Zephyr Management UK Limited

Registered No 04667528

Annual Report and Audited Financial Statements

31 December 2011

Zephyr Management UK Limited

Registered No 04667528

Directors

T C Barry
S A R Bates
D W J Garrett
B P Matthews

Secretary

B P Matthews

Auditor

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

Bankers

Bank of Scotland
600 Gorgie Road
Edinburgh
EH11 3XP

Registered Office

25 Hill Street
London
W1J 5LW

Directors' Report

The directors present their annual report and audited financial statements of Zephyr Management UK Limited ("the company") for the year ended 31 December 2011

Results and dividends

The profit for the year is set out in the profit and loss account

Dividends of £325,000 (2010 - £375,000) were paid during the year No final dividend is recommended

Principal activity and review of the business

The principal activity is the provision of fund management and advisory services The directors are encouraged by the result for the period and are optimistic about the future of the company

The directors use performance metrics, including investment performance and funds under management, to assist them in the management of the business

Principal risks and uncertainties

Key personnel

The company has a small staff making it important to reward and retain key employees

Regulation

The company is authorised and regulated by the Financial Services Authority The company would have to cease trading as an investment manager if its authority to conduct investment business were to be revoked This risk is mitigated by the firm's limited activities and the quality and experience of its staff

Market risk

The company does not face any direct market risks because it does not take proprietary positions and does not hold financial investments other than liquid cash However, there is an indirect exposure to the financial markets as the company's investment management fee income is calculated based on the value of funds under management

Credit risk

The company's main exposure to credit risk is in respect of cash balances held by the company's bankers

Interest rate risk

The company has little interest rate risk other than on short-term cash deposits, which are maintained on a floating rate basis, and on the rent deposit

Liquidity risk

Liquidity risk is minimal as the company maintains large cash balances

Currency exchange rate risk

Although only small cash balances are maintained in foreign currencies the company has some exposure to currency exchange rate risk because its fund management fee income is denominated in US Dollars

Operational risk

The company is exposed to operational risks which may arise from loss of revenue or unexpected increases in operating expenditure

Directors' Report

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out above The financial position of the company and its liquidity position are reflected on the balance sheet

The company has considerable financial resources and ongoing investment management contracts As a consequence, the directors believe that the company is well placed to manage its business risks successfully The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

Directors

The directors at 31 December 2011 and during the year were as follows

T C Barry
S A R Bates
D W J Garrett
B P Matthews

Audit information

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware The directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of this information

Auditor

Ernst & Young LLP will continue as auditor in accordance with section 487(2) of the Companies Act 2006

By order of the board

B P Matthews
Company Secretary
23 February 2012

Statement of directors' responsibilities in respect of the accounts

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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

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

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Independent auditor's report

to the members of Zephyr Management UK Limited

We have audited the financial statements of Zephyr Management UK Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 15 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

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

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Jeremy Young

Jeremy Young (Senior statutory auditor)
for and on behalf of Ernst & Young LLP Statutory Auditor
London
23 February 2012

Profit and Loss Account
for the year ended 31st December 2011

	Notes	*2011* £	*2010* £
Turnover			
Management fees and advisory fees	2	2,321,648	1,890,639
Property and services income		258,203	214,857
Expenses reimbursed by group companies		–	774,382
Total income		2,579,851	2,879,878
Administrative expenses		(1,820,156)	(2,282,862)
Operating profit	3	759,695	597,016
Interest receivable		6,437	2,611
Profit on ordinary activities before taxation		766 132	599,627
Tax on ordinary activities	6	(206,097)	(172,609)
Profit on ordinary activities after taxation attributable to the shareholders of the company		560,035	427,018

All amounts are in respect of continuing activities

Statement of total recognised gains and losses

There are no recognised gains or losses other than the profit attributable to the shareholders of the company

Balance sheet

at 31st December 2011

Registered No: 04667528

	Notes	2011 £	2010 £
Non-current assets			
Tangible fixed assets	7	6,339	16,903
Investments in related entities	8	65,000	64,058
Property deposit		92,168	87,277
		163,507	168,238
Current assets			
Debtors	9	129,644	810,702
Cash at bank		507,886	290,713
		637 530	1,101,415
Creditors: amounts falling due within one year	10	(229,690)	(933,341)
Net current assets		407,840	168,074
Total net assets		571,347	336,312
Capital and reserves			
Share capital	11	200,000	200,000
Profit and loss account	12	371,347	136,312
Shareholders' funds	12	571,347	336,312

Signed on behalf of the Board

B P Matthews
Director
23 February 2012

Statement of cash flow

for the year ended 31st December 2011

	2011	2011	2010	2010
	£	£	£	£
Reconciliation of operating profit to net cash inflow from operating activities				
Operating profit		759,695		597,016
Depreciation		11,895		12,452
Decrease in provision for impairment of investments		(942)		(4,058)
Decrease/(increase) in debtors		681,058		(776,986)
(Increase)/decrease in creditors		(692,790)		733,236
Net cash inflow from operating activities		758,916		561,660
Cash flow statement				
Net cash inflow from operating activities		758,916		561,660
Returns on investments and servicing of finance				
Interest received		6,437		2,611
Taxation		(216,958)		(123,621)
Capital expenditure and receipts				
(Payments)/receipts for tangible fixed assets	(1,331)		501	
Property deposit payments	(4,891)		(319)	
		(6,222)		182
Dividends paid		(325,000)		(375,000)
Increase in cash		217,173		65,832
Reconciliation of net cash flow to movement in net funds				
Increase in cash		217,173		65,832
Net funds at 1 January – cash at bank		290,713		224,881
Net funds at 31 December – cash at bank		507,886		290,713

Notes to the financial statements

at 31st December 2011

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards

Taxation and deferred taxation

Provision is made for corporation tax at current rates on the excess of taxable income over allowable expenses The charge for taxation takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes Deferred taxation is provided using the liability method on all timing differences, calculated at the rate at which it is anticipated the timing differences will reverse Deferred tax assets are recognised only when, on the basis of available evidence it is more likely than not that there will be taxable profits in the future against which the deferred tax asset can be offset

Fixed Assets

Fixed assets are recorded at cost, less provision for depreciation and impairment

Depreciation

Depreciation is provided on tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value based on prices prevailing at the date of acquisition or revaluation, of each asset evenly over its expected useful life, as follows

Office equipment – 3 years
Furniture and fixtures - 5 years

Investments

Investments in related entities are recorded at cost of capital contributed less any provision for impairment

Operating leases

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term

Pensions

The company offers a defined contribution to the personal pension schemes of employees Contributions are charged to the profit and loss account as they accrue

Property and services income

Property and services income represents sublease and licence income plus associated occupancy charges credited to the profit and loss account as they become receivable

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling on the date of the transaction Differences arising from rate movement between the due date and the actual payment date are taken to the profit and loss account

2. Turnover

Turnover is stated net of value added tax and includes

- Management and advisory fees earned from the supply of investment management and advisory services in the UK to the Cayman Islands and the United States of America
- Property related income arising from sub-letting office space in excess of the company's own needs
- Expenses reimbursed by group companies

Notes to the financial statements
at 31st December 2011

3. Operating profit

Operating profit is stated after charging

	2011	*2010*
	£	£
Auditors' remuneration		
Audit services	14,300	14,300
Non Audit Services - taxation	6,700	1,300
Depreciation	11,895	12,452
Operating lease rentals		
- property	242 938	242,938
- office equipment	2,818	2,818

4. Staff costs

	2011	*2010*
	£	£
Wages and salaries	300,166	952,489
Social security costs	35,917	118,628
Pension costs	4,708	2,000
	340,791	1,073,117

The average number of employees, including executive directors, during the period was as follows	*2011*	*2010*
	No	*No*
Fund management	4	4
Administration/compliance	1	1
	5	5

5. Directors' emoluments

	2011	*2010*
	£	£
Emoluments	105,000	444,504
Highest paid director	60,000	399,505

6. Tax on profit on ordinary activities

	2011	*2010*
	£	£
(a) Analysis of charge in period		
UK Corporation Tax on profits for the year (note 6(b))	206,097	172,609
Current tax charge	206,097	172,609

Notes to the financial statements

at 31st December 2011

6. Tax on profit on ordinary activities (cont'd)

	2011	*2010*
	£	*£*

(b) Factors affecting current tax charge for the year

The tax assessed for the period is higher than the standard rate of corporation tax in the UK (26 49 per cent) The differences are explained below

	2011 £	*2010* £
Profit on ordinary activities before tax	766,132	599,627
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26 49% (2010 – 28%)	202 973	167,896
Effects of		
Expenses not deductible for tax purposes	397	456
Differences relating to taxation of interest in Salisbury Partners LLP	2,304	2,832
Depreciation in excess of capital allowances	1,639	1,954
Other short term timing differences	717	–
Adjustments to tax charge in respect of previous years	(1,933)	(529)
Current tax charge for the year (note 6(a))	206,097	172,609

(c) Deferred tax

	2011 £	*2010* £
Net book value of fixed assets eligible for capital allowances	6,339	16 903
Written down value for Corporation Tax purposes	17,510	21,888
Timing differences	(10,233)	(4,985)
Timing differences multiplied the standard rate of corporation tax in the UK applicable from 1 April 2012 of 25% (2010 28%)	2,558	1,396

The deferred tax asset of £2,558 (2010 - £1,396) arising from short term timing differences on fixed assets has not been recognised in the balance sheet as they are not expected to reverse

7. Tangible Fixed Assets

	Cost 2011	*Depreciation 2011*	*Net book value 2011*	*2010*
	£	*£*	*£*	*£*
Office equipment, fixtures and fittings				
At 1 January	63 778	(46 875)	16,903	29,856
Additions	1,331	–	1,331	–
Disposals	–	–	–	(501)
Depreciation	–	(11,895)	(11,895)	(12,452)
At 31 December	65,109	(58,770)	6,339	16,903

Notes to the financial statements
at 31st December 2011

8. Investments in related entities

Investment in Salisbury Partners LLP, a provider of investment management services to wealthy individuals (25% interest in profits after partners' drawings charged as an expense)

	2011	*2010*
	£	£
At 1 January	64,058	60,000
Decrease in provision for impairment	942	4,058
At 31 December	65,000	64,058

9. Debtors

	2011	*2010*
	£	£
Trade and other debtors	145	1,004
Amounts due from parent undertaking	-	919
Amounts due from group undertaking	27,835	5,906
Prepayments and accrued income	95,168	796,645
VAT recoverable	6,496	6,228
	129,644	810,702

10. Creditors: amounts falling due within one year

	2011	*2010*
	£	£
Trade and other creditors	14,780	11,986
Accrued expenses and income received in advance	87,033	782,617
Corporation tax payable	79,408	90,269
Property deposits		
- Group undertaking	42,300	42,300
- Others	6,169	6,169
	229,690	933,341

11. Share capital

	2011	*2011*	*2010*	*2010*
	No	*£*	*No*	*£*
Allotted, called up and fully paid				
Ordinary shares of £1 each	200,000	200 000	200,000	200 000

Notes to the financial statements
at 31st December 2011

12. Reconciliation of shareholders' funds and movements on reserves

	Called up share capital	*Profit and loss account*	*Total share-holders' funds*
	£	£	£
At 1 January 2011	200,000	136,312	336,312
Dividend paid on 1 June 2011	–	(200,000)	(200,000)
Dividend paid on 21 December 2011	–	(125,000)	(125,000)
Profit on ordinary activities after taxation	–	560,035	560,035
At 31 December 2011	200,000	371,347	571,347

13. Operating lease commitments

At the year end, the company had annual commitments under non-cancellable operating leases as follows

	Land and buildings 2011	*Land and buildings 2010*	*Other 2011*	*Other 2010*
Expiring in	£	£	£	£
- less than one year	–	–	2,817	–
- one to two years	242,938	–	–	2,817
- two to five years	–	242,938	–	–

14. Related party transactions

Transactions with other group companies were as follows
ZMLP – Zephyr Management LP (parent company)
KZAM – Kingdom Zephyr Africa Management (UK) Limited (a fellow subsidiary)
SP – Salisbury Partners LLP (an associate)

	2011 £ ZMLP	*2011* £ KZAM	*2011* £ SP	*2010* £ ZMLP	*2010* £ KZAM	*2010* £ SP
Income (Profit & loss account)						
Property and services income	–	111,925	107,027	–	70,600	91,590
Expenses reimbursed	–	–	–	774,382	–	–
Receipts						
Reimbursed supplier payments	6,412	1,316	–	2,627	8,125	–
Payments						
Dividends	325,000	–	–	375 000	–	–
Balances at 31 December						
Debtors - balances	–	–	27,835	919	5,906	–
Debtors - accrued income	–	3,000	–	722,724	–	–
Creditors	–	42,300	–	–	42,300	–

Notes to the financial statements

at 31st December 2011

15. Parent undertaking and controlling party

The company's immediate and ultimate parent undertaking is Zephyr Management LP, 320 Park Avenue, New York, 10022, USA, a Delaware limited partnership registered in the United States of America

Supplementary unaudited information

Capital Adequacy

The application of the Capital Requirements Directive requires the company to make disclosures about its capital resources and requirements The disclosure requirements (Pillar 3) are to compliment the minimum capital requirements (Pillar 1) and the assessed requirement (Pillar 2) and are intended to encourage market discipline by allowing the market participants to assess key pieces of information on risk exposures and risk assessment processes of the company

The company will continue to make these disclosures annually as Supplementary Information in the financial statements The following disclosures are in accordance with BIPRU 11 and are based on the position as at the balance sheet date

Capital Resources

The company's capital, comprising share capital and reserves, totals £571,000 (2010 - £336,000), and is all Tier one The company's capital resources, after deduction of capital invested in Salisbury Partners LLP totals £506,000 (2010 – £272,000)

Capital Requirement

The company's capital requirement is greater than its base capital requirement of €50,000 and has been analysed as follows

		2011 Pillar 1 £000s	*2011 Pillar 2 £000s*	*2010 Pillar 1 £000s*	*2010 Pillar 2 £000s*
Operational Risk	Basic Indicator Approach	225	225	195	200
Credit Risk	Standardised Approach	–	25	–	–
Market Risk		–	–	–	–
Total		225	250	195	200