

# Cazenove Capital Holdings Limited

*Interim report and consolidated condensed financial statements -  
six months to 30 June 2010*



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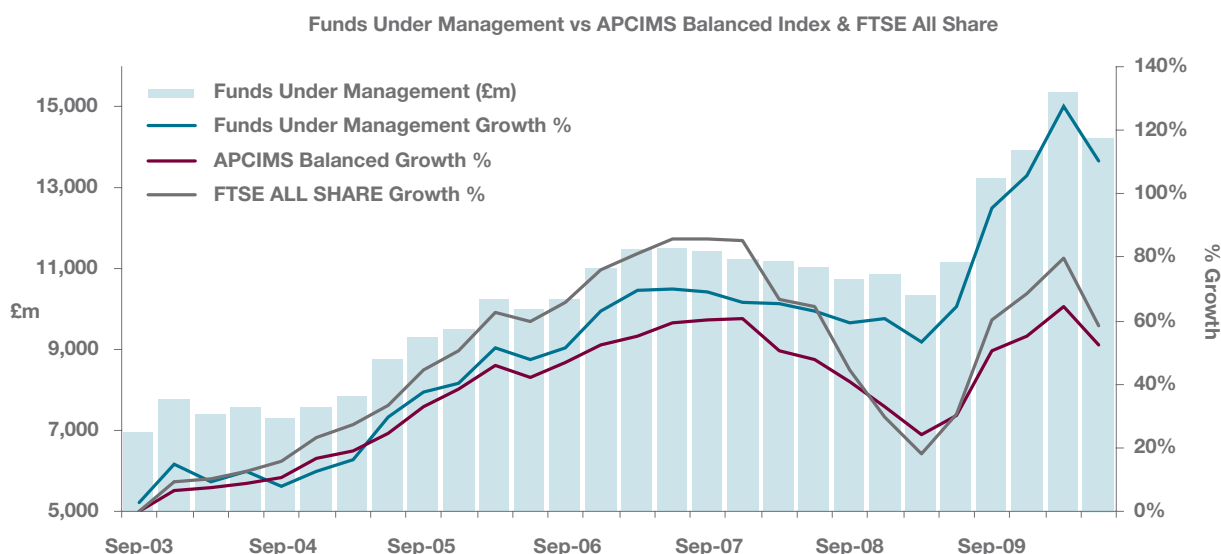


## CHIEF EXECUTIVE'S REPORT

### Business Update

The first half of 2010 has seen equity markets losing the clear directional trends that were the main feature of last year. A burst of optimism in February and March was followed by a relapse in the second quarter. Investors have had to digest a succession of events and a growing list of worries, both political and economic, which has begun to erode optimism about the strength of the economic recovery. Shareholders who read or listen to our thoughts on the outlook for markets will know that this turn of events has not surprised us, but nor has it made for an easy background against which to manage the assets entrusted to us by our clients. The end result is a six month period that has seen equities fall in value while government bonds (at least those of countries viewed as stable) have again benefited from an increase in investor nervousness as safe havens have been sought.

The 31% increase in net revenue to £48.9m compares well with the first half of 2009. Asset management results often reflect the influence of prior periods and this growth can largely be attributed to the strong inflow of funds and rising markets seen in the second half of last year. However, we would caveat against extrapolating this performance into the second part of 2010. Not only will the comparisons become harder (market levels reached their nadir in early 2009) but our hedge funds are all currently below their "high water marks" and look unlikely to produce last year's level of performance fees. At £14.3bn, our assets under management stand just below the all time high reached at the end of the first quarter, reflecting the pull back in markets.



The improvement in revenue has been accompanied by an increase in expenses during the period, for a series of reasons which are covered in detail in the Operating and Financial Review. At the operating level, the outturn is much as expected, with the only significant variance represented by Thornhill additions. The amortisation of share based remuneration is also higher as a result of the rise in our share price following the tender offer earlier in the year.

## CHIEF EXECUTIVE'S REPORT (CONTINUED)

However, there are also significant one off costs involved in the projects to in-source our IT and client catering arrangements from J.P.Morgan Cazenove and complete the integration of Thornhill Holdings Limited ("Thornhill"), which was acquired at the beginning of the year. The financial impact of these projects can be seen from the fact that while profit on ordinary activity after tax of £5.3m represents an increase of 57%, this reduces to £2.6m after project costs, which is below last year's figure of £3.1m. It is unfortunate that the enforced changes to our infrastructure have coincided with the first really interesting acquisition opportunity that we have seen, but the bulk of the investment in both is now behind us.

Not surprisingly, these projects have absorbed considerable time as well as financial resource during the period. The IT project progresses well and we anticipate that this will be completed on time and budget during the summer. The project has been an unavoidable expense for shareholders because a number of key services provided to us by J.P.Morgan Cazenove are being withdrawn following the full takeover by J.P.Morgan, but this does now leave your Company able to "stand on its own two feet" for both technology and client facilities.

In order to make the cost savings that will ensure the Thornhill acquisition is accretive to shareholders, there have inevitably been redundancies. The cost of these redundancies represents the major part of the £1.4m of exceptional expenses relating to the transaction that have been taken in this accounting period. The client teams in both London and Edinburgh are now integrated into our Private Client business, while the reaction of their clients is almost universally positive. The transferring of client assets from the existing custodian is well underway, although it is proving to be a slower and somewhat more tortuous process than we had anticipated.

Notwithstanding the distraction of integrating the Thornhill teams, the **Wealth Management** business has had a good six months. Both Private Clients and Charities have seen good flows of new clients with net sales of approximately £0.35bn. That we continue to look after our clients well in these difficult times is borne out by the MDRC independent survey of client satisfaction, in which we were the highest ranked investment manager for the second year in succession. We are also delighted with our progress in Edinburgh, where we believe we will be able to increase our market share significantly.

Despite achieving excellent gross sales, **Investment Funds** has had a more difficult period after the strong growth in assets seen in 2009. We have seen some redemptions from our hedge funds resulting from the departure of one manager and a period of disappointing performance. It has been deeply frustrating for our managers (and indeed our clients) to have been proven broadly right in our expectation that the financial crisis would eventually become a sovereign one, and yet singularly fail to make money out of that view. We had adopted a strategy of being long in well-capitalised, undervalued, low volatility shares which we believed would defend fund net asset values when the inevitable fall-out from increasing sovereign debt came. However the recent correction has seen the share prices of such companies fall pretty much in line with most other equities.

Despite this positioning, the performance of our long-only funds has been more satisfactory, with the majority of both equity and fixed income funds producing first or second quartile performance over the year to date. The UK Opportunities and UK Smaller Companies funds deserve special mention, having both produced positive returns despite the market's fall. The defensive stance adopted by our Multi-Manager funds has also been rewarded in recent weeks and all the team's funds are in the upper quartiles.

We saw strong sales from the Multi-Manager, Credit and (in the early part of the period) European funds. However, these were subsequently offset by redemptions from the European products. In the main, this represented clients' assessments of European markets rather than any reflection on the relative merits of our funds, with some significant clients taking the view that the weakest link in the sovereign debt chain was the Eurozone. European equities represent a significant portion of our assets under management and as our clients made asset allocation decisions to reduce Europe, we suffered redemptions.

## CHIEF EXECUTIVE'S REPORT (CONTINUED)

Looking at the market outlook for the second half of the year, the majority of the leading indicators we watch suggest that the pace of recovery in many developed economies is beginning to moderate. Tough fiscal action combined with dull trends in household spending are further impediments, whilst we also fear that the rate of growth in China is set to decelerate. This is not a helpful background for markets, despite the fact that valuations do not look unattractive. It is also hard to imagine that industrial cyclicals will retain their leadership of markets in the face of decelerating growth, so we will hold our nerve on the defensive, value stance we have adopted towards equities.



Andrew Ross  
Chief Executive

## OPERATING AND FINANCIAL REVIEW

### Non Statutory Consolidated Income Statement Period ended 30 June 2010

	30.06.10	30.06.09	Variance
	£'000	£'000	
<b>Turnover</b>			
Investment management fees	39,761	30,437	31%
Commission and other revenue	9,176	6,929	32%
<b>Net revenue</b>	48,937	37,366	31%
<b>Operating expenses</b> (excluding depreciation and amortisation of share awards)	(36,044)	(29,178)	(24)%
<b>Earnings before interest, taxation, depreciation and amortisation of share awards (EBITDA)</b>	12,893	8,188	57%
Amortisation of intangibles	(967)	(731)	(32)%
Depreciation of fixed assets	(240)	(58)	(314)%
Amortisation of share based awards and fund based remuneration	(4,762)	(3,220)	(48)%
	(5,969)	(4,009)	(49)%
Interest receivable and similar income	131	456	(71)%
Interest payable and similar charges	(3)	-	
Other finance income	172	136	26%
	300	592	(49)%
<b>Profit on ordinary activities before taxation</b>	7,224	4,771	51%
Income tax expense	(1,961)	(1,413)	(39)%
<b>Profit on ordinary activities after taxation</b>	5,263	3,358	57%
<b>Reconciliation of profit after tax to statutory accounts</b>			
Significant project costs			
- IT separation	(2,234)	(226)	(888)%
- Thornhill acquisition and integration	(1,420)	-	
- Pension Scheme review	(17)	(98)	83%
	(3,671)	(324)	(1,033)%
- Tax impact (at effective rate)	992	96	933%
	(2,679)	(228)	(1,075)%
Profit on ordinary activities after taxation and significant projects	2,584	3,130	(17)%
<b>EBITDA after significant project costs</b>	9,222	7,864	17%
<b>Reconciliation of profit after tax to statutory accounts</b>			
Gain on derecognition of Cazenove Group Limited shares	31	17	82%
<b>Statutory reported profit after tax</b>	2,615	3,147	(17)%

## OPERATING AND FINANCIAL REVIEW (CONTINUED)

### Introduction

The first six months of 2010 have seen our core revenues grow significantly in line with new business wins and market growth, and operating results for the half year show an improvement on the position at this time in 2009. Whilst we should be pleased with the outcome for the first half of the year, we would caution against using these results to predict the outcome for the full year.

### Revenue

Net revenues increased from £37.4m to £48.9m, an increase of 30.7%. Investment management fees and commissions and other revenues have increased by similar margins, up 30.6% and 32.4% respectively. Improved market levels in the first quarter (although these did not persist to the end of the period), the acquisition of Thornhill and client inflows have combined to inflate investment management fees, while commissions and other revenues have seen increased financial planning, commission and structured product revenues offsetting the drop in returns earned on cash balances held in clients' portfolios.

### Operating expenses

Operating expenses have increased significantly, albeit in line with expectations. Headcount has increased in line with business growth, and we have also incurred additional costs as a result of selective remuneration increases for existing staff (particularly where these had previously been restricted) where salaries had not grown in line with market practice. The operating profit also has an impact on the accrual for profit share, which has increased in direct proportion. In addition, the rise in the share price following the tender offer this year resulted in a commensurate increase in the amortisation costs of equity based remuneration.

As planned and disclosed in our annual report, we have been investing in the business through the acquisition of Thornhill and implementing a new IT infrastructure, separate from J.P. Morgan Cazenove. Both of these activities have incurred significant costs this year with a consequential impact on statutory reported profit and return to shareholders. Costs of £1.4m in relation to the acquisition and integration of Thornhill were as budgeted, and are expected to achieve annualised savings of £1.5m in future, which fulfils our stated objective of ensuring the deal is ultimately accretive to shareholders. The IT separation project has incurred costs of £2.2m to date, which does reflect the bulk of budgeted costs; it is anticipated that the project will conclude on both time and budget in the third quarter. As stated in the Chief Executive's report, whilst this was an unavoidable cost, it does ensure that the Company will, in future, be able to operate as a stand-alone entity, without relying on its former parent. As a peripheral part of the IT separation project, we also took the opportunity to refresh some of our client meeting suites, and introduce client catering, at a total cost of £0.2m.

### EBITDA

The above movements have resulted in earnings before interest, tax, depreciation, amortisation of share awards and significant, non-recurring project expenditure increasing by £4.7m (57.3%) to £12.9m.

### Share based remuneration

Further conditional shares were issued in early 2010 through which a proportion of employees' 2009 remuneration was deferred. The increase in the value of the Company's shares following the 2010 tender offer resulted in an increase in the amortisation cost of these and other awards.

### Interest receivable

Interest receivable for January to June of £0.13m is down 71.3%, despite the significant cash balances held by the Group, mainly due to a full half-year effect of the low base rate since this was decreased in March 2009.

## OPERATING AND FINANCIAL REVIEW (CONTINUED)

### Significant project costs

Three projects have been classified as significant projects insofar as each will incur large expenses outside the scope of the Group's normal operations. These are:

- (i) IT separation
- (ii) acquisition of Thornhill Holdings Limited
- (iii) defined benefit pension scheme – restructuring and cessation of further accruals

As expected, IT separation project expenses have increased significantly in 2010 and will continue until the completion of the project in the second half of the year. Thornhill project costs mainly consist of restructuring costs following the purchase as well as other associated professional fees. Further professional fees concerning the ceasing of the service accrual to the Defined Benefit Pension Scheme from 31 December 2009, as discussed in the 2009 annual report, have been incurred since the start of 2010, however this project is now complete.

### Tax

The income tax charge for the period was £2.0m; an effective rate of 27% of statutory profit before tax. The tax charge for the six month period is based on estimated projected profits for the whole of the year and compares to an effective rate of 23% for 2009.

### Profit after tax

Profit on ordinary activities after taxation but before significant project costs increased by 56.7% from £3.4m to £5.3m.

The variation between the statutory reported profit after tax on continuing operations and the ordinary profit after tax and significant project costs shown in the non-statutory consolidated income statement is £0.03m (30.06.09: £0.02m). This arose as a consequence of the Cazenove Capital Management Employee Benefit Trust ('EBT') holding shares in Cazenove Group Limited. These shares were held solely for the purposes of meeting obligations to employees as part of the long-term incentive plans of the Group. During the period, the transfer of shares to employees as a result of vesting or exercise crystallised the revaluation gains recorded under the provisions of IAS 39 on these shares between the date of grant of the awards and the transfer date. The final exercises under these legacy awards took place in January 2010.

The Directors regard these gains as outside the ordinary course of business and the Group receives no financial benefit from these events. However, accounting standards require their inclusion in the statutory income statement and, in the past, their materiality has been such that the Directors wished to clarify this point for shareholders.

For the same reasons, there is an equal and opposite charge to the Statement of Recognised Income and Expense and, as a result, the net assets of the Group remain unaffected.

### Financial assets

The value of financial assets held in the EBT to satisfy obligations under long-term incentive plans fell by £0.3m, primarily as a result of awards vesting as well as a small decrease in the valuation of the funds held.

## OPERATING AND FINANCIAL REVIEW (CONTINUED)

### Pensions

As mentioned above, the Group ceased service accrual of the defined benefit scheme with effect from 31 December 2009. From 1 January 2010 all Group employees (excluding Jersey employees who have a separate defined contribution arrangement) have access to a defined contribution stakeholder pension scheme operated by Zurich Corporate Pensions.

The Zurich defined contribution scheme replaces an earlier defined contribution arrangement operated by Threadneedle Pensions.

The Trustees, the Investment Managers and the Company continue to work together to ensure that the scheme will be adequately funded to meet its liabilities.

### Dividends

A dividend of 3.5p per share was paid on 31 March 2010 (2009: 3.0p).

### Tender offer

The tender offer made to the shareholders by the EBT in March succeeded in purchasing 10,344,421 shares (representing 99.5% of the shares tendered) at a price of 61 pence per share.



Carolyn Sims  
Chief Financial Officer

## CONSOLIDATED INCOME STATEMENT (UNAUDITED)

### Period ended 30 June 2010

	Note	30.06.10	30.06.09
		£'000	£'000
<b>Continuing operations</b>			
<b>Revenue</b>			
Investment management fees		39,761	30,437
Commission and other revenue		9,176	6,929
<b>Net revenue</b>		48,937	37,366
Operating expenses		(45,684)	(33,511)
<b>Operating profit</b>		3,253	3,855
Finance income		303	592
Finance costs		(3)	-
Gain on derecognition of Cazenove Group Limited shares	5	31	17
<b>Profit before tax</b>		3,584	4,464
Income tax expense	6	(969)	(1,317)
<b>Profit attributable to equity holders of the Company</b>		2,615	3,147

	Note	Pence per share	Pence per share
<b>Earnings per share</b>	7		
<b>Basic</b>			
From continuing operations		1.12	1.45
From gain on derecognition of Cazenove Group Limited shares		(0.02)	(0.01)
From continuing operations excluding gain on derecognition of Cazenove Group Limited shares		1.10	1.44
<b>Diluted</b>			
From continuing operations		1.04	1.38
From gain on derecognition of Cazenove Group Limited shares		(0.01)	(0.01)
From continuing operations excluding gain on derecognition of Cazenove Group Limited shares		1.03	1.37

Notes 1 to 14 form part of these condensed financial statements

## CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE (UNAUDITED)

### Period ended 30 June 2010

	Note	30.06.10	30.06.09
		£'000	£'000
<b>Profit for the period</b>		2,615	3,147
Defined benefit plan actuarial losses	9	(641)	(5,700)
Net change in fair value of available-for-sale financial assets	9	(1)	(454)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	9		
- Cazenove Group Limited shares		(31)	(17)
- Cazenove Capital Funds' shares		(220)	(195)
Other pension movement		-	(21)
Current taxation	9	182	-
Deferred taxation	9	(31)	2,083
<b>Expense recognised directly in equity</b>		<b>(742)</b>	<b>(4,304)</b>
<b>Total recognised income/(expense) for the period</b>		<b>1,873</b>	<b>(1,157)</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

### Period ended 30 June 2010

	Note	30.06.10	30.06.09
		£'000	£'000
Profit for the period	9	2,615	3,147
Other recognised losses	9	(742)	(4,304)
<b>Total recognised income/(expense) for the period</b>		<b>1,873</b>	<b>(1,157)</b>
Amortisation charge	9	769	1,424
Proceeds from share option exercises	9	5,616	2,997
Dividends	9	(8,538)	(7,317)
Share tenders	9	(9,933)	(9,614)
Share issue	9	6,013	-
Distribution of Cazenove Group Limited shares		-	(125)
<b>Net decrease in shareholders' funds</b>		<b>(4,200)</b>	<b>(13,792)</b>
<b>Opening shareholders' funds</b>		<b>78,694</b>	<b>80,696</b>
<b>Closing shareholders' funds</b>		<b>74,494</b>	<b>66,904</b>

## CONSOLIDATED BALANCE SHEET (UNAUDITED)

### 30 June 2010

	Note	30.06.10	31.12.09
		£'000	£'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	13	9,020	2,128
Property, plant and equipment		2,869	2,237
Financial assets		3,415	3,790
Deferred tax asset		2,742	2,318
<b>Total non-current assets</b>		<b>18,046</b>	<b>10,473</b>
<b>Current assets</b>			
Trade and other receivables		65,791	46,479
Financial assets		192	175
Cash and cash equivalents		69,076	85,775
<b>Total current assets</b>		<b>135,059</b>	<b>132,429</b>
<b>Total assets</b>		<b>153,105</b>	<b>142,902</b>
<b>Non-current liabilities</b>			
Provisions	8	(1,626)	(1,489)
Deferred tax liability		(1,245)	-
Liability for share based payments		(5,044)	(2,074)
<b>Total non-current liabilities</b>		<b>(7,915)</b>	<b>(3,563)</b>
<b>Current liabilities</b>			
Bank overdraft		-	(3,146)
Current tax liabilities		(1,145)	(3,145)
Trade and other payables		(69,551)	(54,354)
<b>Total current liabilities</b>		<b>(70,696)</b>	<b>(60,645)</b>
<b>Total liabilities</b>		<b>(78,611)</b>	<b>(64,208)</b>
<b>Net assets</b>		<b>74,494</b>	<b>78,694</b>
<b>Equity attributable to equity holders of the Company</b>			
Stated capital	9	33,349	27,336
Other reserves	9	5,984	9,318
Retained earnings	9	48,477	51,787
Revaluation reserve	9	1,177	1,429
EBT share reserve	9	(14,493)	(11,176)
<b>Total equity attributable to equity holders of the Company</b>		<b>74,494</b>	<b>78,694</b>

Approved and authorised for issue by the Board on 29 July 2010 and signed on its behalf by:

DL Mayhew (Chairman)

C Sims (Chief Financial Officer)

## CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

### Period ended 30 June 2010

	30.06.10	30.06.09
	£'000	£'000
<b>Cash flows from operating activities</b>		
Operating profit	3,253	3,855
Depreciation of property, plant and equipment	240	58
Amortisation of intangible assets	967	731
IAS 19 non-cash pension	-	271
Equity settled share based payment transactions	3,986	2,745
Non-cash gain/(loss)	36	(193)
<b>Operating cash flows before movements in working capital</b>	8,482	7,467
Change in 'Manager's Box'	(17)	70
Change in trade and other receivables	(19,642)	15,645
Change in trade and other payables	15,333	(19,754)
Change in client funding	330	537
<b>Cash generated by operations</b>	4,486	3,965
Interest paid	(3)	-
Income tax paid	(3,220)	(6,628)
Defined Benefit Pension Scheme cash contributions	(600)	(921)
<b>Net cash flows from operating activities</b>	663	(3,584)
<b>Cash flows from investing activities</b>		
Interest received	131	529
Dividends received	131	86
Purchase of fund based remuneration investments	(478)	-
Acquisition of property, plant and equipment	(519)	-
Acquisition of Thornhill	(200)	-
Payment for other intangible assets	(426)	-
<b>Net cash (used in)/generated by investing activities</b>	(1,361)	615
<b>Cash flows from financing activities</b>		
Tender offers	(9,933)	(9,614)
Proceeds from exercise of share options	5,616	2,997
Ordinary dividends paid	(8,538)	(7,317)
<b>Net cash used in financing activities</b>	(12,855)	(13,934)
<b>Net decrease in cash and cash equivalents</b>	(13,553)	(16,903)
Cash and cash equivalents at the beginning of the financial period	82,629	72,850
<b>Cash and cash equivalents at the end of the financial period</b>	69,076	55,947

## NOTES TO THE ACCOUNTS

### Period ended 30 June 2010

#### 1. Significant accounting policies

Cazenove Capital Holdings Limited (the 'Company') is a Company incorporated in Jersey and tax resident in the United Kingdom. The consolidated condensed financial statements for the period ending 30 June 2010 present the results of the Company and its subsidiaries (together referred to as the 'Group').

The Group's consolidated condensed financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS). These condensed financial statements are presented in accordance with IAS 34 Interim Financial Reporting. They have been prepared on the basis of the accounting policies, methods of computation and presentation set out in the Group's consolidated financial statements for the year ended 31 December 2009, with the addition of an accounting policy for goodwill and the inclusion of client relationships in the intangible assets accounting policy, as a result of the acquisition of Thornhill (see below). The condensed financial statements should be read in conjunction with the Group's audited financial statements for the year ended 31 December 2009.

#### Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, over the net amounts of the identifiable assets acquired and liabilities assumed at the acquisition date.

Goodwill is not amortised but is reviewed for impairment annually.

#### Intangible assets

The cost of acquiring client relationships from a business combination is capitalised as an intangible asset and amortised on a straight line basis over its estimated useful economic life, which is reviewed annually.

## NOTES TO THE ACCOUNTS (CONTINUED)

### Period ended 30 June 2010

#### 2. Segment reporting

For management and internal reporting purposes, the Group is organised into two business segments: Investment Funds and Wealth Management. The principal function of the Investment Funds division is the provision of specialist investment fund management, focusing on UK and European equities, fixed interest and multi-manager. The Wealth Management division is concerned with the management of assets for private clients, charities and pension funds and combines strategic wealth planning advice with specialist investment knowledge. Transactions between the two business segments are undertaken on an arm's length basis on normal commercial terms. All of the Group's fund management activities are undertaken in the United Kingdom and hence relate to a single geographical segment.

	Investment Funds £'000	Wealth Management £'000	Total Group £'000
<b>Period ended 30 June 2010</b>			
<b>Net revenue (all from external customers)</b>			
Net revenue per divisional reporting	17,418	29,569	46,987
Operating expenses netted against divisional revenue	1,803	147	1,950
<b>Net revenue per the consolidated income statement</b>	<b>19,221</b>	<b>29,716</b>	<b>48,937</b>
<b>Profit before tax</b>	<b>2,437</b>	<b>1,147</b>	<b>3,584</b>

	Investment Funds £'000	Wealth Management £'000	Total Group £'000
<b>Period ended 30 June 2009</b>			
<b>Net revenue (all from external customers)</b>			
Reported internally	12,994	22,034	35,028
Reconciling items	2,025	313	2,338
<b>Net revenue per the consolidated income statement</b>	<b>15,019</b>	<b>22,347</b>	<b>37,366</b>
<b>Profit before tax</b>	<b>1,720</b>	<b>2,744</b>	<b>4,464</b>

## NOTES TO THE ACCOUNTS (CONTINUED)

### Period ended 30 June 2010

#### 3. Dividend

A dividend of 3.5 pence per share was paid on 31 March 2010 (2009: 3.0 pence).

#### 4. Pension arrangements

The Group funds the pension arrangements in respect of its employees, who are based in the UK and Jersey.

For employees who joined on or after 6 April 2003, the arrangement is through the Cazenove Capital Management Defined Contribution Pension Plan, a defined contribution scheme, arranged through a stakeholder pension contract, to which Cazenove Capital paid cash contributions of £548,000 during the period ended 30 June 2010 (30.06.2009: £468,000).

For employees who joined Cazenove Capital prior to 6 April 2003, the arrangement was the Cazenove Capital Management Pension Scheme ('the Scheme'), a defined benefit scheme, which was set up on 28 February 2005. This Scheme was closed to future service accrual on 31 December 2009. These Scheme members joined the stakeholder pension scheme with effect from 1 January 2010. Employer contributions of £583,000 were paid to this defined contribution arrangement.

The triennial actuarial valuation of the defined benefit scheme as at 5 April 2009 has now been completed. This showed a loss on technical provisions of £4.1m, which represented a funding level of 86% at that time. This is based upon assumptions used by the actuary for funding purposes, rather than the assumptions prescribed for accounting purposes. The employer agreed with the Trustee that this would be funded at the rate of £1.2m per annum commencing in January 2010. The Group has paid £600,000 in the six months to 30 June 2010.

The interim actuarial valuations for the purposes of these disclosures were carried out on 30 June 2010 by a qualified independent actuary.

The major assumptions used by the actuary for the purposes of these disclosures in relation to the Scheme were as follows:

	30.06.10	31.12.09	30.06.09
	% per annum	% per annum	% per annum
Rate of increase in salaries	n/a	n/a	4.8
Rate of increase in pensions in payment:			
- Pre April 1997	3.0	3.0	3.0
- April 1997- April 2005	3.4	3.4	3.7
- Post April 2005	2.4	2.4	2.5
Discount rate	5.5	5.4	6.3
Inflation	3.5	3.5	3.8
Revaluation in deferment	3.5	3.5	3.8

Under the mortality tables adopted, the assumed future life expectancy at age 60 is as follows:

	30.06.10	31.12.09	30.06.09
Male currently aged 45	28.4	28.3	28.3
Female currently aged 45	30.9	30.8	30.8
Male currently aged 60	26.8	26.7	26.7
Female currently aged 60	29.4	29.3	29.3

## NOTES TO THE ACCOUNTS (CONTINUED)

### Period ended 30 June 2010

#### 4. Pension arrangements (continued)

##### Reconciliation of funded status to balance sheet

	Long-term rate of value at 30.06.10 £'000	Long-term rate of value at 31.12.09 £'000
Total market value of assets	30,235	30,300
Present value of Scheme liabilities	(27,708)	(27,997)
Surplus in the Scheme	2,527	2,303
Asset not recognised due to limit on recognisable surplus	2,527	2,303
Net asset	-	-

The actuarial surplus of £2,527,000 has not been recognised because the Directors do not anticipate receiving any assets from the Scheme.

##### Movement in surplus

	Period ended 30.06.10 £'000	Year ended 31.12.09 £'000
Surplus in Scheme at beginning of period	2,303	7,200
Current service cost	-	(1,300)
Gains on curtailments	-	1,661
Contributions	600	1,809
Other finance income	41	76
Actuarial loss	(417)	(7,143)
Surplus in Scheme	2,527	2,303
Recoverable surplus in Scheme at end of period	-	-

## NOTES TO THE ACCOUNTS (CONTINUED)

### Period ended 30 June 2010

#### 4. Pension arrangements (continued)

##### Analysis of the amount charged to operating profit

	Period ended 30.06.10	Period ended 30.06.09
	£'000	£'000
Current service cost	-	650

##### Analysis of the amount credited to finance income

	Period ended 30.06.10	Period ended 30.06.09
	£'000	£'000
Expected return on Scheme assets	785	650
Interest on Scheme liabilities	(744)	(600)
Net income	41	50

Finance income also comprises interest and dividends received of £262,000, resulting in finance income of £303,000 as disclosed in the consolidated income statement.

##### Analysis of amount recognised in the statement of recognised income and expense ('SORIE')

	Period ended 30.06.10	Period ended 30.06.09
	£'000	£'000
Actual return less expected return on Scheme assets	(570)	(850)
Experience losses on Scheme liabilities	(185)	(550)
Changes in assumptions underlying the present value of Scheme liabilities	338	(4,300)
Add back movement in unrecognised surplus (see below)	(224)	-
Actuarial loss recognised in SORIE	(641)	(5,700)

As the actuarial surplus is no longer recognised, the £224,000 movement during the six month period has not been credited to the SORIE.

## NOTES TO THE ACCOUNTS (CONTINUED)

### Period ended 30 June 2010

#### 5. Gain on derecognition of Cazenove Group Limited shares

An exceptional gain on derecognition of Cazenove Group Limited ('CGL') shares held in the Cazenove Capital Management Employee Benefit Trust ('EBT') amounting to £31,000 (30.06.2009: £17,000) represents the recycling to the income statement of accumulated revaluation gains recognised in the revaluation reserve under the fair value provisions of IAS 39. All CGL shares held for the benefit of employees have now been transferred to the employees.

#### 6. Income tax expense in the income statement

The current tax expense for the period ended 30 June 2010 was calculated based on the estimated average annual effective tax rate. The overall effective tax rate for this period was 27.0% (30.06.2009: 29.5%).

The taxation charge for the period comprises:

	Period ended 30.06.10	Period ended 30.06.09
	£'000	£'000
United Kingdom taxation	1,404	2,215
Overseas taxation	65	37
Deferred taxation	(500)	(935)
	<u>969</u>	<u>1,317</u>

#### 7. Earnings per share

Basic earnings per share has been calculated by dividing the profits attributable to shareholders of £2,615,000 (30.06.2009: £3,147,000) by the weighted average number of shares in issue throughout the period of 234,166,288 (30.06.2009: 216,576,732).

Diluted earnings per share is the basic earnings per share, adjusted for the effect of contingently issuable shares under long-term incentive plans and employee share options remaining capable of exercise, weighted for the relevant period (see table below).

	Period ended 30.06.10	Period ended 30.06.09
	Pence per share	Pence per share
<b>Basic earnings per share</b>	1.12	1.45
<b>Diluted earnings per share</b>	1.04	1.38
<b>From gain on derecognition of Cazenove Group Limited shares</b>		
Basic	(0.02)	(0.01)
Diluted	(0.01)	(0.01)
<b>From continuing operations excluding gain on derecognition of Cazenove Group Limited shares</b>		
Basic	1.10	1.44
Diluted	1.03	1.37

## NOTES TO THE ACCOUNTS (CONTINUED)

### Period ended 30 June 2010

#### 7.1 Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	Period ended 30.06.10	Period ended 30.06.09
	£'000	£'000
Earnings used in the calculation of basic earnings per share from continuing operations	2,615	3,147
Gain on derecognition of Cazenove Group Limited shares	(31)	(17)
Earnings excluding gain on derecognition of Cazenove Group shares	2,584	3,130
Weighted average number of ordinary shares for the purposes of basic earnings per share	234,166,288	216,576,732

#### 7.2 Diluted earnings per share

The earnings used in the calculation of all diluted earnings per share measures are the same as those for the equivalent basic earnings per share measures, as outlined above.

The weighted average number of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	Period ended 30.06.10	Period ended 30.06.09
Weighted average number of ordinary shares used in the calculation of basic earnings per share	234,166,288	216,576,732
Employee options	16,338,320	12,018,375
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	250,504,608	228,595,107

The basic and diluted earnings per share have been calculated and presented in accordance with IAS 33. In the basic calculation, all shares held by the EBT have been excluded, despite the grantees of some of the related share awards being entitled to dividends during the vesting period. In the diluted calculation, the increase in the number of shares has been limited by the non-dilutive effect of 'at the money' options. The Directors believe it appropriate to provide further illustrative disclosure of the earnings per share calculation based on the total number of shares in issue and also on the total number of authorised shares.

## NOTES TO THE ACCOUNTS (CONTINUED)

### Period ended 30 June 2010

#### 7. Earnings per share (continued)

	Period ended 30.06.10	Period ended 30.06.09
	Pence per share	Pence per share
<b>Illustrative earnings per share based on shares in issue</b>		
From continuing operations	1.02	1.30
From gain on derecognition of Cazenove Group Limited shares	(0.01)	(0.01)
From continuing operations excluding gain on derecognition of Cazenove Group Limited shares	1.01	1.29
<b>Illustrative earnings per share based on authorised shares</b>		
From continuing operations	0.75	1.05
From gain on derecognition of Cazenove Group Limited shares	(0.01)	(0.01)
From continuing operations excluding gain on derecognition of Cazenove Group Limited shares	0.74	1.04

#### 8. Provisions

	Reinstatement provision £'000
<b>Non-current</b>	
Balance at 1 January 2009	1,526
Provisions utilised during the year	(37)
<b>Balance at 31 December 2009</b>	1,489
Provisions made during the period	137
<b>Balance at 30 June 2010</b>	1,626

The reinstatement provision of £1,489,000 relates to costs to be incurred in reinstating the Group's premises at 12 Moorgate, London to its original state prior to the expiry of the lease in June 2023. The provision of £137,000 made during the period relates to costs to be incurred in reinstating Thornhill's premises at 16 Palace Street, London to its original state prior to the expiry of the lease in May 2020. There is a corresponding reinstatement cost non-current asset for both of these provisions.

## NOTES TO THE ACCOUNTS (CONTINUED)

### Period ended 30 June 2010

#### 9. Stated capital and reserves

	Attributable to equity holders of the Company					
	Retained earnings	Other reserves	Revaluation reserve	EBT share reserve	Stated capital	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 31 December 2009</b>	51,787	9,318	1,429	(11,176)	27,336	78,694
Profit for the period	2,615	-	-	-	-	2,615
Dividends	(8,538)	-	-	-	-	(8,538)
Share issue (see below)	-	-	-	-	6,013	6,013
Share tenders (see below)	-	-	-	(9,933)	-	(9,933)
<b>Pensions</b>						
Actuarial loss	(641)	-	-	-	-	(641)
Deferred taxation	151	-	-	-	-	151
<b>EBT and equity amortisation</b>						
Amortisation charge	-	769	-	-	-	769
Decrease in own shares	(1,000)	-	-	1,000	-	-
Amortisation relating to exercised/lapsed shares	4,103	(4,103)	-	-	-	-
Recycling gain on derecognition - CGL	-	-	(31)	-	-	(31)
Recycling gain on derecognition - other	-	-	(220)	-	-	(220)
Proceeds from share exercises	-	-	-	5,616	-	5,616
Current taxation	-	182	-	-	-	182
Deferred taxation	-	(182)	-	-	-	(182)
<b>Revaluations</b>						
Available-for-sale revaluations	-	-	(1)	-	-	(1)
<b>Balance at 30 June 2010</b>	<b>48,477</b>	<b>5,984</b>	<b>1,177</b>	<b>(14,493)</b>	<b>33,349</b>	<b>74,494</b>

## NOTES TO THE ACCOUNTS (CONTINUED)

### Period ended 30 June 2010

#### 9. Stated capital and reserves (continued)

##### Stated capital

	Authorised ordinary shares of no par value	Allotted, issued and fully paid ordinary shares of no par value	
	Number of shares	Number of shares	£'000
<b>Balance at 31 December 2009</b>	300,000,000	243,934,732	27,336
Shares issued on 5 January 2010	-	12,527,385	6,013
Increase in shares on 12 April 2010	50,000,000	-	-
<b>Balance at 30 June 2010</b>	350,000,000	256,462,117	33,349

At the AGM on 12 April 2010, shareholders approved an increase in the authorised stated capital of the Company from 300,000,000 to 350,000,000 ordinary shares of no par value.

##### Share issue

12,527,385 shares, with a fair value of £6,013,000, were issued on 5 January 2010 as part of the consideration for Thornhill Holdings Limited (see note 13).

##### Share tenders

Share tenders of £9,933,000 includes the tender offer made to shareholders by the EBT in March 2010 which succeeded in buying 10,344,421 shares at a price of 61p per share, plus small private tenders made by individual shareholders at their request, at the agreed tender price of 61p per share.

## NOTES TO THE ACCOUNTS (CONTINUED)

### Period ended 30 June 2010

#### 10. Capital commitments

Capital commitments contracted but not provided for at the balance sheet date, are as follows:

	30.06.10	31.12.09
	£'000	£'000
Intangible assets	153	172
Property, plant and equipment	2	400
	155	572

#### 11. Contingencies

The Board is not aware of any contingencies requiring disclosure.

#### 12. Related parties

##### Related party relationships

Related party relationships in the Group include relationships with subsidiaries, key management personnel, post-employment benefit plans and close family members of key management personnel.

##### Transactions with key management personnel

Mr Power, Mr Mayhew, Sir Roger Hurn and Sir Sydney Lipworth were Directors of Cazenove Group Limited, and all resigned on 4 January 2010 with the exception of Mr Power who resigned on 30 June 2010. Mr Mayhew and Mr Power were also Directors of J. P. Morgan Cazenove Limited and resigned on 30 June 2010. The lease on 12 Moorgate, the Company's principal place of business, was, at the time of the incorporation of the partnership Cazenove & Co. (now J. P. Morgan Cazenove Limited), held by Mr Power and three former partners. On 5 May 2004, the lease was assigned to Cazenove Capital Management Limited (a wholly-owned subsidiary of Cazenove Capital Holdings Limited), but Mr Power and the three former partners remained as guarantors of the lease. On 16 September 2003, the shareholders of Cazenove Group plc (the parent company of J. P. Morgan Cazenove Limited at the time), in general meeting, approved the granting of an indemnity to Mr Power, along with the three other former partners, in respect of this residual liability as guarantors of the lease. Subject to these exceptions, no Director was a party to, or had an interest in, any significant contract or arrangement with the Company or its subsidiaries during the period or to the date of this report.

##### Key management personnel compensation

In addition to their salaries, the Group also provides non-cash benefits to Directors and executive officers, and contributes to defined contribution plans on their behalf.

Executive officers also participate in the Group's share option programme.

## NOTES TO THE ACCOUNTS (CONTINUED)

### Period ended 30 June 2010

#### 13. Acquisition of subsidiary

The Company entered an agreement to purchase the entire share capital of Thornhill Holdings Limited ('Thornhill'). Thornhill is the parent company of Thornhill Investment Management Limited, an investment management firm, and Thornhill Unit Trust Managers Limited, a manager of unit trusts and authorised corporate director of a number of open-ended investment companies. The acquisition completed on 5 January 2010. On 5 February 2010, Thornhill was transferred from the Company to Cazenove Capital Management Limited.

Each share of Thornhill Holdings Limited was purchased for 21.98p cash plus 0.4099 shares in the Company, a total consideration of approximately £12.7m. The fair value of the 12,527,385 consideration shares issued was approximately £6.0m, based on the Company's share price at the time of 48p, which resulted from the tender offer made in 2009.

Thornhill had group net assets (excluding intangible assets) of £6.5m as at 5 January 2010 and annual rental obligations under leases expiring in 2020 of £475,000. A breakdown of the recognised amounts of identifiable assets acquired and liabilities assumed is as follows:

<b>Assets</b>	<b>£m</b>
Tangible assets	0.6
Trade debtors	0.2
Prepayments and accrued income	1.1
Cash	6.5
	<u>8.4</u>
<b>Liabilities</b>	<b>£m</b>
Trade creditors	0.6
Corporation tax creditor	0.1
Social security and other taxes	0.1
Accruals and deferred income	1.1
	<u>1.9</u>
<b>Net assets</b>	<b>£m</b>
	<u>6.5</u>

Further to the annual impairment review undertaken by Thornhill Group at the end of 2009 it is our opinion that the fair value of net assets reported above, along with the intangible assets acquired, are not materially different from that applicable at the acquisition date. A further review is due to be completed by the end of 2010. The intangible assets comprise client relationships of £4.6m with an associated deferred tax liability of £1.3m. With a consideration of £12.7m, this gives rise to goodwill of £2.9m. This goodwill reflects the contributed cost and business segment synergies as explained in the Group's annual report and financial statements for the year ended 31 December 2009. The increase in intangible assets on the consolidated balance sheet is as a result of the £4.6m intangible asset acquired and the £2.9m goodwill.

## NOTES TO THE ACCOUNTS (CONTINUED)

### Period ended 30 June 2010

#### **13. Acquisition of subsidiary (continued)**

Acquisition and integration related costs incurred by the Group (included in operating expenses in the Group's consolidated income statement for the period ended 30 June 2010 and as noted in the project cost section of the Operating and Financial Review) for the period were £1,420,000. Cazenove Capital Management Limited incurred £523,000 of these costs, with the remainder payable by the Thornhill Group.

The majority of these expenses relate to restructuring costs and professional fees concerning the acquisition.

The Thornhill business contributed £2,715,000 of operating revenues to Group results for the period. Direct operating expenses of the Thornhill business were £2,945,000 (including costs of employees who had left by 30 June 2010) which, following a tax credit, resulted in an operating loss after tax of £74,000. The operating loss excludes those project costs disclosed above.

If the acquisition of Thornhill had been completed on the first day of the financial year, Group revenues for the period would have been £48,998,000 and Group profit would have been £2,597,000.

#### **14. Events after the balance sheet date**

There were no events after the balance sheet date which require disclosure.

## COMPANY INFORMATION

Registered Office	Whiteley Chambers Don Street St Helier Jersey JE4 9WG
Registered in Jersey	No. 91495
Registrar	Ogier Fiduciary Services (Jersey) Limited Whiteley Chambers Don Street St Helier Jersey JE4 9WG
Shadow Registrar	Equiniti Holm Oak Business Park Martlets Way Goring By Sea Worthing West Sussex BN12 4QY
Shareholder helpline:	0871 384 2753
Auditors	Deloitte LLP London







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