders' funds	4,349,106	(18,618,835)	10,800,612	(18,618,835)
Closing shareholders' funds	(2,488,066)	4,349,106	10,586,221	10,800,612

19 Commitments under operating leases

The group and company had annual commitments under non-cancellable operating leases as set out below:

	2008 Land and buildings \$	2007 Land and buildings \$
Operating leases which expire:		
Within one year	169,660	7,347
Between one and five years	-	2,253,196
Over five years	2,820,959	1,583,823
	2,990,619	3,844,366

20 Related party transactions

During the year, management charges were payable to CQS (Global Services) Limited, a company ultimately owned by Michael Hintze, amounting to \$150,182,123 (2007 - \$201,442,646) for the secondment of staff and other employment services. Of this amount a balance of \$38,868,770 (2007 - \$33,005,922) was outstanding in respect of this charge at 31 December 2008 and is included within trade creditors. In addition, income of \$2,046,450 was received from CQS Investment Management Limited, a company ultimately owned by Michael Hintze, of which \$154,852 was outstanding at year end. CQS Management Limited has a service agreement with CQS Investment Management Limited for the provision of infrastructure and administrative services by the company.

During the year, profits of \$168,157,784 (2007 - \$195,821,230) were earned from CQS (UK) LLP, a partnership of which the company is a corporate member. This included appropriations of profits relating to recharged costs of \$1,800,000 (2007 - \$1,800,000). A balance of \$3,770,048 (2007 - \$3,808,958) was outstanding at 31 December 2008 in respect of unallocated profits and is shown within trade debtors.

During the year, the group made a donation of \$nil (2007 - \$2,040,370) to the Hintze Family Charitable Foundation, a registered charity of which Michael Hintze is a trustee and \$29,756 (2007 - \$30,257) to the Institute of Economic Affairs, a registered charity of which Michael Hintze is a director.

Transactions and balances with New City Investment Managers Limited are eliminated in the consolidated accounts as CQS Management Limited has greater than 90% ownership.

CQS Management Limited**Notes forming part of the financial statements for the year ended 31 December 2008 (continued)****21 Reconciliation of operating profit to net cash outflow from operating activities**

	2008	2007
	\$	\$
Operating profit/(loss)	(7,326,412)	(8,015,068)
Depreciation of tangible fixed assets	619,950	327,625
Amortisation of goodwill	6,896,332	2,377,812
Decrease/(increase) in debtors	(6,412,531)	(9,464,166)
(Decrease)/increase in creditors	6,695,170	11,821,731
FX on consolidation	(56,070)	(40,712)
Net cash inflow/(outflow) from operating activities	<u>416,139</u>	<u>(2,992,778)</u>

22 Reconciliation of net cash flow to movement in net funds

	2008	2007
	\$	\$
Decrease in cash in the year	(1,621,473)	(449,479)
Movement in net funds	(1,621,473)	(449,479)
Opening net funds	6,014,612	6,464,091
Closing net funds	<u>4,393,139</u>	<u>6,014,612</u>

23 Analysis of net funds

	At 31 December 2007 \$	Cash flow \$	At 31 December 2008 \$
Cash at bank and in hand	6,014,612	(1,621,473)	4,393,139
Total	<u>6,014,612</u>	<u>(1,621,473)</u>	<u>4,393,139</u>

24 Ultimate Controlling Party

The company's immediate parent company is CQS Luxembourg Global Sarl, a company incorporated in Luxembourg. The ultimate parent company is CQS Cayman Limited Partnership, an entity incorporated in the Cayman Islands. The ultimate controlling party as at 31 December 2008 is Mr Michael Hintze.