

Company number 06925128

FxPro UK Limited
Annual report and financial statements
Year ended 31 December 2012

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FXPro UK Limited

Annual report and financial statements 31 December 2012

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FXPro UK Limited

Board of Directors and other officers

Board of Directors

Charalambos Psimolophitis

Avril Millar

James Banister (appointed 1 July 2012)

Wayne Roworth (appointed 16 April 2012)

Simon Smith (appointed 5 April 2012, resigned 9 June 2012)

Martin Couper (resigned 9 June 2012)

George Xydias (resigned 30 March 2012)

Company Secretary

Lawrence Graham LLP

4 More London

Riverside

SE1 2AU

Registered office

13-14 Basinghall Street

EC2V 5BQ London

Independent Auditors

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

7 More London Riverside

London

SE1 2RT

UK

FXPro UK Limited

Report of the Board of Directors

The Board of Directors presents its report together with the audited financial statements of FxPro UK Limited (the "Company") for the year ended 31 December 2012

Principal activities

The Company is an online financial services entity and acts as the principal to its customers in derivatives comprising Contracts For Differences ("CFDs") on currency pairs, stocks, indices and commodities. The revenue of the Company is mainly derived from commission income on online CFDs trading, which is recognised by reference to the total trading volume from all the Company's clients trading activity and from the service charge fee received from its parent company FxPro Financial Services Limited (the "Parent")

The Company operates under the license no 509956 granted by the UK Financial Services Authority ("FSA"). During 2012, the Company extended its FSA license under which, the Company is now permitted to hold and control client money and act as principal on client's trades as a matched principal broker. Under the previous license, the Company was licensed only for Arranging of Deals.

Review of developments, position and performance of the Company's business

The income of the Company, for the year ended 31 December 2012 was £789,940 (2011 £1,091,065). The net loss of the Company for the year was £713,754 (2011 profit £286,634). On 31 December 2012 the total assets of the Company were £1,559,541 (2011 £759,141) and its net liabilities were £159,792 (2011 net assets £553,962). The Company's Key Performance Indicators ("KPIs"), with which management monitors the business and its performance, are the volume of trading placed with the Parent, the commission income received, and profitability. Management considers the Company's performance and financial position as at 31 December 2012 to be as expected based on the trading volumes of the Company.

Principal risks and uncertainties

The Company's activities, as outlined above, expose it to a variety of financial, operational, compliance, litigation and reputation risks. Each principal risk and how this is assessed and managed is outlined below with the exception of the financial risks and uncertainties which are outlined in Note 3 of the financial statements. Financial risk management and disclosures are also disclosed in Note 3 of the financial statements. The Company's capital requirements are calculated in accordance with the FSA regulations. The capital of the Company is monitored regularly in light of any potential changes within the business.

Operational risk is the risk that derives from the deficiencies relating to the Company's information technology and systems' control as well as the risk of human error and natural disasters. The Company's systems are evaluated, maintained and upgraded continuously. Separation of power and authority regarding vital functions of the Company exists and the Board reviews any decisions made by management and monitors their activities. The Company's operations are also closely dependent on information technology and any damage or failure of the systems would place the Company at significant risk. The Company has recovery programmes and backup systems in place in order to be able

FXPro UK Limited

Report of the Board of Directors (continued)

Principal risks and uncertainties (continued)

to carry on its core operations. The Company also mitigates any risk from failure of third party providers such as data suppliers, market information, telephone and internet access by ensuring it has multiple providers for each service. The Company also pro-actively improves and renews systems in order to ensure no failures or damages occur. Regular internal audit visits are performed to ensure that employees comply with the Company's internal procedures.

Compliance risk is the risk of financial loss, including fines and other penalties, which may arise from non-compliance with laws and regulations. The Company is authorised and regulated by the FSA. Any changes in the regulatory framework and directives relating to the Company's services and operations model could expose the Company to considerable risk. As the Company's operations expand and become more complex the Company will need to provide training and employ new high calibre employees to meet these regulatory demands. The risk is limited to a significant extent due to the supervision applied by the Compliance Officer, as well as by the monitoring controls applied by the Company.

Litigation risk is the risk of financial loss, interruption of the Company's operations or any other undesirable situation that arises from the possibility of non-execution or violation of legal contracts and consequentially of lawsuits. The risk is restricted through the contracts used by the Company to execute its operations. The Company obtains continuous legal advice on the preparation of its legal documents.

Reputation risk is the risk of loss of reputation arising from the negative publicity relating to the Company's operations (whether justified or unjustified) that may result in a reduction of its clientele, reduction in revenue and legal claims against the Company. A comprehensive business contingency and disaster recovery plan has been prepared with recovery procedures and actions to be followed in the case of damage to any vital part of the Company's structure.

Capital management

The Company is required by the FSA to prepare an Internal Capital Adequacy Assessment Programme ("ICAAP").

During the year, the Company sustained trading losses resulting from the low trading volumes, following the extension of its FSA licence. As a result at the statement of financial position date the Company's regulatory capital resources were negative £159,792 which comprise solely of issued share capital and audited reserves. To rectify the shortfall, the Company has proceeded with the increase of its share capital by £800,000 during 2013. The capital resources following the share capital issue are considered adequate to continue to finance the Company over the next year. The board does not consider that any additional capital injections are necessary.

FXPro UK Limited

Report of the Board of Directors (continued)

Remuneration policy

The Company employed 19 staff at the end of 2012 (2011: 6 staff), in positions whereby they contribute directly to the earning of revenue. The Company seeks to employ and retain high calibre staff. To retain flexibility, incentivise staff and protect the company's earnings, a significant proportion of total annual compensation is made in the form of variable bonuses linked to their performance.

The principles of the Company's remuneration policy adhere to the FSA's Remuneration Code which was introduced with effect from 1 January 2011. The company's policy is to ensure that executive rewards are linked to performance, to provide an incentive to achieve the key business aims and deliver an appropriate link between reward and performance whilst ensuring base salary levels are not set at an artificially low level. The Company operates a discretionary bonus policy directly correlated to annual profitability of the Company.

Future developments of the Company

The Board of Directors does not expect any significant changes or developments in the operations, financial position and performance of the Company in the foreseeable future.

Results and dividends

The Company's results for the year ended 31 December 2012 are shown on page 8. No dividends were proposed and the loss for the year is carried forward.

Share capital

There were no changes in the share capital of the Company during the year.

Board of Directors

The members of the Board of Directors at 31 December 2012 and at the date of this report are shown on page 1.

In accordance with the Company's Articles of Association, none of the Directors retire at the next Annual General Meeting.

At the date of this report and for the year ended 31 December 2012, there were no qualifying indemnity provisions or qualifying pension scheme indemnity provisions in place for any Director mentioned above.

At the date of this report and for the year ended 31 December 2012, the Directors of the Company did not hold any shares in the Company.

Events after the statement of financial position date

Please refer to Note 23 for the post statement of financial position events that require adjustments or disclosure in these financial statements.

FXPro UK Limited

Report of the Board of Directors (continued)

Branches

The Company did not operate through any branches during the year ended 31 December 2012

Statement of directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

The UK Company Law requires the Directors to prepare financial statements for each financial year. Under that Law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU"). Under the UK 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 year.

In preparing these financial statements, the Directors are required to select suitable accounting policies and then apply them consistently, to make judgements and accounting estimates that are reasonable and prudent, to state whether applicable International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") have been followed, subject to any material departures disclosed and explained in the financial statements, and to 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 adequate 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 UK 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.

Statement of disclosure of information to auditors

In accordance with Section 418, Directors' confirm that, in the case of each director in office at the date the directors' report is approved, that so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

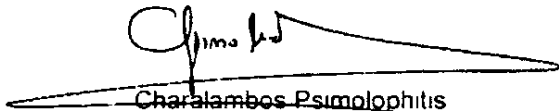
FXPro UK Limited

Report of the Board of Directors (continued)

Independent Auditors

The Independent Auditors, PricewaterhouseCoopers LLP, have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

On behalf of the Board



Charalambos Psimolophitis
Director

London, 25 April 2013

FXPro UK Limited

Independent Auditors' Report To the Members of FxPro UK Limited

We have audited the financial statements of FxPro UK Limited for the year ended 31 December 2012 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU").

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement 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.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 Directors 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 2012 and of its loss and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

FXPro UK Limited

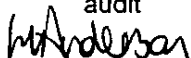
Opinion on other matter prescribed by the Companies Act 2006

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



Hamish Anderson (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
25 April 2013

FXPro UK Limited

Statement of comprehensive income for the year ended 31 December 2012

	Note	Year ended 31 December 2012 £	Year ended 31 December 2011 £
Revenue	5	789,940	1,091,065
Administrative expenses	6	(1,423,976)	(708,252)
Other losses - net	7	(83,440)	-
Operating (loss)/profit		(717,476)	382,813
Finance income	9	760	-
(Loss)/profit before tax		(716,716)	382,813
Income tax expense	10	2,962	(96,179)
(Loss)/profit after tax and total comprehensive (loss)/ income for the year		(713,754)	286,634

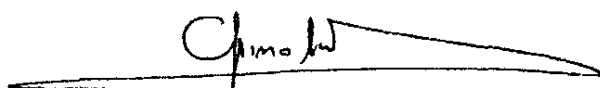
The notes on pages 13 to 40 are an integral part of these financial statements

FXPro UK Limited

Statement of financial position at 31 December 2012

	Note	2012 £	2011 £
Assets			
Non-current assets			
Property, plant and equipment	13	3,863	3,836
Intangible assets	14	460	1,381
		<u>4,323</u>	<u>5,217</u>
Current assets			
Trade and other receivables	15	59,621	435,780
Derivative financial instruments	16	779,200	-
Cash and cash equivalents	17	716,397	318,144
		<u>1,555,218</u>	<u>753,924</u>
Total assets		<u>1,559,541</u>	<u>759,141</u>
Equity and liabilities			
Capital and reserves			
Share capital	18	300,000	300,000
(Accumulated losses)/retained earnings		(459,792)	253,962
Total equity		<u>(159,792)</u>	<u>553,962</u>
Non-current liabilities			
Borrowings	19	-	100,000
Current liabilities			
Trade and other payables	20	1,624,182	9,000
Derivative financial instruments	16	95,151	-
Income tax liability		-	96,179
Total liabilities		<u>1,719,333</u>	<u>205,179</u>
Total equity and liabilities		<u>1,559,541</u>	<u>759,141</u>

On 25 April 2013 the Board of Directors of FxPro UK Limited (Company Number 06925128) authorised these financial statements for issue



Charalambos Psimolophitis, Director

The notes on pages 13 to 40 are an integral part of these financial statements

FXPro UK Limited

Statement of changes in equity for the year ended 31 December 2012

	Share capital £	(Accumulated Losses)/ Retained earnings £	Total £
Balance at 1 January 2011	300,000	(32,672)	267,328
Comprehensive income			
Profit and total comprehensive income for the year	-	286,634	286,634
Balance at 31 December 2011/1 January 2012	300,000	253,962	553,962
Comprehensive income			
Loss and total comprehensive loss for the year	-	(713,754)	(713,754)
Balance at 31 December 2012	300,000	(459,792)	(159,792)

The notes on pages 13 to 40 are an integral part of these financial statements

FXPro UK Limited

Statement of cash flows for the year ended 31 December 2012

	Note	Year ended 31 December 2012 £	Year ended 31 December 2011 £
Cash flows from operating activities			
Profit/(loss) before tax		(716,716)	382,813
Adjustments for			
Amortisation of intangible assets	14	921	-
Depreciation of plant property and equipment	13	2,370	-
Interest income	9	(760)	-
		<u>(714,185)</u>	<u>382,813</u>
Changes in working capital			
Trade and other receivables		376,159	(414,056)
Trade and other payables		1,515,182	(22,169)
Derivative financial instruments	16	(684,049)	-
Cash used in operations		<u>493,107</u>	<u>(53,412)</u>
Tax paid		(93,217)	-
Net cash generated from/(used in) operating activities		<u>399,890</u>	<u>(53,412)</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(2,397)	(3,198)
Purchase of intangible assets	14	-	(435)
Net cash used in investing activities		<u>(2,397)</u>	<u>(3,633)</u>
Cash flows from financing activities			
Interest received	9	760	-
Net cash from financing activities		<u>760</u>	<u>-</u>
Net increase/(decrease) in cash and cash equivalents		<u>398,253</u>	<u>(57,045)</u>
Cash and cash equivalents at beginning of year		<u>318,144</u>	<u>375,189</u>
Cash and cash equivalents at end of year	17	<u>716,397</u>	<u>318,144</u>

The notes on pages 13 to 40 are an integral part of these financial statements

FXPro UK Limited

Notes to the financial statements

1 General information

Country of incorporation

FxPro UK Limited (the "Company") is incorporated and domiciled in the UK as a private company with limited liability under the UK Company Law. Its registered office is at 13-14 Basingale Street, EC2V 5BQ, London.

Principal activities

The Company is an online financial services entity and acts as the principal to its customers in derivatives comprising Contracts For Differences ("CFDs") on currency pairs, stocks, indices and commodities. The revenue of the Company is mainly derived from commission income on online CFDs trading, which is recognised by reference to the total trading volume from all the Company's clients trading activity and from the service charge fee received from its parent company FxPro Financial Services Limited (the "Parent").

The Company operates under the license no. 509956 granted by the UK Financial Services Authority ("FSA"). During 2012, the Company extended its FSA license under which, the Company is now permitted to hold and control client money and act as principal on client's trades as a matched principal broker. Under the previous license, the Company was licensed only for Arranging of Deals.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented in these financial statements unless otherwise stated.

Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU"), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

As of the date of the authorisation of the financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2012 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

The financial statements have been prepared under the historical cost convention as has been modified by the revaluation of derivative financial instruments at fair value and on the going concern basis which assumes that the Company will remain in existence for the foreseeable future.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

FXPro UK Limited

2 Summary of significant accounting policies (continued)

Basis of preparation (continued)

Going concern

The Company incurred a net loss of £713,754 during the year ended 31 December 2012 (2011 profit of £286,634) and, as of that date, the Company was in a net liability position of £159,792 (2011 net assets £553,962). Management prepared these financial statements on a going concern basis. In making this judgement management considered the current intentions and financial position of the Company and has had regard to a letter of support received from the parent entity. The parent entity has undertaken to provide the Company, if necessary, with adequate financial and other support, to cover any deficiency in equity and any liquidity requirements that may arise to cover its liabilities as they fall due, to enable it to continue its operations for a minimum of 12 months from the date of approval of these financial statements by the Board of Directors. Also the parent of the Company undertakes not to demand repayment of the Company's obligations until the Company is in a financial position to repay these. Management therefore considers that the Company will continue as a going concern and that the financial statements are appropriately prepared on a going concern basis.

Adoption of new and revised IFRSs

During the current year the Company adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2012. This adoption did not have a material effect on the accounting policies of the Company.

At the date of approval of these financial statements the following financial reporting standards were issued by the International Accounting Standards Board but were not yet effective:

(i) Adopted by the European Union

New standards

- IFRS 10, "Consolidated Financial Statements" (effective for annual periods beginning on or after 1 January 2014)
- IFRS 11, "Joint Arrangements" (effective for annual periods beginning on or after 1 January 2014)
- IFRS 12, "Disclosure of Interests in Other entities" (effective for annual periods beginning on or after 1 January 2014)
- IFRS 13, "Fair Value Measurement" (effective for annual periods beginning on or after 1 January 2013)
- IAS 27, "Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2014)
- IAS 28, "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2014)

FXPro UK Limited

2 Summary of significant accounting policies (continued)

Adoption of new and revised IFRSs (continued)

(i) Adopted by the European Union (continued)

Amendments

- Amendment to IAS 12 "Income Taxes" on deferred tax relating to recovery of underlying assets (effective for annual periods beginning on or after 1 January 2013)
- Amendment to IFRS 1 "First-time adoption of International Financial Reporting Standards" on severe hyperinflation and removal of fixed dates for First Time Adopters (effective for annual periods beginning on or after 1 January 2013)
- Amendment to IAS 1 "Financial Statements Presentation" on Presentation of Items of Other Comprehensive Income" (effective for annual periods beginning on or after 1 July 2012)
- Amendments to IAS 19 "Employee Benefits" (effective for annual periods beginning on or after 1 January 2013)
- Amendments to IFRS 7 "Financial Instruments Disclosures" on Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013)
- Amendments to IAS 32 "Financial Instruments Presentation" on Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014)

New IFRICs

- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" (effective for annual periods beginning on or after 1 January 2013)

(ii) Not adopted by the European Union

New standards

- IFRS 9 "Financial Instruments" (and subsequent amendments to IFRS 9 and IFRS 7) (effective for annual periods beginning on or after 1 January 2015)

Amendments

- Amendment to IFRS 1 "First-time adoption of International Financial Reporting Standards" on IAS 20 'Accounting for Government Grants and Disclosure on Government Assistance' - exemption on the retrospective application of IFRSs in relation to government grants (effective for annual periods beginning on or after 1 January 2013)

FXPro UK Limited

2 Summary of significant accounting policies (continued)

Adoption of new and revised IFRSs (continued)

(ii) *Not adopted by the European Union (continued)*

Amendments (continued)

- Annual Improvements 2011 (effective for annual periods beginning on or after 1 January 2013)
- Amendments to IFRS 10, IFRS 12 and IAS 27 on consolidation for investment entities (effective for annual periods beginning on or after 1 January 2014)
- Amendments to IFRS 10, IFRS 11 and IFRS 12 on transition guidance (effective for annual periods beginning on or after 1 January 2013)

The Board of Directors expects that the adoption of these financial reporting standards in future periods will not have a material effect on the financial statements of the Company, with the exception of the following

- IFRS 9, "Financial Instruments" IFRS 9 is the first standard issued as part of a wider project to replace IAS 39 IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets amortised cost and fair value The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply The standard is effective for annual periods beginning on or after 1 January 2013 and has not yet been endorsed by the European Union
- IFRS 13, "Fair Value Measurement" IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards The standard is effective for annual periods beginning on or after 1 January 2013 and has not yet been endorsed by the European Union

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the provision of online trading services in the ordinary course of the Company's activities

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities as described below The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement

FXPro UK Limited

2 Summary of significant accounting policies (continued)

Revenue recognition (continued)

Revenue earned by the Company is recognised on the following bases

(i) Service charge fee

The Company provides a number of services to the Parent. To this effect there is a 70% fixed proportional recharge of administrative expenses incurred by the Company to the Parent, including payroll and rent expenses. The service charge fee was terminated after May 2012.

(ii) Commission income

The Company receives commission income from its Parent for the introducing services offered. Up to May 2012, the commission was calculated on a monthly basis based on the total trading volume from all the UK clients' trading activity and a fixed average spread as agreed between the two companies.

After May 2012, the Company obtained a full license from the FSA to operate as a regulated entity offering a number of brokerage services, including transmitting and executing orders and holding client money (the previous license held was only a license for arranging deals). As per the terms of the new license, the Company can only act as a matched principal broker to its clients' trades. Hence the Company and its Parent, have entered into an agreement based on which all trades between the Company and its clients are hedged by entering into off-set trades between the Company and the Parent. In consideration of this agreement the Company receives commission on a monthly basis based on the total trading volume of all the UK clients' trading activity.

Foreign currency translation

(i) Functional and presentation currency

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Sterling Pound (£), which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuations where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Current and deferred tax

The tax expense for the year comprises current tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

FXPro UK Limited

2 Summary of significant accounting policies (continued)

Current and deferred tax (continued)

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the financial position date in the UK. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. If applicable tax regulation is subject to interpretation, it establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax liabilities and assets for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position.

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on the Company where there is an intention to settle the balances on a net basis.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributed to the acquisition of property, plant and equipment. Depreciation on property, plant and equipment is calculated using the straight line method to allocate their cost to their residual values, over their estimated useful lives. The annual depreciation rates are as follows:

	2012 %
Office equipment	20
Computer hardware	33,33

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with carrying amount and are recognised in "other losses – net" in profit or loss.

FXPro UK Limited

2 Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Expenditure for repairs and maintenance of property, plant and equipment is charged to the profit or loss of the year in which they were incurred. The cost of major renovations and other subsequent expenditure are included in the carrying amount of the asset or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Intangible asset

Purchased software is recognised as an intangible asset at cost when acquired. Subsequently computer software is carried at cost less any accumulated amortisation and any accumulated impairment losses. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use,
- management intends to complete the software product and use or sell it,
- there is an ability to use or sell the software product,
- it can be demonstrated how the software product will generate probable future economic benefits,
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available, and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years. Computer software is included in intangible assets in the statement of financial position.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

FXPro UK Limited

2 Summary of significant accounting policies (continued)

Financial assets

(a) Classification

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Financial assets designated as at fair value through profit or loss at inception are those that are managed and their performance is evaluated on a fair value basis, in accordance with the Company's documented investment strategy. Information about these financial assets is provided internally on a fair value basis to the Company's key management personnel. Derivatives are also categorized as held for trading. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within twelve months of the statement of financial position.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which there is no intention of trading the receivable. They are included in current assets, except for maturities greater than twelve months after the reporting date. These are classified as non-current assets. The Company's loans and receivables comprise "trade and other current receivables" and "cash and cash equivalents" in the statement of financial position.

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on trade-date which is the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of 'financial assets at fair value through profit or loss' category are presented in profit or loss within revenue in the period in which they arise. Interest on receivables calculated using the effective interest method is recognised in profit or loss within "finance income".

FXPro UK Limited

2 Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires

(i) Financial assets

A financial asset is derecognised where the rights to receive cash flows from the asset have expired, the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement, or the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously

Impairment of financial assets carried at amortised cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated

FXPro UK Limited

2 Summary of significant accounting policies (continued)

Impairment of financial assets carried at amortised cost (continued)

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include

- significant financial difficulty of the issuer or obligor,
- a breach of contract, such as a default or delinquency in interest or principal payments,
- the Company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider,
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation,
- the disappearance of an active market for that financial asset because of financial difficulties, or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including
 - (i) adverse changes in the payment status of borrowers in the portfolio,
 - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio

The Company first assesses whether objective evidence of impairment exists

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Derivative financial instruments

Derivative financial instruments which include Contracts for Differences on foreign currency pairs, gold, stocks, indices and commodities, are initially recognised in the statement of financial position at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are determined by the prices quoted by the Company. Derivative financial instruments are recognised on the statement of financial position as current assets when fair value is positive and as current liabilities when fair value is negative. Derivative financial instruments form part of the Company's operating activities.

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2 Summary of significant accounting policies (continued)

Trade and other receivables

Trade and other current receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method, less provision for impairment. A provision for impairment of trade and other current receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. When a trade or other current receivable is uncollectible, it is written off against the allowance account for trade and other current receivables. Subsequent recoveries of amounts previously written off are credited in profit or loss. Trade receivables also include balances with clients where the valuation of the financial derivative open positions results in an amount receivable by the Company.

Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year period or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

FXPro UK Limited

2 Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents include cash in hand, cash at bank and deposits held at call with banks

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings, using the effective interest method, unless they are directly attributable to the acquisition, construction or production of a qualifying asset, in which case they are capitalised as part of the cost of that asset.

Borrowing costs are interest and other costs that the Company incurs in connection with the borrowing of funds, including interest on borrowings, amortisation of discounts or premium relating to borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowings, finance lease charges and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowings are classified as current liabilities, unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the statement of financial position.

3 Financial risk management

The financial risk management of the Company is carried out by the Risk Management Committee (the "Committee") of the parent company, FXPro Financial Services Limited.

The primary objective of the Committee is to oversee the overall management of all risks including market risk, credit risk and liquidity risk. It also has the responsibility to review and recommend the risk management policies, set the risk tolerance limits and ensure infrastructure, resources and systems are in place for risk management.

The Committee is primarily responsible for the effective and optimum operation of the risk management function within the Company including assessment and recommendation of risk management strategies and policies to be submitted to the Board for approval.

The Committee is also in charge of the risk management governance and the organisational structure of the Company. It has to ensure the existence of clear and independent reporting lines and responsibilities for the overall business activities and risk management functions, as well as institute an independent review of the Company's risk management infrastructure, capabilities, environment and processes.

Additionally, the Committee is responsible to evaluate the risk management processes, systems and internal controls and review whether the risk exposures are in line with the risk management strategy. It is also responsible to review the adequacy of tools, systems and resources for the successful execution of risk functions within the Company and evaluate contingency plans for dealing with various extreme internal/external events and disasters.

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3 Financial risk management (continued)

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks market risk (including price risk, foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk

(a) Market risk

(i) Price risk

Exposure to market price risk, arises from fluctuations in foreign currencies, commodities, gold and equity securities due to the open positions on CFDs held by the Company as counterparty to its customers and classified on the statement of financial position as derivative financial instruments. The Company itself does not take proprietary positions based on an expectation of market movements

As per the terms of its license, the Company can only act as a matched principal broker to its clients trades, hence has entered into an agreement with its Parent, based on which all trades between the Company and its clients are hedged by entering into off-set trades between the Company and the Parent. As a result of the above, the Company is not exposed to price risk because each transaction with the client is fully hedged by off-set trades between the Company and its Parent

The derivative asset and liability recognised in the statement of financial position as at the year end, arises as the Company has an agreement in place to settle daily the profits/losses arising from the off-set trades with its Parent hence no derivative is recognised with respect to the off-set trades between the Company and its parent. However, at the end of the year all open positions between the Company and its clients are recognised as derivatives. As all positions with its Parent are rolled over immediately, all positions remain fully hedged hence in substance no price risk arises for the Company

(ii) Foreign exchange risk

Foreign exchange risk, which arises primarily with respect to the Euro, derives from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the Company's functional currency

At 31 December 2012, if the Sterling Pound (£) had weakened/strengthened by 10% against the Euro with all other variables held constant the pre-tax loss for the year would have been £60,886 higher/lower, mainly as a result of foreign exchange losses/gains on the translation of Euro denominated payable balances

No sensitivity analysis is presented for foreign exchange risk for 2011 as the impact of reasonably possible foreign exchange movements on the Company's pre-tax profit was not significant to the Company's financial performance and position

Management monitors the exchange rate fluctuations on a continuous basis and acts accordingly

FXPro UK Limited

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value interest rate risk

The Company's cash flow interest rate risk arises from its trading activities and more specifically from the interest charged on the derivative financial instruments (both assets and liabilities) that remain open overnight. Other financial assets and liabilities held at fixed interest rates expose the Company to fair value interest rate risk, however this risk is insignificant to the Company as these assets/liabilities are not material.

The interest rate risk profile of the Company's financial assets and liabilities as at the statement of financial position date was as follows:

	31 December 2012 £	31 December 2011 £
Variable bearing financial assets and liabilities		
Cash and cash equivalents (Note 17)	300,744	300,000
Derivative financial instruments – assets (Note 16)	779,200	-
Derivative financial instruments – liabilities (Note 16)	(95,151)	-
	<u>984,793</u>	<u>300,000</u>

Interest on derivative financial instruments classified as floating is re-priced at intervals consistent with the re-pricing intervals of the LIBOR. Other financial instruments of the Company that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

No sensitivity analysis is presented for interest rate risk as the impact of reasonably possible market movements on the Company's post-tax profit are not significant to the Company's financial performance and position.

(b) Credit risk

Credit risk is the risk of loss that the Company would incur if the counterparty in a transaction failed to perform its contractual obligations.

Credit risk arises from derivative financial instruments and deposits with banks and financial institutions, as well as from credit exposure to customers, including outstanding receivables. For banks and financial institutions, only parties whom management has internally assessed as financially healthy and stable are accepted. If there is no independent rating, the Committee assesses the credit quality of the counterparty, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. Transactions with customers are settled using major credit cards and banks or financial institutions specialising in online transferring of funds and transactions.

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3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

The credit risk in respect of customers arises from a customer's trading position going into deficit through incurring a loss in excess of the required margin deposit. This credit risk relates to the derivative financial instruments traded by the Company. However, the right policies and tools are used including manual and automatic stop outs in order to prevent any open position exceeding its margin set by the Company.

Every extension of credit or material change to a credit facility to any counterparty requires approval at the appropriate authority level. In addition to the regular review of counterparties and their respective credit limits, other measures are undertaken to further mitigate credit risk including strict margin rules. At margin levels less than 10%, the Company has a discretionary right to begin closing positions starting from the most unprofitable. If the margin level is equal or less than 5%, all positions are automatically closed at market price to prevent the account going into deficit.

In addition, the Company continually monitors its risk to make sure that no high concentration exposure is due to only a few clients.

The carrying amount of financial assets represents the maximum credit exposure without taking into account any balances held as required margin for open trading positions in CFDs. The maximum exposure to credit risk at the statement of financial position date is presented in the table below.

	2012 £	2011 £
Credit risk by category		
Trade and other receivables	-	435,780
Derivative financial instruments- with customers	779,200	-
Cash at bank	716,197	318,069
Trade receivables due for collection	16,871	-
	<u>1,512,268</u>	<u>753,849</u>

Trade receivables due for collection is shown separately in the table above since this amount represents profits from clients' trading in CFDs which, as of the statement of financial position date, the Company had not transferred to its own bank accounts from the clients' bank accounts held in a fiduciary capacity by the Company itself.

No credit limits were exceeded during the reporting period and management does not expect any losses from non-performance by these counterparties. For further details on credit risk, refer to Note 12.

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3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk

The finance department monitors rolling forecasts of the Company's liquidity requirements based on expected cash flows in order to ensure it has sufficient cash to meet its operational needs, under both normal circumstances and stressed conditions

Surplus cash held by the Company over and above the balance required for working capital management are deposited in interest bearing accounts and short term time deposits, choosing deposits with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above mentioned forecasts

The table below analyses the Company's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant

	Less than 1 year £	Between 2- 5 years £
31 December 2012		
Trade and other payables	1,810,358	34,685
Derivative financial instruments - with customers	95,151	-
	<u>1,905,509</u>	<u>34,685</u>
	Less than 1 year £	Between 2- 5 years £
31 December 2011		
Trade and other payables	9,000	-
Borrowings from Parent	-	100,000
	<u>9,000</u>	<u>100,000</u>

The Company's trading portfolio of derivative financial instruments with negative fair value has been included at their fair value of £95,151 (2011 £nil) within the less than 1 year time bucket as it is considered that the fair values represent the expected cash outflows. The Company also has derivative financial instruments with positive fair value whose expected cash flow is also in the same time bucket as at 31 December 2012, of up to 3 months and these amount to £779,200(2011 £nil)

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the ability to close out market positions. Management maintains flexibility in funding by maintaining availability of cash and cash equivalent reserves

FXPro UK Limited

3 Financial risk management (continued)

3.2 Fair value estimation

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3)

The following table presents the Company's assets and liabilities that are measured at fair value:

31 December 2012	Level 2 £	Total balance £
Assets		
Derivative financial instruments	779,200	779,200
Liabilities		
Derivative financial instruments	95,151	95,151
31 December 2011	Level 2 £	Total balance £
Assets		
Derivative financial instruments	-	-
Liabilities		
Derivative financial instruments	-	-

The fair value of the CFDs on financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each statement of financial position date. The Company uses mainly estimated discounted cash flow models to determine the fair value for the financial instruments which are not traded in an active market. If all significant inputs required to fair value an instrument are observable, i.e. CFDs on forex, the instruments are included in level 2.

Specific valuation techniques used to value derivative financial instruments include:

- The fair value of CFDs on stocks is calculated as the present value of the gain/loss calculated based on quoted market values.
- The fair value of CFDs on forex, precious metals, commodities and indices is calculated as the present value of the gain/loss calculated based on observable market values.

The carrying value less impairment provision of all financial assets and financial liabilities not carried at fair value, including trade receivables, are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

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4 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances

(i) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. As at 31 December 2012 there are no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(ii) Critical judgments in applying the Company's accounting policies

Functional currency

The Company's principal operating activities are affected by the US dollar, Euro, Pound Sterling, Swiss Franc and Japanese Yen since it trades in financial instruments in the above mentioned currencies and therefore influenced by the economic environments of each respective country. The Company's operating expenses are mainly influenced by Pound Sterling. The currency in which most receipts from operating activities are usually retained is the US dollar.

As a result of the above, there are mixed indicators regarding the functional currency of the Company and the functional currency is not obvious. Therefore management has exercised its judgement, based on which, it has concluded that the Pound Sterling which is also the base currency of the United Kingdom where the Company's operations are located, most faithfully represents the economic effects on the underlying transactions, events and conditions.

5 Revenue

	2012 £	2011 £
Intercompany commissions (Note 22(i))	257,788	613,076
Intercompany service charge fee (Note 22(ii))	532,152	477,989
	<u>789,940</u>	<u>1,091,065</u>

FXPro UK Limited

6 Expenses by function and nature

	2012 £	2011 £
Administrative expenses		
Property rent, rates and insurance	264,975	179,564
Auditors' remuneration	19,269	9,000
Staff costs (Note 8)	767,557	418,183
Professional fees	66,640	32,339
Recruitment expenses	69,045	6,118
Utilities	42,490	25,591
Travel and hospitality expenses	23,105	12,729
Fees incurred on transaction processing	17,139	-
Data feed processing	9,292	-
Motor vehicle expenses	4,549	-
Depreciation (Note 13)	2,370	-
Amortisation (Note 14)	921	-
Other expenses	136,624	24,728
Total administrative expenses	1,423,976	708,252

7 Other losses - net

	2012 £	2011 £
Net foreign exchange transaction losses on operating activities	83,440	-

8 Staff costs

	2012 £	2011 £
Wages and salaries	682,970	373,077
Social security costs	84,587	45,106
	767,557	418,183

The monthly average number of employees during the year ended 31 December 2012 was 13 (2011 6)

9 Finance income

	2012 £	2011 £
Bank interest income	760	-

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10 Income tax expense

	2012 £	2011 £
Current tax charge		
Corporation tax	<u>(2,962)</u>	<u>96,179</u>

The tax on the Company's loss before tax differs from the theoretical amount that would arise using the applicable tax rates as follows

	2012 £	2011 £
(Loss)/ Profit before tax	<u>(716,716)</u>	<u>382,813</u>
Tax calculated at the applicable corporate tax rate	(143,343)	101,419
Impact of losses carried forward for which no deferred tax asset is recognised	140,381	-
Income not subject to tax	-	(378)
Expenses not deductible for tax purposes	-	3,369
Utilisation of tax losses brought forward from previous years	-	(8,231)
Income tax (credit)/ expense	<u>(2,962)</u>	<u>96,179</u>

The weighted average applicable tax rate was 20% (2011 26.5%)

A number of further changes to the UK Corporation tax system were announced in the March 2012 UK Budget Statement. A resolution passed by Parliament on 26 March 2012 reduced the main rate of corporation tax to 24% from 1 April 2012. Legislation to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 is expected to be included in the Finance Act 2012. A further reduction to the main rate is also proposed to reduce the rate to 22% from 1 April 2014. None of these rate reductions had been substantively enacted at the statement of financial position date and, therefore, are not included in these financial statements.

The proposed reduction of the main rate of corporation tax to 22% from 1 April 2014 is expected to be enacted separately.

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11 Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below

	Loans and receivables £	Assets at fair value through profit or loss £	Total £
31 December 2012			
Assets as per statement of financial position			
Trade and other receivables (excluding prepayments) (Note 15)	16,871	-	16,871
Derivative financial instruments (Note 16)	-	779,200	779,200
Cash and cash equivalents (excluding cash in hand) (Note 17)	716,197	-	716,197
Total	733,068	779,200	1,512,268

	Other financial liabilities £	Liabilities at fair value through profit or loss £	Total £
31 December 2012			
Liabilities as per statement of financial position			
Trade and other payables (Note 20)	1,624,182	-	1,624,182
Derivative financial instruments (Note 16)	-	95,151	95,151
Total	1,624,182	95,151	1,719,333

	Loans and receivables £	Liabilities at fair value through profit or loss £	Total £
31 December 2011			
Assets as per statement of financial position			
Trade and other receivables (excluding prepayments) (Note 15)	435,780	-	435,780
Cash and cash equivalents (excluding cash in hand) (Note 17)	318,069	-	318,069
Total	753,849	-	753,849

	Other financial liabilities £	Liabilities at fair value through profit or loss £	Total £
Liabilities as per statement of financial position			
Trade and other payables (Note 20)	9,000	-	9,000
Borrowings (Note 19)	100,000	-	100,000
Total	109,000	-	109,000

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12 Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates

	2012 £	2011 £
Fully performing trade receivables ⁽¹⁾		
Counterparties with external credit rating		
A2	16,871	-
Fully performing other receivables		
Counterparties without external credit rating		
Group 1	-	412,965
Group 2	-	22,815
Total fully performing other receivables	-	435,780
Total non-impaired trade and other receivables	16,871	435,780
Fully performing derivative financial instruments ⁽¹⁾		
	2012 £	2011 £
Counterparties with external credit rating		
A2	779,200	-
Total fully performing derivative financial instruments	779,200	-
	2012 £	2011 £
Cash at bank and short-term bank deposits ⁽²⁾		
Aa2	-	318,069
A2	716,197	-
	716,197	318,069

(1) Trade receivables and derivative financial instruments carry the credit risk of the banks in which the client's funds are deposited as they are held by the Company in a fiduciary capacity

(2) The rest of the statement of financial position item cash and cash equivalents is cash in hand

Group 1 – receivable from parent company, with no history of default in the past

Group 2 – other receivables, with no history of default in the past

None of the financial assets that are fully performing has been renegotiated in the last year and no balance that is past due or impaired exists. No collateral is held for the financial assets disclosed above

FXPro UK Limited

13 Property, plant and equipment

	Office equipment £	Computer hardware £	Total £
Cost			
At 1 January 2011	638	-	638
Additions	2,104	1,094	3,198
At 31 December 2011	2,742	1,094	3,836
Additions	1,906	491	2,397
At 31 December 2012	4,648	1,585	6,233
Accumulated Depreciation			
At 1 January 2011	-	-	-
Charge for the year	-	-	-
At 31 December 2011	-	-	-
Charge for the year (Note 6)	1,478	892	2,370
At 31 December 2012	1,478	892	2,370
Carrying amount			
At 31 December 2012	3,170	693	3,863
At 31 December 2011	2,742	1,094	3,836

14 Intangible assets

	Computer software £	Total £
Cost		
At 1 January 2011	946	946
Additions	435	435
At 31 December 2011	1,381	1,381
Additions	-	-
At 31 December 2012	1,381	1,381
Accumulated Amortisation		
At 1 January 2011	-	-
Charge for the year	-	-
At 31 December 2011	-	-
Charge for the year (Note 6)	921	921
At 31 December 2012	921	921
Carrying amount		
At 31 December 2011	1,381	1,381
At 31 December 2012	460	460

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15 Trade and other receivables

	2012 £	2011 £
Trade receivables	16,871	-
Receivable from related parties (Note 22(iv))	-	412,965
VAT input receivable	-	22,815
Prepayments	42,750	-
	<u>59,621</u>	<u>435,780</u>

The fair values of trade and other receivables on 31 December 2012 and 31 December 2011 approximate their current values

Trade receivables carry the credit risk of the banks that the clients' cash is deposited and held by the Company in a fiduciary capacity as these relate to profits from clients' trading in CFDs which as of the statement of financial position date, the Company had not transferred from the clients' bank accounts. Concentrations of credit risk with respect to trade receivables are limited due to the Company's policy to restrict any losses that a client can suffer from CFD's to the cash margin held for each client by the Company under fiduciary agreements. Due to this factor, management believes that no credit risk for collection losses is inherent in the Company's trade receivables

The carrying amounts of the Company's trade and other receivables are denominated in the following currencies

	2012 £	2011 £
Pound sterling – functional and presentation currency	42,762	435,780
Euro	14,156	-
Other currencies	2,703	-
	<u>59,621</u>	<u>435,780</u>

16 Derivative financial instruments

Derivative financial instruments are primarily open positions on contracts for differences (CFDs) in which the Company acts as the counterparty to positions held by the Company's customers at the year- end. These instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates and in fluctuations of the quoted prices of the underlying shares, commodities and precious metals, relative to their terms. The aggregate contractual or notional amount of these financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate from time to time. The fair value measurement of these derivative financial instruments is based on the prices quoted by the Company which are derived from directly observable exchange rates and quoted prices obtained from stock exchanges. Derivative financial instruments are the unrealised gains/ losses forming part of the trading revenue of the Company. The Company withdraws 100% of the cumulative unrealised net trading revenue from clients each day. The total unrealised net trading revenue withdrawn is included within trade and other payables (Note 20) as advances of unrealised net trading revenue.

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16 Derivative financial instruments (continued)

The fair values of these derivative financial instruments held are set out below

31 December 2012	Contractual/ notional amount £	Assets £	Liabilities £
CFDs	56,009,861	779,200	95,151
Less Non-current portion		-	-
Current portion		779,200	95,151
31 December 2011	Contractual/ notional amount £	Assets £	Liabilities £
CFDs	-	-	-
Less Non-current portion		-	-
Current portion		-	-

The maximum exposure to credit risk at the reporting date is the carrying value of the derivative financial instruments (asset) mentioned above. None of the derivative financial instruments is either past due or impaired. This exposure to credit risk is mitigated by the right of the Company to unilaterally close out any client position.

Derivative financial instruments are presented within the section of operating activities as part of changes in working capital in the statement of cash flows.

17 Cash and cash equivalents

Cash and cash equivalents include the following for the purposes of the statement of financial position and the statement of cash flows

	2012 £	2011 £
Cash at bank and in hand	415,653	18,144
Short-term bank deposits	300,744	300,000
	<u>716,397</u>	<u>318,144</u>

The cash and cash equivalents are analysed in the following currencies

	31 December 2012 £	31 December 2011 £
Pound sterling – functional and presentation currency	<u>716,397</u>	<u>318,144</u>

Non-cash transactions

During the year intercompany commission receivable from the Parent company amounting to £786,507 was netted off against the payable to the Parent company.

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18 Share capital

	Number of shares	Share Capital £	Total £
Authorised, issued and fully paid:			
At 1 January 2011/31 December 2011 and 31 December 2012	300,000	300,000	300,000

The total authorised number of ordinary shares as at 31 December 2012 was 300,000 (2011 300,000) with a par value of £1 per share. All issued shares are fully paid.

19 Borrowings

	2012 £	2011 £
Non-current		
Loan payable to parent undertaking (Note 22(v))	-	100,000
Maturity of non-current		
Between 2 and 5 years	-	100,000

The Company's borrowings were provided on 1 September 2010, were denominated in Euro, were not secured and were due for repayment in September 2015. The terms of the loan were amended during 2012, with the loan becoming repayable on demand (Note 22 (v)).

20 Trade and other payables

	2012 £	2011 £
Advances of unrealised net trading revenue	684,049	-
Payable to related parties (Note 22(iv))	910,256	-
Trade payables	14,877	-
Other payables	15,000	9,000
	1,624,182	9,000

Advances of unrealised net trading revenue includes all amounts due by the Company in respect of client money withdrawn relating to unrealised profits (Note 16).

The fair value of trade and other payables on 31 December 2012 approximate their carrying amount at the statement of financial position date.

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21 Commitments

Operating lease commitments – where the Company is the lessee

The Company leases various offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows

	2012 £	2011 £
Not later than 1 year	186,176	100,676
Later than 1 year and not later than 5 years	34,685	119,432
	<u>220,861</u>	<u>220,108</u>

22 Related party transactions and ultimate parent undertaking

The Company is directly controlled by FxPro Financial Services Limited, registered in Cyprus, which owns 100% of the company's shares. The ultimate controlling company is FxPro Group Limited, registered in Guernsey, which is controlled by Denis Sukhotin. Copies of FxPro Group Limited financial statements can be obtained from the Company Secretary at PO Box 186, 1 Le Marchant Street, St Peter Port, GY1 4HP, Guernsey. This is the smallest group for which consolidated financial statements are prepared.

The following transactions were carried out with the immediate Parent company

(i) Sale of services

	2012 £	2011 £
Intercompany commissions (Note 5)	257,788	613,076
Intercompany service charge fee (Note 5)	532,152	477,989
	<u>789,940</u>	<u>1,091,065</u>

The service charge fee which related to a 70% recharge of administrative expenses incurred by the Company to the Parent was terminated during 2012.

(ii) Key management personnel compensation

The compensation of key management personnel and the close members of their family is as follows

	2012 £	2011 £
Salaries and other short-term employee benefits	<u>328,023</u>	<u>97,153</u>

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22 Related party transactions and ultimate parent undertaking (continued)

(iii) Directors' remuneration

The total remuneration of the Directors (included in key management personnel compensation above) was as follows

	2012 £	2011 £
Fees	<u>174,231</u>	<u>97,153</u>
Highest paid director		
Total amount of emoluments and amounts receivable under long-term incentive schemes	<u>79,992</u>	<u>70,072</u>

(iv) Year-end balances

	2012 £	2011 £
Receivable from parent company (Note 15)	<u>-</u>	<u>412,965</u>
Payable to parent company (Note 20)	<u>910,256</u>	<u>-</u>

The above receivables/payable balances bear no interest, are not secured and receivable/payable on demand

(v) Borrowings from related parties

	2012 £	2011 £
Borrowings from parent company (Note 19)	<u>-</u>	<u>100,000</u>

The Company's borrowings were provided on 1 September 2010, were denominated in Euro, were not secured and were due for repayment in September 2015. The terms of the loan were amended during 2012 and the amount became payable on demand. The amount was repaid in full in 2012.

23 Events after the statement of financial position date

On 28 January 2013, the Board of Directors resolved to increase the authorised share capital of the Company by 800,000 shares of £1 per share. The shares were allotted to the parent on 19 March 2013.

There were no other post statement of financial position events that require adjustments or disclosure in these financial statements.