

**Company Registration No. 01761813**

**Gain Capital UK Limited**

**Annual Report and Financial Statements**

**31 December 2016**

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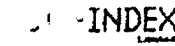


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*Gain Capital UK Limited  
Annual Report and financial statements  
For the year ended 31 December 2016*

Company number	01761813			
Directors	Michael Lear Timothy O'Sullivan Samantha Roady Nigel Rose Diego Rotsztain Alexis Webster Christopher Calhoun			
Secretary	Diego Rotsztain			
Registered address	Park House 16 Finsbury Circus London EC2M 7EB United Kingdom			
Locations	  	<b>United Kingdom</b> Park House 16 Finsbury Circus London EC2M 7EB United Kingdom	<b>Middle East</b> Level 23 Boulevard Plaza Tower 2 Emaar Boulevard Downtown Dubai UAE	<b>China</b> Xintiandi Room 1816-1820, 18F, 168 Hubin Road, Shanghai, 200021, China
Ultimate parent Company	Gain Capital Holdings Inc. 135 Route 202/206 #11, Bedminster Township, NJ 07921, United States			
Auditor	KPMG LLP 15 Canada Square London E14 5GL United Kingdom			
Solicitors	Addleshaw Goddard LLP Milton Gate 60 Chiswell Street London EC1Y 4AG United Kingdom			
Bankers	Barclays Bank PLC 1 Churchill Place London E14 5HP United Kingdom	Harris 115 S. LaSalle Street – 19W Chicago IL 60603 U.S.A.	National Westminster Bank plc 135 Bishopsgate London EC2M 3UR United Kingdom	

## **Strategic Report**

The principal activity of the Company during the year continued to be the provision of market-making and spread-trading services in a variety of financial products and markets. The product offerings currently include spread-trading on equities, equity indices, precious and base metals, soft commodities, exchange rates, interest rates, exchange traded futures and options on equities, equity indices, precious and base metals, soft commodities, exchange rates, interest rates and other financial instruments. There have not been any significant changes in the Company's principal activities in the year under review.

The Company is authorised and regulated by the Financial Conduct Authority ("FCA"). The Company's FCA Register Number is 113942, for details see [www.fca.org.uk/register](http://www.fca.org.uk/register). The immediate parent company is Gain Capital Holdings Limited ("GCHL"). The ultimate parent company and controlling party is Gain Capital Holdings Incorporated ("GCH"). The smallest and largest group into which the Company is consolidated is GCH.

### **Results**

The profit for the period, after taxation, amounted to £18,386,000. The directors do not recommend the payment of a dividend.

### **Business Review**

The Company achieved its key objective during the year, completing the integration of Gain Capital – Forex.com UK Limited into Gain Capital UK Limited (formerly City Index Limited "GCUK"), following the acquisition by Gain Capital of the City Index group on April 1st 2015. As a result, all of the clients and operations have now been successfully merged into GCUK.

Other highlights for the year included:

- Securing the final synergies from the integration of the UK operations.
- Launch of a new Metatrader 4 offering.
- Enhancements to the customer experience, including new FX pricing and improvements to charting tools, onboarding, funding and mobile offerings.

The performance of the business during 2016 was a significant improvement on the prior year. The migration into the Company of the operations from the legacy Gain UK entity completed in August, and so only impacted part of the financial year. In addition volatility in the global wholesale markets increased, driven by Brexit and the US elections, which had a positive impact on trading volumes and revenue capture. The combined effect was an 83% increase in revenues to £122m compared to the 9 months to December 2015, or 39% on an annualised basis.

Total operating costs increased 55% to almost £87m compared to the prior nine month's £56m, equivalent to a 15% increase on an annualised like for like basis. This rise was unduly inflated caused by the timing difference between the transferring of staff and other operating cost commitments early in the year, versus the transfer of clients and associated revenues in August 2016.

As a result EBITDA increased 3.5 times to £35m from the prior nine month's £10m, or a 262% increase on an annualised like for like basis. This equates to almost doubling of EBITDA margins to 29% compared to the prior year's 15%, evidencing the successful impact of the cost synergy initiative despite the lag in migration of revenues versus costs. 2017 will see the benefit from a full year of migrated revenue and further improve EBITDA margins.

Tangible capital expenditure for the year was £13m, an increase of 18% over the prior year's £11m driven by a full year's investment in integrating trading platforms and systems.

During the course of the year, as part of the planned integration, steps were taken to ensure the Company continued to be well capitalised, as clients migrated across from the legacy entity. The size of the migration is evidenced largely by a 68% increase in client liabilities, from £157m to £263m during the year. To ensure sufficient headroom was maintained above its regulatory capital requirements, the Company plans included a capital restructuring and the injection of £30m in additional share capital.

## **Strategic Report (continued)**

### **Business Review (continued)**

Total net assets at the balance sheet date were £147m (2015: £101m) with the year on year increase reflecting the profit after tax for the period, plus an additional £30m capital investment by the Company's immediate parent company.

Having spent the period since acquisition largely focused on integration, over the coming year that focus will move back to organic growth initiatives, including continuing to improve the customer experience, growing market share and share of wallet and building strong relationships with value add partners. In addition the Company will continue to focus on cost control and financial stability, ensuring it remains well capitalised, including being able to successfully navigate planned changes to the regulatory landscape due over the course of the next year or two.

### **Financial Key Performance Indicators**

The key performance indicators that management use in evaluating the Company's performance include:

	Year Ended 31 December 2016	9 months ended 31 December 2015
Gross Profit	£86.7m	£44.7m
Gross Profit margin	71.1%	67.3%
Administrative Costs	£64.3m	£41.4m
Net Current Assets	£123.4m	£78.5m

#### *Gross Profit*

This is viewed by the Board as a measure of profitability reflecting its revenues less the variable costs associated with those revenues. In other words it is the amount retained from which it must fund its overheads, or administrative costs. In addition to the absolute measure, the gross profits ratio evidences the level of efficiency by which the variable costs are being controlled.

#### *Administrative costs*

This is viewed by the Board as a measure of profitability, being the fixed overhead costs of the operation. As such they should not materially change year to year, other than where there is a significant change in operations. In 2016 these costs increased 55% as the result of the aforementioned integration of the legacy Gain UK entity.

#### *Net Current Assets*

The Board recognises the need to ensure that the Company has sufficient liquidity to meet its operational and regulatory objectives.

### **Principal risks and uncertainties**

As a service provider the directors consider that the key financial risk exposures faced by the Company relate to customers' credit risk and the need to maintain sufficient liquidity to satisfy regulatory capital requirements and working capital needs.

The Company's financial risk management objectives are therefore to minimise the key financial risks through having clearly defined terms of business with customers and stringent credit control over transactions with them, and regular monitoring of cash flow and management accounts to ensure regulatory capital requirements are not breached and the Company maintains adequate working capital.

The principal non-financial risks faced by the Company relate to information technology failure. This is mitigated by having appropriate backup systems and procedures and a disaster recovery programme.

## **Strategic Report (continued)**

### **Principal risks and uncertainties (continued)**

#### *Treasury operations and financial instruments*

The Company operates a treasury function which is responsible for managing the liquidity, interest and foreign currency risks associated with the Company's activities. In accordance with the Company's treasury policy, derivative instruments are not entered into for speculative purposes.

The Company has various financial assets and liabilities such as trade debtors and trade creditors arising directly from its operations.

#### *Liquidity risk*

In the event of a significant movement in markets, the Company could have a short-term funding requirement to meet its payment obligations to counterparties and suppliers. The level of liquidity required is influenced by the level of client activity and volatility in the markets. In the event of a cash shortfall, additional liquidity would be provided by the ultimate parent, Gain Capital Holdings Inc.

The Company's policy is to hold both its own and its clients' cash reserves with a diversified range of counterparties, each of which is a major clearing bank or a financial institution. Client money is held and accounted for in accordance with the FCA client money rules. The Company's own money is held almost entirely on demand, as it needs to be readily available to meet short-term funding requirements. Segregated client cash is also held entirely on demand.

The Company manages its cash and borrowing requirements in order to maximise interest income and minimise interest expense, whilst ensuring the Company has sufficient liquid resources to meet the operating needs of the businesses.

#### *Foreign currency risk*

Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of the Company's assets denominated in foreign currencies, as well as earnings due to the translation of the balance sheet and profit and loss from local currencies to GBP. The principal currencies in which the Company trades are British Pounds, Euros and United States Dollars. This gives rise to currency risk on the translation of its net current assets together with a currency risk on the conversion of its non-GBP income into GBP.

#### *Credit risk*

The Company's trading operations require a commitment of capital and involve risk of loss because of the potential that a customer's losses may exceed the amount of cash in their account. As a result, the Company requires that each trade must be collateralized in accordance with the margin policies described below. Each customer is required to have minimum funds in their account for opening positions, which is referred to as the initial margin, and for maintaining positions, which is referred to as maintenance margin, depending on the currency pair being traded.

Margin requirements are expressed as a percentage of the customer's total position in that currency, and the customer's total margin requirement is based on the aggregate margin requirement across all of the positions that a customer holds at any one moment in time. Each net position in a particular currency pair is margined separately. Accordingly, the Company does not net across different currency pairs, thereby following a fairly conservative margin policy.

The Company's systems automatically monitor each customer's margin requirements in real time and confirm that each customer has sufficient cash collateral in his or her account before the Company executes its trades. If at any point in time a customer has "negative equity" because his or her trading position does not comply with the applicable margin requirement, the position may be automatically liquidated, partially or entirely, in accordance with the Company's margin policies and procedures. This policy protects both the Company and the customer.

The Company is also exposed to potential credit risk relating to the counterparties with which both client and the company's own funds are placed. The Company mitigates these risks by depositing with several of the largest financial institutions in the world. The Company sets limits for its maximum acceptable exposure to each bank to which it has credit exposure. These limits are approved by the Risk Committee.

## **Strategic Report (continued)**

### **Principal risks and uncertainties (continued)**

#### *Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will impact the Company's financial statements. It is the Company's policy not to pay interest to customers on their cash balances; however on the rare occasions when customers are entitled to interest, the net interest revenue is directly affected by the spread between the short-term interest rates paid to customers on their balances and the short-term interest rates earned from re-investing their cash. These spreads can widen or narrow when interest rates change. In addition, a portion of interest income relates to customer balances on which we do not pay interest and, therefore, is directly affected by the absolute level of short-term interest rates. As a result, a portion of the Company's interest income will decline if interest rates fall, regardless of the interest rate spreads that affect the remaining portion of our interest income. Short-term interest rates are highly sensitive to factors that are beyond the Company's control, including general economic conditions and the policies of various governmental and regulatory authorities. The Company's cash and customer cash is held in cash and cash equivalents including cash at banks. The interest rates earned on these deposits and investments affects our interest revenue.

#### *Market Risk*

Market risk is the risk of loss arising from adverse movements in the level or volatility of market prices. Daily and intra-day margin calls are made on clients to reflect market movements affecting client positions. The Company's clients sign a terms of business agreement in which, under certain circumstances, the Company unilaterally reserves the right to close out client positions. Exposure management is dependent on the liquidity of the relevant markets and hedging policy. These policies include limits, or a methodology for setting limits, for every single liquid financial market in which the Company trades, and for markets which the Directors consider to be correlated. The limits determine the maximum net exposure arising from client activity and associated hedging. During the year the Company significantly reduced its risk profile and increased hedging levels commensurate with market volatility.

**Strategic Report (continued)**

**Principal risks and uncertainties (continued)**

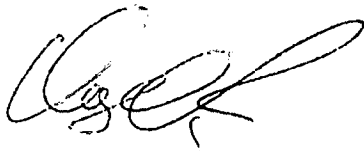
*Regulatory capital and regulatory risk*

The Company's activities are regulated in the United Kingdom and are subject to various regulation and legislation relating to conduct of business, technology, the provision of internet services and additionally in relation to regulatory capital. This imposes extensive reporting requirements and continuing self-assessment and appraisal.

The Company has both a Compliance Department and a Regulatory Department which are responsible for ensuring that it meets the rules of the regulators of the jurisdiction. The Company allocates a high degree of resource to risk management and seeks continually to improve its operating efficiencies and standards. The compliance officers are in regular contact with the Directors and Senior Executive Management of the immediate and ultimate parent companies.

The regulatory environment is constantly evolving and imposes significant demands on the resources of the Company. The Company continues to provide considerable resources to meet the regulatory requirements.

The Company is subject to the capital adequacy supervision requirements of the FCA and has maintained adequate levels of capital within the Company during the year. The regulatory capital structure of the Company largely comprises share capital and reserves (net of intangible assets). Capital requirements are calculated from market risk, counterparty risk, credit risk and operational risk assessments. The Company has an Internal Capital Adequacy Assessment Process ("ICAAP") as required by the FCA for establishing the appropriate amount of regulatory capital to be held. The ICAAP gives consideration to both current and projected financial and capital positions, and includes stress testing for adverse economic conditions. The ICAAP is updated regularly to reflect changes to the Company's structure and the business environment. Capital adequacy is monitored on a daily basis by management. The Company uses the standardised approach to market risk, the simplified approach to credit risk and the basic indicator approach to operational risk.



Mr N Rose  
Director

SH May 2017



## **Directors' Report**

The Directors present their annual report on the affairs of Gain Capital UK Limited (the "Company" or "GCUK"), together with the financial statements and auditor's report for the year ended 31 December 2016 (the "Financial Statements").

### **Going Concern**

The Company's business activities, the key factors likely to affect its future development, profitability, cash flows, principal risks and uncertainties and financial position are outlined in the Strategic Report on page 2. Note 1.2 of the Financial Statements sets out the basis upon which the Directors have made their going concern assessment. The Directors, after making due enquiries, consider there to be reasonable evidence that the Company has sufficient resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the Financial Statement

### **Directors**

The following directors have held office during 2016:

Michael Lear  
Timothy O'Sullivan  
Samantha Roady  
Nigel Rose  
Diego Rotsztain  
Alexis Webster  
Matthew Wright (Resigned 30 June 2016)  
Christopher Calhoun (appointed 23 August 2016)

### **Directors and officers**

The Company has Directors' and Officers' Liability insurance policies which covers all Directors.

### **Political contributions**

Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the year.

### **Donations**

During the period charitable donations made principally to charities in which the Company or its employees have an interest, amounted to £557 (2015: £14,520).

### **Disabled employees**

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes and abilities of the applicant concerned. It is the policy of the Company that the training, career development and promotion of disabled persons should as far as possible be identical to that of other employees. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and that the appropriate training is facilitated.

### **Employee consultation**

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on various factors affecting the performance of the Company. This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting current and future interests and developments.

## **Directors' Report (continued)**

### **Pensions**

The Company offers all employees the opportunity to participate in a defined contribution scheme (see Note 18 to the Financial Statements).

### **Environmental policy**

Although the Company does not have a formal environmental policy it endeavours to minimise harm to the environment by adopting energy-efficient products and re-cycling the waste it produces where possible.

### **Events since the balance sheet date**

There were no significant events occurring subsequent to the balance sheet date

### **Dividends**

During the year the Board declared and paid a dividend of £1,978,000 (2015:nil)

### **Disclosure of information to auditor**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he/ she ought to have taken as a director to make himself/ herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### **Auditor**

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

On behalf of the board



Mr N Rose

*5<sup>th</sup> May 2017*

Director

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GAIN CAPITAL UK LIMITED**

We have audited the financial statements of Gain Capital UK Limited for the year ended 31 December 2016 set out on pages 12 to 44. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GAIN CAPITAL UK LIMITED** *(continued)*

**Matters on which we are required to report by exception**

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

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



**Matthew Davies (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

15 Canada Square  
London E14 5GL

5 May 2017

## **Profit and Loss account and Other Comprehensive income**

*For the year ended 31 December 2016*

	<i>Notes</i>	<i>For the year ended 31<sup>st</sup> December 2016 £'000</i>	<i>For the 9 months ended 31<sup>st</sup> December 2015 £'000</i>
Turnover	2	121,928	66,482
Cost of sales		(35,210)	(21,735)
<b>Gross profit</b>		86,718	44,747
Administrative expenses		(64,277)	(41,416)
<b>Operating profit</b>	3	22,441	3,331
Interest receivable and similar income	4	409	177
<b>Profit on ordinary activities before taxation</b>		22,850	3,508
Tax on profit on ordinary activities	5	(4,464)	7,871
<b>Profit and Total comprehensive income for the period</b>		18,386	11,379

All financial results derived from continuing operations in the current and preceding period.

The notes of pages 15 to 44 form and integral part of these financial statements

*Gain Capital UK Limited*  
*Annual Report and financial statements*  
*For the year ended 31 December 2016*

**Balance Sheet as 31 December 2016**

	Notes	2016 £'000	2016 £'000	2015 £'000	2015 £'000
<b>Fixed assets</b>					
Investments	7		558		558
Tangible assets	8		22,781		19,701
Intangible assets	9		980		2,613
			<u>24,319</u>		<u>22,872</u>
<b>Current assets</b>					
Deferred tax assets	14	8,263		8,486	
Debtors					
- due within one year	10	76,253		62,262	
Investments	11	4,059		52	
Cash at bank and in hand	12	87,990		51,586	
		<u>176,565</u>		<u>122,386</u>	
<b>Creditors: Amounts falling due within one year</b>	13	<u>(53,092)</u>		<u>(43,905)</u>	
<b>Net current assets</b>			<u>123,473</u>		<u>78,481</u>
<b>Provision for other liabilities</b>	15		<u>(629)</u>		<u>(598)</u>
<b>Net assets</b>			<u>147,163</u>		<u>100,755</u>
<b>Capital and reserves</b>					
Called up share capital	17		86,522		122,288
Share Premium			29,700		55,934
Retained Earnings			27,565		(80,843)
Special Reserve			3,376		3,376
<b>Total Equity</b>			<u>147,163</u>		<u>100,755</u>

The notes of pages 15 to 44 form an integral part of these financial statements

The financial statements of Gain Capital UK Limited were approved by the Board of Directors and authorised for issue on *5<sup>th</sup> May 2017*

Signed on behalf of the Board of Directors.

  
Mr N Rose  
Director

Company Registration No. 01761813

*Gain Capital UK Limited*  
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**Statement of Changes in Equity**

	Called up Share capital	Share Premium	Retained Earnings	Special Reserve	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2016	122,288	55,934	(80,843)	3,376	100,755
<b>Total comprehensive income for the period</b>	-	-	18,386	-	18,386
Contributions by and distributions to owners:					
Issue of Shares	300	29,700	-	-	30,000
Dividends	-	-	(1,978)	-	(1,978)
Capital reorganisation	(36,066)	(55,934)	92,000	-	-
<b>Balance at 31 December 2016</b>	<b><u>86,522</u></b>	<b><u>29,700</u></b>	<b><u>27,565</u></b>	<b><u>3,376</u></b>	<b><u>147,163</u></b>

	Called up Share capital	Share Premium	Retained Earnings	Special Reserve	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 2015	122,088	36,134	(92,222)	3,376	69,376
<b>Total comprehensive income for the period</b>	-	-	11,379	-	11,379
Contributions by and distributions to owners:					
Issue of Shares	200	19,800	-	-	20,000
<b>Balance at 31 December 2015</b>	<b><u>122,288</u></b>	<b><u>55,934</u></b>	<b><u>(80,843)</u></b>	<b><u>3,376</u></b>	<b><u>100,755</u></b>

The notes of pages 15 to 44 form an integral part of these financial statements



**Notes** *(forming part of the financial statements)*

**1. Accounting Policies**

The Company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("*FRS 102*") as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1.

The Company's immediate parent undertaking is Gain Capital Holdings Ltd, a company incorporated in the United Kingdom. The Company's ultimate parent undertaking, Gain Capital Holdings Inc. (a Company incorporated in the United States of America) includes the Company in its consolidated financial statements. The consolidated financial statements of Gain Capital Holdings Inc. are prepared in accordance with US Generally Accepted Accounting Principles and may be obtained from the Investor relations website which can be found at [ir.gaincapital.com](http://ir.gaincapital.com). In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of Gain Capital Holdings Inc. include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- Certain disclosures required by FRS 102.26 *Share Based Payments*; and,
- The disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 25.

**1.1 Measurement convention**

The financial statements are prepared on the historical cost basis.

**1.2 Going concern**

The Company's business activities, the key factors likely to affect its future development, profitability, cash flows, and financial position are outlined in the Strategic Report on page 7. Set out below are the Company's objectives, policies and processes for managing its capital and financial risk. The Directors, after making due enquiries, consider there to be reasonable evidence that the Company has sufficient resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the Financial Statement

## **Notes (continued)**

### **1. Accounting Policies (continued)**

#### **1.3 Foreign currency**

Transactions in foreign currencies are translated to the Company's functional currency (United States Dollar) at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

#### **1.4 Basic financial instruments**

##### *Trade and other debtors / creditors*

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits. These balances exclude client monies held by the Company.

##### *Client Money*

The Company holds money on behalf of clients in accordance with the client money rules of its regulators, where required. Client monies held in segregated bank accounts in accordance with regulations and the corresponding liabilities to these clients are not recognised in the Balance Sheet because the Company is not beneficially entitled to them.

##### *Investments in subsidiaries and associates*

These are separate financial statements of the company. Investments in subsidiaries and associates are carried at cost less impairment.

#### **1.5 Other financial instruments**

##### *Financial instruments not considered to be Basic financial instruments (Other financial instruments)*

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less impairment

## **Notes (continued)**

### **1. Accounting Policies (continued)**

#### *Financial assets and liabilities at fair value through profit or loss*

Financial assets and liabilities comprising open spread bets, contracts for difference and options are classified as derivative financial instruments. These derivatives are:

- acquired or incurred for the purpose of selling or repurchasing in the near term;
- a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; and are
- not designated and effective as a hedging instrument.

These financial assets and liabilities at fair value through profit or loss are stated at fair value with any resulting gains or losses recognised in the Profit and Loss Account.

Balances arising from the above are disclosed as either trade debtors or trade creditors. Trade debtors or trade creditors represent balances with counterparties and clients where the combination of cash held on account and the valuation of financial derivative open positions result in an amount due to or from the Company. A credit valuation adjustment is established where there is objective evidence of non-collectability.

At the end of each reporting period, 'other' financial instruments are measured at fair value and recognised changes in fair value are recognised in the profit and loss account; except investments in equity instruments that are not publically traded and whose fair values cannot be measured reliably are measured at cost less impairment.

#### *Fair value of financial assets and liabilities*

Financial assets and liabilities purchased or sold are recorded on a trade date basis and include:

- spread trading on equities, equity indices, precious and base metals, soft commodities, exchange rates, interest rates, exchange traded futures and options; and
- fixed odds on equities, equity indices, precious and base metals, soft commodities, exchange rates, interest rates and other financial instruments.

The estimated fair value of financial assets and liabilities is made in accordance with the requirements of FRS 102. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in a forced sale or liquidation. The fair value of assets or liabilities that are actively traded in organised financial markets is determined by reference to quoted market bid or ask prices, respectively, at the close of business on the balance sheet date.

For assets where there is no active market, fair value is determined using valuation techniques, including valuation pricing models. Valuation pricing models consider time value and volatility factors underlying financial instruments as well as other relevant economic factors. The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect factors relevant to the positions the Company holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risks and counterparty credit risk. The Company's Management believes that these valuation adjustments are necessary and appropriate to state the values of financial instruments carried at fair value on the Balance Sheet.

Amounts due to clients have been netted against amounts relating to open client spread bets, contracts for difference and options which are classified as financial liabilities at fair value through profit and loss.

## Notes (continued)

### 1. Accounting Policies (continued)

#### 1.6 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease.

The Company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. The estimated useful lives are as follows:

- Computer equipment 3 years
- Fixtures and fittings 3 years
- Website and software development costs 3 years
- Leasehold improvements  
Prior to 31 December 2015 – period to first break  
Post 31 December 2015 - period to end of lease

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the Company expects to consume an asset's future economic benefits.

Website development costs are capitalised only to the extent they lead to the creation of an enduring asset delivering benefits at least as great as the amount capitalised. If there is insufficient evidence on which to base reasonable estimates of the economic benefits that will be generated in the period until further updates to the website, the development costs are charged to profit and loss as incurred. Software development expenditure incurred on the development of the Company's trading, settlement and risk management systems, including remuneration costs of relevant employees, is capitalised. All other software expenditure is charged to profit and loss in the period in which it is incurred.

Costs related to repairs and renewals are charged to profit and loss when incurred and included in other operating expenses.

#### 1.7 Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

## **Notes (continued)**

### **1. Accounting Policies (continued)**

#### **1.8 Impairment**

##### *Financial assets (including trade and other debtors)*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

##### *Non-financial assets*

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to cash-generating units, or ("CGU") that are expected to benefit from the synergies of the combination. For the purpose of goodwill impairment testing, if goodwill cannot be allocated to individual CGUs or groups of CGUs on a non-arbitrary basis, the impairment of goodwill is determined using the recoverable amount of the acquired entity in its entirety, or if it has been integrated then the entire entity into which it has been integrated.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

#### **1.9 Impairment excluding deferred tax assets**

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## **Notes (continued)**

### **1. Accounting Policies (continued)**

#### **1.10 Employee benefits**

##### *Defined contribution plans and other long term employee benefits*

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

##### *Holiday Pay*

A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the balance sheet date.

##### *Share-based payment transactions*

Where the Company is part of a group share-based payment plan, it recognises and measures its share-based payment expense on the basis of a reasonable allocation of the expense recognised for the group. The Company recognises the share based payment expense based on an allocation of its share of the group's total expense calculated in proportion to the number of participating employees and their share allocation. The corresponding credit is recognised in retained earnings as a component of equity. Where the Company is charged for the cost of share based payments arrangements the amounts are treated as a reduction in the capital contribution. If the amount charged is in excess of the share based payment charge the Company treats the excess as a notional distribution and charges this to retained earnings.

#### **1.9 Turnover**

##### *Trading revenue*

Trading revenue includes gains and losses on the operation of the spread trading markets and trading in financial markets and foreign exchange gains or losses on positions, net of commissions expensed. Open positions are carried at fair value and unrealised gains and losses arising on this valuation are recognised in revenue together with gains and losses realised on positions that have closed. Dividends receivable relating to trading activities, are recognised when the right to receive the payment is established.

Net fee and commission income from clients are recognised over the service period. Costs directly attributable to fee and commission income are included in Cost of Sales and include broker's commissions, payments to introducing brokers and clearing fees.

##### *Transfer Pricing Revenue*

The Company's revenues and profits are based on a share of global profits with the Company's ultimate parent company.

As part of the transfer pricing arrangement and in light of the increasing level and quantity of key entrepreneurial functions performed by the Company, the Company shares global profits as a joint entrepreneur with the Company's ultimate parent company.

## **Notes (continued)**

### **1. Accounting Policies (continued)**

#### **1.10 Expenses**

##### *Operating lease*

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

##### *Finance lease*

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

##### *Interest receivable and Interest payable*

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy).

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the Company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

#### **1.11 Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

## **Notes (continued)**

### **1. Accounting Policies (continued)**

#### **1.11 Taxation (continued)**

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

#### **1.12 Intangible Assets**

Expenditure on internally generated goodwill and brands is recognised in the profit and loss account as an expense incurred.

Other intangible assets include purchased customer lists and non-compete agreements relating to the acquisition of client balances from an established competitor and are carried at historical cost less accumulated amortisation and accumulated impairment.

The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Intangible assets are derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on de-recognition of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is included in the profit and loss account in the period of de-recognition.

Intangible assets with a finite life are amortised on a straight line basis over their expected useful lives, as follows:

Non-compete agreement	2 years straight line
Customer list	6 years straight line



**Notes (continued)**

**2. Turnover**

*Segment Reporting*

The principal activity of the Company during the year continued to be the provision of market making and spread trading services in a variety of financial products and markets.

The management of the Company and the immediate Parent Company review the results of the Gain Capital group as a whole, not by individual company, on a product and geographical basis. The Management do not look at profit or loss on a segmental basis within the Company.

The following tables provide a breakdown of the Company's Total Revenue broken down into two distinct business streams, that is, foreign exchange, or equities & other revenues. A further analysis is provided showing the Company's Total Revenue broken down into the two main geographical areas in which the Company operates, being EMEA and Asia Pacific being where clients are legally contracted.

The segment information presented is prepared according to the following broad methodologies:

- income directly associated with each segment are included in determining Total Revenue for that segment;
- income related to transactions involving multiple segments are allocated at internally agreed transfer prices or at transaction values.

<b>For the period ended 31<sup>st</sup> December 2016</b>	<b>Equities &amp; Other Revenues £'000</b>	<b>Foreign Exchange £'000</b>	<b>Total £'000</b>
Trading Revenues	79,758	26,895	106,653
Net financing income	12,838	2,437	15,275
<b>Total Business Segment revenues</b>	<b>92,596</b>	<b>29,332</b>	<b>121,928</b>

<b>For the period ended 31<sup>st</sup> December 2015</b>	<b>Equities &amp; Other Revenues £'000</b>	<b>Foreign Exchange £'000</b>	<b>Total £'000</b>
Trading Revenues	38,873	16,405	55,278
Net financing income	9,024	2,180	11,204
<b>Total Business Segment revenues</b>	<b>47,897</b>	<b>18,585</b>	<b>66,482</b>

**Notes (continued)**

**2. Turnover**

*Segment Reporting (continued)*

<b>For the period ended 31<sup>st</sup> December 2016</b>	<b>EMEA £'000</b>	<b>Asia Pacific £'000</b>	<b>Total £'000</b>
Trading Revenues	99,685	6,968	106,653
Net financing income	13,144	2,131	15,275
<b>Total Geographic segment revenue</b>	<b>112,829</b>	<b>9,099</b>	<b>121,928</b>

<b>For the period ended 31<sup>st</sup> December 2015</b>	<b>EMEA £'000</b>	<b>Asia Pacific £'000</b>	<b>Total £'000</b>
Trading Revenues	44,783	10,495	55,278
Net financing income	9,711	1,493	11,204
<b>Total Geographic segment revenue</b>	<b>54,494</b>	<b>11,988</b>	<b>66,482</b>

**3. Operating profit**

	<b>2016 £'000</b>	<b>2015 £'000</b>
Operating profit is stated after charging:		
Depreciation of tangible fixed assets	10,364	5,241
Amortisation of intangible assets	2,361	1,567
Loss on disposal of fixed assets	4	1
Operating leases - other	23	36
Operating leases – land and buildings	3,098	2,246
Impairment loss on investments	52	-
Charitable donations	1	15
Foreign exchange	-	16

**Notes (continued)**

**3. Operating profit (continued)**

*Auditor's remuneration:*

Amounts receivable by the company's auditor and its associates in respect of:

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Audit of these financial statements	231	189
Audit related assurance services	154	57
Other assurance services	40	10
Audit related assurance services performed by previous auditors	49	-
Audit related assurance services in respect of the Company's participation in the integrated audit of Gain Capital Holdings Inc.	170	208

**4. Interest receivable and similar income**

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Income from investments	26	32
Interest received from bank accounts	383	145
	<u>409</u>	<u>177</u>

**Notes (continued)**

**5. Taxation**

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
<b>Domestic current year tax</b>		
UK corporation tax	3,101	517
Banking surcharge	1,050	-
Overseas tax	90	98
<b>Total current tax</b>	4,241	615
<b>Deferred tax</b>		
Origination and reversal of timing differences (Note 14)	223	(8,486)
<b>Total tax charge for the year</b>	4,464	(7,871)
<b>Factors affecting the current tax charge for the year</b>		
Profit on ordinary activities before taxation	22,850	3,508
Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 20% (2015: 20%).	4,570	701
Effects of:		
Non deductible expenses	(11)	263
Losses utilised / surrendered to other group companies	(694)	(542)
Short term timing differences		(8,371)
Reduction in tax rate on deferred tax balances*	(541)	-
Banking surcharge	1,050	-
Overseas tax paid	90	78
<b>Total tax charge for the year</b>	4,464	(7,871)

\*A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31<sup>st</sup> December 2016 has been calculated based on these rates.

**Notes (continued)**

**6. Investment in Subsidiary undertakings**

	<b>Gain Capital Singapore Pte Ltd £'000</b>
<b>Cost</b>	
At 1 January 2016	5,327
Disposals (shares transferred intra-group)	(5,327)
	-
At 31 December 2016	-
<b>Impairment</b>	
At 1 January 2016	5,327
Disposals (shares transferred intra-group)	(5,327)
	-
At 31 December 2016	-
<b>Net book value</b>	
At 31 December 2016	-
At 31 December 2015	-

**7. Investment in Associates**

	<b>2016 £'000</b>	<b>2015 £'000</b>
Balance at 1 January / 1 April	558	-
Additions	-	558
	558	558
Balance at 31 December	558	558

The investment represents a 20% equity interest in Uptick Trading GmbH, a company incorporated in Germany whose registered office is Pappelallee 78/79, 10437 Berlin and registered with the local court of Charlottenburg (Berlin) under HRB 143780 B.

**Notes (continued)**

**8. Tangible fixed assets**

	Leasehold Improvements	Furniture, fixtures, fittings and equipment	Computer & Other equipment	Website & Software Devt	Total
	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>					
At 1 January 2016	5,325	1,561	14,322	28,955	50,163
Additions	4	11	4,576	8,853	13,444
Reclassification	-	(54)	(473)	527	-
At 31 December 2016	5,329	1,518	18,425	38,335	63,607
<b>Depreciation</b>					
At 1 January 2016	3,001	1,272	10,903	15,286	30,462
Charge for the year	499	122	2,208	7,535	10,364
Reclassification	-	-	-	-	-
At 31 December 2016	3,500	1,394	13,111	22,821	40,826
<b>Net book value</b>					
At 31 December 2016	1,829	124	5,314	15,514	22,781
At 31 December 2015	2,324	289	3,419	13,669	19,701

The Company undertook a review of its tangible fixed asset register during the year and has reclassified some assets acquired in prior years to a more appropriate category.

**Notes (continued)**

**9. Intangible fixed assets**

	Client List £'000	Goodwill £'000	Total £'000
<b>Cost</b>			
At 1 January 2016	-	20,908	20,908
Additions	728		728
At 31 December 2016	728	20,908	21,636
<b>Amortisation</b>			
At 1 January 2016	-	18,295	18,295
Charge for the year	271	2,090	2,361
At 31 December 2016	271	20,385	20,656
<b>Net book value</b>			
At 31 December 2016	457	523	980
At 31 December 2015	-	2,613	2,613

The company acquired a client list from Gain Capital-FOREX.com Limited, a member of the Gain Capital Inc. group during the year on a no-gain no loss basis as part of the business transfer arrangement as described in the Strategic report. The client list will be fully amortised by Q2' 2017 and the Goodwill by Q1'2017.

**Notes (continued)**

**10. Debtors**

	2016 £'000	2015 £'000
Amounts owed by parent and fellow subsidiary undertakings	52,845	28,755
Amounts owed by group undertakings in which the company has a participating interest	214	-
Amounts due from brokers and dealers	13,615	26,543
Amounts due from clients	191	190
Corporation tax receivable	-	35
Other debtors and accrued income	3,952	3,541
Prepayments	5,436	3,198
	<u>76,253</u>	<u>62,262</u>

At the balance sheet date the Company had the following credit risk exposures in respect of amounts due from brokers and dealers:

	2016 £'000	2015 £'000
A+	7,318	3,178
A	1,566	13,080
A-	1,605	2,239
BBB+	2,789	8,046
BBB	337	-
	<u>13,615</u>	<u>26,543</u>

**11. Current Asset Investments**

	2016 £'000	2015 £'000
Balance at 1 January / 1 April	52	52
Additions	4,059	-
Impairments	(52)	-
	<u>4,059</u>	<u>52</u>

In October 2016 the Company purchased £4,059,000 (\$4,999,000) in Treasury bills for the purposes of generating interest income. The 10% investment in CDP Soft limited was impaired in full during the year.



**Notes (continued)**

**12. Cash at bank and in hand**

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Cash at bank and in hand	59,551	51,573
Bank deposits	28,439	13
	87,990	51,586

Represented by:

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
OECD banks and regulated financial institutions	87,887	51,586
Non-OECD banks and regulated financial institutions	103	-
	87,990	51,586

At the balance sheet date the Company had the following credit risk exposures in respect of cash at bank:

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
AAA	20,306	-
AA-	-	4,211
A	83	-
A+	4,038	256
A-	6,486	(165)
BBB+	56,903	-
BBB	149	-
BBpi	-	11,384
BBB-	-	35,842
Non-rated	25	58
	87,990	51,586

The category consists of cash in hand and deposits repayable on demand from financial institutions and are free from contractual encumbrances. These accounts with financial institutions earn interest at floating rates based on daily bank rates. The fair value of cash at bank and in hand is not materially different from the book value. The balances above exclude client monies held by the Company.

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Client money which is segregated and not recognised in these financial statements	262,638	157,360

National Westminster Bank Plc has a charge over the deposit account balance of £1.8m relating to the company's merchant services provider amount.

**Notes (continued)**

**13. Creditors**

	<b>2016</b>	<b>2015</b>
<b>Creditors: amounts falling due within one year</b>	<b>£'000</b>	<b>£'000</b>
Amounts due to clients	27,305	25,379
Amounts owed to parent and fellow subsidiary undertakings	6,653	9,122
Corporation tax liability	2,101	517
Other taxes and social security costs	1,215	691
Accruals and deferred income	9,081	4,746
Other creditors	6,737	3,450
	<u>53,092</u>	<u>43,905</u>

Amounts due to clients include amounts comprising open spread bets, contracts for difference and options and are classified as financial assets at fair value through profit and loss.

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Financial liabilities at fair value through profit and loss	2,066	791
Less: Financial liabilities measured at amortised cost	25,239	24,588
	<u>27,305</u>	<u>25,379</u>

**14. Deferred tax**

This relates to the deferred tax provided in respect of fixed asset timing differences.

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Accelerated capital allowances	2,590	1,590
Unused tax losses	5,498	6,896
Other	175	-
	<u>8,263</u>	<u>8,486</u>

The net deferred tax asset expected to reverse in 2017 is £69,000. This primarily relates to the expected utilisation of accumulated trade losses of £1,203,000 offset by an increase in timing differences on capital allowances of £1,272,000.

**Notes (continued)**

**15. Provisions**

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Total Provisions		
Balance at 1 January / 1 April	598	1,106
Provisions made during the year	629	-
Provisions used during the year	(598)	-
Provisions reversed during the year	-	(508)
	<hr/>	<hr/>
Balance at 31 December	629	598

Total Provisions comprise the following:

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
<i>VAT Provision</i>		
Balance at 1 January / 1 April	20	57
Provisions used during the year	(20)	-
Provisions reversed during the year	-	(37)
	<hr/>	<hr/>
Balance at 31 December	-	20

The VAT provision relates to a potential VAT liability due on commission payments made to some of the Company's white label partners. HM Revenues and Customs is permitted to go back four years and the provision has been calculated as the maximum amount payable if VAT was deemed to be due

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
<i>Global Exchange Provision</i>		
Balance at 1 January / 1 April	578	1,049
Provisions made during the year	629	-
Provisions used during the year	(578)	-
Provisions reversed during the year	-	(471)
	<hr/>	<hr/>
Balance at 31 December	629	578

The global exchange provision relates to the estimated costs that may be payable in the next 12 months on market information from global exchanges provided over prior years.

**Notes (continued)**

**16. Financial Instruments**

The Company has the following financial instruments:

	Note	2016 £'000	2015 £'000
<b>Financial assets that are debt instruments measured at amortised cost</b>			
- Amounts due from brokers and dealers	10	13,615	26,543
- Amounts due from clients	10	191	190
- Amounts owed by parent and fellow group undertakings	10	52,845	28,755
- Amounts owed by group undertakings in which the company has a participating interest	10	214	-
- Other receivables	10	3,952	3,541
- Investments in Treasury bills	11	4,059	-
<b>Financial liabilities measured at amortised cost:</b>			
- Amounts due to clients	13	25,239	24,588
- Amounts owed to parent and fellow group undertakings	13	6,653	9,122
- Other creditors (excluding corporation tax liability)	13	17,033	8,887
- Provisions	15	629	598
<b>Financial liabilities at fair value through profit or loss:</b>			
- Open positions with clients	13	2,066	791

***Principal risks and uncertainties (including financial risk management policies)***

The Board is responsible for determining and managing the principal risks and uncertainties of the Company. This is subject to periodic review, at least annually and is performed in consultation with its shareholders. The Company seeks to mitigate their risks through the application of limits and controls, a monitoring process at both a Company and operational level, and the use of hedging instruments and insurance policies. The Company has a Risk and Credit Committee, which meets at least monthly. The Company's existing risk management tools continue to be enhanced by the on-going development of a real-time risk management system across all products.

The principal risks and uncertainties faced by the Company are primarily financial risks. The principal non-financial risk faced by the Company is operational risk. All of these risks are summarised further below.

**Notes (continued)**

**16. Financial Instruments (continued)**

***Credit risk***

Credit risk represents the loss that the Company would incur if a client or counterparty failed to perform its contractual obligations. A client credit exposure exists where a client's net contractual payable to the Company is greater than the margin or other collateral received by the Company ("margin deficiency") net of any credit adjustments made against the margin deficiency. A counterparty exposure exists where the Company's net contractual receivable is greater than the margin or other collateral deposited by the Company with the counterparty ("excess margin"). Clients do not normally have external credit ratings. Market counterparties generally have published credit ratings. In addition to the regular credit review of counterparties and country limits, other measures are undertaken to mitigate credit risk including holding margin or other collateral against client positions. A small minority of clients are permitted to deal within specific credit terms.

The Company has a formal credit policy which determines the financial and experience criteria which a client must satisfy before being given an account which exposes the Company to credit risk, as well as determining the account limits which are allocated to a client. The Company also has potential credit risk arising from its exposure to market counterparties with which it hedges and with banks. The Company sets limits for its maximum acceptable exposure to each market counterparty and bank to which it has credit exposure. These limits are approved by the Risk Committee and are reviewed at least every six months.

Credit extended to clients is either by Credit Allocation or Waived Margin. Credit Allocations are a fixed amount allocated to an Account which is treated in the same way as if cash had been deposited against a client position and is utilised in the calculation of client's margin requirement and trading resource. Waived Margin is a fixed amount allocated to an account utilised in the calculation of the initial margin required. In effect initial margin is reduced and the client is only required to fund losses on an account.

The movement on bad debt provisions during the period was as follows:

	2016	2015
	£'000	£'000
Net charges to profit and loss account in the period	1,908	1,269
Opening credit	17,370	16,389
Release of provisions no longer needed	(3,343)	(288)
	15,935	17,370
Closing credit	15,935	17,370

**Notes (continued)**

**16. Financial Instruments (continued)**

**Market risk**

Market risk is the risk of loss arising from adverse movements in the level or volatility of market prices. Daily and intra-day margin calls are made on clients to reflect market movements affecting client positions. The Company's clients sign a terms of business agreement, in which under certain circumstances, the Company unilaterally reserves the right to close out client positions. Exposure management is dependent on the liquidity of the relevant markets and hedging policy. These policies include limits, or a methodology for setting limits, for every single liquid financial market in which the Company trades, and for markets which the Directors consider to be correlated. The limits determine the maximum net exposure arising from client activity and associated hedging. During the year the Company significantly reduced its risk profile and increased hedging levels commensurate with market volatility.

**Currency risk**

The principal currencies in which the Company trades are British Pounds, Euros and United States Dollars. This gives rise to currency risk on the translation of its net current assets (mainly net funds held on behalf of clients) together with a currency risk on the conversion of its non-British Pounds income into British Pounds. The Company hedges this risk to the extent it considers appropriate in the circumstances.

The currency risk of the Company's net assets at the balance sheet date are as follows:

	Net Assets 2016 £'000	Net Assets 2015 £'000
Net assets denominated in :		
United States Dollar	58,069	1,751
Euro	(1,338)	146
Sterling	43,597	51,904
Other currencies	17,175	5,530
	117,503	59,331
Net Financial assets	117,503	59,331

If there was a 20% adverse movement in all exchange rates against Sterling with all other variables held constant net assets would reduce by £12,317,000 (2015: reduce by £6,511,000)

If there was a 20% favourable movement in all exchange rates against Sterling with all other variables held constant net assets would increase by £3,080,000 (2015: increase by £4,341,000)

**Notes (continued)**

**16. Financial Instruments (continued)**

**Liquidity risk**

In the event of a significant movement in markets, the Company could have a short-term funding requirement to meet its payment obligations to counterparties. Any failure by the Company to meet its payment obligations could result in market counterparties closing the Company's hedge positions, which would have materially adverse consequences for the Company's business. The level of liquidity required is influenced by the level of client activity and volatility in the markets.

The contractual undiscounted maturities of the Company's financial liabilities based on the remaining period, at the balance sheet date, to the contractual maturity dates are as follows:

	<b>Note</b>	<b>2016</b>	<b>2015</b>
		<b>£'000</b>	<b>£'000</b>
<i>Financial Liabilities – Less than 3 months</i>			
Other Creditors (excluding corporation tax liability)	<b>13</b>	50,991	43,388

The Company's policy is to hold both its own and its clients' cash reserves with a diversified range of counterparties, each of which is a major clearing bank or a financial institution. The Company's own money is held almost entirely on demand, as it needs to be readily available to meet short-term funding requirements. Segregated client cash is held primarily on demand but deposits of longer duration are also placed where this can increase returns within an agreed maturity risk profile.

**Notes (continued)**

**16. Financial Instruments (continued)**

***Regulatory capital and regulatory risk***

The Company's activities are regulated in a number of jurisdictions and are therefore subject to various regulation and legislation relating to conduct of business, technology, the provision of internet services and regulatory capital. This imposes extensive reporting requirements and continuing self-assessment and appraisal. The Company has both a Compliance Department and a Regulatory Capital Department which are responsible for ensuring that it meets the rules of the regulators in each jurisdiction. The Company maintains close working relationships with its regulators and seeks continually to improve its operating efficiencies and standards. The compliance officers are in regular contact with the Directors and Senior Executive Management. The regulatory environment is constantly evolving and imposes significant demands on the resources of the Company. The Company continues to provide considerable resources to meet the regulatory requirements.

The Company is subject to the capital adequacy supervision requirements of the FCA and has maintained adequate levels of capital within its regulated operating subsidiaries during the year. The regulatory capital structure of the Company largely comprises share capital and reserves (net of intangible assets). Capital requirements are calculated from market risk, counterparty risk, credit risk and operational risk assessments. The Company has an Internal Capital Adequacy Assessment Process ("ICAAP") as required by the FCA for establishing the appropriate amount of regulatory capital to be held. The ICAAP gives consideration to both current and projected financial and capital positions, and includes stress testing for adverse economic conditions. The ICAAP is updated, at least annually, to reflect changes to the Company's structure and the business environment. Capital adequacy is monitored on an on-going basis by Management. The Company uses the standardised approach to market risk, the simplified approach to credit risk and the basic indicator approach to operational risk.

The regulatory capital position the Company as of 31 December 2016 was a 222% excess over minimum regulatory capital requirements (2015: 217%). The Company has not reported any breaches of regulatory capital in the period.

***Operational risk***

Operational risk, inherent in all businesses, is the potential for financial and reputation loss arising from failures in internal controls, operational processes or the systems that support them. It includes errors, omissions, disasters and deliberate acts such as fraud. The Company has policies and procedures to mitigate operational risk and is currently in the process of implementing a more comprehensive operational risk management framework in conjunction with the Group Internal Audit Department.



**Notes (continued)**

**16. Financial Instruments (continued)**

*Fair value measurements recognised in the balance sheet*

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1: The best evidence of fair value is a quoted price for an identical asset in an active market. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price is usually the current bid;

Level 2: When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. Where the last transaction price is not a good estimate of fair value (eg because it reflects the amount that an would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted; and

Level 3: If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, an entity estimates the fair value by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Financial liabilities measured at fair value (Level 2):		
Open positions with clients (Note 13)	2,066	791
	2,066	791
Net Financial liabilities	2,066	791

**Notes (continued)**

**17. Called up share capital**

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
<b>Allotted, called up and fully paid</b>		
8,652,218,280 ordinary shares of £0.01 each		
(2015: 12,228,869,220 ordinary shares of £0.01 each)	86,522	122,288
	<u>86,522</u>	<u>122,288</u>

In May 2016 the share premium account of the Company was cancelled and the amount of such share premium account being £55,933,490 was transferred to retained earnings reserve. In addition the share capital of the Company was reduced by cancelling and extinguishing 3,606,650,940 ordinary shares of £0.01 each in the capital of the Company and transferring the £36,066,509 of capital paid up on those ordinary shares to retained earnings reserve.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

**18. Pension and other post-retirement benefit commitments**

**Defined contribution**

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Contributions payable by the Company for the period	698	513
	<u>698</u>	<u>513</u>

**19. Directors' remuneration**

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Remuneration for qualifying services	662	694
Company pension contributions to defined contribution schemes	20	51
	<u>682</u>	<u>745</u>

**Aggregate emoluments in respect of the highest paid director**

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Remuneration for qualifying services	169	293
Company pension contributions to defined contribution schemes	8	23
	<u>177</u>	<u>316</u>

No directors exercised any share options in the period (2015: none)

**Notes (continued)**

**20. Employees**

**Number of employees**

The average monthly number of employees (including directors) during the period was:

	<b>2016</b>	<b>2015</b>
	<b>No.</b>	<b>No.</b>
Management and administration	138	184
Information technology	82	80
Deafing	17	13
	<u>237</u>	<u>277</u>

**Employment costs**

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries	17,018	9,654
Social security costs	2,369	1,271
Other pension costs	698	513
	<u>20,085</u>	<u>11,438</u>

**21. Share-based payments**

**Equity-settled share option schemes**

Gain Capital Holdings, Inc ("GCH"), the ultimate parent company, has a share option scheme for all qualifying employees of the GCH group. Under the Group's 2010 Plan, the committee will determine the exercise price of the options granted and may grant options to purchase shares of common stock in GCH in amounts as determined by the committee. The exercise price of a stock option granted under the 2010 Plan cannot be less than the fair market value of a share of GCH common stock on the date the option is granted. All options granted under the 2010 Plan expire seven years from the date of grant

**Restricted stock units**

The Plan provides for the issuance of RSUs that are convertible on a 1:1 basis into shares of the ultimate parent, GAIN Capital Holdings, Inc.'s common stock. GAIN Capital Holdings, Inc. maintains a restricted unit account for each grantee. Restrictions typically lapse over four years, with 25% lapsing on each anniversary date of the grant. After the restrictions lapse, the grantee shall receive payment in the form of cash, shares of GAIN Capital Holdings, Inc.'s common stock, or in a combination of the two, as determined by GAIN Capital Holdings, Inc., upon a change in control of GAIN Capital Holdings, Inc. or the employee leaving the Company. GAIN Capital Holdings, Inc. may also issue performance grants which have restrictions lapsing immediately, but delivery of the common stock deferred until a later date.

The Company recognised total expenses of £373,426 (2015: £75,000) related to equity-settled share-based payment transactions in 2016.

## Notes (continued)

### 22. Control

The immediate parent company is Gain Capital Holdings Ltd, incorporated in the United Kingdom, by virtue of its holding of 100% of the issued share capital.

The smallest and largest group in which the results of Gain Capital UK Limited are consolidated is that headed by the ultimate parent company and controlling party, Gain Capital Holdings Incorporated ("GCH"), whose principal place of business is at Bedminster One, Suite 11, 135 US Hwy 202/206, Bedminster, NJ 07921, United States.

### 23. Related party relationships and transactions

The Company is exempt from the requirement to disclose transactions with fellow wholly owned Group undertakings under Section 33 of FRS 102 Related party disclosures.

	Receivables outstanding		Creditors outstanding	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
<i>Entities with control, joint control or significant influence</i>	16,152	16,074	1,317	358
<i>Other related parties</i>	36,693	12,681	5,336	8,764
	<u>52,845</u>	<u>28,755</u>	<u>6,653</u>	<u>9,122</u>

#### *Transactions with key management personnel*

Key management personnel includes all directors and a number of senior managers across the group who together have authority and responsibility for planning, directing and controlling the activities of the group. The balances outstanding at the end of the 31 December 2016 were £283,000 (2015: £210,000). Details of balances remaining at the end of the period are as follows:

	2016 £'000	2015 £'000
Net trading revenue	43	1,082
Net finance income	9	14
Total transactions	<u>52</u>	<u>1,096</u>

#### *Transactions with Associated company*

During the year the Company made two loans on the terms below to Uptick Trading GmbH in which the Company has a 20% interest.

Loan EUR 50,000 Repayable over 10 years; Interest bearing

Loan EUR 250,000 Repayable over 3 years; Interest bearing

The balance outstanding at the end of the year was £214,000 (2015: nil)

### 24. Post balance sheet events

There are no post balance sheet events to report.

**Notes (continued)**

**25. Accounting estimates and judgements**

*Key sources of estimation uncertainty*

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amount of assets and liabilities within the next financial year are addressed below.

- Determine whether there are indicators of impairment of the Company's tangible and intangible assets, including goodwill. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.
- In respect of Provisions, determine the amount of potential liabilities arising from each potential provision and estimate the likelihood of liability, taking into account known factors from internal and external sources.
- Arriving at a reasonable deferred tax asset arising on tax losses carried forward and on differences between the book and tax carrying values of tangible fixed assets, by determining the likelihood and magnitude of future taxable profits. This has been achieved by reviewing forecasts for the coming years taking into account the migration of business from Gain Capital Forex.com UK Limited ("GCUK1") that took place during the period. By the end of 2016 the entire business of GCUK1 was transferred over to the Company in order to increase the profitability and allow the Company to utilise its carried forward losses.

**26. Financial Commitments and Contingencies**

*Operating leases*

Non-cancellable operating lease rentals in respect of land and buildings (including estimated service charges) are payable as follows:

	2016 £'000	2015 £'000
Less than one year	2,560	2,543
Between one and five years	9,793	9,284
More than five years	3,616	5,153
	15,969	16,980

Non-cancellable operating lease rentals in respect of other leases are payable as follows:

	2016 £'000	2015 £'000
Less than one year	23	22
Between one and five years	20	20
	43	42

**Notes** *(continued)*

**26. Financial Commitments and Contingencies** *(continued)*

*Capital Commitments*

The Company has no material committed expenditure as of 31 December 2016 (2015: nil)

*Guarantees*

The Company has provided a guarantee in respect of Gain Capital Singapore PTE Limited ("CIA") to the Monetary Authority of Singapore ("MAS"), the financial services regulator in Singapore. The Company guarantees that it will, at the request of MAS make up any liquidity shortfall in CIA and ensure that CIA can continue to meet all of its obligations and liabilities up to a maximum of S\$10m, which at the balance sheet date equated to approximately £4.8m. The Management are confident that CIA is capable of meeting its obligations and liabilities for the foreseeable future.