

Japaninvest



Japaninvest Group plc

Report and accounts for the year ended

31 December 2011

Company number 4547135

Japaninvest Group plc

Report and accounts for the year ended 31 December 2011

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Japaninvest Group plc

Directors and advisers

Directors	Julie A Craddock*	Chairman
	Rupert J A Eastwood	Chief Executive Officer, CEO
	Mark E Burges Watson	Chief Operating Officer, COO
	Peter J Goodfellow	Chief Financial Officer, CFO
	Michael W Thomas*	
	Jane Dumeresque*	
	<i>* - denotes non-executive</i>	
Secretary	Peter J Goodfellow	
Registered Office	Portland House, Bressenden Place, London, SW1E 5RS	
Company number	4547135	
Auditors	BDO LLP 55 Baker Street London W1U 7EU, UK	
Principal Bankers	HSBC Bank plc 1 Sydney Place Onslow Square London SW7 3NW, UK	Mizuho Bank, Ltd 5-1-5 Toranomom Minato-ku Tokyo 105-0001, Japan
Lawyers	Simmons & Simmons CityPoint One Ropemaker Street London EC2Y 9SS, UK	Mori Hamada & Matsumoto Marunouchi Building 2-6-1 Marunouchi Chiyoda-ku, Tokyo 100-8222, Japan
Broker	Mizuho Investors Securities Co , Ltd 2-10-30 Nihonbashi Kakigara-cho Chuo-ku, Tokyo 103-8658, Japan	

Japaninvest Group plc

Directors' report for the year ended 31 December 2011

The directors present their report together with the audited financial statements on pages 22 to 48 for the year ended 31 December 2011 as prepared under UK Generally Accepted Accounting Practice

Results and dividends

The profit and loss account of the Group is set out on page 22 and shows a loss for the year ended 31 December 2011 of £1,726,623 (loss for the year ended 31 December 2010 £2,222,025) The directors do not recommend the payment of a dividend

Principal activities

The principal activity of the Group is the earning of commissions from institutional investors arising from the provision of research, analysis and sales advice regarding stocks listed on Asian stock exchanges

The Group has an alliance with Societe Generale SA for the provision of bundled research, research sales and equity execution services to investors in the Asian markets which now provides the majority of the Group's revenues

Review of the business

Summary

2011 was a challenging year, due to the turbulent economic environment and as a result growth in revenue was slower than forecast at the start of the year However, considerable progress was made at an operational level

In March, Japan experienced the Tohoku earthquake and subsequent difficulties at the Fukushima nuclear power station This severely affected foreign investor sentiment in our core Japan market Markets in Asia then fell sharply in the third quarter following concerns over the Eurozone and US debt crises, difficulties which were exacerbated in Japan by the strong Yen

Despite the above headwinds, the Group saw significant operational improvements Research coverage expanded, particularly in Asia and in our small cap network product. In addition, the number of paying clients increased during 2011 by 48.9% due to the alliance with Societe Generale, the first increase in 4 years, building a strong base for future revenue growth

The alliance with Societe Generale continued to strengthen during the year through two joint conferences and an expansion in the markets where the Group earns a share of commission For the first year, Alliance derived revenues comprised a majority of the Group's revenues

In summary, whilst the undoubtedly poor performance of the major markets during the year created a challenging environment for growth, the Group's product continued to develop well with continued strong support from Societe Generale As a result, the Group recorded a strong increase in revenues of 53.4% compared to 2010 Although the Group remained loss making during the year, primarily due to the continued investment in the Asia product and slower than forecast revenue growth, the operating loss margin on on-going operations fell very materially from 60.9% in 2010 to 26.3% in 2011

Review of the business (*Continued*)

Further strong revenue growth, underpinned by the Alliance, the continued Asia expansion and the increase in the client base, is expected by the Board to continue in 2012. This revenue increase, coupled with continued tight cost control, should see a continued reduction in operating losses towards break even in 2012.

Key events

Alliance with Societe Generale

2011 benefited from being the first full year of the alliance with Societe Generale and the rapid revenue growth that it brought. The Alliance continued to strengthen throughout 2011.

In June the Group held its first Asia conference jointly with Societe Generale in London, which was followed by a second conference in December, held in Hong Kong. The aim of these conferences was to facilitate meetings between new and existing clients and the listed corporates that the Group covers from a research perspective. The corporates attending were high growth potential, mid-cap stocks selected from the Group's research coverage universe. Both conferences were highly successful and well attended by both clients and corporates. These conferences were a major landmark for the Alliance and highlighted our presence in the Asia market.

In October Japaninvest and Societe Generale amended some of the commercial aspects of their agreement which expanded the ability of the Group to earn revenues from the Alliance. This included expanding the countries where the Group earns a share of commission to include Australia, Singapore, India, Malaysia, Thailand and Indonesia. While not changing the Alliance operationally, this further underlined the momentum to date of the alliance with Societe Generale.

The pan-Asian product

The main focus of the Group following the formation of the Alliance remains the expansion of the Asia business and Asia stock coverage, particularly in Hong Kong and China stocks.

There were 67 Asia stocks under full coverage as at 31 December 2011, and 99 on Japan. Asia stocks therefore represented 40% of the Group's rated coverage at the end of the year, up from 35% at the start of the year. This is forecast to increase to approximately 45% of coverage by the end of 2012. The Asia research product has also been strengthened by further increases in the small cap network coverage, with 53 Asia small caps written on in 2011 (2010: nil) in addition to 220 Japanese small caps covered (2010: 232).

Appointment of directors

Jane Dumeresque was appointed as a non-executive director on 12 October 2011. Jane brings significant experience as the former Group Finance Director of Syndicate Asset Management plc (now Ashcourt Rowan plc) which is listed on AIM, and is a UK qualified chartered accountant. On the same date Peter Goodfellow, the existing Group Finance Director, was appointed to the Board as Chief Financial Officer.

Review of the business (*Continued*)

Financial review

Financial performance

Despite the undoubtedly poor performance of the major markets, the Group has still posted strong revenue growth compared to the prior year. Turnover for the year ended 31 December 2011 was £6,584k, a 53.4% increase from the total for the prior year of £4,293k. Turnover from the continuing Asia research business increased 57.0% in the year from £4,195k for the year ended 31 December 2010 to £6,584k, mainly due to the additional revenues received as a result of the alliance with Societe Generale.

Administrative expenses increased by 20.2% from £6,919k for the year ended 31 December 2010 to £8,317k in the current year, mainly as a result of increased headcount, due to the recruitment of additional research and research sales staff following the formation of the Alliance and the establishment of the Asia business and higher staff retention and redundancy costs. Administrative expenses were also adversely impacted by the strengthening of the Japanese Yen. Administrative expenses for continuing operations increased 23.2% on the prior year from £6,751k to £8,317k for the reasons highlighted above.

The resulting operating loss for the year of £1,733k is 34.4% smaller than the operating loss of £2,643k for the prior year. The operating loss from the continuing business of £1,733k is 32.2% smaller than the operating loss of £2,556k for the year ended 31 December 2010.

The loss before taxation for the year was £1,733k, a 22.4% improvement against the £2,233k loss recorded for the prior year. The net loss for the year was £1,727, a 22.3% improvement compared to the £2,222k net loss recorded in 2010. Both prior year figures benefited from the £624k one-off profit recorded on the disposal of a stake in the Group's IND-X business.

Balance sheet position

The balance sheet shows total assets of £2,285k which is a decrease of £630k from £2,915k at 31 December 2010. Cash and debtors accounted for 81.7% of total assets at the year end compared to 84.6% in the prior year.

Cash decreased from £1,152k in the prior year to £509k, a decrease of £643k, as a result of the operating losses in the year, resulting in cash per share of £6.18 (31 December 2010: £14.07).

Net assets, which are reduced by the long-term deferred income balance of £1,086k, being fees received in advance from Societe Generale, decreased from £131k as at 31 December 2010 to net liabilities of £1,406k. The decrease of £1,536k was principally due to the net loss of £1,727k for the year.

Net current assets decreased from £1,370k as at 31 December 2010 to net current liabilities of £738k, a decrease of £2,108k. The decrease was partially due to the reclassification of part of the long-term deferred income balance (described above) to current liabilities, as this will be released to the profit and loss account during 2012.

Review of the business (*Continued*)

Financial review (*Continued*)

Balance sheet position (Continued)

The Board acknowledges that the Group is in a position of net liabilities and net current liabilities as at 31 December 2011. The Board recognises that if the Group is in a negative net assets position as at 31 December 2012 this will result in an automatic de-listing of the company's shares from the Tokyo Stock Exchange. The Board is working to remedy this position such that the Group returns to a positive net assets position during 2012.

Operational review

The Equities division earns revenues by providing fundamental research and sales advice on companies listed on Japanese and Asian stock markets. Clients are international institutional investors who generally pay for the services with commission generated through trading in Japanese and Asian stocks. Clients receive a highly differentiated product which includes an integrated approach to Japan and Asia, high quality fundamental coverage of blue chip and interesting mid-cap stocks, and an innovative small cap update product.

The Group has research teams based in Tokyo and Hong Kong. The product, co-branded "J1 ASIA" and "Societe Generale Cross Asset Research", is distributed to institutional investors through Societe Generale's global research distribution system. The research is then brokered by Japaninvest's equities sales teams in London, New York, Tokyo and Hong Kong.

The year saw the Group further expand its small cap network ("S-C Net") in Asia. Many small caps are trading at distressed valuations, whilst analyst coverage of the small cap sector has been drastically reduced as a result of the financial crisis. S-C Net stocks are selected to both support core coverage sectors as well as for their growth potential.

Future Developments

The alliance with Societe Generale, having been operational for 18 months, is now well embedded. Research production and the onboarding of new clients is progressing well and, therefore, from this stable base, the Group can focus on further developing its Asia product, increasing the client base under the Alliance and continuing to grow its market share.

The Group intends to continue to expand Asian stocks coverage towards current Japan coverage levels. In particular the Group will focus on the linkage between Japan and Asia, relative value between the two and the optimal investment strategies to benefit from long-term Asia GDP growth, notwithstanding the slowdown in China.

The Group expects headcount to remain broadly flat during 2012 from the year end headcount, selectively adding exceptional individuals to the team to reach full build out of the Asia research and research sales teams. The Group will focus on using its existing resources to leverage the high quality pan-Asia product and the alliance with Societe Generale, which are expected to underpin several years of strong revenue growth.

Future Developments (*Continued*)

The Group has no current plans for any new businesses beyond the existing Asia Equities business

Key Performance Indicators (KPIs)

The main KPIs used by management are turnover growth, staff remuneration as a percentage of turnover and non-staff costs as a percentage of turnover

2011 saw total turnover increase by 53.4% in continuing difficult market conditions. Turnover from continuing operations increased by 57.0%.

Total staff remuneration (including benefits) for the year represented 81.3% of turnover, which is a slight improvement from 83.0% in 2010. This remuneration is made up of fixed salary, variable bonus payments and housing for expatriates. The size of the bonus pool for the majority of staff is based on the performance and profitability of the business. However, the size of these payments, and the total remuneration as a result, must also be sufficient to retain existing and recruit new staff.

Overheads excluding staff remuneration as a percentage of turnover improved to 45.0% in 2011 from 76.4% in 2010.

Management remains focused on controlling both the staff cost and improving overhead ratios going forward, primarily by improving turnover growth and monitoring staff headcount.

Principal business risks

Market risk

The Group is remunerated by clients largely through commissions on equity transactions. The Group currently derives most of its revenues from commissions from clients trading in Asia equities. The performance of the Group is therefore linked to the attractiveness of these stocks to foreign investors and the level of these stock markets. Should foreign investors no longer be willing or able to invest in these markets, either through poor market performance or through regulatory changes, there would be a significant adverse effect on the Group's revenues.

The further expansion of the Group's product to cover other Asian stock markets has mitigated this risk to an extent but has also expanded market risk to cover the attractiveness of stocks traded on other Asian stock markets.

Loss of key staff

Recruiting and retaining staff, particularly key revenue generators, is vital for the current and future growth of the business. Management aims to provide an attractive working environment and remuneration package to reduce the risk of unacceptably high staff turnover.

Reputational

The Group's good reputation with clients is dependent on providing high quality research reports and sales advice from which they can obtain value. Poor recommendation performance could therefore impact the Group's reputation over the longer term. To minimise this risk, there are stringent compliance procedures for research and all sales staff are registered with the appropriate regulator for each country.

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Directors' report for the year ended 31 December 2011 (*Continued*)

Principal business risks (*Continued*)

Execution quality

The Group's revenues are mainly derived from commission on trades passed through our execution counterparties. Management monitors the quality of the execution and works with clients to ensure they receive the execution service they expect.

Credit risk

The Group is exposed to credit risk from our counterparties on commission sharing agreements. This risk is monitored through dealing solely with regulated firms and by monitoring the exposure to each counterparty on a monthly basis.

Liquidity risk

The Group funds its operations out of its own cash balances and there is a risk that these balances are insufficient. The risk is monitored by the Group forecasting cash flows at least 12 months in advance and monitoring its performance against these forecasts on an ongoing basis.

Financial risk management

As Japaninvest Group plc is a UK company with operations in the UK, Japan, the US and Hong Kong, its main financial risk is exposure to foreign currencies. Foreign currency denominated cash balances are held to fund overseas operations and as a result of trading activities. This risk is monitored with the aim that foreign currency cash balances offset future foreign currency liabilities.

The Group is also exposed to interest rate risk through its use of short term money market deposits. These deposits are placed with the Group's approved banks with the aim of maximising the return on any funds not being utilised in the day to day business operations.

Further information on the policies and use of financial instruments can be found in Note 18.

Directors

The directors of the company during the year were

J A Craddock

R J A Eastwood

M E Burges Watson

P J Goodfellow (appointed 12 October 2011)

M W Thomas

J Dumeresque (appointed 12 October 2011)

Insurance

The company has directors' and officers' liability insurance and it is intended to maintain such cover for the full term of their employment.

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Directors' report for the year ended 31 December 2011 *(Continued)*

Charitable and political donations

During the year the Group made no political or charitable donations (2010 £nil)

Creditor payment policy

It is the Group's policy to pay all of its trade creditors within the agreed period, normally 30 days. On average, creditors were paid within 29 days (2010 30 days)

Auditors

BDO LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting

All of the current 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 purposes 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.

On behalf of the Board



P J Goodfellow

Director

15 February 2012

Japaninvest Group plc

Statement of Directors' responsibilities

Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). 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 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 they have been prepared in accordance with UK GAAP, 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 company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

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Statement of Corporate Governance

Although the Group's shares are listed on the Mothers market of the Tokyo Stock Exchange, it is a company incorporated in England and Wales and therefore subject to the laws in place there. However, as the Group is listed in Tokyo it is not required to comply with the provisions and principles of good corporate governance and code of best practice (as set out in The UK Corporate Governance Code June 2010, which has replaced the Combined Code on Corporate Governance June 2008, issued by the Financial Reporting Council) as would be required if it were listed on the London Stock Exchange. Nevertheless, the Board is committed to high standards of corporate governance and therefore aims to comply with the provisions set out in The UK Corporate Governance Code as far as is practicable for a group of this size.

Board of Directors

Jane Dumeresque was appointed as a non-executive director on 12 October 2011. Jane brings significant experience as the former Group Finance Director of Syndicate Asset Management plc (now Ashcourt Rowan plc) which is listed on AIM, and is a UK qualified chartered accountant. On the same date Peter J Goodfellow, the existing Group Finance Director, was appointed to the Board as Chief Financial Officer.

At the year end the Board consisted of six Directors of which three were non-executive. All non-executive directors are considered to be independent by the Board.

The directors come from diverse business backgrounds and have the appropriate mix of experience and expertise. Each actively and effectively contributes to the work of the Board and its Committees.

Whilst the non-executive directors hold meetings without the executive directors being present, the non-executive directors do not hold meetings without the Chairman being present.

In accordance with The UK Corporate Governance Code, we note that Michael W Thomas continues to have a relationship with a client of Japaninvest Limited by dint of previous employment, a current shareholding in that client, and through acting as a non-executive director of one of the client funds, but believes the non-executive nature of his relationship and the fact that the client provides an immaterial level of the Group's revenues means that his independence is not compromised by such a relationship.

Role of the Board

The prime responsibility of the Board is to manage the business of the Company in a manner consistent with providing long-term shareholder value, while ensuring that the Company remains regulatory compliant at all times. The role of the Independent Directors is to provide an additional balance of knowledge and experience on the Board as well as to monitor and approve the strategy and policies recommended by the Chief Executive Officer (CEO). The Board may appoint from their number a Chairman or a Deputy Chairman, whose responsibility is to lead and manage the Board to ensure that it operates effectively within its legal and regulatory framework.

The following matters cannot be delegated by the Board to any committee:

- major changes of business strategy,
- any major corporate acquisitions or disposals,
- equity or debt raising or variations,
- handling of any regulatory investigations,
- approval of all public announcements,
- risk management, and
- approval of quarterly accounts, budgets and forecast

Japaninvest Group plc

Statement of Corporate Governance (Continued)

Attendance at board meetings was as follows

Date of Meeting	J A Craddock	R J A Eastwood	M E Burges Watson	P J Goodfellow	M W Thomas	J Dumeresque
03 Feb 11	✓	✓	✓	-	✓	-
15 Feb 11	✓	✓	✓	-	✓	-
05 Apr 11	✓	✓	x	-	✓	-
04 May 11	✓	✓	✓	-	✓	-
12 May 11	✓	✓	✓	-	✓	-
09 Aug 11	✓	✓	✓	-	✓	-
11 Aug 11	✓	✓	x	-	✓	-
12 Oct 11	✓	✓	✓	-	x	-
21 Oct 11	✓	✓	✓	✓	✓	✓
28 Oct 11	✓	✓	✓	✓	✓	✓
02 Nov 11	✓	✓	✓	✓	✓	✓
07 Nov 11	✓	✓	✓	✓	✓	✓

The Board has appointed four committees to make recommendations to the Board in specific areas

Audit Committee

Jane Dumeresque (appointed as Chairman on 12 October 2011)

Julie A Craddock (resigned as Chairman on 12 October 2011 but remains a member of the Committee)

Michael W Thomas

The Committee assists the Board in reviewing the effectiveness of internal controls and risk management. The Committee also reviews financial statements to be published externally before their submission to the Board, to ensure that they present a fair assessment of the Group's position and prospects.

The Committee also keeps under review the independence and objectivity of the external auditors, and their effectiveness. In particular, the Committee oversees the nature and amount of non-audit work undertaken by BDO LLP each year to ensure that true independence is safeguarded. Details of this year's fees are given in note 3 of the financial statements for the Group. The Committee also makes recommendations to the Board, for it to put to the shareholders for their approval, in relation to the reappointment of the auditors and approving the remuneration and terms of engagement. The Committee's terms of reference are available on request from the Company Secretary.

The Committee held four meetings during the year. All members attended all meetings. The external auditors, the CFO (previously the Group Finance Director) and the internal auditor were present during part of all these meetings.

Whilst neither Julie A Craddock nor Michael W Thomas have a background in accountancy and therefore cannot be deemed to have recent and relevant financial experience under the terms of The UK Corporate Governance Code, both have many years experience of the investment banking and fund management industries. As such, the Board was satisfied that, for the size of group, they had sufficient experience to sit on the Committee.

Prior to the appointment of Jane Dumeresque, Julie A Craddock acted as both the Chairman of the Board and of the Committee, due to the size of the Board. The Group believed that, with Michael W Thomas as chair of both the Remuneration and Nomination Committee, it would not have been appropriate for him to act as chair of this committee as well.

Jane Dumeresque was appointed as Chairman of the Committee on 12 October 2011 and is deemed to have sufficient recent and relevant financial experience under the terms of The UK Corporate Governance Code.

Statement of Corporate Governance (Continued)

Remuneration Committee

Michael W Thomas (Chairman)

Julie A Craddock

Jane Dumeresque (appointed on 12 October 2011)

The Committee determines salary levels, discretionary bonuses, the granting of options and the terms and conditions of service of the executive directors. The Committee also reviews the Group's remuneration policy. The report of the Remuneration Committee for the year ended 31 December 2011 can be found on pages 17 to 19. The Committee's terms of reference are available on request from the Company Secretary.

The Committee held two meetings during the year. All members of the Committee attended both meetings.

It is intended that a significant portion of executive director's remuneration comes in the form of cash bonuses linked to the performance of the company and stock options linked to the future performance of the company. As the company has not been profitable in the year under review, profit-based cash bonuses have not been paid.

The Group offers three share option schemes to executive directors and staff. The Staff Share Option Scheme gives the option holder the right to buy shares over a vesting period of four years at a 50% premium to the share price on the date of grant. The scheme is designed to incentivize staff and to match their remuneration to the performance of the share price and thus the benefit to shareholders. Both employees and executive directors are eligible to receive awards under this scheme.

The second scheme, the Staff Stock Grant Scheme, offers holders the right to purchase shares at their nominal value over a vesting period of up to two years. This scheme is used to enable the Group to offer share options as part of a competitive remuneration package that is of a level offered by our competitors whilst preserving its operating cash balances. Both employees and executive directors are eligible to receive awards under this scheme.

The third scheme, the Long Term Incentive Plan ("LTIP"), is intended to incentivize executive directors and senior staff who have a significant impact on the performance of the Group. The options granted under the LTIP scheme have an exercise price of £1 and vest after three years subject to challenging performance criteria, reflecting the company's objectives.

Whilst shareholders are requested to authorise directors to allot securities in part to offer such incentives under the above schemes, no specific approval has been sought for the first two schemes. This action has been taken as the Group feels that such schemes are deemed normal operating practice within its industry and offer an effective method of aligning remuneration with the interests of the shareholders. In line with best practice under The UK Corporate Governance Code the Board has decided to put the LTIP scheme forward for approval by a shareholder vote at the next annual general meeting.

Nomination Committee

Michael W Thomas (Chairman)

Julie A Craddock

Jane Dumeresque (appointed on 12 October 2011)

Rupert J A Eastwood

The Committee is responsible for leading the process for board appointments (including appointment to the Remuneration and Audit Committees) and making recommendations to the Board accordingly. As appropriate, the Committee may review the composition of the Board as well as the capability of each individual director to maintain and develop the Board's effectiveness. The Committees' Terms of Reference are available on request to the Company Secretary.

The Committee held two meetings during the year. All members of the Committee attended the meetings.

Board and Committee Performance

The performance of the Board and its Committees is discussed by the Nomination Committee. The Committee monitors the performance of all directors and discusses their suitability for the role and makes recommendations on any amendments to the composition of the Board. There are no formal evaluation procedures in place as the Committee feels that these would not be practicable in light of the size of the group.

All directors are subject to election by shareholders at the first annual general meeting following their appointment and re-election thereafter at intervals of no more than three years. Non-executive directors are appointed for an initial term of three years, subject to re-election and to Companies Act provisions relating to the removal of a director.

Budget Committee

Peter J Goodfellow (Chairman)

Rupert J A Eastwood

The Committee is responsible for approving and monitoring the Group's budgets and providing advice and recommendations to the Board in relation to any possible revision of the Group's financial forecasts.

The Committee held 10 meetings during the year. The Group Financial Controller and Group Regulatory Relations Director also attended these meetings. All members of the Committee attended all the meetings.

In addition to the above committees, the Board has delegated responsibility for the day-to-day operations of the Group to an Executive Committee comprising the executive directors and senior management that meets on a monthly basis. The regular duties and responsibilities of this committee include (a) reviewing and monitoring of the financial and operational performance of the business, and (b) developing business strategies and policies for recommendation to the Board. The Executive Committee also discusses and reviews any other regulatory and business matters that need to be decided by the Board, and may have joint meetings with the Board to report on and discuss any possible major revisions for the business unit and operational trends during the year.

Statement of Corporate Governance (Continued)

Internal Control

The board of directors is responsible for maintaining the Group's system of internal control, reviewing its effectiveness at least annually and reporting to shareholders that they have done so

The systems are designed to ensure that the key risks faced by the Group in the conduct of its business are identified and evaluated so that appropriate controls are put in place to manage those risks. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss. The Group's systems are designed to accord with Internal Control Guidance to Directors (the Turnbull Guidance October 2005)

To comply with the provision of the Turnbull Guidance, an Internal Audit Officer is nominated and appointed by the CEO. The Internal Audit Officer is responsible for reviewing and assessing any issues related to the Group's internal integrity, governance and control, and reports directly to the CEO, who is responsible for ultimately implementing necessary improvement measures, and to the Audit Committee

The Audit Committee then reviews the systems in place and supports any recommendation made by the Internal Audit Officer and the CEO on improvements in internal control and puts them forward to the Board for discussion, review and approval to ensure the Group's ongoing compliance with the relevant provision of the Turnbull Guidance

The Internal Audit Officer should make at least two formal "Internal Audit Reports" per year and issues improvement plans to the heads of the relevant business units to ensure ongoing improvement. If significant failings or weaknesses in internal controls are identified, these items are also included in the improvement plans and their correction is monitored by the Internal Audit Officer. In the event that material internal control issues are identified, disclosure will be included in the annual report and accounts. In the year under review, two reports have been presented to the Audit Committee with no material internal control issues being reported

The key features of the system of internal control are

Management structure – a well-defined management structure with clear accountabilities and delegations

Audit Committee - the Committee enhances and supports the oversight role of the Board

Policy – the Board has established a policy of internal control through the implementation of clear documented guidelines and rules (through the Group Rulebook and compliance manuals). The Internal Audit Officer reviews the adherence to and effectiveness of this process

Financial Information – management information enables the Board to receive detailed monthly analysis of financial and business performance including variance against budget (via the Budget Committee)

Budgeting and forecasting – a comprehensive planning and budgeting process is in place to deliver detailed financial forecast to the Board (via the Budget Committee)

Internal audit – an internal audit function reports to the Board (via the CEO and the Audit Committee) the effectiveness of key internal controls and the management of risk and provides recommendations as to improvements to be implemented

Compliance – a compliance function manages the Group's relationships with the Group's key regulators and identifies major compliance and regulatory risks

Statement of Corporate Governance (*Continued*)

MLRO – a Money Laundering Reporting Officer and anti-money laundering procedures are in place, and training programmes are in place for all relevant staff

Documented procedures – documented procedures and authority levels have been established (through the Group Rulebook)

Internal assurances – internal assurances are given by all staff of their compliance with all applicable laws and regulatory regimes

Investor relations

As the Group is listed on the Mothers market of the Tokyo Stock Exchange, it is required to hold at least two analyst meetings a year. These meetings are conducted by the CEO or COO. In addition, retail shareholders in Japan have access to the company via a dedicated Investor Relations department. As the Group's major shareholders (those with a holding of more than 3%) are predominantly either directors or employees of the Group, there is a free and frequent exchange of their views with both the executive and non-executive directors.

Japaninvest Group plc

Report of the Remuneration Committee for the year ended 31 December 2011

The responsibility for the remuneration policy for executive directors and the setting of individual directors' remuneration packages is delegated to the Remuneration Committee. The Remuneration Committee also oversees the Group remuneration policies.

Remuneration policy

The remuneration package for each executive director is composed of a basic salary, a bonus and stock options under the share option schemes. It is intended that a significant portion of executive director's remuneration is performance-related, in the form of cash bonuses and stock options linked to the performance and profitability of the company.

Rupert J A Eastwood and Mark E Burges Watson are normally rewarded through the Group's 'partner' profit share scheme on a quarterly basis. The size of the total bonus payment is determined every quarter based on the performance and profitability of the business. As a result, bonus payments are directly linked to the operating performance of the Group, although consideration is made to ensure that remuneration remains competitive. In 2011, the lack of profitability of the Group led to no payouts being made under this scheme.

It is the committee's current intention that Rupert J A Eastwood and Mark E Burges Watson receive equal remuneration when converted into sterling at purchasing power parity. As Mark E Burges Watson's cost of employment was in excess of that received by Rupert J A Eastwood he should have received payments in the year to bring his remuneration to parity. Given the committee's desire to preserve cash, Rupert J A Eastwood was issued with 1,288 staff stock grants in lieu of the first equalisation bonus on 9 August 2011. The second equalisation bonus to Rupert J A Eastwood remained unpaid at the year end.

The executive directors were awarded a number of stock options under the share option schemes in the year, these are detailed below.

In all cases, total remuneration is reviewed in relation to work undertaken and to comparable salaries.

Non-executive pay is set at £1,000 per day.

Service Contracts

No director has a specific service contract. All employment contracts are subject to a notice period of not less than 30 days.

Japaninvest Group plc

Report of the Remuneration Committee for the year ended 31 December 2011 (Continued)

Directors' remuneration

	Salary and fees £	Bonus payments £	Benefits in kind £ (note 1)	2011 Total £	2010 Total £
Executives					
R J A Eastwood	75,000	36,862	3,699	115,561	78,729
M E Burges Watson (note 2)	143,765	-	15,895	159,660	120,862
A J Ramsay	-	-	-	-	59,679
P J Goodfellow (note 3)	17,778	-	582	18,360	-
Non-executives					
J A Craddock	8,000	-	-	8,000	9,000
M W Thomas	8,000	-	-	8,000	9,000
J Dumeresque (note 3)	2,000	-	-	2,000	-
Total	254,543	36,862	20,176	311,581	277,270
2010 total	256,056	5,000	16,214	277,270	

Note 1 Benefits in kind comprise medical and life insurance

Note 2 M E Burges Watson was based in Hong Kong during the year and his remuneration is received in local currency. This is then converted at the year-end rate in the table above

Note 3 P J Goodfellow and J Dumeresque became directors on 12 October 2011

Share options

The following options were held by directors at 31 December 2011 and during the year

Director	Type	Date of grant	Number of options	Exercise price	Earliest exercise date	Latest exercise date
R J A Eastwood	Stock grant	03 Feb 11	1,170	£1	03 Feb 12	03 Feb 21
	Stock grant	03 Feb 11	1,170	£1	03 Feb 13	03 Feb 21
	Stock grant	09 Aug 11	664	£1	09 Aug 12	09 Aug 21
	Stock grant	09 Aug 11	664	£1	09 Aug 13	09 Aug 21
	LTIP	09 Aug 11	800	£1	09 Aug 14	09 Aug 21
M E Burges Watson	LTIP	09 Aug 11	800	£1	09 Aug 14	09 Aug 21
P J Goodfellow	Share option	13 Dec 10	150	Y5,685	13 Dec 11	13 Dec 16
	Share option	13 Dec 10	150	Y5,685	13 Dec 12	13 Dec 16
	Share option	13 Dec 10	150	Y5,685	13 Dec 13	13 Dec 16
	Share option	13 Dec 10	150	Y5,685	13 Dec 14	13 Dec 16
	LTIP	09 Aug 11	200	£1	09 Aug 14	09 Aug 21

No director exercised options during the year ended 31 December 2011 (2010 nil)

Japaninvest Group plc

Report of the Remuneration Committee for the year ended 31 December 2011 *(Continued)*

Pensions

No pension contributions were made on behalf of any director in the year under review

Michael W Thomas

Chairman of the Remuneration Committee

15 February 2012

Japaninvest Group plc

Independent Auditors' Report

To the shareholders of Japaninvest Group plc

We have audited the financial statements of Japaninvest Group plc for the year ended 31 December 2011 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated and company balance sheet, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom 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 auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the parent company 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 (APB'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 APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2011 and of the group's loss for the year then ended,
- the group financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice,
- the parent company's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Independent Auditors' Report (Continued)

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the Group's ability to continue as a going concern. These include the material uncertainties relating to the timing of funding, the current market conditions and the achievability of the forecasts. These conditions together with the matters noted in note 1 to the financial statements indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern. These financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Opinion on other matters 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 financial statements and the part of the directors' remuneration report to be audited 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

BDO LLP

*Alexander Tapp (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom*

15 February 2012

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

Japaninvest Group plc

Consolidated profit and loss account for the year ended 31 December 2011

	Note	Year ended 31 Dec 2011 £	Year ended 31 Dec 2010 £
Turnover			
Continuing operations	1	6,584,365	4,194,775
Discontinued operations	1	-	98,576
		<u>6,584,365</u>	<u>4,293,351</u>
Cost of sales		-	(18,214)
		<u>6,584,365</u>	<u>4,275,137</u>
Gross profit			
Administrative expenses		(8,317,321)	(6,918,512)
Group operating loss			
Continuing operations	3	(1,732,956)	(2,555,902)
Discontinued operations	3	-	(87,473)
		<u>(1,732,956)</u>	<u>(2,643,375)</u>
Share of loss from associates		-	(210,511)
Operating loss including associates		<u>(1,732,956)</u>	<u>(2,853,886)</u>
Profit on disposal of discontinued operations		-	623,797
Loss on ordinary activities before interest		<u>(1,732,956)</u>	<u>(2,230,089)</u>
Interest receivable/(payable)		98	(2,627)
Loss on ordinary activities before taxation		<u>(1,732,858)</u>	<u>(2,232,716)</u>
Taxation on loss from ordinary activities	5	6,235	5,773
Loss on ordinary activities after taxation		<u>(1,726,623)</u>	<u>(2,226,943)</u>
Minority interest		-	4,918
Loss after taxation attributable to Group		<u>(1,726,623)</u>	<u>(2,222,025)</u>
		£	£
Basic loss per share	12	(20.98)	(31.43)
Diluted loss per share	12	(20.98)	(31.43)

The notes on pages 27 to 48 form part of these financial statements

Japaninvest Group plc

Consolidated statement of total recognised gains and losses for the year ended 31 December 2011

	Note	Year ended 31 Dec 2011 £	Year ended 31 Dec 2010 £
Loss for the financial year			
Group		(1,726,623)	(2,011,514)
Associated undertaking		-	(210,511)
		<u>(1,726,623)</u>	<u>(2,222,025)</u>
Foreign exchange differences on the translation of subsidiary undertakings on consolidation		(60,516)	(122,595)
Unrealised gains on deemed disposal of interest in subsidiary		-	232,391
		<u>-</u>	<u>232,391</u>
Total recognised gains and losses for the financial year	16	<u><u>(1,787,139)</u></u>	<u><u>(2,112,229)</u></u>

The notes on pages 27 to 48 form part of these financial statements

Japaninvest Group plc

Consolidated balance sheet at 31 December 2011

Company number 4547135

	Note	31 Dec 2011 £	31 Dec 2011 £	31 Dec 2010 £	31 Dec 2010 £
Fixed assets					
Tangible assets	7		50,060		51,656
Investments	8		368,125		396,878
			<hr/>		<hr/>
			418,185		448,534
Current assets					
Debtors	9	1,357,538		1,314,402	
Cash at bank and in hand		509,046		1,151,975	
		<hr/>		<hr/>	
			1,866,584		2,466,377
Creditors: amounts falling due within one year	10	(2,604,456)		(1,096,431)	
		<hr/>		<hr/>	
Net current (liabilities)/assets			(737,872)		1,369,946
			<hr/>		<hr/>
Total assets less current liabilities			(319,687)		1,818,480
Creditors: amounts falling due after one year					
Deferred income	11		(1,085,867)		(1,687,837)
			<hr/>		<hr/>
			(1,405,554)		130,643
			<hr/>		<hr/>
Capital and reserves					
Called up share capital	14		82,402		81,872
Share premium account	15		6,925,777		6,925,777
Profit and loss account	15		(8,413,733)		(6,877,006)
			<hr/>		<hr/>
Shareholders' funds	16		(1,405,554)		130,643
			<hr/>		<hr/>

The financial statements were approved and authorised for issue by the Board on 15 February 2011

P J Goodfellow
Director



The notes on pages 27 to 48 form part of these financial statements

Japaninvest Group plc

Company balance sheet at 31 December 2011

Company number 4547135

	Note	31 Dec 2011 £	31 Dec 2011 £	31 Dec 2010 £	31 Dec 2010 £
Fixed assets					
Investments	8		1,829,323		1,552,178
Current assets					
Debtors	9	1,422,565		1,445,982	
Cash at bank and in hand		4,313		407,821	
		<u>1,426,878</u>		<u>1,853,803</u>	
Creditors: amounts falling due within one year	10	<u>(1,792,382)</u>		<u>(750,584)</u>	
Net current (liabilities)/assets			<u>(365,504)</u>		<u>1,103,219</u>
Total assets less current liabilities			<u>1,463,819</u>		<u>2,655,397</u>
Capital and reserves					
Called up share capital	14		82,402		81,872
Share premium account	15		6,925,777		6,925,777
Profit and loss account	15		<u>(5,544,360)</u>		<u>(4,352,252)</u>
Shareholders' funds	16		<u>1,463,819</u>		<u>2,655,397</u>

The financial statements were approved and authorised for issue by the Board on 15 February 2012



P J Goodfellow
Director

The notes on pages 27 to 48 form part of these financial statements

Japaninvest Group plc

Consolidated cash flow statement for the year ended 31 December 2011

	Note	Year ended 31 Dec 2011 £	Year ended 31 Dec 2011 £	Year ended 31 Dec 2010 £	Year ended 31 Dec 2010 £
Net cash outflow from operating activities	19		(559,361)		(181,070)
Returns on investments and servicing of finance					
Interest received/(paid)		98		(2,627)	
Net cash inflow/(outflow) from returns on investments and servicing of finance			98		(2,627)
Taxation					
Taxation paid			-		-
Taxation rebate received in period			15,000		15,000
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(29,508)		(35,588)	
Net cash outflow from capital expenditure and financial investment			(29,508)		(35,588)
Acquisitions and disposal					
Net proceeds on sale of shares in subsidiary			-		351,336
Cash (outflow)/inflow before management of liquid resources and financing			(573,771)		147,051
Management of liquid resources					
Funds (placed on)/taken off deposit			(191,826)		219,148
Financing					
Proceeds on issue of ordinary shares			530		400,000
(Decrease)/increase in cash in the period	20		<u>(765,067)</u>		<u>766,199</u>

The notes on pages 27 to 48 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 the requirements of UK GAAP

The following principal accounting policies have been applied

Basis of preparation

Whilst the results for the year ended 31 December 2011 have been prepared on a going concern basis, the Board acknowledges that the Group has net liabilities and net current liabilities, and that cash balances have diminished during the year

The Board has prepared cash flow projections and forecasts for the period to 31 December 2013. These forecasts are based on the expectation that revenues increase in 2012 and 2013, and as a result, the Group has sufficient resources to enable it to pay its debts as they fall due throughout this period. Under the alliance with Societe Generale the Group continues to sign new customers, which should underpin the forecast growth in revenues. The Board believes this growth and forecast to be achievable and that the importance of the research product to Societe Generale's Asia product range means that Societe Generale will continue to provide Japaninvest with its full support.

The Board continues to monitor income and carefully control costs and should revenues fall short of the forecast growth rate could take further action to reduce overheads if necessary in the short-term. The Group also continues to monitor its working capital management.

In addition, the warrant signed with Societe Generale gives them the right to subscribe for 24.99% of the Group's issued share capital, at the date of exercise, for a subscription price of €2,000,000 (£1,670,565 at the year end exchange rate). The warrant can be exercised from 5 June 2012, or earlier at the Board's discretion. The Board notes the increasing interdependency of the two businesses, as the number of joint clients under the Alliance continues to rise, and considers it more likely than not that they will exercise. However, the Board are not able to predict the timing of such exercise.

The Board recognises the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern. However, in consideration of the above mitigating factors the Board has continued to prepare the financial statements on a going concern basis and accordingly these financial statements do not contain the adjustments that would result in the Group being unable to continue as a going concern.

Basis of consolidation

The consolidated financial statements incorporate the results of Japaninvest Group plc and all of its subsidiaries using the acquisition method of accounting.

Turnover

Turnover represents commissions due under commission share agreements and research fees receivable from third parties. Commissions and research fees are recognised on an accruals basis having regard to notifications from clients and other information available to directors and accounted for in the period to which it relates. In the event that commissions or fees are received in advance, these amounts are included in deferred income.

Cost of sales

Cost of sales represents charges incurred in the settlement of equity transactions as part of commission share agreements.

1 Accounting policies *(Continued)*

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets evenly over their expected useful lives. It is calculated at the following rates:

IT equipment	-	25% per annum
Fixtures and fittings	-	25% per annum
Leasehold improvements	-	amortised over the life of the lease

Foreign currency

Foreign currency transactions of individual companies are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet dates. Any differences are taken to the profit and loss account.

The results of overseas operations and their balance sheets are translated into sterling at the rates of exchange ruling on the balance sheet date. Exchange differences which arise from translation of the opening net assets and results of foreign subsidiary undertakings and from translating the profit and loss account at the rates of exchange ruling on the balance sheet date are taken to reserves.

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 company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences. Deferred tax balances are not discounted.

Operating leases

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the lease term even if payments are not made on such a basis.

Share based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the profit and loss account over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of the options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

Where the equity instruments are granted to persons other than employees, the profit and loss account is charged with the fair value of goods and services received.

1 Accounting policies (Continued)*Associates*

An entity is treated as an associated undertaking where the group has a participating interest and exercises significant influence over its operating and financial policy decisions

In the group accounts, interests in associated undertakings are accounted for using the equity method of accounting. The consolidated profit and loss account includes the group's share of the operating results, interest, pre-tax results and attributable taxation of such undertakings based on audited financial statements. In the consolidated balance sheet, interests in associated undertakings are shown as the group's share of the identifiable net assets, including any unamortised premium paid on acquisition.

Valuation of investments

Investments held as fixed assets are stated at cost less any provision for impairment. Investments held as current assets are stated at the lower of cost and net realisable value.

2 Segmental information

Many of the group's clients are based in more than one geographic location so the segmental information disclosed below is by reporting location.

	UK	USA	Japan	Hong Kong	Consolidated
	£	£	£	£	£
Year ended 31 December 2011					
Turnover	3,269,382	876,408	2,438,575	-	6,584,365
Loss before interest and tax	(869,895)	(52,257)	(452,310)	(358,494)	(1,732,956)
Net assets/(liabilities)	1,477,151	37,465	(2,151,813)	(768,357)	(1,405,554)
Year ended 31 December 2010					
Turnover	2,163,295	1,016,659	1,113,397	-	4,293,351
Loss before interest and tax	(1,199,202)	58,089	(453,205)	(635,771)	(2,230,089)
Net assets/(liabilities)	2,846,676	87,174	(1,600,422)	(1,202,785)	130,643

Segmental information by business is as follows

	Sales and research advice	Execution and commission management	Consolidated
	£	£	£
Year ended 31 December 2011			
Turnover	6,584,365	-	6,584,365
Loss before interest and tax	(1,732,956)	-	(1,732,956)
Net liabilities	(1,405,554)	-	(1,405,554)
Year ended 31 December 2010			
Turnover	4,194,775	98,576	4,293,351
Loss before interest and tax	(2,142,616)	(87,473)	(2,230,089)
Net assets	130,643	-	130,643

Japaninvest Group plc

Notes forming part of the Financial Statements for the year ended 31 December 2011 (Continued)

3 Operating loss

	Year ended 31 Dec 2011 £	Year ended 31 Dec 2010 £
This is arrived at after charging/(crediting)		
Depreciation	31,511	49,251
Amortisation of goodwill	-	25,897
Hire of other assets – operating leases (land and buildings)	864,527	722,764
Auditors' remuneration (see below)	127,131	126,179
Exchange differences	51,263	(229,164)
	<hr/>	<hr/>
Auditors' remuneration		
Fees payable to the company's auditors		
for the audit of the company's accounts and consolidated financial statements	34,124	57,080
for interim reviews	37,863	38,512
Fees payable to the company's auditors and their associates		
for the audit of the subsidiaries' financial statements	37,130	25,315
for taxation advice	14,731	3,697
for other regulatory work	3,283	1,575
	<hr/>	<hr/>
	127,131	126,179

Included in the amounts above are £55,144 (31 December 2010 £30,587) paid to associate firms of BDO LLP

Japaninvest Group plc

Notes forming part of the Financial Statements for the year ended 31 December 2011 *(Continued)*

4 Employees

	Year ended 31 Dec 2011 Number	Year ended 31 Dec 2010 Number
Average number of employees – Group including executive directors		
Equity sales and research	34	27
Execution and commission management	-	1
Group management & administration	11	9
	<u>45</u>	<u>37</u>
Staff costs for all employees, including executive directors, consist of	£	£
Wages and salaries	4,371,680	3,226,681
Social security costs	231,647	181,354
	<u>4,603,327</u>	<u>3,408,035</u>

The disclosures in respect of directors' emoluments and share options are given in the report of the Remuneration Committee on pages 17 to 19

5 Taxation on profit from ordinary activities

	Year ended 31 Dec 2011 £	Year ended 31 Dec 2010 £
<i>UK Corporation tax</i>		
Current tax on loss of the period	-	-
Adjustments to tax on profits in prior periods	-	-
<i>Foreign tax</i>		
Current tax on foreign income for the year	-	-
Adjustments to tax on profits in prior periods	(6,235)	(5,773)
	<hr/>	<hr/>
Taxation on loss on ordinary activities	(6,235)	(5,773)

The tax assessed for the period differs from the standard rate of corporation tax in the UK. The differences are explained below

	Year ended 31 Dec 2011 £	Year ended 31 Dec 2010 £
Loss on ordinary activities before tax	(1,732,858)	(2,232,716)
	<hr/>	<hr/>
Loss on ordinary activities at the standard rate of corporation tax in the UK of 28%	(485,200)	(625,160)
Effects of		
Expenses not deductible for tax purposes	71,410	10,516
Depreciation in excess of capital allowances	8,823	13,067
Differing rates on overseas earnings	(22,316)	32,322
Tax losses carried forward	427,283	566,380
Group relief surrendered/claimed	-	2,875
Prior year adjustments	(6,235)	(5,773)
	<hr/>	<hr/>
	(6,235)	(5,773)

A deferred tax asset has not been created on trading losses of £4,433,732 (31 December 2010 £4,006,449) given the inherent uncertainty of future profits. The unrecognised deferred tax asset (including losses brought forward from prior periods) is £3,075,475 (31 December 2010 £2,648,192)

6 Company loss for the financial year

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements. The company's loss for the year is £1,442,520 (2010 loss of £1,546,302)

7 Tangible assets

Group	Leasehold improvements £	IT equipment £	Fixtures and fittings £	Total £
<i>Cost</i>				
At 1 January 2011	130,456	247,057	123,166	500,679
Additions	-	28,444	1,064	29,508
Disposals	-	(43,170)	(4,755)	(47,925)
Exchange differences	4,478	3,856	4,848	13,182
At 31 December 2011	134,934	236,187	124,323	495,444
<i>Depreciation</i>				
As 1 January 2011	129,933	217,638	101,452	449,023
Charge in period	523	22,902	8,086	31,511
Disposals	-	(42,429)	(4,697)	(47,126)
Exchange differences	4,478	2,901	4,597	11,976
At 31 December 2011	134,934	201,012	109,438	445,384
<i>Net book value</i>				
At 31 December 2011	-	35,175	14,885	50,060
At 31 December 2010	523	29,419	21,714	51,656

Japaninvest Group plc

Notes forming part of the Financial Statements for the year ended 31 December 2011 *(Continued)*

8 Fixed asset investments

Group	£
At 1 January 2011	396,878
Provision for impairment	(28,753)
At 31 December 2011	368,125

The fixed asset investment comprises the residual stake in IND-X (Holdings) Limited, which represents a 6.4% holding, reduced from 21% at 31 December 2010 due to non-participation in rights issues in the year

Japaninvest Group plc

Notes forming part of the Financial Statements for the year ended 31 December 2011 (Continued)

8 Fixed asset investments (Continued)

Company	Investments in subsidiaries £	Other investments £	Total £
<i>Cost</i>			
At 1 January 2011	695,651	856,527	1,552,178
Additions	765,547	-	765,547
Provision for impairment	-	(488,402)	(488,402)
At 31 December 2011	1,461,198	368,125	1,829,323

Investments in subsidiaries

The subsidiaries of Japaninvest Group plc, all of which have been included in these consolidated financial statements, are as follows

Subsidiary undertakings	Country of incorporation	Proportion of voting rights and share capital held	Nature of business
Japaninvest Limited	England	100%	Provision of research and analysis of Japanese companies
Japaninvest KK	Japan	100%	Provision of research and analysis of Japanese companies
Japaninvest Inc	USA	100%	Provision of research and analysis of Japanese companies
Japaninvest (Hong Kong) Limited	Hong Kong	100%	Provision of research and analysis of Asian (ex-Japan) companies
JI Asia Research Limited	Hong Kong	100%	Provision of research and analysis of Asian (ex-Japan) companies
JI Asia (Holdings) Limited	England	100%	Holding company

The addition in the year relates to an increase of HK\$9,800,000 in the capital of Japaninvest (Hong Kong) Limited

Other investments

The other investment comprises the residual investment in IND-X (Holdings) Limited

Japaninvest Group plc

Notes forming part of the Financial Statements for the year ended 31 December 2011 (Continued)

9 Debtors

	Group 2011 £	Group 2010 £	Company 2011 £	Company 2010 £
Trade debtors	727,542	618,079	-	-
Amounts due from subsidiary undertakings	-	-	1,331,956	1,268,972
Other debtors	487,609	541,297	87,902	159,051
Prepayments and accrued income	142,387	155,026	2,707	17,959
	1,357,538	1,314,402	1,422,565	1,445,982

All amounts fall due for payment within one year with the exception of £41,816 (31 December 2010 £39,376) in other debtors relating to a regulatory deposit repayable in the event that Japaninvest KK no longer requires its regulatory permission. In addition, £76,857 (31 December 2010 £52,558) in other debtors relates to rental deposits for company provided accommodation for certain employees and directors based in Japan which are cancellable at two months notice. Other debtors also include £48,067 (31 December 2010 £128,361) in loans to staff members granted under the Group's corporate loan programme.

10 Creditors: amounts falling due within one year

	Group 2011 £	Group 2010 £	Company 2011 £	Company 2010 £
Trade creditors	415,545	489,369	265,023	291,984
Amounts due to subsidiary undertakings	-	-	1,208,652	146,866
Taxation and social security	79,470	43,218	-	-
Other creditors	294,074	267,039	211,907	209,825
Accruals and deferred income	1,815,367	296,805	106,800	101,909
	2,604,456	1,096,431	1,792,382	750,584

Japaninvest Group plc

Notes forming part of the Financial Statements for the year ended 31 December 2011 (Continued)

11 Creditors: amounts falling due after one year

	Group 2011 £	Group 2010 £	Company 2011 £	Company 2010 £
Deferred income	1,085,867	1,687,837	-	-
	1,085,867	1,687,837	-	-

Deferred income reflects an advance of fees from Societe Generale under the Alliance due in the third and fourth years of the agreement

12 Earnings per share

The calculation of basic earnings per ordinary share is calculated on profit on ordinary activities after taxation as follows

	Year ended 31 Dec 2011 Number	Year ended 31 Dec 2010 Number
Weighted average number of ordinary shares outstanding	82,303	70,697
Effect of options over ordinary shares	-	-
	<hr/>	<hr/>
Diluted number of ordinary shares	82,303	70,697
	<hr/>	<hr/>

	Continuing Operations 2011 £	Discontinued Operations 2011 £	Total Operations 2011 £
Loss for the period	(1,726,623)	-	(1,726,623)
Basic loss per share	(20.98)	-	(20.98)
Diluted loss per share	(20.98)	-	(20.98)
	<hr/>	<hr/>	<hr/>

	Continuing Operations 2010 £	Discontinued Operations 2010 £	Total Operations 2010 £
Loss for the period	(2,134,552)	(87,473)	(2,222,025)
Basic loss per share	(30.19)	(1.24)	(31.43)
Diluted loss per share	(30.19)	(1.24)	(31.43)
	<hr/>	<hr/>	<hr/>

The number of potentially issuable shares that have not been included in the above calculation for the year ended 31 December 2011, in accordance with paragraph 41 of FRS 22, is 8,822 (31 December 2010 5,467) as the effect would be to reduce the loss per share

Japaninvest Group plc

Notes forming part of the Financial Statements for the year ended 31 December 2011 (Continued)

13 Share-based payment

Employee share option schemes

The company operates three equity-settled share option schemes to incentivise employees, these are described in the Statement of Corporate Governance. These schemes are registered as Enterprise Management Incentive ("EMI") schemes for UK based employees. Options have been issued since the formation of the company in 2003 and have exercise prices based on a multiple of the share price at grant date or at the nominal value. Options vest over a period of up to four years from grant subject to continual employment and have an expiry date of six to ten years from grant.

As at 31 December 2011

Exercise Price	Options outstanding b/fwd	Granted in the period	Lapsed in the period	Cancelled in the period	Exercised during the period	Options outstanding c/fwd	Weighted average remaining life (years)
£1.00	5,165	7,004	-	-	(530)	11,639	8.5
£40.00	1,600	-	-	-	-	1,600	4.0
£75.00	620	-	(500)	-	-	120	0.0
£125.00	420	-	-	-	-	420	0.0
£200.00	100	-	(100)	-	-	-	-
£338.50	400	-	(400)	-	-	-	-
Y5,025	-	100	-	-	-	100	5.9
Y5,685	2,000	-	(600)	-	-	1,400	5.0
Y5,850	-	-	(50)	-	-	250	5.6
Y6,090	2,675	300	-	-	-	2,675	4.1
Y7,200	-	1,200	-	-	-	1,200	5.4
Y7,800	-	1,800	(200)	-	-	1,600	5.1
Y9,015	8,110	-	(875)	-	-	7,235	4.5
Y10,500	825	-	(25)	-	-	800	3.0
Y10,950	500	-	-	-	-	500	3.1
Y21,315	500	-	(300)	-	-	200	2.6
Y84,750	100	-	(100)	-	-	-	-
	23,015	10,404	(3,150)	-	(530)	29,739	5.9

13 Share-based payment (Continued)

As at 31 December 2010

Exercise Price	Options outstanding b/fwd	Granted in the period	Lapsed in the period	Cancelled in the period	Exercised during the period	Options outstanding c/fwd	Weighted average remaining life (years)
£1 00	6,530	-	(1,215)	-	(150)	5,165	8.1
£40 00	1,600	-	-	-	-	1,600	1.0
£75 00	2,420	-	(1,800)	-	-	620	0.2
£125 00	420	-	-	-	-	420	1.0
£200 00	620	-	-	(520)	-	100	1.0
£338 50	1,650	-	-	(1,250)	-	400	1.0
£436 50	1,200	-	-	(1,200)	-	-	-
£497 50	400	-	(200)	(200)	-	-	-
Y5,685	-	2,000	-	-	-	2,000	6.0
Y6,090	-	2,675	-	-	-	2,675	5.1
Y9,015	-	8,110	-	-	-	8,110	5.5
Y10,500	825	-	-	-	-	825	4.0
Y10,950	500	-	-	-	-	500	4.1
Y20,040	800	-	-	(800)	-	-	-
Y21,315	1,550	-	(200)	(850)	-	500	3.6
Y48,075	200	-	-	(200)	-	-	-
Y84,750	1,550	-	(600)	(850)	-	100	2.3
	20,265	12,785	(4,015)	(5,870)	(150)	23,015	5.3

530 options were exercised during the year (31 December 2010: 150). The weighted average share price at the date of exercise was Y4,741 (31 December 2010: Y5,080).

Of the total number of options outstanding at the period end, 11,059 (31 December 2010: 7,427) had vested and were exercisable at the end of the period.

The following information is relevant in the determination of the fair value of options granted during the year under the employee share option scheme:

	31 Dec 2011	31 Dec 2010
Option pricing model used	Black-Scholes	Black-Scholes
Weighted average share price at grant date (Y)	4,613	4,684
Weighted average exercise price (Y)	2,477	7,882
Weighted average contractual life (yrs)	6.0	6.0
Expected volatility (%)	55	55
Risk-free interest rate (%)	0.55	0.55
Expected dividend growth rate	Nil	Nil

13 Share-based payment (*Continued*)

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily share prices over the last three years of comparable publicly quoted companies

This period saw a charge of £204,698 (31 December 2010 £403,518) relating to the issuance of share options. The total amount charged to date following the issuance of share options is £1,164,548 (31 December 2010 £959,850)

Warrant granted to Societe Generale

As part of the agreement with Societe Generale the Group issued a warrant to them giving the holder the right to subscribe for 24.99% of the Group's issued share capital at the date of exercise. The issuance of the warrant met the definition of a share-based payment transaction.

The charge in the current year in respect of the warrant was £45,714 (31 December 2010 £26,176)

14 Share capital

	31 Dec 2011 £	31 Dec 2010 £
<i>Authorised</i>		
1,000,000 ordinary shares of £1 each	1,000,000	1,000,000
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	82,402	81,872

Japaninvest Group plc**Notes forming part of the Financial Statements for the year ended 31 December 2011 (Continued)****14 Share capital (Continued)**

530 ordinary shares of £1 each were allotted on 25 January and 16 August at a subscription price of £1 as a result of an employee exercising options

15 Reserves

	Share premium account £	Profit and loss account £
Group		
At 1 January 2011	6,925,777	(6,877,006)
Share based payments	-	250,412
Foreign exchange differences on the translation of subsidiary undertakings on consolidation	-	(60,516)
Loss for the year	-	(1,726,623)
At 31 December 2011	6,925,777	(8,413,733)

	Share premium account £	Profit and loss account £
Company		
At 1 January 2011	6,925,777	(4,352,252)
Share based payments	-	250,412
Loss for the year	-	(1,442,520)
At 31 December 2011	6,925,777	(5,544,360)

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Notes forming part of the Financial Statements for the year ended 31 December 2011 (Continued)

16 Reconciliation of movements in shareholders' funds

	Group 2011 £	Group 2010 £	Company 2011 £	Company 2010 £
Total recognised gains and losses	(1,787,139)	(2,112,229)	(1,442,520)	(1,546,302)
Issue of ordinary shares	530	400,150	530	400,150
Adjustment in respect of share options	250,412	429,694	250,412	429,694
Net movement in shareholders' funds	(1,536,197)	(1,282,385)	(1,191,578)	(716,458)
Opening shareholders' funds	130,643	1,413,028	2,655,397	3,371,855
Closing shareholders' funds	<u>(1,405,554)</u>	<u>130,643</u>	<u>1,463,819</u>	<u>2,655,397</u>

17 Commitments under operating leases

The Group had annual commitments under operating leases as set out below

	2011 Land and buildings £	2010 Land and buildings £
Operating leases which expire		
Within one year	436,944	507,217
In one to two years	120,430	135,988
In two to five years	279,661	-
	<u>837,035</u>	<u>643,205</u>

Included above are certain operating leases that are cancellable with 2 to 6 months notice

18 Financial Instruments

The Group's financial instruments comprise cash balances and items such as trade debtors and trade creditors that arise from the normal course of business. Sterling and foreign currency cash balances are invested with the Group's approved banks. Foreign currency cash balances arise from trading operations as well as through the general course of business in foreign subsidiaries. The Group's policy is not to enter into any derivative transactions such as interest rate swaps or foreign currency contracts.

Currency Risk

The group faces foreign exchange risk in that it holds cash denominated in foreign currencies to fund overseas operations and as a result of trading activities. This risk is monitored by the executive directors with the aim that foreign currency cash balances are offset by foreign currency liabilities. The group has operations in Japan, the USA, Hong Kong and China, in addition to the UK, and as such it has exposure to US Dollars (USD), Japanese Yen (JPY), Hong Kong Dollars (HKD), Euro (EUR) and Chinese Renminbi (RMB).

The table below outlines the Group's currency exposure with reference to the British Pound (GBP)

	Net foreign currency exposure (in GBP)					
	USD	JPY	HKD	EUR	RMB	Total
As at 31 December 2011	344,032	(231,032)	183,998	(2,028)	(97,328)	197,642
As at 31 December 2010	642,442	263,873	(44,539)	135,489	2,720	999,985

Short term debtors and creditors have been included in the calculation of the Group's currency exposure

Liquidity Risk

The Group's approach to liquidity risk is to ensure that sufficient liquidity is available to meet foreseeable requirements, investing cash resources in short term (usually one month or less) money market deposits with reputable banks. These deposits are for one month or less (typically overnight) and are redeemable without penalty and are therefore treated as cash.

Insufficient liquidity has historically been one of the main risks for the Group and whilst the cash balance has fallen during the year the operating cash outflow has significantly reduced compared to the prior year (after adjusting for the one-off receipt of fees paid in advance by Societe Generale and the proceeds from the partial disposal of IND-X).

The operating loss is forecast to decrease further during 2012 and therefore the Group believes that there will be sufficient liquidity for future growth and development of the business.

18 Financial Instruments (*Continued*)

Interest rate risk

The group is exposed to interest rate risk through its use of short term money market deposits. As at 31 December 2011 the group had deposits outstanding as detailed below

	Currency	Amount	Remaining life (days)	Interest rate
	USD	14,131	152	0.25%
		<u>14,131</u>		
As at 31 December 2011	GBP	<u>9,092</u>		
	USD	14,095	151	0.25%
		<u>14,095</u>		
As at 31 December 2010	GBP	<u>9,003</u>		

18 Financial Instruments (*continued*)

Financial assets and liabilities

The group has no financial assets for disclosure under FRS 13 other than £509,046 (31 December 2010 £1,151,975) of cash and short term deposits. Of this, £142,762 is denominated in USD, £56,000 is denominated in JPY, £261,568 is denominated in HKD, £866 is denominated in RMB and £10,386 is denominated in EUR (31 December 2010 £234,035 in USD, £135,147 in JPY, £61,905 in HKD, £4,175 in RMB and £70,625 in EUR)

The fair value of the group's financial assets and liabilities is not considered to be materially different from the book value

19 Reconciliation of operating loss to net cash outflow from operating activities

	Year ended 31 Dec 2011 £	Year ended 31 Dec 2010 £
Operating loss	(1,732,956)	(2,643,375)
Depreciation	31,511	49,251
Amortisation	-	25,897
Increase in debtors	(43,136)	(204,750)
Increase in creditors	906,055	2,162,213
Provision for investment	28,753	-
Share based payments	250,412	429,694
	<hr/>	<hr/>
Net cash outflow from operating activities	<u>(559,361)</u>	<u>(181,070)</u>

Japaninvest Group plc

Notes forming part of the Financial Statements for the year ended 31 December 2011 (Continued)

20 Reconciliation of net cash (outflow)/inflow to movement in net funds

	Year ended 31 Dec 2011 £	Year ended 31 Dec 2010 £
(Decrease)/increase in cash in the year	(765,067)	766,199
Management of liquid resources	191,826	(219,148)
Change in net funds resulting from cash flows	(573,241)	547,051
Exchange movement	(69,688)	(117,067)
Movement in net funds in the year	(642,929)	429,984
Net funds at the start of the year	1,151,975	721,991
Net funds at the end of the year (note 21)	<u>509,046</u>	<u>1,151,975</u>

21 Analysis of net funds

	At 31 December 2010 £	Cash flow £	Other non-cash changes £	At 31 December 2011 £
Cash at bank and in hand	1,039,923	(765,067)	(69,688)	205,168
Cash on time deposit	112,052	191,826	-	303,878
	<u>1,151,975</u>	<u>(573,241)</u>	<u>(69,688)</u>	<u>509,046</u>

22 Related party transactions

Associated companies

IND-X (Holdings) Limited was a related party in the prior year. However, as a result of the partial disposal in February 2010, IND-X (Holdings) Limited was not a related party in the current year. Therefore, while transactions were made in the current year, they are not disclosed, as the related-party relationship did not exist in that year.

	Year ended 31 Dec 2011 £	Year ended 31 Dec 2010 £
Client commissions received under commission sharing agreements with IND-X	n/a	390,538

The following receivable balances relating to IND-X were included in the consolidated balance sheet

	Year ended 31 Dec 2011 £	Year ended 31 Dec 2010 £
Trading balances due to IND-X	n/a	(16,426)