PEEL HUNT

PEEL HUNT LLP (company number OC357088)

REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 MARCH 2011

CONTENTS

The Board presents the annual report and the audited financial statements to members of Peel Hunt LLP (the Partnership or Peel Hunt) for the period from incorporation, 11 August 2010, to 31 March 2011

Principal activities

Peel Hunt LLP is a leading provider of investment banking services to small and mid cap companies and investors, principally in the UK market

The principal activities of the Partnership are to provide advice and dealing facilities in securities to institutions, corporate advisory services and market making The Partnership is a member of, amongst others, the London Stock Exchange and PLUS Markets and is authorised and regulated by the Financial Services Authority

Peel Hunt began operations in 1989 and the business was previously conducted through Peel Hunt Holdings Limited (previously KBC Peel Hunt Limited) On 10 December 2010, the business and assets of Peel Hunt Holdings Limited were transferred to Peel Hunt LLP following the buyout from its former ultimate parent company, KBC Bank NV, on 26 November 2010

Comparative results of the transferred business have been disclosed in Note 22 of the financial statements Further disclosure is contained in the separate financial statements of Peel Hunt Holdings Limited

Structure

Peel Hunt LLP is a Limited Liability Partnership under the Limited Liability Partnership Act 2000 with number OC357088 and is wholly owned by its members The registered office of Peel Hunt LLP is 111 Old Broad Street, London EC2N 1PH

The Corporate Member of Peel Hunt LLP is Peel Hunt Holdings Limited, company number 2320252 and its registered office is 111 Old Broad Street, London EC2N 1PH

Corporate Governance

The Partnership operates its governance structure through the Board and a series of board level committees

Board

The Board meets on a quarterly basis and is chaired by a Non-Executive The Board also comprises eight Designated Members and one other independent Non-Executive The Board is committed to the principles of good corporate governance and is responsible for leading and managing the profitable development of the Partnership in line with current strategic plans and objectives The Board remains responsible for identifying, evaluating and managing the principal risks faced by the Partnership

The following committees report directly to the Board

Management Committee

The Management Committee meets monthly to review the progress of the Partnership's key operational initiatives within the business and to monitor implementation of the business strategy set by the Board The members of the Management Committee are also members of the Board

Remuneration Committee

The Remuneration Committee, which is chaired by a Non-Executive, is held at least twice a year and more frequently if required It ensures that members and employees are fairly but responsibly rewarded for their individual contributions by determining salary levels and drawings of members, profit share awards, performance based incentives and specific remuneration for Designated Members and senior managers

Operations and Controls Committee

The Operations and Controls Committee, which meets on a monthly basis, is chaired by an independent Non-Executive The Operations and Controls Committee primarily ensures that the key risks of the firm are identified, discussed and managed, including market, credit, liquidity, operational, and HR risks The Committee also ensures that the Partnership is complying with its UK legal and regulatory requirements and that a strong control framework is in place and operating correctly to help minimise and manage risks

Audit Committee

The Audit Committee is chaired by a Non-Executive and meets on a quarterly basis The Committee reviews the effectiveness of the internal control framework and ensures that the Partnership applies accurate financial reporting and sound internal control principles, in line with the rules and guidelines set by the Financial Services Authority (FSA) The internal and external auditors are also invited to attend the Audit Committee

Principle Risks and Uncertainties

The senior management of the Partnership is committed to operating a sound governance practice to ensure all risks are monitored, managed and controlled not only within separate functional support areas, but also through involvement of senior management through clear and concise reporting to key committees and ultimately to the Board

The day to day review of risks within the Partnership is delegated to the Risk Management department and the Operations and Controls Committee The Board has also appointed Grant Thornton as the Independent Internal Auditors and also to provide Operational Risk Management support

Legal and Regulatory Risk

The Partnership is a FSA regulated entity and operates in highly regulated markets The Board encourages a culture of compliance with all legal and regulatory requirements throughout the Partnership and operates a robust corporate governance structure to help maintain this culture The Board requests that the independent Compliance department reports to it on compliance with regulations and key regulatory changes in order to help maintain focus on legal and regulatory risk

Operational and Reputational Risk

There is a risk that the Partnership could suffer financial loss arising from inadequate or failed internal processes, human errors or systems, which in turn could have a negative impact on the reputation of the Partnership Although operational risks can never be completely eliminated, the Partnership mitigates its exposure to such risks by operating a system of strong internal controls and an embedded risk management culture, particularly through its corporate governance The Partnership also has clearly defined business continuity planning strategies in place to minimise unforeseen business disruptions To reduce operational and reputational risks further, the Board requires that all new products or business lines are subject to rigorous appraisal and review by the New Products Committee

Financial Risk

The Partnerships is exposed to financial risk through the products it trades and the clients with whom it engages Financial risk is discussed in further detail in Note 16 of the accounts but in general it includes market, credit and liquidity risks The Partnership manages financial risk by monitoring and reporting exposures against market risk and credit risk limits, reviewing and managing financial risks in the risk forums of the Partnership, including the Operations and Controls Committee, operating day to day cash management to monitor short term liquidity risks, and through investment in technology to provide real time financial risk management tools

Staff Risk

Attracting and retaining high quality staff is key to the future expansion of the Partnership The Board, through its Remuneration Committee, has dedicated considerable time on its remuneration strategies currently and in the future The growth and development of staff remains a key focus for the Partnership, aided by performance-based staff evaluations

Board

The Board consists of Designated Members and Non-Executives The following members have been appointed as Designated Members during the period

Designated member	Date of appointment
Simon Hayes	11 August 2010
Steven Fine	11 August 2010
Sunil Dhall	11 August 2010
Alexander Carter	27 January 2011
Andrew Chapman	27 January 2011
Charles Hall	27 January 2011
Kurt Mayer	27 January 2011
Iain Morgan	27 January 2011

The following individuals have been appointed as Non-Executives during the period

Non-Executive	Date of appointment
Darren Carter	10 December 2010
Michael Walker	10 December 2010

Members' drawings and capital

The Remuneration Committee allocates guaranteed and benefits drawings to Members, which are paid on account in monthly instalments during the period Any allocation of additional profits to Members, net of tax and as determined by the Remuneration Committee, are paid in the subsequent year All payments are made subject to the cash requirements of the business Tax retentions are paid to HM Revenue & Customs on behalf of Members with any excess to be released to Members as appropriate

Business review

During 2010, Peel Hunt Holdings Limited extended its financial year from 31 December 2010 to 31 March 2011 to coincide with the year-end of other group companies Subsequent to the year-end extension, the business and assets of Peel Hunt Holdings Limited were transferred to Peel Hunt LLP

Profit from operations (including members' remuneration)

The results for the 15 month period ended 31 March 2011 are tabled below which represents the results of Peel Hunt Holdings Limited and Peel Hunt LLP For comparison purposes, the total result for the period ended 31 March 2011 has been pro-rated to 12 months

	From 11 August 2010 to 31 March 2011	From 1 January 2010 to 10 December 2010	Total for the period 1 January 2010 to 31 March 2011	12 month pro-rated average	Prior period 1 January 2009 to 31 December 2009
	Peel Hunt LLP	Peel Hunt Holdings Limited	Total	12 month pro-rated average	Peel Hunt Holdings Limited
	£'000	£'000	£'000	£'000	£'000
Revenue	9,466	30,540	40,006	32,005	66,768
Operating costs*	(8,763)	(27,766)	(36,529)	(29,223)	(46,785)
Profit from operations*	703	**2,774**	**3,477**	**2,782**	**19,983**
Average number of employees and members	135	*133*	*134*	*136*	*116*

* *including members' remuneration*

Revenue

Total revenues for the 15 month period ended 31 March 2011 amounted to £40m of which £9 5m was reported by the Partnership (12 month pro-rated £32 0m and 2009 £66 8m)

The decrease in revenues is mainly due to reduced corporate activity and market making revenues as a result of the buyout period and lower volatility in the markets during 2010

Operating costs

Operating costs on a pro-rated 12 month basis for the period ended 31 March 2011 have decreased by £17 6m to £29 2m of which £8 8m was reported by the Partnership (2009 £46 8m) This decrease was predominantly due to reduced compensation related costs for staff and members This was despite an increase in headcount from 116 in 2009 to 135 for the period ended 31 March 2011, mainly due to support resources re-allocated as permanent staff during 2010 as a result of the divestment from KBC

The remaining difference in operating costs is due to reduced trading costs as a result of lower trading volumes

Net assets

Peel Hunt's balance sheet remained strong throughout the period and continues to carry capital well in excess of its minimum capital requirement Net assets amounted to £35 9m at 31 March 2011 (Peel Hunt Holdings Limited at 31 December 2009 £79 7m)

The decrease in net assets is a result of the buyout which occurred on 26 November 2010 whereby excess capital was distributed as a dividend

Charitable contributions

Charitable contributions of £3,000 were made during the period under review and no political contributions were made

Auditor

Deloitte LLP will be proposed for reappointment

Approved by the Board and signed on behalf of the Board

Simon Hayes
Chief Executive
14 July 2011

STATEMENT OF MEMBERS' RESPONSIBILITY

PERIOD ENDED 31 MARCH 2011

The Board is responsible for preparing the financial statements in accordance with applicable law and regulations

The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008, made under the Limited Liability Partnerships Act 2000, require the Board to prepare the financial statements for each financial year Under that law the designated members have elected to prepare the financial statements in accordance with IFRS as adopted by the European Union The financial statements are also required by law to be properly prepared in accordance with the Companies Act 2006, as applicable to limited liability partnerships

International Accounting Standards 1 requires that financial statements present fairly for each financial year the financial position, financial performance and cash flows for the Partnership This requires the fair presentation of the effects of transactions and other events and conditions, in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements' In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS However, the Board is also required to

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- provide additional disclosures when compliance with the specific IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and performance

The Board is responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Partnership and enable them to ensure that the financial statements comply with Companies Act 2006, as applicable to limited liability partnerships They are also responsible for safeguarding the assets of the Partnership and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The Board is responsible for the maintenance and integrity of the corporate and financial information included on the Partnership's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Approved by the Board and signed on behalf of the Board

Simon Hayes
Chief Executive
14 July 2011

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PEEL HUNT LLP

We have audited the financial statements of Peel Hunt limited liability partnership for the period from incorporation on 11 August 2010 to 31 March 2011 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flow Statement and the Statement of Changes in Equity and the related notes 1 to 25 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

This report is made solely to the limited liability partnership's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 Our audit work has been undertaken so that we might state to the limited liability partnership'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 limited liability partnership and the limited liability partnership's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of members and auditor

As explained more fully in the Members' Responsibilities Statement, the Board is 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 limited liability partnership's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the designated members, 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 limited liability partnership's affairs as at 31 March 2011 and of its profit for the period then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and

- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships

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 as applied to limited liability partnerships 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

- we have not received all the information and explanations we require for our audit

S Charles Hardy

Simon Hardy FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK

14 July 2011

STATEMENT OF COMPREHENSIVE INCOME

PERIOD ENDED 31 MARCH 2011

Continuing activities	*Note*	*31 March 2011* £'000
Revenue	*3*	9,466
Staff costs	*4*	(2,346)
Depreciation and amortisation		(133)
Other operating expenses	*5*	(3,867)
Impairment losses on investments available for sale		(96)
Profit from operations		3,024
Dividend income		44
Finance income	*6*	27
Finance cost	*6*	(209)
Other income	*7*	43
Profit for the year before members' remuneration		2,929
Members' remuneration	*8*	(2,321)
Profit for the period ended 31 March 2011		608
Other comprehensive income for the period ended 31 March 2011		
Total comprehensive income for the period ended 31 March 2011		608

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2011

	Note	31 March 2011 £000
ASSETS		
Non-current assets		
Property, plant and equipment	*9*	1,644
Intangible assets	*10*	215
Investments available-for-sale	*11*	179
Current assets		
Securities held for trading	*12*	21,777
Market and client debtors	*16 4*	373,749
Trade and other debtors	*13*	3,106
Amounts due from members	*19*	152
Cash and cash equivalents	*14*	11,697
Total assets		412,519
LIABILITIES		
Current liabilities		
Securities held for trading	*12*	(8,784)
Market and client creditors	*16 5*	(352,997)
Amounts due to members	*19*	(1,037)
Trade and other creditors	*15*	(6,898)
Bank overdraft	*17*	(883)
Non-current liabilities		
Long-term loan	*18*	(6,000)
Total liabilities		**(376,599)**
Net assets		**35,920**
Equity		
Members' capital		35,920
Other reserves		-
Total equity		**35,920**
Members' interests	*19*	**36,805**

Approved and authorised for issue by

Simon Hayes
Chief Executive
14 July 2011

STATEMENT OF CHANGES IN EQUITY

PERIOD ENDED 31 MARCH 2011

	Note	Members' capital £'000	Other reserves £'000	Total £'000
Members' capital introduced upon Business Transfer	*21*	35,920	-	35,920
Profit for the period ended 31 March 2011		-	608	608
Allocated profits	*19*	-	(608)	(608)
Members' capital and reserves at 31 March 2011		**35,920**	**-**	**35,920**

STATEMENT OF CASH FLOW

PERIOD ENDED 31 MARCH 2011

	Note	31 March 2011 £000
Cash used in operations	20	(5,111)
Finance income		(27)
Finance cost		209
Net cash used in operating activities		(4,929)
Cash flows from investing activities		
Net cash acquired upon Business Transfer	21	16,189
Interest received		27
Purchase of tangible assets		(47)
Purchase of intangible assets		(88)
Purchase of available-for-sale investments		(275)
Net cash generated from investing activities		15,806
Cash flows from financing activities		
Increase in bank overdraft		883
Interest paid		(63)
Net cash generated from financing activities		820
Net increase in cash and cash equivalents		11,697
Cash and cash equivalents at beginning of period		-
Cash and cash equivalents at end of period		**11,697**

1 General Information

Peel Hunt is a Limited Liability Partnership, domiciled in England and Wales Its registered office is at 111 Old Broad Street, London EC2N 1PH

The Partnership was incorporated on 11 August 2010 and the company number is OC357088

The principal accounting policies applied in the preparation of the Financial Statements are described below These policies have been applied consistently throughout the period

2 Accounting policies

2.1 Basis of preparation

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU)

The Financial Statements have been approved by the Board and prepared under the historical cost convention, except for financial assets or financial liabilities held for trading, available for sale or at fair value through profit or loss that have been measured at fair value, and in accordance with applicable Accounting Standards, as defined in section 464 of the Companies Act 2006

The Partnership's Financial Statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated

The following new and revised Standards and Interpretations have been adopted in the current year Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements

IFRS 3(2008) Business combinations,
IAS 27(2008) Consolidated and separate financial statements and
IAS 28(2008) Investments in associates

These standards have introduced a number of changes in the accounting for business combinations when acquiring a subsidiary or an associate IFRS 3(2008) has also introduced additional disclosure requirements for acquisitions

IFRIC 17 Distributions of non-cash assets to owners

The interpretation provides guidance on when an entity should recognise a non-cash dividend payable, how to measure the dividend payable and how to account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable when the payable is settled

Amendment to IAS 17 Leases

IAS 17 has been amended such that it may be possible to classify a lease of land as a finance lease if it meets the criteria for that classification under IAS 17

2 Accounting policies (continued)

2.1 Basis of preparation (continued)

Amendment to IAS 39 Financial instruments recognition and measurement

IAS 39 has been amended to state that options contracts between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date are not excluded from the scope of the standard

2.2 Going concern

The Board has made an assessment of the Partnership's ability to continue as a going concern and is satisfied that the Partnership has the resources to continue in business for the foreseeable future Furthermore, the Board is not aware of any material uncertainties that may cast significant doubt upon the Partnership's ability to continue as a going concern Therefore, the Financial Statements have been prepared on the going concern basis

2.3 Critical accounting judgments and key sources of estimation

In the application of the Partnership's accounting policies, the Board is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources Actual results may differ from those estimated

The Board considers that the following estimates and judgments are likely to have the most significant effects on the Financial Statements

Provisions

Provisions are recognised when the Partnership has a present legal or constructive obligation as a result of a past event and it is probable that the Partnership will be required to settle that obligation Provisions are measured as the best estimate of the expenditure required to settle the obligation at the balance sheet date

2.4 Revenue

All revenue is from services rendered and is recognised in the Statement of Comprehensive Income when it is probable that the economic benefit from the transaction will be received A broker-dealer business has no equivalent to sales, cost of sales and gross profit Revenue, excluding VAT, comprises

i Gross commission from acting as agent in investment business, less commissions paid away to external introducers of business,

ii Fee income from advisory services which is acknowledged when earned,

iii Gross revenues from principal and market making trades,

iv Trading expenses include costs incurred in the normal course of executing transactions across exchanges and the cost of settling through recognised networks,

v Corporate fees paid include amounts paid to other third parties in connection with corporate fee income, and

2 Accounting policies (continued)

2.4 Revenue (continued)

vi Interest income which is recognised on an accrued basis in the Statement of Comprehensive Income using the effective interest method

2.5 Foreign currency translation

Foreign currency assets and liabilities have been translated into Sterling at the exchange rates ruling at the period end Transactions during the period have been converted into Sterling at the rates ruling at the time the transactions were executed All exchange differences are reflected in the Statement of Comprehensive Income

2.6 Property, plant and equipment

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses

Depreciation is calculated to write down the cost of the fixed assets to their estimated residual values by equal annual instalments over the period of their estimated useful economic lives, which are considered to be

Leasehold improvements	8 years
Office equipment	3 to 5 years
Fixtures and fittings	5 years

The carrying value of artwork is based on the lower of cost or the most recent independent valuation

2.7 Intangible assets

Intangible assets are recognised only if all of the following conditions are met

- an asset is created that can be identified
- it is probable that the asset created will generate future economic benefits, and
- the cost of the asset can be measured reliably

Intangible assets represent computer software and are amortised over 5 years

2.8 Market and client debtors

Market and client debtor balances represent unsettled sold securities transactions and are recognised on a trade date basis All such balances are shown gross and are stated at their contractual values

2.9 Market and client creditors

Market and client creditor balances represent unsettled purchased securities transactions and are recognised on a trade date basis All balances are shown gross and are stated at their contractual values

2 Accounting policies (continued)

2.10 Financial instruments

Financial assets and financial liabilities are recognised in the Statement of Financial Position when the Partnership becomes a party to the contractual provisions of the financial instrument

Financial assets

Classification

All financial assets are recognised and derecognised on a trade date basis where the purchase or sale of a financial asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned They are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit and loss, which are initially measured at fair value

Financial assets are classified into the following categories

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

ii Held-to-maturity investments,

iii Available for sale financial assets, and

iv Loans and receivables

The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition

i Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL by management

A financial asset is classified as held for trading if

- it has been acquired principally for the purpose of selling in the near future, or
- on initial recognition it is part of a portfolio of indentified financial instruments that the Partnership manage together and has a recent actual pattern of short-term trading, or
- it is a derivative that is not recognised and effective as a hedging instrument

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on reassessment recognised in the Statement of Comprehensive Income The net gain or loss in the Statement of Comprehensive Income incorporates any dividend or interest earned on the financial asset

2 Accounting policies (continued)

2.10 Financial instruments (continued)

ii Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Partnership has the positive intent and ability to hold to maturity are classified as held-to-maturity investments Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis

iii Available for sale financial assets

Available for sale investments are those intended to be held for an indefinite period of time, which may be sold as part of the Partnership's operations or otherwise They include listed equity investments

iv Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than held for trading or designated upon initial recognition as assets at FVTPL or as available-for-sale Loans and receivables are measured at amortised cost less any impairment

Initial recognition of financial assets

Loans and receivables are recognised on a settlement date basis Purchases of all other categories of financial assets are recognised on a trade date basis All financial assets are initially recognised at fair value

Subsequent measurement of financial assets

Gains and losses arising from changes in the fair value of financial assets classified as FVTPL are recognised in the Statement of Comprehensive Income in the period they arise

Changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income until the financial asset is derecognised or impaired at which time the gain or loss previously recognised as other comprehensive income is recognised in the Statement of Comprehensive Income

Impairment of financial assets

Financial assets, other than those classified at FVTPL, are assessed for indicators of impairment at each reporting period end date Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment has been impacted

For unlisted shares classified as investments available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment In respect of available-for-sale investments, impairment losses previously recognised in the Statement of Comprehensive Income are not reversed through profit or loss Any subsequent increase in the fair value after an impairment loss is recognised directly in other comprehensive income

2 Accounting policies (continued)

2.10 Financial instruments (continued)

Impairment of financial assets (continued)
For all other financial assets objective evidence of impairment could include significant financial difficulty of the counterparty

Derecognition of financial assets
Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards to ownership of the asset to another entity

Financial liabilities
Classification, initial recognition and subsequent measurement
Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities

i Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL by management A financial liability is classified as held for trading if

- it has been incurred principally for the purpose of repurchasing in the near future, or
- it is a part of an identified portfolio of financial instruments that has a recent actual pattern of short-term trading, or
- it is a derivative that is not designated and effective as a hedging instrument

ii Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis

Initial recognition and subsequent measurement of financial liabilities
Financial liabilities at FVTPL are initially measured at fair value and subsequently stated at fair value, with resultant gain or loss recognised in the Statement of Comprehensive Income The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability

Derecognition of financial liabilities
Financial liabilities are derecognised when the Partnership's obligations are discharged, cancelled or they expire

2 Accounting policies (continued)

2.11 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee All other leases are classified as operating leases

Rentals payable under operating leases are charged to the Statement of Comprehensive Income on a straight-line basis over the term of the relevant lease

2.12 Pensions

The Partnership makes pension contributions to employees' personal pension schemes The Partnership's contributions are charged to the Statement of Comprehensive Income as they fall due

2.13 Members' remuneration

Remuneration to members is charged to the Statement of Comprehensive Income in the financial year Members' remuneration comprises guaranteed drawings and profit share Guaranteed drawings relate to contractual obligations to members and are accounted for in the period occurred Profit share is based on the Partnership's performance for the relevant year and is allocated among individual members on a discretionary basis as agreed by the Remuneration Committee

Division of profits to the Corporate Member which is discretionary on the part of the Partnership is recognised as an appropriation of reserves when the allocation occurs, as agreed by the Remuneration Committee

2.14 Taxation

While there is no requirement to accrue for income tax payable by Members, separate balances are retained by the Partnership on behalf of Members to ensure that an estimate of their future income tax liabilities can be met The amount accrued at the period end is an accounting estimate of each Members' future income tax liabilities in relation to the profit share and remuneration for the period and where there is any shortfall in the estimate, it is the responsibility of the individual Member to ensure that their full income tax liability is met As this is a tax liability of each individual Member, this balance is not separately disclosed in the financial statements

3 Revenue

Revenue comprises the following

	£000
Net trading gains	5,671
Corporate fees and retainers	796
Gross commission income	3,093
Less commissions paid	(94)
Net commission income	2,999
Total revenues for the period ended 31 March 2011	**9,466**

4 Staff costs

	£000
Salaries and bonuses	1,726
Social security costs	331
Pension costs	221
Other costs	68
Total staff costs for the period ended 31 March 2011	**2,346**

The average number of employees and members during the period since the Business Transfer and the Balance sheet date were

	Mar-11 Number	Business Transfer Number	Average Number
Dealing, sales and corporate advisory	76	77	77
Research	26	21	24
Support and administration	33	36	33
Total number of employees and members	**135**	**134**	**134**

The average number of employees and members was 73 and 61 respectively There were 74 employees and 61 members at the Balance Sheet date

5 Other operating expenses

The following items have been included in arriving at operating profit from operations

	£'000
Auditors' remuneration in respect of audit services	31
Bank charges and arrangement fees	69
Foreign exchange gain	(38)
Operating lease charges relating to premises	626
Professional fees and subscriptions	246
Other operating costs	2,933
Total other operating expenses for the period ended 31 March 2011	**3,867**

6 Net finance cost

	£'000
Finance income	
Bank interest received	27
Finance cost	
Bank interest paid	(63)
Interest accrued on subordinated loan	(146)
Finance cost for the period ended 31 March 2011	**(209)**
Net finance cost for the period ended 31 March 2011	**(182)**

7 Other income

	£'000
Property income	27
Other	16
Total other income for the period ended 31 March 2011	**43**

Property income relates to the sublet of the Lombard Street property which expired in March 2011

8 Members' remuneration

	£'000
Members' remuneration paid under contractual agreements	1,892
Discretionary profit share allocation to members	429
Total members' remuneration for the period ended 31 March 2011	**2,321**

Discretionary profit share allocation to members of £0 4m relates to amounts allocated to individual members as determined by the Remuneration Committee The highest paid member's remuneration was £67,500

9 Property, plant and equipment

	Note	Leasehold buildings and improvements £'000	Artwork £'000	Office equipment £'000	Fixtures and fittings £'000	Total £'000
Cost						
Assets acquired upon Business Transfer		1,451	42	196	28	1,717
Additions during the year		-	-	47	-	47
Balance at 31 March 2011		**1,451**	**42**	**243**	**28**	**1,764**
Depreciation						
Charge for the year		(85)	-	(29)	(6)	**(120)**
Carrying value at 31 March 2011		**1,366**	**42**	**214**	**22**	**1,644**

10 Intangible assets

	Computer software £'000	Total £'000
Cost		
Assets acquired upon Business Transfer	140	140
Additions	88	88
Balance at 31 March 2011	**228**	**228**
Amortisation		
Charge for the year	(13)	(13)
Carrying value at 31 March 2011	**215**	**215**

11 Investments available-for-sale

	£'000
Investments acquired during the period	275
Impairment losses recognised	(96)
Investments available-for-sale at carrying value at 31 March 2011	**179**

Investments available-for-sale relate to UK listed equities Impairment losses recognised during the period ended 31 March 2011 relates to the decline of the fair value of the investment below cost

12 Securities held for trading

	£'000
Long positions in market making and dealing operations	
- Listed securities	21,615
- Unlisted securities	162
Securities held for trading at 31 March 2011 relating to long positions	**21,777**
Short positions in market making and dealing operations	
- Listed securities	(8,711)
- Unlisted securities	(73)
Securities held for trading at 31 March 2011 relating to short positions	**(8,784)**

13 Trade and other debtors

	£'000
Corporate finance related debtors	225
Less provision for impairment of aged debtors	(49)
Corporate finance related debtors - net	176
Accrued income	77
Amounts due from related companies	690
Deposits paid relating to operating lease	518
Prepayments	1,329
Other debtors	316
Total trade and other debtors at 31 March 2011	**3,106**

14 Cash and cash equivalents

	£'000
Cash in hand and held at bank	11,697
Total cash and cash equivalents at 31 March 2011	**11,697**

Cash held in segregated bank accounts relating to monies held on behalf of clients amounted to £1 3m at 31 March 2011 which is included in the amounts above Client money relates to amounts received in the ordinary course of settlement of clients' bargains and received in advance for the purchase of securities

15 Trade and other creditors

	£'000
Accruals	5,009
Amounts due to related companies	83
Social security and PAYE	613
Sundry creditors	1,193
Total trade and other creditors at 31 March 2011	**6,898**

16 Financial instruments

16.1 Capital structure

Capital is structured in the form of contributions received from the Corporate Member which represents the transfer of the business and assets from the Corporate Member to the Partnership on 10 December 2010 The capital contribution received from the Corporate Member, Peel Hunt Holdings Limited, does not contain any contractual obligation for repayment

The Partnership is regulated by the Financial Services Authority and as such is subject to certain regulatory capital requirements These requirements were met throughout the period

The carrying amounts of financial instruments are as follows

	£'000
Financial assets measured at fair value through profit and loss	
Securities held for trading	21,777
Loans and receivables	
Market and client debtors	373,749
Trade and other debtors	3,106
Amounts due from members	152
Available for sale	
Investments available for sale	179
Cash	
Cash and cash equivalents	11,697
Total financial assets at 31 March 2011	**410,660**
Financial liabilities measured at fair value through profit and loss	
Securities held for trading	(8,784)
Financial liabilities at amortised cost	
Market and client creditors	(352,997)
Trade and other creditors	(6,898)
Amounts due to members	(1,037)
Long-term loan	(6,000)
Total financial liabilities at 31 March 2011	**(375,716)**

16 Financial instruments (continued)

16.2 Risk management overview

The Board approves the risk appetite and the independent Risk Management function monitors the Partnership's risk profile against this appetite

- The Risk Management function, under delegated authority from the Board, has responsibility for ensuring effective risk management and control, and
- Heads of businesses are responsible for the identification and management of risk in their business lines

The risk management framework consists of regular, frequent reporting of the main sources of risk and regular committees to ensure risk awareness by senior management and ultimately the Board The independent Risk Management function oversees all risk taking activities, monitors limits, produces risk reports, independently verifies valuations and risk measurements, and sets the agenda for risk committee meetings

The risk management framework is documented in the Peel Hunt Risk Management manuals Both the manuals and the limits are reviewed and reapproved at least annually The Risk Management function applies these policies and enforces these limits as part of the day-to-day trading activities of the trading and sales businesses The key risks identified and controlled are market, credit, operational and liquidity risk

16.3 Market risk

Market risk is the risk that the Partnership's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, equity prices and foreign exchange rates

The Partnership controls market risk using strict aggregate trading and individual position limits for the Market Making and Agency businesses Risk Management reviews trading risk directly from the trading systems and is responsible for monitoring and reporting end of day limit usage to senior management and heads of business lines

Market risk comprises of three types of risk equity price risk, interest rate risk and foreign currency risk

16.3.1 Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices The Partnership is exposed to equity price risk through changes in equity prices and the volatility of equity prices on its equity holdings which comprise of mainly securities held for trading, predominately arising from market making, as well as investments available-for-sale

The Partnership conducted a sensitivity analysis on a 5% increase/decrease in equity prices on securities held for trading and investments available-for-sale Assuming all other variables remain constant, the sensitivity analysis results in a profit or loss change of +/- £1 0m

16 Financial instruments (continued)

16.3 Market risk (continued)

16.3.2 Interest rate risk

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates Interest rate risk arises on exposures relating to excess funds in cash and loan facilities with credit institutions

The Partnership conducted a sensitivity analysis on a 100bps increase in interest rates Assuming all other variables remain constant, the sensitivity analysis results in a decrease in profits of £0 02m for the financial year

16.3.3 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates Currency risk arises on financial instruments that are denominated in a currency other than Sterling

Currency exposure comprises of the following unmatched assets and liabilities denominated in currencies other than the Partnership's functional currency, expressed in Sterling equivalent

	£'000
Net assets	
Euro	1,835
US Dollar	933
Other	167
Total currency exposure at 31 March 2011	**2,935**

The Partnership conducted a sensitivity analysis on a 5% strengthening and weakening in Sterling against foreign currencies exposures at 31 March 2011 Assuming all other variables remain constant, the sensitivity analysis results in a profit or loss change of +/- £0 2m

16.3.4 Fair value measurement

The table on the next page shows the financial instruments carried at fair value by the following fair valuation hierarchy in accordance with IFRS7

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

16 Financial instruments (continued)

16.3 Market risk (continued)

16.3.4 Fair value measurement (continued)

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss				
Securities held for trading	21,615	162	-	21,777
Available for sale				
Investments available for sale	179			179
Total financial assets at 31 March 2011	**21,794**	**162**	**-**	**21,956**
Financial liabilities at fair value through profit and loss				
Securities held for trading	(8,711)	(73)		(8,784)
Total financial liabilities at 31 March 2011	**(8,711)**	**(73)**	**-**	**(8,784)**

The carrying amount of financial instruments other than those designated at fair value, are not significantly different from fair value

16.4 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation

The Partnership quantifies and monitors credit risk by managing counterparty credit exposure on pre-settlement risk and settlement risk All counterparty credit exposures arising from the Partnership's business activities are captured within one of these measures

Pre-settlement risk is equal to the loss the Partnership would suffer if the counterparty fails to deliver securities, or pay for securities as agreed (DVP) The exposure is measured from trade date on settlements and is calculated based upon an estimate of the replacement cost of the trade if the counterparty were to fail, based on the difference between the original transaction value and the market value of the unsettled trade

Free deliveries represent settlements where the parties agree that the seller first delivers the security being sold to the buyer (FOP) The settlement risk exposure on free deliveries for securities sold is the full market value of the security underlying the trade

Risk Management performs weekly reviews on counterparty credit risk exposures

16 Financial instruments (continued)

16.4 Credit risk (continued)

The Partnership is also exposed to credit risk relating to non-trade receivables and other non-trade debtors Exposures to this risk are monitored on a monthly basis by reviewing outstanding balances The table below reflects the age analysis of financial assets

	Neither past due nor impaired	Past due but not impaired				Impaired	Carrying value before impairment
		0-3 months	3-6 month	6-12 month	> 1 year		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets measured at fair value through profit and loss							
Securities held for trading	21,777	-	-	-	-	110	21,887
Loans and receivables							
Market and client debtors	338,999	30,175	4,469	90	16	-	373,749
Trade and other debtors	1,579	20	61	40	-	49	1,749
Available for sale							
Investments available for sale	179	-	-	-	-	96	275
Cash							
Cash and cash equivalents	11,697	-	-	-	-	-	11,697
Total financial assets at 31 March 2011	**374,231**	**30,195**	**4,530**	**130**	**16**	**255**	**409,357**

The Partnership's counterparty and credit risk exposures are categorised by the following credit ratings (where credit ratings could be obtained)

Rating	**%**
AAA-A rated	59 9%
BBB-B rated	0 9%
Un-rated institutions and brokers	27 0%
Other	12 2%
Total	**100 0%**

16 Financial instruments (continued)

16.5 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset

Liquidity risk is managed by regular reporting of sources and uses of funds to senior management and a further review of surplus funding is conducted in the monthly Risk Committee

The Partnership's exposure to liquidity mainly arises from the market making and fixed income trading activities

The maturity analysis below analyses the Partnership's cash outflows relating to contractual liabilities

	Less than 1 year	1 - 2 years	2 5 years	Greater than 5 years	Total
	£'000	£'000	£'000	£'000	£'000
Market and client creditors	352,997	-	-	-	352,997
Trade and other creditors	1,889	-	-	-	1,889
Long-term loan	-	-	-	6,000	6,000
Overdraft	883	-	-	-	883
Total financial liabilities at 31 March 2011	**355,769**	**-**	**-**	**6,000**	**361,769**

17 Bank overdraft

	£'000
Bank overdraft at 31 March 2011	**883**

The bank overdraft at 31 March 2011 relates to an overdrawn balance with KBC Securities at 31 March 2011

18 Long-term loan

	£'000
Long-term loan at 31 March 2011	**6,000**

Pursuant to the Subordinated Loan Agreement between Advantage Insurance Company Limited and Peel Hunt Holdings Limited dated 26 November 2010, a loan of £6m was granted to Peel Hunt Holdings Limited

18 Long-term loan (continued)

This loan was subsequently transferred to Peel Hunt LLP, in accordance with the Contribution Agreement and the Subordinated Loan Agreement

The final repayment date of the loan is 30 June 2019 and the rate of interest is 8% per annum

19 Members' interests

	Members' capital £'000	Amounts due from members £'000	Amounts due to members £'000	Other reserves £'000	Total £'000
Capital introduced during the year	35,920	-	-	-	35,920
Drawings and profit share distributions	-	-	429	-	429
Loans to members	-	(152)	-	-	(152)
Profit for the financial year	-	-	-	608	608
Allocated profits	-	-	608	(608)	
Members' interest at 31 March 2011	**35,920**	**(152)**	**1,037**	-	**36,805**

20 Cash used in operations

Cash used in operations as per the Cash Flow Statement comprise of the following

	£'000
Profit for the period	608
Adjustments for non-cash items	
Depreciation and amortisation	133
Impairment loss on available-for-sale investments	96
Decrease in net securities held for trading	2,127
Change in working capital	
Increase in net market and client debtors	(6,016)
Increase in trade and other debtors	(1,297)
Increase in net amounts due to members	277
Decrease in trade and other creditors	(1,039)
Cash used in operations	**(5,111)**

Cash used in operations does not include working capital acquired by the Partnership as part of the Business Transfer Net assets, including cash and cash equivalents of £16 2m, were contributed to the Partnership at close of business 10 December 2010 following the Business Transfer which is described further in Note 21

21 Net assets acquired

Pursuant to the Contribution Agreement dated 10 December 2010, Peel Hunt Holdings Limited agreed to contribute its business and assets to the Partnership (the Business Transfer) which represents Peel Hunt Holding Limited's capital contribution as the Corporate Member of the Partnership

At close of business 10 December 2010, the following assets were acquired by the Partnership at the amount equal to the carrying and fair value of the relevant assets at this date

	Carrying and fair value contributed 10 Dec 2010 £'000
Non-current assets	
Tangible assets	1,717
Intangible assets	140
Current assets	
Securities held for trading	28,928
Market and client debtors	269,635
Trade and other debtors	1,809
Current liabilities	
Securities held for trading	(13,808)
Market and client creditors	(254,899)
Trade and other creditors	(7,791)
Non-current liabilities	
Long-term loan	(6,000)
Total working capital	**19,731**
Cash and cash equivalents	16,189
Net assets acquired and Corporate Member capital contributed on 10 December 2010	**35,920**

22 Comparative results

No comparatives were disclosed in the financial statements as the date of incorporation of the Partnership was 11 August 2010 However, for comparative purposes of the business, the following results are disclosed

22.1 Statement of comprehensive income:

The statement of comprehensive income for the Partnership related to the period ended 31 March 2011 is shown below For the period prior to the Business Transfer, the comprehensive income of Peel Hunt Holdings Limited relating to the period 1 January 2010 to 10 December 2010 and the prior financial year are shown below

	Period ended 31 March 2011	Period to 10 December 2010 (pro forma)	Total for the 15 month period (pro forma)	Prior year ended 31 December 2009
	Peel Hunt LLP £'000	Peel Hunt Holdings Limited £'000	Total £'000	Peel Hunt Holdings Limited £'000
Revenue	9,466	30,540	**40,006**	66,795
Staff costs	(2,346)	(16,301)	**(18,647)**	(30,377)
Depreciation and amortisation	(133)	(510)	**(643)**	(726)
Other operating expenses	(3,867)	(10,955)	**(14,822)**	(15,458)
Impairment losses on investments available for sale	(96)	-	**(96)**	(250)
Profit from operations	3,024	2,774	**5,798**	19,984
Dividend income / (expense)	44	1,174	**1,218**	(2,736)
Other Income	43	97	**140**	87
Finance income	27	4	**31**	696
Finance cost	(209)	(61)	**(270)**	(728)
Profit for the year before tax and members' remuneration	2,929	3,988	**6,917**	17,303
Members' remuneration	(2,321)	-	**(2,321)**	-
Tax	-	(1,207)	**(1,207)**	(5,293)
Profit for the period	**608**	**2,781**	**3,389**	**12,010**
Other comprehensive income	-	(399)	**(399)**	(875)
Total comprehensive income for the period	**608**	**2,382**	**2,990**	**11,135**

22 Comparative results (continued)

22.2 Statement of financial position:

The statement of financial position at 31 March 2011 of the Partnership and comparative results of Peel Hunt Holdings Limited for the periods as at 10 December 2010 (immediately following the Business Transfer) and 31 December 2009 are shown below

	Peel Hunt LLP	Peel Hunt Holdings Limited	
	31 March 2011	10 December 2010 (pro forma)	31 December 2009
	£'000	£'000	£'000
ASSETS			
Non-current assets			
Tangible assets	1,644	-	2,094
Intangible assets	215	52	72
Investments available-for-sale	179	786	2,238
Investment in Peel Hunt LLP		35,920	-
Current assets			
Securities held for trading	21,777	-	66,215
Securities designated at fair value through profit or loss	-	72	330
Market and client debtors	373,749	-	201,939
Trade and other debtors	3,106	616	797
Deferred tax	-	-	292
Amounts due from members	152	-	-
Cash and cash equivalents	11,697	-	34,842
Total assets	**412,519**	**37,446**	**308,819**
LIABILITIES			
Current liabilities			
Securities held for trading	(8,784)	-	(16,127)
Market and client creditors	(352,997)	-	(174,597)
Amounts due to members	(1,037)	-	-
Trade and other creditors	(6,898)	-	(33,777)
Corporation tax	-	-	(375)
Provisions	-		(589)
Bank overdraft	(883)	-	(2,688)
Non-current liabilities			
Deferred income	-	-	(959)
Long-term loan	(6,000)	-	-
Total liabilities	**(376,599)**	**-**	**(229,112)**
Net assets	**35,920**	**37,446**	**79,707**

23 Operating lease commitments

At 31 March 2011 the Partnership was committed to making the following payments in respect of operating leases that expire as follows

	Land and buildings £'000
Future leasing fees	
Within one year	750
	750
Subleasing	
Within one year	[illegible]
	[illegible]

The lease for the current occupied premises is due to expire on 24 December 2011

Subsequent to the balance sheet date, the Partnership entered into a lease agreement on 24 June 2011 to occupy new premises, which is due to expire on 23 June 2025

During the period ended 31 March 2011 the Company sub-let a leasehold property This lease expired during March 2011

24 Related party transactions

During the year, the following transactions were carried out with related parties

24.1 Transactions with intergroup companies

As disclosed in notes 9 and 11, loans were payable to or receivable from intergroup companies These loans do not have any repayment terms are non-interest bearing

24.2 Key management remuneration

Remuneration paid to Designated Members amounted to £259,557 which represents guaranteed drawings for the financial year ended 31 March 2011

The highest paid Designated Member's remuneration was £38,443

24.3 Loans to members

During the period under review, loans to members amounted to £152,000

24 Related party transactions (continued)

24.4 Acquisition of business

In accordance with the Contribution Agreement dated 10 December 2010 between Peel Hunt Holdings Limited and Peel Hunt LLP, Peel Hunt Holdings Limited agreed to contribute its business and assets as a going concern to the Partnership by way of a capital contribution in specie This business was acquired at close of business 10 December 2010 The carrying and fair value of assets contributed to the Partnership was £35 9m

Peel Hunt Holdings Limited is the Corporate Member of the Partnership

25 Subsequent events

Since 31 March 2011 to the date of approving the Financial Statements, there have been no significant subsequent events

26 Ultimate controlling party

The Partnership is ultimately controlled by Macsco 22 Limited The results of the Partnership are consolidated at the Macsco 22 Limited group level The consolidated accounts of Macsco 22 Limited can be obtained from 111 Old Broad Street, London EC2N 1PH